

FIRE FIGHTERS' CANCER INSURANCE POLICY PROGRAM

OF THE
STATE OF ARIZONA

FIFTH ANNUAL FINANCIAL REPORT

—

FOR THE FISCAL YEAR ENDED
JUNE 30, 2002

FIRE FIGHTERS' CANCER INSURANCE POLICY PROGRAM

STATE OF ARIZONA

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This report was prepared by the staff of the FFCI

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FINANCIAL SECTION

FIRE FIGHTERS' CANCER INSURANCE POLICY PROGRAM

FIFTH ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

JUNE 30, 2002

Independent Auditor's Report
Statements of Plan Net Assets
Statements of Changes in Plan Net Assets
Notes to Financial Statements

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, 2002 and 2001, 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 audit.

We conducted our audits in accordance with generally accepted auditing standards. 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 financial status of the **STATE OF ARIZONA FIRE FIGHTERS' CANCER INSURANCE PROGRAM** as of June 30, 2002 and 2001, and the changes in its financial position for the years then ended in conformity with generally accepted accounting principles.

Barrows & Schatza/sig

November 15, 2002

**STATE OF ARIZONA
FIRE FIGHTERS' CANCER INSURANCE POLICY PROGRAM
STATEMENTS OF PLAN NET ASSETS
AS OF JUNE 30, 2002 AND 2001**

ASSETS	2002	2001
Receivables		
Retention Receivable	\$ -	\$ -
Insurance Reserves	-	-
Interest and Dividends	-	3,221
Total Receivables	-	3,221
	<i>(Book Cost - For Reference Only)</i>	<i>(Book Cost - For Reference Only)</i>
Investments at Fair value (Note 2):		
U.S. Government Securities	\$ 450,000	\$ 497,608
Corporate Bonds	-	-
Corporate Notes	-	-
Corporate Stocks	960,963	979,998
Other Investments	-	-
Money Market Account	1,427,526	593,774
Total Investments	\$ 2,838,488	\$ 2,071,380
Total Plan Assets	2,568,832	1,947,345
Collateral Held in Trust for Securities on Loan	-	-
Liability- Collateral Subject to Return to Borrower	-	-
Liability - Accrued Expenses	-	(16,391)
Net Assets Held in Trust for Benefits:	\$ 2,568,832	\$ 1,930,954

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, 2002 AND 2001**

	<u>2002</u>	<u>2001</u>
ADDITIONS:		
Contributions		
Employers' Contributions	\$ 828,360	\$ 771,840
Net Appreciation (Depreciation) in Fair Value of Investments (Note 2)	(202,044)	(147,675)
Interest	53,976	79,707
Dividends	4,959	2,462
Security Lending Activities	-	-
Less Investment Expense	(3,208)	(3,959)
Net Investment Income	<u>682,043</u>	<u>702,375</u>
Total Additions	<u>682,043</u>	<u>702,375</u>
DEDUCTIONS:		
Insurance Benefits (Note 1)	15,291	74,332
Administrative Expenses	28,874	36,834
Total Deductions	<u>44,165</u>	<u>111,166</u>
Net Increase (Decrease)	637,878	591,209
Net Assets Held in Trust for Benefits		
Beginning of Year - July 1	<u>1,930,954</u>	<u>1,339,745</u>
End of Year - June 30	<u><u>2,568,832</u></u>	<u><u>1,930,954</u></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 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 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.

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 the Plan or its agent in the name of the Plan 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 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, 2003, the Program paid two fire fighters for their first occurrence benefit of \$6,000 each. The Program paid six fire fighters' cancer claims during the fiscal year ended June 30, 2003.

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, 2003 totaled \$26,726. 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, 2002 AND 2001**

	<u>2002</u>	<u>2001</u>
RECEIPTS		
Employers' Contributions	\$ 828,360	\$ 771,840
Interest	55,211	76,083
Dividends	4,959	1,946
Retention and Reserves		305,889
Securities Lending Income	-	-
Amounts Transferred from Other		
State-Sponsored Pension Plans	-	-
Maturities and Sales of		
U.S. Government Securities	49,594	3,278
Corporate Bonds	-	-
Corporate Notes	-	-
Other Investments	-	-
Common Stock	144,988	177,145
Net Decrease in Money Market Funds	-	410,389
Total Receipts	<u>1,083,112</u>	<u>1,746,570</u>
DISBURSEMENTS		
Insurance Benefits	30,482	28,249
Refunds to Terminated Members		-
Investment and Administrative Expenses	33,281	40,779
Amounts Transferred to Other		
State-Sponsored Pension Plans		-
Acquisitions of:		
U.S. Government Securities	-	499,980
Corporate Bonds		-
Corporate Notes		-
Other Investments		-
Common Stock	185,597	1,177,562
Net Increase in Money Market Fund	833,752	-
Total Disbursements	<u>1,083,112</u>	<u>1,746,570</u>
INCREASE (DECREASE) IN CASH	-	-
BEGINNING CASH BALANCES--July 1	<u>-</u>	<u>-</u>
ENDING CASH BALANCES--June 30	<u>\$ -</u>	<u>\$ -</u>