

C stack

Agnew-Surpass

SHOE STORES LIMITED

BRANTFORD — ONTARIO

A CORPORATE DIVISION OF

GENESCO  *Everything to Wear*

THIRTY-EIGHTH
ANNUAL REPORT

FOR THE YEAR ENDED

MAY TWENTY-SEVENTH

1966

PURVIS HALL
LIBRARIES

SEP 12 1966

MCGILL UNIVERSITY

DIRECTORS' REPORT

to the shareholders of
AGNEW-SURPASS SHOE STORES, LIMITED

Your directors are pleased to submit the thirty-eighth annual report of the Company and its wholly-owned subsidiary, consisting of consolidated balance sheet, consolidated statement of earnings and retained earnings and a consolidated statement of source and application of funds, for the fiscal year ended May 27, 1966 and comparison with the preceding year.

The consolidated sales and net earnings for this year are the highest in the company's history. Consolidated net earnings after provision for taxes on income amounted to \$2.37 per share on the common stock, compared with \$2.26 per share for the preceding year.

Depreciation and amortization on fixed assets have been charged on the company's books on the same basis as in prior years.

The balance sheet at May 27, 1966 reflects a strong financial position with working capital of \$6,850,925 and a ratio of current assets to current liabilities of 4.5 to 1.

Under the profit sharing plan which was inaugurated twelve years ago, together with employees' bonuses, the employees will participate in the distribution of \$145,517 of the year's profits.

Eight new stores were opened during the year and one store was closed when the lease expired. There were 174 stores in operations at May 27, 1966.

On August 25, 1965, the General Truck Drivers' Union was certified as bargaining agent for non-supervisory warehouse personnel at our Brantford warehouse. A minority of these warehouse employees at Brantford went on strike on February 21, 1966 and the strike continues at this date. There has been no interruption of service to the stores during the strike.

The Directors wish to express to all employees sincere appreciation for their loyalty, team work and performance during the past year.

The accounts and records of the company have been audited by Peat, Marwick, Mitchell & Co., Chartered Accountants, and their report is presented herewith.

On behalf of the Board,

Brantford, Ontario,
August 24, 1966.

K. R. GILLELAN,
President.

DIRECTORS

F. H. CULHANE
Nashville, Tennessee, U.S.A.
J. L. EDMONDSON
Brantford, Ontario
H. H. GIBAUT
Quebec City, Quebec

K. R. GILLELAN
Brantford, Ontario
DAN W. GREGORY
Preston, Ontario
W. D. MUIR, B.Comm.
Kitchener, Ontario

R. F. WHITBY
Brantford, Ontario
J. C. WHITE, B.Comm., C.A.
Brantford, Ontario
E. D. WOODS
Nashville, Tennessee, U.S.A.

OFFICERS

J. L. EDMONDSON
Vice-President
H. H. GIBAUT
Vice-President

K. R. GILLELAN
President and General Manager
J. C. WHITE, B.Comm., C.A.
Vice-President & Secretary-Treasurer

DAN W. GREGORY
Vice-President
R. F. WHITBY
Vice-President

REGISTRAR and TRANSFER AGENTS
NATIONAL TRUST COMPANY LIMITED

BANKERS
BANK OF NOVA SCOTIA

AUDITORS
PEAT, MARWICK, MITCHELL & Co.
Chartered Accountants.

AGNEW-SURPASS SHOE STORES, LIMITED

AND ITS WHOLLY-OWNED SUBSIDIARY
THE JOHN RITCHIE COMPANY, LIMITED

Consolidated Balance Sheet as at May 27, 1966

with comparative figures for 1965

ASSETS	1966	1965	Increase (Decrease)
Current assets:			
Cash	\$ 301,605	499,429	(197,824)
Accounts and bills receivable, less allowance for doubtful accounts, 1966, \$32,558; 1965, \$35,671	525,677	640,829	(115,152)
Accounts receivable, affiliated companies	122,344	—	122,344
Demand notes due from an affiliated company	2,585,000	1,300,000	1,285,000
Inventories, at the lower of cost or net realizable value (note 2)	5,206,355	4,985,778	220,577
Prepaid expenses	61,777	37,656	24,121
Total current assets	8,802,758	7,463,692	1,339,066
Refundable federal income tax	4,431	—	4,431
Fixed assets, less depreciation and amortization (note 3):			
Buildings, machinery, furniture, fixtures and improvements to leased properties	3,748,947	3,706,960	41,987
Less accumulated depreciation and amortization	2,536,889	2,423,052	113,837
Lasts, dies and patterns	1,212,058	1,283,908	(71,850)
Land	33,000	33,000	—
Land	102,170	103,990	(1,820)
Total fixed assets	1,347,228	1,420,898	(73,670)
	\$ 10,154,417	8,884,590	1,269,827
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	\$ 1,430,763	1,196,567	234,196
Accounts payable, parent and affiliated companies	25,453	33,030	(7,577)
Income taxes payable	367,727	322,012	45,715
Other taxes payable	127,890	121,198	6,692
Total current liabilities	1,951,833	1,672,807	279,026
Deferred tax credit (note 4)	80,800	43,500	37,300
Shareholders' equity:			
5½% cumulative preferred shares of \$10 each, redeemable at par. Authorized 10,984 shares.			
Common shares of no par value. Authorized 600,000 shares; issued 402,944 shares	957,656	957,656	—
Retained earnings	7,164,128	6,210,627	953,501
Total equity	8,121,784	7,168,283	953,501
Commitments and contingent liabilities (note 5)			
	\$ 10,154,417	8,884,590	1,269,827

See accompanying notes to consolidated financial statement.

Approved on behalf of the Board:
K. R. GILLELAN, Director.
D. W. GREGORY, Director.

AGNEW-SURPASS SHOE STORES, LIMITED

AND ITS WHOLLY-OWNED SUBSIDIARY
THE JOHN RITCHIE COMPANY, LIMITED

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

Fiscal year ended May 27, 1966
with comparative figures for 1965

	1966	1965	Increase (Decrease)
NET SALES	\$ 20,100,926	18,890,272	1,210,654
Deduct:			
Cost of goods sold, selling, warehousing, general and administrative expenses	17,983,487	16,790,150	1,193,337
Remuneration of directors including officers who are directors	186,357	213,042	(26,685)
Depreciation	167,676	156,949	10,727
Amortization of improvements to leased properties ..	24,351	24,568	(217)
	18,361,871	17,184,709	1,177,162
Earnings from operations	1,739,055	1,705,563	33,492
Other income:			
Interest earned:			
From affiliated companies	106,911	52,443	54,468
Other	538	8,272	(7,734)
	107,449	60,715	46,734
Cash discounts earned	76,781	61,199	15,582
Profit on disposal of fixed assets	2,291	1,499	792
	186,521	123,413	63,108
Earnings before taxes on income	1,925,576	1,828,976	96,600
Taxes on income:			
Currently payable	934,775	875,500	59,275
Deferred (note 4)	37,300	43,500	(6,200)
	972,075	919,000	53,075
Net earnings	953,501	909,976	43,525
Retained earnings at beginning of fiscal year	6,210,627	5,274,833	935,794
Insurance reserve not required	—	25,818	(25,818)
	6,210,627	5,300,651	935,794
Retained earnings at end of fiscal year	\$ 7,164,128	6,210,627	953,501

See accompanying notes to consolidated financial statement.

AUDITORS' REPORT to the shareholders of AGNEW-SURPASS SHOE STORES, LIMITED.

We have examined the consolidated balance sheet of Agnew-Surpass Shoe Stores, Limited and its wholly-owned subsidiary, The John Ritchie Company, Limited as of May 27, 1966 and the consolidated statement of earnings and retained earnings for the fiscal year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statement of earnings and retained earnings present fairly the financial position of the company and its subsidiary at May 27, 1966 and the results of their operations for the fiscal year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying consolidated statement of source and application of funds presents fairly the information shown therein.

Hamilton, Ontario,
July 8, 1966.

PEAT, MARWICK, MITCHELL & CO.,
Chartered Accountants.

AGNEW-SURPASS SHOE STORES, LIMITED

AND ITS WHOLLY-OWNED SUBSIDIARY
THE JOHN RITCHIE COMPANY, LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

May 27, 1966

1. Principles of consolidation:

The consolidated financial statement includes the accounts of the company and its wholly-owned subsidiary, The John Ritchie Company, Limited and the accounts of two inactive subsidiaries of The John Ritchie Company, Limited. Inter-company transactions have been eliminated on consolidation.

2. Inventories:

The inventories are made up as follows:

	1966	1965
Finished goods	\$ 4,737,588	4,665,627
Work in process	84,583	46,300
Raw materials	384,184	273,851
	\$ 5,206,355	4,985,778

3. Fixed assets:

The fixed assets are stated as follows:

At cost:		
Improvements to leased properties	\$ 689,509	690,646
At cost, less proceeds of disposals:		
Buildings	494,877	522,253
Furniture and fixtures	1,906,657	1,852,628
At appraisal values in 1928, with subsequent additions at cost:		
Buildings	225,535	225,535
Plant and machinery	341,001	325,865
Furniture and fixtures	91,368	90,033
	3,748,947	3,706,960
Lasts, dies and patterns, at nominal value	33,000	33,000
Land:		
At cost	34,900	36,720
At appraisal values in 1928	67,270	67,270
	\$ 3,884,117	3,843,950

4. Taxes on income:

As a result of claiming depreciation for income tax purposes in amounts greater than the depreciation recorded in the accounts, income taxes payable have been reduced by \$80,800 of which \$37,300 is applicable to the current fiscal year. This amount is applicable to those future years when the depreciation claimed for income tax purposes will be less than that recorded and is accordingly included in the balance sheet under the caption "Deferred tax credit."

5. Commitments and contingent liabilities:

The company operates at a number of retail store locations under long-term leasing arrangements. Certain of the leases provide for payment of real estate taxes, other expenses and additional rental based upon a percentage of sales in excess of stipulated minimums. The minimum annual rentals on all real property now leased for terms expiring more than five years from May 27, 1966 are approximately \$558,000 maturing on various dates to April 30, 1983.

The company is a co-defendant in a lawsuit for property damages arising out of a fire, totaling \$2,500,000, which is being defended by the company's insurers. It is the opinion of counsel and company officials that no personal liability will devolve upon the company.

AGNEW-SURPASS SHOE STORES, LIMITED

AND ITS WHOLLY-OWNED SUBSIDIARY
THE JOHN RITCHIE COMPANY, LIMITED

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Fiscal year ended May 27, 1966
with comparative figures for 1965

	1966	1965	Increase (Decrease)
Source of funds:			
From operations:			
Net earnings	\$ 953,501	909,976	43,525
Add charges not requiring an outlay of cash:			
Depreciation	167,676	156,949	10,727
Amortization of improvements to leased properties	24,351	24,568	(217)
Deferred income taxes	37,300	43,500	(6,200)
	<u>229,327</u>	<u>225,017</u>	<u>4,310</u>
Less profit on disposal of fixed assets	2,291	1,499	792
	<u>227,036</u>	<u>223,518</u>	<u>3,518</u>
Funds provided from operations	<u>1,180,537</u>	<u>1,133,494</u>	<u>47,043</u>
Insurance reserve not required	—	25,818	(25,818)
Total funds provided	<u>1,180,537</u>	<u>1,159,312</u>	<u>21,225</u>
Application of funds:			
Purchase of fixed assets less proceeds of disposals	116,066	651,791	(535,725)
Refundable income tax	4,431	—	4,431
	<u>120,497</u>	<u>651,791</u>	<u>(531,294)</u>
Addition to working capital	1,060,040	507,521	552,519
Working capital at beginning of year	5,790,885	5,283,364	507,521
Working capital at end of year	<u>\$ 6,850,925</u>	<u>5,790,885</u>	<u>1,060,040</u>