

FIRE FIGHTERS' CANCER INSURANCE POLICY PROGRAM

OF THE
STATE OF ARIZONA

SEVENTH ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED
JUNE 30, 2004

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STATE OF ARIZONA

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FOR THE FISCAL YEAR ENDED

JUNE 30, 2004

This report was prepared by the staff of the FFCI

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FINANCIAL SECTION

FIRE FIGHTERS' CANCER INSURANCE POLICY PROGRAM

SEVENTH ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

JUNE 30, 2004

Independent Auditor's Report

Statements of Plan Net Assets

Statements of Changes in Plan Net Assets

Notes to Financial Statements

Supplemental Schedule of Cash Receipts and Cash Disbursements

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, 2004 and 2003, 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 **STATE OF ARIZONA FIRE FIGHTERS' CANCER INSURANCE PROGRAM** as of June 30, 2004 and 2003, and the changes in its financial position for the years then ended in conformity with generally accepted accounting principles.

Barrows & Schatza/sig

December 20, 2004

**STATE OF ARIZONA
FIRE FIGHTERS' CANCER INSURANCE POLICY PROGRAM
STATEMENTS OF PLAN NET ASSETS
AS OF JUNE 30, 2004 AND 2003**

| ASSETS | 2004 | 2003 |
|---|---------------------|---------------------|
| Receivables | | |
| Retention Receivable | \$ - | \$ - |
| Insurance Reserves | - | - |
| Interest and Dividends | 8,926 | 1,163 |
| Total Receivables | 8,926 | 1,163 |
| | <i>(Book Cost -</i> | <i>(Book Cost -</i> |
| Investments at Fair value (Note 2): <i>For Reference Only</i> | | |
| U.S. Government Securities | \$ 90,681 | \$ 213,964 |
| Corporate Bonds | - | - |
| Corporate Notes | - | - |
| Corporate Stocks | 3,233,257 | 985,199 |
| Other Investments | - | - |
| Money Market Account | 1,060,416 | 2,377,992 |
| Total Investments | \$ 4,384,354 | \$ 3,577,155 |
| Total Plan Assets | 4,736,593 | 3,467,326 |
| Collateral Held in Trust for Securities on Loan | - | - |
| Liability- Collateral Subject to Return to Borrower | - | - |
| Liability - Accrued Expenses | - | - |
| Net Assets Held in Trust for Benefits: | \$ 4,736,593 | \$ 3,467,326 |

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

**STATE OF ARIZONA
FIRE FIGHTERS' CANCER INSURANCE POLICY PROGRAM
STATEMENT OF CHANGES IN NET ASSETS
AVAILABLE FOR BENEFITS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

| | <u>2004</u> | <u>2003</u> |
|--|---------------------|---------------------|
| ADDITIONS: | | |
| Contributions | | |
| Employers' Contributions | \$ 908,640 | \$ 879,480 |
| Net Appreciation (Depreciation) in Fair Value of Investments (Note 2) | 459,411 | 11,031 |
| Interest | 16,835 | 53,474 |
| Dividends | 34,357 | 6,194 |
| Securities Lending Activities | | |
| Securities Lending Income | \$ 16,222 | \$ 2,456 |
| Borrower Rebates | (13,387) | (2,036) |
| Agents Share of Income | (981) | (143) |
| Net Securities Lending Income (Note 2) | 1,854 | 277 |
| Less Investment Expense | (9,699) | (8,736) |
| Net Investment Income | <u>1,411,398</u> | <u>941,720</u> |
| Total Additions | <u>1,411,398</u> | <u>941,720</u> |
| DEDUCTIONS: | | |
| Insurance Benefits (Note 1) | 118,632 | 23,825 |
| Administrative Expenses | 23,499 | 19,401 |
| Total Deductions | <u>142,131</u> | <u>43,226</u> |
| Net Increase (Decrease) | 1,269,267 | 898,494 |
| Net Assets Held in Trust for Benefits | | |
| Beginning of Year - July 1 | <u>3,467,326</u> | <u>2,568,832</u> |
| End of Year - June 30 | <u>\$ 4,736,593</u> | <u>\$ 3,467,326</u> |

**STATE OF ARIZONA
FIRE FIGHTERS' CANCER INSURANCE POLICY PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

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 Fund Manager of the State of Arizona Public Safety Personnel Retirement System administers the Program.

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. Benefits begin upon the fire fighter's date of membership in the system (excluding pre-existing conditions). Retired members remain eligible for coverage for five months for every year of credited service accumulated toward retirement under the PSPRS. A retired member whose eligibility is expiring may continue to remain eligible for coverage if an election is made with the Fund Manager and a predetermined premium is paid.

Effective July 1, 2000, the policy became self-insured. The insurance policy is designed by the program administrators and underwritten by the assets of the fire fighter cancer insurance policy program account established by ARS §38-643. All claims are submitted to PSPRS for adjudication.

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 program is a supplemental insurance plan for hospitalization, surgery, radiation and chemotherapy and other cancer related illness benefits. There is a first occurrence benefit of \$6,000 and a death benefit of \$1,000. The policy may be cancelled or terminated at any time without notice.

Contributions

Participating local boards contribute not more than \$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.

The program reports assets on a Fair Value Basis in accordance with GASB Statement No. 25. Certain cost information is provided for reference only and to comply with state law.

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.

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.

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 the Program or its agent in the name of the Program holds securities. 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 Program's name.

All investments of the Program (other than those held by broker-dealers under the security loan program) meet the criteria of Category 1. Substantially all investments are held in the name of the Program 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.

Securities Lending Income

The Program is party to a securities lending agreement with a bank. The bank, on behalf of the Plan, enters into agreements with brokers to loan securities and have the same securities returned at a later date. The loans are fully collateralized primarily by cash. Collateral is marked-to-market on a daily basis. Non-cash collateral can be sold only upon borrower default. The System requires collateral of at least 102% of the fair value of the loaned U.S. Government or corporate security. Securities on loan are carried at fair value. As of June 30, 2004 and 2003 the fair value of securities on loan was \$1,679,676 (consisting of Stocks-\$1,582,991 and Treasuries and Agencies-\$96,685,685) and \$518,771 (consisting of Stocks-\$518,771 and Treasuries and Agencies-\$0) respectively. The Program receives a negotiated fee for its loan activities and is indemnified for broker default by the securities lending agent. The Program participates in a collateral investment pool. All security loans may be terminated on demand by either the lender or the borrower. The total cash collateral investments received for unmatched loans (any loan for which the cash collateral has not been invested for a specific maturity) will have a maximum duration of 233 days. And, at least 20% of total collateral investments shall be invested on an overnight basis. All matched loans shall have matched collateral investments. At June 30, 2004, the weighted average maturity was 11 days for all investments purchased with cash collateral from unmatched loans. The Program has no credit risk because the amounts owed to the borrowers exceed the amounts the borrowers owe to the Program. Under this program, the Plan has not experienced any defaults or losses on these loans.

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, 2004, the Program paid 12 fire fighters for their first occurrence benefit of \$6,000 each and one death benefit of \$1,000. Additionally, the Program paid 6 fire fighters surgical and hospital benefits.

Administrative Expenses

The Public Safety Personnel Retirement System administers the Program 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, 2004 totaled \$31,998. 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, 2004 AND 2003**

| | <u>2004</u> | <u>2003</u> |
|--|------------------|------------------|
| RECEIPTS | | |
| Employers' Contributions | \$ 908,640 | \$ 879,480 |
| Interest | 17,505 | 52,311 |
| Dividends | 25,924 | 6,195 |
| Retention and Reserves | | |
| Securities Lending Income | 1,854 | 277 |
| Amounts Transferred from Other | | |
| State-Sponsored Pension Plans | - | - |
| Maturities and Sales of | | |
| U.S. Government Securities | 123,283 | 236,036 |
| Corporate Bonds | - | - |
| Corporate Notes | - | - |
| Other Investments | - | - |
| Common Stock | 481,998 | 203,656 |
| Net Decrease in Money Market Funds | <u>1,317,577</u> | <u>-</u> |
| Total Receipts | <u>2,876,781</u> | <u>1,377,955</u> |
| DISBURSEMENTS | | |
| Insurance Benefits | 118,632 | 23,825 |
| Refunds to Terminated Members | | |
| Investment and Administrative Expenses | 33,198 | 28,137 |
| Amounts Transferred to Other | | |
| State-Sponsored Pension Plans | | |
| Acquisitions of: | | |
| U.S. Government Securities | - | - |
| Corporate Bonds | | |
| Corporate Notes | | |
| Other Investments | | |
| Common Stock | 2,724,951 | 375,526 |
| Net Increase in Money Market Fund | <u>-</u> | <u>950,467</u> |
| Total Disbursements | <u>2,876,781</u> | <u>1,377,955</u> |
| INCREASE (DECREASE) IN CASH | - | - |
| BEGINNING CASH BALANCES--July 1 | <u>-</u> | <u>-</u> |
| ENDING CASH BALANCES--June 30 | <u>\$ -</u> | <u>\$ -</u> |