

FIRE FIGHTERS' CANCER INSURANCE POLICY PROGRAM

OF THE
STATE OF ARIZONA

SIXTH ANNUAL FINANCIAL REPORT

—

FOR THE FISCAL YEAR ENDED
JUNE 30, 2003

FIRE FIGHTERS' CANCER INSURANCE POLICY PROGRAM

STATE OF ARIZONA

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FOR THE FISCAL YEAR ENDED

JUNE 30, 2003

This report was prepared by the staff of the FFCI

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FINANCIAL SECTION

FIRE FIGHTERS' CANCER INSURANCE POLICY PROGRAM

SIXTH ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

JUNE 30, 2003

Independent Auditor's Report

Statements of Plan Net Assets

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INDEPENDENT AUDITOR'S REPORT

**FUND MANAGER
STATE OF ARIZONA PUBLIC SAFETY
PERSONNEL RETIREMENT SYSTEM
PHOENIX, ARIZONA**

We have audited the accompanying Statements of Net Assets Available for Benefits of the **STATE OF ARIZONA FIRE FIGHTERS' CANCER INSURANCE PROGRAM** as of June 30, 2003 and 2002, and the related Statements of Changes in Net Assets Available for Benefits for the years then ended. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits 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 financial status of the **FIRE FIGHTERS' CANCER INSURANCE PROGRAM** as of June 30, 2003 and 2002, and the changes in its financial position for the years then ended in conformity with generally accepted accounting principles.

Barrows & Schatza/sig

December 15, 2003

**STATE OF ARIZONA
FIRE FIGHTERS' CANCER INSURANCE POLICY PROGRAM
STATEMENTS OF PLAN NET ASSETS
AS OF JUNE 30, 2003 AND 2002**

ASSETS	2003	2002
Receivables		
Retention Receivable	\$ -	\$ -
Insurance Reserves	-	-
Interest and Dividends	1,163	-
Total Receivables	<u>1,163</u>	<u>-</u>
	<i>(Book Cost -</i>	<i>(Book Cost -</i>
Investments at Fair value (Note 2): <i>For Reference Only</i>		
U.S. Government Securities	\$ 213,964	\$ 450,000
Corporate Bonds	-	-
Corporate Notes	-	-
Corporate Stocks	985,199	960,963
Other Investments	-	-
Money Market Account	2,377,992	1,427,526
Total Investments	<u>\$ 3,577,155</u>	<u>\$ 2,838,488</u>
Total Plan Assets	<u>3,467,326</u>	<u>2,568,832</u>
Collateral Held in Trust for Securities on Loan	-	-
Liability- Collateral Subject to Return to Borrower	-	-
Liability - Accrued Expenses	<u>-</u>	<u>-</u>
Net Assets Held in Trust for Benefits:	<u>\$ 3,467,326</u>	<u>\$ 2,568,832</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF ARIZONA
FIRE FIGHTERS' CANCER INSURANCE POLICY PROGRAM
STATEMENTS OF CHANGES IN NET ASSETS
AVAILABLE FOR BENEFITS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

	<u>2003</u>	<u>2002</u>
ADDITIONS:		
Contributions		
Employers' Contributions	\$ 879,480	\$ 828,360
Net Appreciation (Depreciation) in Fair Value of Investments (Note 2)	11,031	(202,044)
Interest	53,474	53,976
Dividends	6,194	4,959
Securities Lending Activities		-
Securities Lending Income	\$ 2,456	
Borrower Rebates	(2,036)	
Agents Share of Income	<u>(143)</u>	
Net Securities Lending Income (Note 2)	277	
Less Investment Expense	<u>(8,736)</u>	<u>(3,208)</u>
Net Investment Income	<u>941,720</u>	<u>682,043</u>
Total Additions	<u>941,720</u>	<u>682,043</u>
DEDUCTIONS:		
Insurance Benefits (Note 1)	23,825	15,291
Administrative Expenses	19,401	28,874
Total Deductions	<u>43,226</u>	<u>44,165</u>
Net Increase (Decrease)	898,494	637,878
Net Assets Held in Trust for Benefits		
Beginning of Year - July 1	<u>2,568,832</u>	<u>1,930,954</u>
End of Year - June 30	<u>\$ 3,467,326</u>	<u>\$ 2,568,832</u>

**STATE OF ARIZONA
FIRE FIGHTERS' CANCER INSURANCE POLICY PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002**

NOTE 1 - PLAN DESCRIPTION

Organization

The State of Arizona Fire Fighters' Cancer Insurance Policy Program (FFCI) is a multiple-employer cancer insurance program established by Title 38, Chapter 5, Article 4 of the Arizona Revised Statutes, to provide cancer insurance benefits for active and retired fire fighters of certain state and local governments. The Program is administered by the Fund Manager of the State of Arizona Public Safety Personnel Retirement System.

The Fund Manager is a five-member board. Beginning August 6, 1999, the Governor began appointing all members, who serve a fixed three-year term. The Fund Manager is responsible for the investment of the Plan's assets, hiring personnel to administer the Program, and the general protection and administration of the Plan.

The Program provides cancer insurance covering active fire fighters of participating employers who have been employed at least five years and remain eligible for coverage. Retired members remain eligible for coverage for five months for every year of credited service accumulated toward retirement under the PSPRS. When the retiree reaches age 85 or uses his allotted coverage (whichever occurs first), coverage will terminate.

The insurance policy purchased by the program provides benefits for hospitalization, surgery, radiation and chemotherapy and other cancer related illness benefits. Coverage is available to fire fighters' families at additional costs that are not paid for by the Program. Effective July 1, 2000, the policy became self-insured and an agreement for claims administration was entered into with Monumental Life Insurance Company. Monumental Life agreed to adjudicate claims and perform administrative functions. They would be compensated based on \$5.00 per eligible fire fighter in the preceding six months. Payments were due bi-annually on the last day of December and the last day of June. The Claims Administrative Service Agreement was cancelled effective June 30, 2001.

The Fund Manager of the PSPRS is also responsible for the investment and general administration of three other statewide retirement plans—the Public Safety Personnel Retirement System, the Elected Officials' Retirement Plan and the Corrections Officer Retirement Plan. The investments and expenses of these plans are held and accounted for separately from those of the FFCI. Since none of the plans have the authority to impose their will on any of the other plans, each plan is reported as its own stand-alone government.

Benefits

The insurance policy provides benefits to eligible active and retired fire fighters. The policy may be cancelled or terminated at any time without notice.

Contributions

Participating local boards contribute \$180 each fiscal year for each fire fighter employed at June 30 of the prior fiscal year.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS

Basis of Accounting

These financial statements are prepared using the accrual basis of accounting.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Retention Receivable

During last fiscal year, the Program received a refund of all excess premiums as determined under the retention accounting formula provided for in the agreement.

Insurance Reserves

A contingency reserve is required by the insurance company to act as a claims stabilization reserve and is considered fully funded when it reaches 5% of annual Earned Premium as defined in the retention agreement. As of June 30, 2001, the insurance company refunded the excess reserves not needed to pay future claims.

Investments

FFCI investments are reported at Fair Value and at Cost. Fair values are determined as follows. Short-term investments are reported at Fair Value, which approximates Cost. Equity securities are valued at the last reported sales price. Fixed-income securities are valued using the last reported sales price or the estimated fair market value as determined by one of the world's largest and most prominent fixed-income broker/dealers. Investments that do not have an established market are reported at estimated fair value. Investment income is recognized as earned.

Statutes enacted by the Arizona Legislature authorize the Fund Manager to make investments in accordance with the "Prudent Man" rule. The Fund Manager is not limited to so-called "Legal Investments for Trustees." In making every investment, the Fund Manager shall exercise the judgement and care under the circumstances then prevailing which men of ordinary prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income from their funds as well as the probable safety of their capital, provided:

- 1) That not more than seventy per cent of the pension fund shall be invested at any given time in corporate stocks, based on cost value of such stocks irrespective of capital appreciation.
- 2) That not more than five per cent of the pension fund shall be invested in securities issued by any one institution, agency or corporation, other than securities issued as direct obligations of and fully guaranteed by the United States Government.
- 3) That not more than five per cent of the voting stock of any one corporation shall be owned.
- 4) That corporate stocks eligible for purchase shall be restricted to stocks which, except for bank stocks and insurance stocks, are either:
 - a) Listed or approved on issuance for listing on an exchange registered under the securities exchange act of 1934, as amended (15 United States Code §§ 78a through 7811)
 - b) Designated or approved on notice of issuance for designation on the national market system of a national securities association registered under the securities exchange act of 1934, as amended (15 United States Code §§ 78a through 7811)
 - c) Listed or approved on issuance for listing on an exchange registered under the laws of this [Arizona] state or any other state.
 - d) Listed or approved on issuance for listing on an exchange of a foreign country with which the United States is maintaining diplomatic relations at the time of purchase, except that no more than ten per cent of the pension fund shall be invested in foreign equity securities on these exchanges, based on the cost value of the stocks irrespective of capital appreciation.

The Plan's investment portfolio is in compliance with state law.

Statement No. 3 of the GASB requires government entities to categorize investments for the purpose of giving an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which securities are held by the Plan or its agent in the name of the Plan. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Plan's name.

All investments of the Plan (other than those held by broker-dealers under the security loan program and those investments categorized as "Other Investments") meet the criteria of Category 1. "Other Investments", which primarily consists of loans and real estate investments, are not considered securities for purposes of credit risk classification. Substantially, all investments are held in the name of the Plan by its custodian bank.

Money Market Account

The money market account is a deposit with an Arizona bank. These deposits are insured by federal depository insurance.

The money market account is subject to the general depository laws of the State of Arizona, which require deposits to be either insured by the Federal Deposit Insurance Corporation or collateralized by certain securities including U.S. Government obligations and first mortgages.

Interest Revenue

The Program received interest on their money market account with the bank as well as interest on their bond portfolio.

Benefit Payments

During the year ended June 30, 2002, the Program paid 2 fire fighters for their first occurrence benefit of \$6,000 each. The Program paid 8 fire fighters their skin cancer benefit.

Administrative Expenses

The Program is administered by the Public Safety Personnel Retirement System and an allocation of expenses incurred by the System is charged to the Program. The Program is administered in the same building as the System utilizing staff employed by the System. The allocated expenses for the year ending June 30, 2002 totaled \$27,543. The Program is authorized to use up to 10% of total receipts to pay the costs of administering the Program.

**STATE OF ARIZONA
 FIRE FIGHTERS' CANCER INSURANCE POLICY PROGRAM
 SUPPLEMENTAL SCHEDULES OF
 CASH RECEIPTS AND CASH DISBURSEMENTS
 FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

	<u>2003</u>	<u>2002</u>
RECEIPTS		
Employers' Contributions	\$ 879,480	\$ 828,360
Interest	52,311	55,211
Dividends	6,195	4,959
Retention and Reserves		
Securities Lending Income	277	-
Amounts Transferred from Other		
State-Sponsored Pension Plans	-	-
Maturities and Sales of		
U.S. Government Securities	236,036	49,594
Corporate Bonds	-	-
Corporate Notes	-	-
Other Investments	-	-
Common Stock	203,656	144,988
Net Decrease in Money Market Funds	-	-
Total Receipts	<u>1,377,955</u>	<u>1,083,112</u>
DISBURSEMENTS		
Insurance Benefits	23,825	30,482
Refunds to Terminated Members		
Investment and Administrative Expenses	28,137	33,281
Amounts Transferred to Other		
State-Sponsored Pension Plans		
Acquisitions of:		
U.S. Government Securities	-	-
Corporate Bonds		
Corporate Notes		
Other Investments		
Common Stock	375,526	185,597
Net Increase in Money Market Fund	950,467	833,752
Total Disbursements	<u>1,377,955</u>	<u>1,083,112</u>
INCREASE (DECREASE) IN CASH	-	-
BEGINNING CASH BALANCES--July 1	<u>-</u>	<u>-</u>
ENDING CASH BALANCES--June 30	<u>\$ -</u>	<u>\$ -</u>