

ACR GROUP INC
Form 11-K
June 28, 2005
Table of Contents

UNITED STATES
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, 2004

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

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HOUSTON, TEXAS 77042-6039

ACR GROUP, INC. 401 (k) PLAN

FINANCIAL STATEMENTS

AND

SUPPLEMENTAL SCHEDULE

YEARS ENDED DECEMBER 31, 2004 AND 2003

Table of Contents

ACR GROUP, INC. 401(k) PLAN

INDEX

	Page
<u>INDEPENDENT AUDITOR S REPORT</u>	1
FINANCIAL STATEMENTS:	
<u>STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS</u>	2
<u>STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS</u>	3
<u>NOTES TO FINANCIAL STATEMENTS</u>	4
SUPPLEMENTAL SCHEDULE:	
<u>SCHEDULE H LINE 4(i) SCHEDULE OF ASSETS (HELD AT END OF YEAR)</u>	10
<u>SIGNATURE</u>	11
EXHIBIT 23.1 CONSENT OF INDEPENDENT AUDITORS	

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Plan Administrator

ACR Group, Inc. 401(k) Plan

We have audited the accompanying statements of net assets available for benefits of the ACR Group, Inc. 401(k) Plan as of December 31, 2004 and 2003, and the related statement of changes in net assets available for benefits for the year ended December 31, 2004. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion of these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. 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, 2004 and 2003, and changes in its net assets available for benefits for the year ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion of the financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2004 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 audit 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/ Hein & Associates, LLP
Houston, Texas
June 14, 2005

Table of Contents**ACR GROUP, INC. 401(k) PLAN****STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS**

	DECEMBER 31,	
	2004	2003
<u>ASSETS</u>		
RECEIVABLES:		
Employer contributions	\$ 22,949	\$ 22,319
Participant contributions	56,753	45,818
Total receivables	79,702	68,137
INVESTMENTS	7,228,783	5,521,434
Total assets	\$ 7,308,485	\$ 5,589,571
<u>LIABILITIES</u>		
DISTRIBUTIONS PAYABLE	\$ 12,416	\$ 15,227
Total liabilities	12,416	15,227
Net assets available for benefits	\$ 7,296,069	\$ 5,574,344

See accompanying notes to these financial statements.

Table of Contents

ACR GROUP, INC. 401(k) PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

YEAR ENDED DECEMBER 31, 2004

ADDITIONS:	
Net appreciation in fair value of investments	\$ 1,220,751
Employer contributions	280,230
Participant contributions	774,431
Participant rollovers	18,745
Other income	79
	<hr/>
Total additions	2,294,236
DEDUCTIONS:	
Benefits paid to participants	559,522
Corrective distributions	12,333
Administrative expenses	656
	<hr/>
Total deductions	572,511
	<hr/>
NET INCREASE	1,721,725
NET ASSETS AVAILABLE FOR BENEFITS AT:	
Beginning of year	5,574,344
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End of year	\$ 7,296,069
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See accompanying notes to these financial statements.

Table of Contents

ACR GROUP, INC. 401(k) PLAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

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** or the **Employer**). 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.

The Plan's record keepers are Hartford Life Insurance Company and Texas Pension Consultants.

Effective May 8, 2001, the ACR Stock Fund was frozen. Participants may invest no new contributions in this fund option. 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 limitation, up to 100% 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 the percentage of a participant's pretax contributions that will be matched up to 6% of compensation. For the 2004 plan year, the Company elected to match 50% of a participant's contribution limited to 6% of annual 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 2004.

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

- 4 -

Table of Contents

ACR GROUP, INC. 401(k) PLAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

1. DESCRIPTION OF PLAN (continued)

Administrative Expenses Certain administrative expenses of the Plan are paid by the Company. In 2004, the Company paid \$23,596 of administrative expenses related to the Plan.

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

Vesting in the Company contributions portion of participants' 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 of 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 may elect to receive distributions in a lump-sum payment or rolled over to an Individual Retirement Account or a qualified plan.

Plan Termination There is no current intention to do so, however 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, all participants will become 100% vested in their accounts.

Table of Contents

ACR GROUP, INC. 401(k) PLAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

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 of America. Benefits are recorded when paid.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 Company's common stock is stated at fair value based on quoted market prices. The investments in the pooled separate 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 costs that approximate 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.

Table of Contents**ACR GROUP, INC. 401(k) PLAN****NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2004 AND 2003****3. INVESTMENTS**

The following table presents the fair value of the Plan's investment securities at December 31, 2004 and 2003:

	DECEMBER 31,	
	2004	2003
Hartford Life Insurance pooled separate accounts:		
American Century Income & Growth Fund*	\$ 420,329	\$ 308,550
American Century Ultra Fund	241,240	183,893
Franklin Small Mid Cap Growth Fund*	743,934	559,077
Dividend & Growth Fund*	839,763	625,769
Bond Fund*	377,209	463,950
Small Midcap Fund*	1,220,366	916,606
Money Market Fund	290,503	242,165
Janus Balanced Fund*	423,940	389,580
Janus Twenty Fund*	642,711	447,906
Fidelity VIP Overseas Fund	227,165	118,647
Hartford Life Insurance Fixed Income Account*	928,352	977,315
ACR Group Common Stock*	824,955	269,079
Schwab Money Market Fund	48,316	18,897
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Total	\$ 7,228,783	\$ 5,521,434
	<hr/>	<hr/>

* Investment represents 5% or more of the Plan's net assets at December 31, 2004 or 2003.

During 2004, the Plan's investments of pooled separate accounts (including investments bought, sold, and held during the year) appreciated in fair value by \$1,220,751.

The Plan has a group annuity contract with Hartford Life Insurance Company (Hartford) that includes a fixed income account. The crediting interest rate may be changed from time to time by Hartford. The interest rates at December 31, 2004 and 2003 were guaranteed at 4.15% and 5.15%, respectively. The crediting interest rate was 4.15% at December 31, 2004. The average yield for 2004 was 4.61%.

Table of Contents

ACR GROUP, INC. 401(k) PLAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

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. Therefore, the Company believes that the Plan is qualified and the related trust is exempt from taxation under Section 501(a) of the IRC.

5. PARTY-IN-INTEREST TRANSACTIONS

The Plan engages in investment transactions with funds managed by The Hartford. The Hartford is affiliated with Hartford Life Insurance Company, the recordkeeper. These transactions are covered by an exemption from the prohibited transaction provision of ERISA and IRC.

The Plan owns investments in shares of the Company s common stock. As the Company is the sponsor of the Plan, these transactions qualify as party-in-interest transactions that are exempt under ERISA.

Table of Contents

SUPPLEMENTAL SCHEDULE

9

Table of Contents**ACR GROUP, INC. 401(k) PLAN****SCHEDULE H LINE 4(i) SCHEDULE F ASSETS (HELD AT END OF YEAR)****DECEMBER 31, 2004****EIN: 74-2008473 PN: 001**

(a) (b)	(c)	(e)
IDENTITY OF ISSUE BORROWER,		
LEASER OR SIMILAR PARTY	DESCRIPTION OF INVESTMENT	CURRENT VALUE
Charles Schwab	Schwab Money Market Fund	\$ 48,316
* ACR Group, Inc.	270,477 Shares of Common Stock & Cash	824,955
* Hartford Life Insurance	American Century Income & Growth Fund	420,329
* Hartford Life Insurance	American Century Ultra Fund	241,240
* Hartford Life Insurance	Fixed Income Account	928,352
* Hartford Life Insurance	Franklin Small Mid Cap Growth Fund	743,934
* Hartford Life Insurance	Fidelity VIP Overseas Fund	227,165
* Hartford Life Insurance	Bond Fund	377,209
* Hartford Life Insurance	Dividend & Growth Fund	839,763
* Hartford Life Insurance	Small Midcap Fund	1,220,366
* Hartford Life Insurance	Money Market Fund	290,503
* Hartford Life Insurance	Janus Balanced Fund	423,940
* Hartford Life Insurance	Janus Twenty Fund	642,711
		\$ 7,228,783

* Party-in-interest

Table of Contents

SIGNATURES

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

Date: June 28, 2005

ACR Group, Inc. 401(k) Plan

/s/ A. Stephen Trevino

A. Stephen Trevino
Trustee