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ACR GROUP INC
Form 11-K
July 01, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 11-K

ANNUAL REPORT PURSUANT TO SECTION 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the year ended December 31, 2001

Commission File Number

0-12490

- A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

ACR GROUP, INC. 401(K) PLAN

- B. Name of issuer of securities held pursuant to the plan and the address of its principal executive office:

ACR GROUP, INC.
3200 WILCREST DRIVE, SUITE 440
HOUSTON, TEXAS 77042-6039

ACR Group, Inc. 401(k) Plan

Financial Statements and Supplemental Schedule

Year ended December 31, 2001

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Report of Independent Auditors

Plan Administrator
ACR Group, Inc. 401(k) Plan

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We have audited the accompanying statements of net assets available for benefits of the ACR Group, Inc. 401(k) Plan as of December 31, 2001 and 2000, and the related statement of changes in net assets available for benefits for the year ended December 31, 2001. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 2001 and 2000, and changes in its net assets available for benefits for the year ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2001 is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/ Ernst & Young LLP

Houston, Texas
May 22, 2002

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ACR Group, Inc. 401(k) Plan

Statements of Net Assets Available for Benefits

| | December 31 | |
|---------------------------|-------------|-----------|
| | 2001 | 2000 |
| Assets | | |
| Receivables: | | |
| Employer contributions | \$ 19,952 | \$ 17,367 |
| Participant contributions | 45,923 | 41,989 |
| Sales pending | - | 43,693 |
| Accrued income | - | 1,557 |
| Total receivables | 65,875 | 104,606 |

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| | | |
|-----------------------------------|-------------|-------------|
| Investments | 3,472,015 | 2,855,226 |
| | ----- | ----- |
| Total assets | 3,537,890 | 2,959,832 |
| Liabilities | | |
| Corrective distributions | (16,490) | - |
| | ----- | ----- |
| Total liabilities | (16,490) | - |
| | ----- | ----- |
| Net assets available for benefits | \$3,521,400 | \$2,959,832 |
| | ===== | ===== |

See accompanying notes.

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ACR Group, Inc. 401(k) Plan

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2001

| | |
|---|-------------|
| Additions: | |
| Employer contributions | \$ 264,582 |
| Participant contributions | 708,284 |
| Participant rollovers | 60,554 |
| Investment income | 31,446 |
| | ----- |
| Total additions | 1,064,866 |
| Deductions: | |
| Benefits paid to participants | 209,793 |
| Corrective distributions | 16,490 |
| Net depreciation in fair value of investments | 276,856 |
| Administrative expenses | 159 |
| | ----- |
| Total deductions | 503,298 |
| | ----- |
| Net increase | 561,568 |
| Net assets available for benefits at: | |
| Beginning of year | 2,959,832 |
| | ----- |
| End of year | \$3,521,400 |
| | ===== |

See accompanying notes.

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ACR Group, Inc. 401(k) Plan

Notes to Financial Statements

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December 31, 2001

1. Description of Plan

General

The ACR Group, Inc. 401(k) Plan (the "Plan") is a defined contribution profit sharing plan covering all eligible employees of ACR Group, Inc. and its participating employers (collectively, the "Company"). The Plan was adopted effective March 1, 1991 and is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA").

The following description of the Plan provides only general information. Participants should refer to the Summary Plan Description for a more complete description of the Plan's provisions, a copy of which is available from the Company.

Effective January 1, 2001, the Plan's trustee and recordkeeper changed from A.G. Edwards Trust Company and Texas Pension Consultants to Allfirst Trust Company, N.A. and Hartford Life Insurance Company, respectively.

Effective May 8, 2001, the ACR Stock Fund was frozen. No new contributions may be invested in this fund option by participants, and participants are currently restricted from transferring their prior investment out of this fund.

Effective August 13, 2001, an officer of the Company became trustee of the Plan.

Eligibility

Each salaried or hourly employee of the Company who has completed at least six months of service and is at least 19 years of age is eligible to participate in the Plan.

Contributions

Participants may contribute, with certain limitations, up to 16% of their eligible annual compensation on a pretax basis. Qualified rollover contributions are also accepted by the Plan at the discretion of the Company.

The Company may determine annually what percent of the first 6% of a participant's pretax contributions will be matched. For the 2001 plan year, the Company elected to match 50% of 6% of a participant's compensation. Also, at its sole discretion, the Company may elect to make an additional contribution to the Plan from time to time. No additional contribution was made for 2001.

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ACR Group, Inc. 401(k) Plan

Notes to Financial Statements (continued)

1. Description of Plan (continued)

All participant contributions and employer matching contribution accounts are participant-directed.

Administrative Expenses

Certain administrative expenses of the Plan are paid by the Company.

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Vesting

Participants are immediately 100% vested in their contributions plus earnings thereon.

Vesting in the Company contributions portion of their account plus actual earnings thereon is based on years of credited service at 25% per year with 100% vesting after four years. Participants also become 100% vested upon death, disability, or the attainment of normal retirement age 65. Forfeitures of account balances by participants not fully vested are used to reduce future employer contributions.

Benefit Payments

To meet certain financial hardships as defined by the Internal Revenue Service ("IRS"), participants may make withdrawals from the portion of their accounts attributable to employee pretax contributions and the vested employer contributions. Distributions of a participant's accrued benefits are also made upon termination of employment, total and permanent disability, or death. Participants with \$5,000 or less nonforfeitable interest in their accounts will receive a lump-sum distribution as soon as practicable after separation from service. Participants with more than \$5,000 of nonforfeitable interest in their accounts may receive either annuity payments or a lump-sum distribution upon the participant's request, but no later than the participant's normal retirement age.

Plan Termination

Although there is no current intention to do so, the Company has the right to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event the Plan is terminated, participants will become 100% vested in their accounts.

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ACR Group, Inc. 401(k) Plan

Notes to Financial Statements (continued)

2. Summary of Accounting Policies

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States. Benefits are recorded when paid.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates that affect the amounts reported in the financial statements and accompanying notes and supplemental schedule. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

The common stock is stated at fair value based on quoted market prices obtained from national securities exchanges. The investments in the pooled separate

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accounts are stated at fair value as determined by the issuer based on quoted market values of the underlying investments.

Short-term investments are stated at cost which approximates fair value. The fixed income account is stated at contract value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Risk and Uncertainties

The Plan provides for various investments in common stock, short-term investments, pooled separate accounts, and an investment contract. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net assets available for benefits and participant account balances.

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ACR Group, Inc. 401(k) Plan

Notes to Financial Statements (continued)

3. Investments

Individual investments that represent 5% or more of the Plan's net assets are as follows:

| | December 31 | |
|---|-------------|------------|
| | 2001 | 2000 |
| ACR Group, Inc. common stock | \$102,367 | \$ 205,834 |
| Prime Obligations Fund | - | 2,649,392 |
| Hartford Life Insurance pooled separate accounts: | | |
| American Century Income & Growth Fund | 208,497 | - |
| American Century Ultra Fund | 178,137 | - |
| Franklin Small Mid Cap Growth Fund | 419,836 | - |
| Dividend & Growth Fund | 429,368 | - |
| Bond Fund | 280,045 | - |
| Small Midcap Fund | 529,807 | - |
| Janus Balanced Fund | 316,590 | - |
| Janus Twenty Fund | 447,020 | - |
| Hartford Life Insurance Fixed Income Account | 254,830 | - |

During 2001, the Plan's investments (including investments bought, sold, and held during the year) depreciated in fair value as follows:

| | |
|--------------------------|-----------|
| Common stock | \$143,531 |
| Pooled separate accounts | 133,325 |
| | ----- |
| | \$276,856 |
| | ===== |

Effective January 1, 2001, the Plan entered into a group annuity contract with Hartford Life Insurance Company ("Hartford") which includes a fixed income account. The crediting interest rate may be changed from time to time by Hartford. However, it is guaranteed for the first three contract years at 6.15%

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in 2001, 5.65% for 2002, and 5.15% for 2003. The crediting interest rate was 6.15% at December 31, 2001. The average yield for 2001 was 6.56%.

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ACR Group, Inc. 401(k) Plan

Notes to Financial Statements (continued)

4. Income Tax Status

The Plan has received an opinion letter from the IRS dated September 4, 2001, stating that the written form of the underlying volume submitter plan document is qualified under Section 401(a) of the Internal Revenue Code ("IRC"), and that under certain conditions, employers adopting this form of the Plan will be considered to have a plan qualified under the IRC. The Company believes those circumstances have been met, and that the operation of the Plan is in compliance with the plan document and the IRC and, therefore, believes that the Plan is qualified and the related trust is exempt from taxation under Section 501(a) of the IRC.

5. Subsequent Events

Effective January 1, 2002, the Plan was amended and restated to incorporate certain statutory changes, remove the 16% limit on participant pre-tax contributions, and change certain administrative procedures.

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Supplemental Schedule

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ACR Group, Inc. 401(k) Plan

Schedule H Line 4(i) - Schedule of Assets (Held At End of Year)

December 31, 2001

EIN: 74-2008473 PN: 001

| Identity of Issue, Borrower, Lessor or Similar Party | Description of Investment | Current Value |
|--|---------------------------------------|------------------|
| *Charles Schwab | Schwab Money Market Fund | \$ 45,741 |
| *ACR Group, Inc. | 292,477 Shares of Common Stock | 102,367 |
| *Hartford Life Insurance | American Century Income & Growth Fund | 208,497 |
| *Hartford Life Insurance | American Century Ultra Fund | 178,137 |
| *Hartford Life Insurance | Fixed Income Account | 254,830 |
| *Hartford Life Insurance | Franklin Small Mid Cap Growth Fund | 419,836 |
| *Hartford Life Insurance | Fidelity VIP Overseas Fund | 90,929 |
| *Hartford Life Insurance | Bond Fund | 280,045 |

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| | | |
|--------------------------|------------------------|-------------|
| *Hartford Life Insurance | Dividend & Growth Fund | 429,368 |
| *Hartford Life Insurance | Small Midcap Fund | 529,807 |
| *Hartford Life Insurance | Money Market Fund | 168,848 |
| *Hartford Life Insurance | Janus Balanced Fund | 316,590 |
| *Hartford Life Insurance | Janus Twenty Fund | 447,020 |
| | | ----- |
| | | \$3,472,015 |
| | | ===== |

*Party-in-interest

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

ACR Group, Inc. 401(k) Plan

Date: July 1, 2002

/s / A. Stephen Trevino

Secretary

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