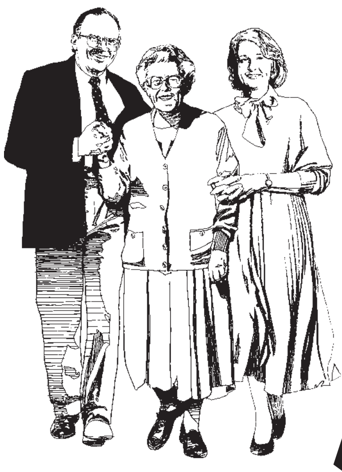

City of Manchester Employees' Contributory Retirement System

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For Period ending December 31, 2003

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CITY OF MANCHESTER EMPLOYEES' CONTRIBUTORY RETIREMENT SYSTEM

1838 ELM STREET
MANCHESTER, NH
03104-2966
PHONE (603) 624-6506
FAX (603) 624-6342

Dear Plan Participant:

As your new Executive Director, I am pleased to present this Annual Report of the City of Manchester Employees' Contributory Retirement System (MECRS) for the fiscal year ended December 31, 2003. This report is submitted in compliance with Chapter 218:6, II, Laws of 1973, as amended, and is intended to satisfy public pension plan financial reporting requirements and to give City employee members confidence that the Board of Trustees is responsibly managing fund assets. The MECRS Annual Report was prepared to conform to the most current reporting Governmental Accounting Standards Board pronouncements.

The MECRS created as a tax-qualified governmental retirement plan under sections 401(a) and 414(d) of the United States Internal Revenue Code, as amended, was established under the provisions of New Hampshire Chapter 218, Laws of 1973 and became effective on January 1, 1974. Its purpose is to provide service and disability retirement benefits to those City employees who are not Police Offices, Firefighters, or Teachers and who are not eligible to participate in the New Hampshire Retirement System.

The MECRS is administered by a seven-member Board of Trustees whose responsibilities include the formulation of policy and determination of employee eligibility for participation and benefits. The Board also oversees the daily administrative, fiscal and asset investment operations of the System.

As part of the Board's ongoing efforts at keeping System operations up-to-date and efficient, a new plan administration system was placed online after a successful installation in 2002. The new system was used to generate Annual Member Statements for 2003 which, for the first time, included a projection of the monthly member benefit at normal retirement age. The next phase of system implementation which is scheduled for rollout in 2004 will include a revised website with an online benefits calculator and will provide the member with the ability to check the balance of their account via a secure link on the Internet.

A Benefit improvement was also presented to City voters as a referendum question in the November 2003 election. Voters approved the creation of an "Additional Contribution" provision to the existing plan. Details of this act are contained in the body of this report.

On behalf of the Board of Trustees, I want to assure you of our commitment to prudent asset management and thoughtful plan design which should in turn contribute to the stability of your retirement plan.

Sincerely,

Gerard E Fleury

Gerard E. Fleury
Executive Director

CITY OF
MANCHESTER
EMPLOYEES'
CONTRIBUTORY
RETIREMENT
SYSTEM

1838 ELM STREET
MANCHESTER, NH
03104-2966
PHONE (603) 624-6506
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As Chairman of the Board of Trustees, I am pleased to present the 2003 Annual Report for the City of Manchester Employees' Contributory Retirement System. This report includes the Financial and Actuarial Valuation summaries of the System's Investment and membership activities for the plan year 2003. The report also includes management discussion and analysis of the events of the past year. The results provided demonstrate the Board of Trustees' continuous mission to provide a measure of financial security for the members and beneficiaries of the Retirement System.

As a matter of policy, the Board of Trustees closely monitors the System's asset allocation and investment policies and directs Board activity at maintaining the best mix of investment vehicles to achieve maximum investment return with minimum risk exposure. In order to achieve these results, the investments include domestic and international equities, fixed income securities, real estate, and alternative investments. Investment professionals representing sixteen management firms are hired to actively manage the System's diversified investment portfolio. The soundness of the System's investment and management decisions is intended to ensure future financial security for plan participants.

The Board of Trustees holds asset managers to a strict performance standard. For each manager, performance comparisons are made against a relevant benchmark and peer universe as specified in the System's Investment Manager Objectives. When results fall below both the benchmark and universe median in any one calendar year, the manager will be critically reviewed. A formal watch will be initiated if manager results fall below the performance criteria over any given period. A manager will be placed on probation if this performance is below both the benchmark and universe median, and, once the probationary period begins, the manager will be given four quarters to improve relative performance. If relative performance deteriorates or does not improve, the manager will be subject to termination. The magnitude of performance shortfall, longer-term results and current market conditions will be considered in assessing manager performance. The Board of Trustees also reserves the right to terminate any manager at its discretion.

This Annual Report and in particular the Management Discussion and Analysis section review the results of the System's asset management and administrative operations for Plan Year 2003. The System's investment returns showed strong positive results in 2003 after three years of disappointing earnings. This was in keeping with the experience of Public pension plans nationally for the past year.

On behalf of the Retirement System Board of Trustees and staff, I wish to thank the membership for its support and interest in the Board's activities. The Board is totally committed to improving membership service and communications. I also wish to thank my colleagues of the Board of Trustees and System staff for their continuing effort and dedication throughout the year.

Sincerely,

Arthur J. Beaudry

Arthur J. Beaudry
Chairman, Board of Trustees
City of Manchester Employees' Contributory Retirement System

Board of Trustees

Arthur J. Beaudry, Chairman
Aldermanic Appointment
Term expires January 1, 2006

Kevin A. Clougherty, Treasurer
City Director of Finance
Ex-Officio Member

Kevin G. Barry
Citizen Representative
Term expires January 1, 2007

Donald R. Pinard
Employee Representative
Term expires January 1, 2006

Michael D. Roche
Employee Representative
Term expires January 1, 2005

Mayor Robert Baines
Ex-Officio Member

Administrative Staff

Maurice L. Daneault
Executive Director
Retired January 31, 2004

Sandi Aboshar
Executive Assistant

Suzanne Wilson
Administrative Assistant

Portfolio Managers, Advisors, & Service Providers

AS OF DECEMBER 31, 2003

INVESTMENT ADVISOR
Prime Buchholz & Associates, Inc.

ACTUARIAL CONSULTANT
William M. Mercer, Inc.

CUSTODIAN
State Street Bank & Trust Co.

INDEPENDENT AUDITOR
Berry, Dunn, McNeil & Parker

LEGAL ADVISOR
McLane, Graf, Raulerson & Middleton

FOREIGN EQUITY
Bank of Ireland

DOMESTIC EQUITY

State Street Global Large Cap Value
(Group Trust)

Cadence Large Cap Growth
(Separate Account)

Boston Company Mid Cap Value
(Separate Account)

Turner Mid Cap Growth
(Group Trust)

INTERNATIONAL EQUITY
Bank of Ireland
(Group Trust)

TACTICAL ASSET ALLOCATION
Mellon Domestic and Global Funds
(Separate Account)

EMERGING MARKETS EQUITY

City of London
(Group Trust)

Eaton Vance (aka Pimco)
(Group Trust)

ALTERNATIVE EQUITY

Boston Millennia
(Group Trust)

Bank Boston Private
(Group Trust)

FIXED INCOME

Income Research and Management
(Separate Account)

Loomis Sayles
(Group Trust)

REAL ESTATE

Equitable – Prime Prop Lend Lease Corp.
(Group Trust)

Cigna
(Group Trust)

TIMBERFUNDS

Wachovia
(Group Trust)

Investment Manager Objectives for Active Managers

— EQUITY —

DOMESTIC VALUE

Objective #1
Perform above median consistently over a three year rolling period compared to a universe of value style equity investment managers.

Objective #2
Exceed the S&P 500 Index by 100 basis points annually, over a three year period. Over interim periods the R1000 Value is the performance benchmark. Relative strength expected in falling markets.

DOMESTIC MIDCAP VALUE

Objective #1
Perform above median consistently over a three year rolling period compared to a universe of midcap value style equity investment managers.

Objective #2
Exceed the Russell Midcap Value Index by 100 basis points annually, over a three year rolling period. Relative strength expected in rising markets.

DOMESTIC GROWTH

Objective #1
Perform above median consistently over a three year rolling period compared to a universe of growth style equity investment managers.

Objective #2
Exceed the S&P 500 Index by 100 basis points annually, over a three year rolling period. Over interim periods the R1000 Growth is the performance benchmark. Relative strength expected in rising markets. May invest up to 5% of the portfolio in equity REITs.

DOMESTIC MIDCAP GROWTH

Objective #1
Perform above median consistently over a three year rolling period compared to a universe of midcap growth style equity investment managers.

Objective #2
Exceed the Russell Midcap Growth Index by 100 basis points annually, over a three year rolling period. Relative strength expected in rising markets.

INTERNATIONAL

Objective #1
Perform above median consistently over a three year rolling period compared to a universe of non-U.S. equity investment managers.

Objective #2
Exceed the EAFE Index by 100 basis points annually over a three year rolling period. Relative strength expected in falling markets.

Investment Manager Objectives for Active Managers (cont.)

EMERGING MARKETS

Objective #1
Perform above median consistently over a three year rolling period compared to a universe of emerging market equity investment managers.

Objective #2
Exceed the IFC Index by 100 basis points annually over a three year rolling period. Relative strength expected in falling markets.

PRIVATE EQUITY/VENTURE CAPITAL

Objective #1
Perform above the U.S. public markets net of all fees and expenses over the life of the partnership through investments in privately held companies primarily in healthcare and life sciences, telecommunications and information technology industries.

Objective #2
Exceed the average return produced by venture capital and private equity funds of similar vintage over the life of the partnership.

DIVERSIFIED

Objective #1
Perform above median consistently over a three year rolling period compared to a universe of fixed income investment managers.

Objective #2
Exceed the Lehman Aggregate Index by 100 basis points annually over a three year rolling period.

INTERMEDIATE

Objective #1
Perform above median consistently over a three year rolling period compared to a universe of intermediate fixed income investment managers.

Objective #2
Exceed the Lehman Government/Corporate Intermediate Index by 50 basis points annually over a three year rolling period.

TIMBERLAND

Objective #1
Perform above median consistently over a three year rolling period compared to a universe of timber investment managers.

Objective #2
Exceed a real return of 8% per annum.

Summary Plan Description

This document has been prepared in compliance with Chapter 218:6, II, Laws of 1974 as amended and is intended to provide the reader, especially new entrants to the plan, with a summary of important plan provisions. Information contained in this summary plan description is only intended to provide the membership of the MECRS and other interested parties with a general overview of the plan. While every effort is, and will be made to keep information in this description as accurate and up-to-date as possible, no retirement or financial decisions should be made based solely on information contained herein. Questions on matters of entitlement or process should be addressed in writing to the system's administrative office at the address shown below.

Type of Plan: The Manchester Employees' Contributory Retirement System is a "defined benefit" plan and operates pursuant to Section 8.09 of the City Charter of Manchester, New Hampshire, in accordance with the State of New Hampshire Laws of 1973, Chapter 218 as amended, and is intended to create a tax-qualified governmental retirement plan under sections 401(a) and 414(d) of the Internal Revenue Code as amended. This defined benefit plan is superior to defined contribution plans in that it calculates the retirement benefit based upon average final earnings, creditable service, and age at retirement as opposed to simply the total accumulation of dollars in the plan. The System is governed by a seven member board in accordance with Articles I and II of its By Laws and operates in accordance with Administrative Rules established for that purpose. That information is also available in hard copy upon request from the System's administrative offices. The System exists for the benefit of its membership and maintains administrative offices in Suite 403 of the Chase Building at 1045 Elm Street in Manchester, New Hampshire.

The system may be contacted through its Executive Director by any of the methods listed below:

By phone at: 603-624-6506
By fax at: 603-624-6342
By email at: Gfleury@ManchesterRetirement.org
Or in writing at: Manchester Employees Contributory Retirement System
1045 Elm Street, Suite 403, Manchester, NH 03101-1824

Membership

The Retirement System applies to all full-time and permanent employees of the City, including elected and appointed officials. The Retirement System does not cover certain categories of employees, such as temporary employees, members of boards and commissions who are not full-time or permanent part-time employees of the City, members of the fire and police departments who are eligible to participate in a state-administered retirement system, and other persons who are, or were, eligible to participate in the New Hampshire Retirement System.

All covered employees hired after January 1, 1974 are required to participate in the Retirement System as a condition of employment. Employees are 100% vested after five years of service. The normal retirement age is 60 and the benefit is calculated at 1.5% of final average total compensation during the highest three years or 36 highest consecutive months of service in the last ten years of service (hereafter final average earnings) multiplied by the years of service. The benefit was increased to 2% for service completed after January 1, 1999. Permanent employees of the City of Manchester prior to January 1, 1974 who were in service as of January 1, 1974, are eligible for early retirement if credited with no less than twenty (20) years of service.

Duties of the Board of Trustees

The retirement board is trustee of the retirement fund and has the obligation of a fiduciary of the retirement system and its members and beneficiaries. In the fulfillment of its duties and responsibilities, the retirement board acts solely in the interests of the retirement system, the members, and the beneficiaries and with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. As trustee, the retirement board holds legal title to all securities and assets of the retirement system and has full control and management of them with the power to invest and reinvest the same in accordance with the terms, conditions, limitations, and restrictions imposed by the general statutes of the state of New Hampshire governing the investment of trust funds. In addition to those powers, the retirement board, as trustee, also has the power to: collect and receive any and all monies and other property due and to give full discharge and acquaintance therefore; appoint advisory committees to aid the retirement board in its duties under this section or to delegate to any corporate fiduciary or an insurance company within or without the state who may or may not be the custodian of stocks and securities, the power and discretion to make decisions with regard to the purchase or sale of any legal object of investment and to take any action necessary to affect decisions by or on behalf of the retirement system with the same legal effect as if performed by the retirement board; authorize the payment of compensation to an agent for retirement fund management services; settle or compromise any claims, debts or damages due or owing to or from the retirement system, and to commence or defend suits or legal proceedings whenever, in its judgment, any interest of the retirement system so requires employing suitable agents and counsel for this purpose and paying their reasonable expenses and compensation; maintain records of receipts and disbursements and to pay benefits required under the retirement system to eligible members, or, in the event of their death, to their beneficiaries; and generally do all other things necessary and proper to carry out the operation of the retirement fund.

Contributions

Contributions to the plan consist of a member component which equates to 3.75% of wages as defined by regulation, and an employer component which varies from year to year with the outcome of an annual actuarial valuation. The factors which can influence the employer's cost of participation include many variables which are cited in the valuation report and can be obtained upon request. Member contributions are deducted by the employer and remitted to the System following each payroll cycle. The City's matching contribution may be paid in a lump sum at the beginning or end of a plan year, or spread into quarterly payments in keeping with payment schedules prepared and provided by the actuary.

Additional Contributions

Additional Contributions, which technically became effective on March 9, 2004, provide an option for members to *either* reduce the offset associated with retiring prior to age 60 *or*, for the member who upon reaching the normal retirement age, lacks the service required to attain a 50% retirement benefit. The amount needed to *either* reduce the early retirement offset *or* provide a 50% benefit, is derived from the member making additional after tax contributions to their account. Determining how much a member is obligated to pay if they decide to pursue this option and simultaneously determining the contribution limit dictated by Federal regulations on such payments is done by means of an actuarial calculation which must be done at the member's expense. Member's who are rapidly approaching their anticipated date of retirement and who are otherwise in a position to avail themselves of this benefit option are advised to contract the System for further details.

Tax Shelter Plan

Member contributions deducted from salary by the employer, remitted to the plan on the employee's behalf, and indexed at the prescribed rate of 3.75% are considered tax sheltered under sections 401(a) and 414(d) of the Internal Revenue Code as amended. This pre-tax status is only extended to contributions which are a percentage of wages earned for the period. Other amounts paid in by the member on a voluntary basis for purposes such as Additional Contributions or for any other form of permissive service purchase are considered to have been made with post tax dollars. Those post tax contributions are tracked by the system and will be reported as tax exempt in accordance with applicable Federal Tax Rules at the time of their eventual distribution.

Creditable Service

Creditable Service refers to the amount of time a plan participant spends in the service of the employer. Service rendered for the full normal working time in a period of 12 consecutive months entitles a member to one year of service credit. Time spent as a member of any of the various city boards, or in any other capacity rendering incidental employment to the city, is not counted as service. Absence from employment on account of active duty with the armed forces of the United States in time of emergency or war, or as directed by selective service or to meet selective service requirements, or as a member of the national guard, or organized reserves, to meet its requirements, is counted as continuous employment with the city, provided, that the employee returns directly to active employment with the city within 90 days after he or she becomes eligible for release from such active duty. Any such period of absence is not counted as service unless the employee completes a service buyback.

Normal Service Retirement

Any member who either has attained the age of 60 years or was in the service of the city on January 1, 1974 and has completed at least 20 years of service, is eligible for a normal service retirement benefit. Any such member may retire by filing with the retirement board, a written statement duly attested setting forth the time subsequent to the date of filing that the member desires to be retired, or the retirement board may, at its option, retire any such eligible member, furnishing written notice thereof at least 60 calendar days in advance of the specified date of such retirement.

The payment of retirement benefits to any member who is eligible to receive them and who has filed all election forms with the retirement system shall become effective the first day of the month following termination of employment pending approval by the retirement board. No changes to benefit elections are permitted after the commencement of the payment of benefits.

The retirement system shall not pay retirement or disability benefits to city employees who again become eligible to participate in the retirement system. A member shall notify the retirement system of their rehire immediately. Upon rehire after a period of termination, all disbursements under the plan to that member shall cease and the member must resume making contributions to the retirement fund as of the first pay period following their rehire. Rehired members shall have their benefits determined in accordance with laws governing "restoration to service" as define in the system's enabling legislation.

Notwithstanding any other provisions, the maximum pension payment payable to any member or beneficiary shall be limited to such extent as may be necessary to comply with the requirements of sections 401(a)(16), 401(a)(17) and 415 of the Internal Revenue Code. The retirement benefits payable hereunder shall be made in the form, at such time and otherwise in compliance with the distribution and rollover requirements of sections 402(c), 401(a)(9), and 401(a)(31) of the Code.

Members who qualify for a normal service retirement benefit shall receive an annual pension payable during the member's lifetime in an amount equal to the sum of: one and 1/2 percent of the member's final average earnings multiplied by the number of years, including the fractions of years represented by full months, of service completed prior to January 1, 1999; plus two percent of the member's final average earnings multiplied by the number of years, including the fractions of years represented by full months, of service completed after December 31, 1998. However, in the case of a member who both was in the employ of the city on January 1, 1974 and has completed not less than 20 years of service at the time of retirement, the annual pension payable during the member's lifetime shall be equal to the greater of the sum of the amounts determined in accordance with methods stated in the paragraph above, or 50 percent of final average earnings.

Early Retirement

Each member whose age plus years of service equals 80, or who attains age 55 with a minimum of 20 years of service, may have the option, to be exercised by a written notice to the retirement board, to retire at any time thereafter, prior to the member's normal retirement date. The amount of retirement benefits payable to such retired member shall be computed as provided in accordance with prevailing laws and regulations, except that the date of such early retirement shall be used in determining the member's service, and the amount thus obtained will be reduced for each month by which the date on which benefits commence precedes the month after which the member attains 60 years of age by 1/6 of one percent.

The contingent annuitant and 10-year certain options provided for in Plan Law may be elected by a member under this section, in which case the term "retirement date" shall be deemed to mean early retirement date wherever applicable with respect to laws dealing with Member Death Benefits by reasons of accidental or ordinary death.

Vesting

Vesting is the process though which a plan participant become irrevocably entitled to a monthly pension benefit in lieu of a cash distribution of paid in contributions and interest. A vested member is almost always financially better off collecting a monthly annuity from a defined benefit plan such as this one as opposed to collecting the cash payout. For the MECRS, vesting is achieved after the completion of five (5) years of participation and contribution into the plan.

Ordinary Disability Retirement

Any member of the retirement system who, after 15 years of continuous service as an employee of the city, becomes totally and permanently disabled such that they are incapable of performing the essential functions of their position prior to such disability, may be retired for disability according to the prevailing regulations. The determination as to total and permanent disability shall be made by the retirement board upon review of an application for disability benefits submitted by the member and consultation with at least 2 impartial physicians selected by the retirement board who shall examine the member and submit written reports to the retirement board.

Members who retire for disability of this type shall be entitled to an annual disability benefit payable until the earlier of the termination of such disability or their death, computed on the basis of service completed prior to the date of disability in an amount equal to the sum of: One and 1/2 percent of the member's final average earnings multiplied by the number of years, including the fractions of years represented by full months, of service completed prior to January 1, 1999; plus two percent of the member's final average earnings multiplied by the number of years, including the fractions of years represented by full months, of service completed after December 31, 1998. Disabled members may also receive their disability benefit in the form of a contingent annuity as described under "Optional Retirement Allowances" later in their document.

Accidental Disability Retirement

Any member of the retirement system who becomes totally and permanently disabled such that they are incapable of performing the essential functions of their position prior to such disability, if such total disability is shown, to the satisfaction of the retirement board, to have been sustained during the performance of duties pertaining to the member's employment by the city, shall be entitled to retirement for disability irrespective of the duration of employment. In order for a member to receive such disability benefits, the member must submit an application for disability benefits within 60 days of termination of employment. However, any member receiving a disability benefit on account of total and permanent disability sustained during the performance of duties pertaining to employment by the city, as provided herein, shall receive a benefit equal to the greater of the sum of the amounts determined in accordance with the formula for Ordinary Disability in the section above, or 50 percent of final average earnings. If a member has less than 3 years of service at the time of becoming totally disabled in the performance of duties pertaining to their employment by the city, their pension shall be based upon their annualized disability earnings. The disabled member may also receive their disability benefit in the form of a contingent annuity as described further on in this document.

Ordinary Death Benefit

An accidental death benefit may be payable upon receipt by the board of trustees of proper proof of the death of a member in service indicating that such death was not the result of an accident occurring while in the performance of duty. In such cases, there shall be a death benefit payable to the member's surviving spouse or designated beneficiary or beneficiaries, if living, or otherwise to the member's estate.

If the member had at least 5 years creditable service or was eligible for service retirement at the time of the their death and had not designated a beneficiary or beneficiaries other than the a spouse, there shall be payable to the member's surviving spouse, continuing until the spouse's death or remarriage, the greater of either an allowance equal to 50 percent of the service retirement allowance that would have been payable to the member had the member retired immediately prior to death, based on final average earnings and creditable service at the time of death, or an allowance computed according to the member's length of service and the reduction in benefit payments computed for a 100 percent contingent annuitant option and for early retirement. In lieu of an allowance, the surviving spouse may elect a lump sum benefit equal to the deceased member's annual earnings at the time of death, in addition to a refund of contributions.

If the member did not have at least 5 years of creditable service and was not eligible for service retirement at the time of death, there shall be payable to the member's spouse or the member's designated beneficiary or beneficiaries, if other than the member's spouse, if living, or otherwise to the member's estate, a lump sum benefit equal to the deceased member's annual earnings at the time of death in addition to a refund of contributions.

However, if the member had at least 5 years creditable service or was eligible for service retirement, but is not survived by a spouse, or has designated a beneficiary or beneficiaries other than their spouse, there shall be payable to the person or persons nominated by the member, if living, or otherwise to the member's estate, a lump sum benefit equal to the deceased member's annual earnings at the time of death, in addition to a refund of contributions.

Accidental Death Benefit

An accidental death benefit may be payable upon receipt by the board of trustees of proper proof of the death of a member in service indicating that such death was not the result of an accident occurring while in the performance of duty. There may also a death benefit payable to the member's surviving spouse or designated beneficiary or beneficiaries, if living, or otherwise to the member's estate.

If the member has at least 5 years creditable service or was eligible for service retirement at the time of the their death and had not designated a beneficiary or beneficiaries other than the their spouse, then a benefit shall be payable to the member's surviving spouse, continuing until the spouse's death or remarriage. That benefit shall be the greater of either an allowance equal to 50 percent of the service retirement allowance that would have been payable to the member had the member retired immediately prior to death, based on final average earnings and creditable service at the time of death, or an allowance computed according to the member's length of service and the reduction in benefit payments computed for a 100 percent contingent annuitant option and for early retirement. In lieu of an allowance, the surviving spouse may elect a lump sum benefit equal to the deceased member's annual earnings at the time of death, in addition to a refund of contributions.

If the member did not have at least 5 years creditable service and was not eligible for service retirement at the time of death, then a benefit shall be payable to the member's spouse or the member's designated beneficiary or beneficiaries, if other than the member's spouse, if living, or otherwise to the member's estate, a lump sum benefit equal to the deceased member's annual earnings at the time of death in addition to a refund of contributions.

However, if the member had at least 5 years creditable service or was eligible for service retirement, but is not survived by a spouse, or has designated a beneficiary or beneficiaries other than their spouse, there shall be payable to the person or persons nominated by the member, if living, or otherwise to the member's estate, a lump sum benefit equal to the deceased member's annual earnings at the time of death, in addition to a refund of contributions.

Optional Retirement Allowances

— CONTINGENT ANNUITANT OPTION —

Instead of the normal form of monthly retirement benefit provided by a Service Retirement, a member may, prior to his or her retirement date, elect a contingent annuitant option providing, if the member does not die before his or her retirement date, for actuarially reduced monthly retirement benefits payable during his or her lifetime after retirement and for the continuance of such payments, or a part of them specified by the member, to such contingent annuitant for his or her life after the death of a retired member. Such election may be made by a member at any time prior to his or her retirement date and may not be changed after his or her retirement date. The death of the contingent annuitant at any time prior to the member's retirement date shall automatically revoke such election; and further provided that if the contingent annuitant is the spouse of the member, a divorce granted to either spouse at any time prior to the member's retirement date shall automatically revoke such election.

If a member who has elected this option dies before his or her retirement date, no benefits shall be payable to the contingent annuitant under this option. In such circumstances, benefits, if any, are to be paid in accordance with provisions associated with a Death Benefit or a Termination of employment. If the member dies after his or her retirement date, the contingent annuitant shall receive for life, commencing on the first day of the calendar month coinciding with or next following the retired member's death, the benefits specified by the retired member for the contingent annuitant.

If the contingent annuitant dies before the member's retirement date, the monthly retirement benefit normally provided under this act shall be payable to the retired member as if the option had not been elected. If the contingent annuitant dies after the member's retirement date, the amount of the payments which the retired member is then receiving or is entitled to receive will at that time (with no provisions for retroactive payments) revert back to what it would have been at the member's retirement date if the option had not been elected and will cease upon the retired member's death.

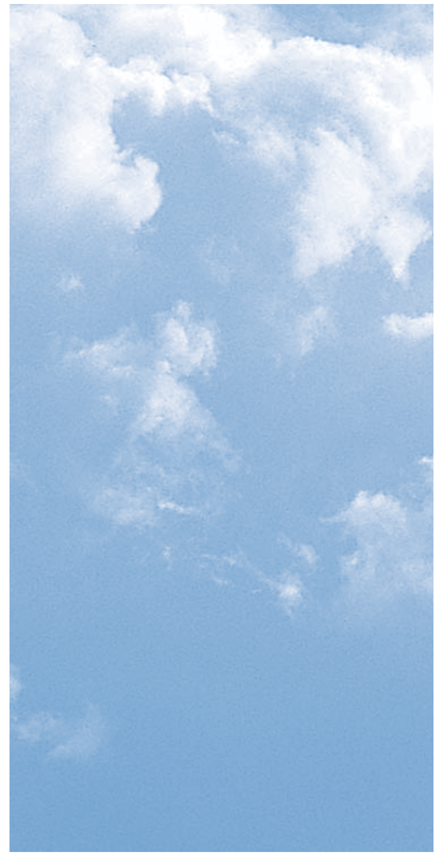
Instead of the normal form of disability benefit, a disabled member may, prior to the start of disability benefits, elect a contingent annuitant option providing for actuarially reduced monthly disability benefits payable during his or her lifetime and for the continuance of such payments, or a part of them as specified by the disabled member, to such contingent annuitant for his or her life after the death of the disabled member.

Once the contingent annuitant option has been elected by a disabled member, it may not be changed or revoked except in the case of death of the contingent annuitant. If the contingent annuitant dies after the disabled member has started receiving disability benefits, the amount of the payments which the disabled member is then receiving or is entitled to receive shall at that time with no provisions for retroactive payments revert back to what it would have been at start of the payment of disability benefits if the option had not been chosen and will cease upon the disabled member's death.

— TEN-YEAR CERTAIN OPTION —

Instead of the normal form of monthly retirement benefit provided by a Service Retirement, a member may elect an actuarially reduced monthly retirement benefit payable for 10 years certain and life thereafter. Such election may be made by a member at any time prior to his or her retirement date and may not be changed after his or her retirement date. Under this option, 120 monthly payments will be made regardless of how long the member lives. If a member dies after his or her retirement date, but before 120 monthly payments have been made, the balance of the 120 monthly payments shall be made to the member's beneficiary. If the beneficiary, having survived the retired member, dies before all of said 120 payments have been made, then the commuted value of the balance of said payments shall be paid in a lump sum to the beneficiary's estate. If the member dies before his or her retirement date, no benefits shall be payable under this option. If the member survives beyond the 120 month guaranteed payment period, actuarially reduced monthly retirement benefits shall continue until the death of the member at which point the benefit payments shall cease.

Cost of Living Adjustments



The Board of Trustees may adjust the payment to retirees to maintain their incomes at the approximate level with their real incomes at the time of retirement. The Trustees may grant a cost of living adjustment ("COLA") provided that sufficient funds are available to fund any additional benefits either through earnings of the retirement fund or through such special appropriation by the city as may be approved by the Board of Mayor and Aldermen. The determination as to whether sufficient funds are available is determined in accordance with Administrative Rule 7.0, a copy of which may be obtained on the System's website at www.ManchesterRetirement.org or by contacting the System and requesting a copy of the Administrative Rules. The amount of any COLA to be granted is determined by applying a standard measured by the U.S. City Average Consumer Price Index for all items as published by the Bureau of Labor Statistics of the U.S. Department of Labor ("Price Index").

Refunds of Contributions

Upon termination of employment, a member becomes eligible for a return of contributions deducted and remitted by the employer along with any additional contributions and permissive service purchases paid in, plus all applicable interest. This payment option is available to all members upon termination of employment but should generally be considered only by members who have not attained vested status. Under no circumstances is a terminated member applying for a lump sum distribution eligible to receive a payout of the employer matching portion.

A member who is less than 59½ years of age and who does not elect to "roll over" the taxable portion of a distribution from their plan may be subject to mandatory 20% withholding on their distribution and obligated to pay a 10% excise tax on their early distribution. Plan members who must terminate their affiliation with the System and are not eligible to vest can obtain the necessary forms from the Systems administrative staff to perform a roll over and avoid tax consequences of the transaction. The System is not in a position to assist members with tax questions and does not offer investment advice. Members with questions on the disposition of funds received following termination from employment should seek the counsel of tax and financial professionals.

Buybacks & Permissive Service Purchases

A member who ceases to be a member, withdraws their member contributions as described above, and later becomes a member again, may make a request after their return to service for the City for a service buyback of prior service credit for the previous time served as a member. If a service buyback is not made, the member's benefit shall be based solely on the member's years of service and final average earnings after the break in service.

A member may also make a service buyback request to receive prior service credit for a period prior to becoming a member during which the member was employed by the city in a temporary position or out on worker's compensation, leave of absence, or engaged in CETA, model city program, or any other capacity the retirement board determines warrants a service buyback. A service buyback for temporary service may only be made if the member became a permanent city employee without incurring a break in service. A service buyback is also available if an employee elected not to participate in the retirement system when hired and otherwise satisfies the requirements of membership cited above.

If a member does not purchase all available prior service credit, the service credit purchase must begin on the latest date of service available. Members are required to submit proof of employment in order to substantiate prior service.

Upon a request for service buyback, the retirement board determines the cost of the requested service buyback, which amount includes the contributions the member would have been required to make plus buyback interest, and provides a written statement to the member. The member must pay all amounts related to the service buyback in one lump sum.

Effective December 12, 1994, contributions, benefits, and service credit with respect to qualified military service shall be provided in accordance with section 414(u) of the Code notwithstanding any provision of this chapter to the contrary.

BERRY.DUNN.MCNEIL & PARKER

B D M P

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS

INDEPENDENT AUDITORS' REPORT

Board of Trustees
City of Manchester Employees'
Contributory Retirement System

We have audited the accompanying comparative statements of net assets available for benefits of the City of Manchester Employees' Contributory Retirement System (the Retirement System), as of December 31, 2003 and 2002, and the related comparative statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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 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 Retirement System at December 31, 2003 and 2002, and the changes in its net assets available for benefits for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2004 on our consideration of the Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 20 through 23 and the historical pension information on pages 32 through 34 are not a required part of the general-purpose financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation, to the supplemental information. However, we did not audit the information and express no opinion on it.

Berry Dunn McNeil & Parker

Manchester, New Hampshire
March 19, 2004

PORTLAND, ME · BANGOR, ME · LEBANON, NH · MANCHESTER, NH
WWW.BDMP.COM

Management Discussion and Analysis

Our discussion and analysis of the City of Manchester Employees' Contributory Retirement System's (System) financial performance provides an overview of the System's financial activities for the fiscal year ended December 31, 2003. Please read it in conjunction with the transmittal letter from the Chairman of the Board of Trustees and the System's audited financial statements.

FINANCIAL HIGHLIGHTS

- The System's total net assets held in trust for pension benefits were $95.6 million at December 31, 2003.
- The System's net assets increased by $20.8 million which is primarily due to a market value increase in the fair value of plan investments.
- Employer and employee contributions to the plan were $4.9 million which represents a $1.6 million increase over the preceding year. The employer share of increased contributions represented 97.0% of the total.
- Benefits paid to plan participants were $4.9 million. At December 31, 2003, there were 510 retirees and beneficiaries in receipt of pension benefits.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The *Statement of Net Assets Available for Benefits* and *Statement of Changes in Net Assets Available for Benefits* (on pages 25 and 26) provide information about the activities of the System and the net assets held in trust for pension benefits. The financial statements also contain actuarial information on the value of plan assets, accrued liability and the significant actuarial assumptions used in the actuarial valuations.

REPORTING ON THE SYSTEM'S FINANCES AS A WHOLE

One of the most important questions asked about the System's finances is: "Is the System as a whole better or worse off as a result of the year's activities?" The *Statement of Net Assets Available for Benefits* and the *Statement of Changes in Net Assets Available for Benefits* report information about the System as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to accounting used by private-sector retirement plans. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

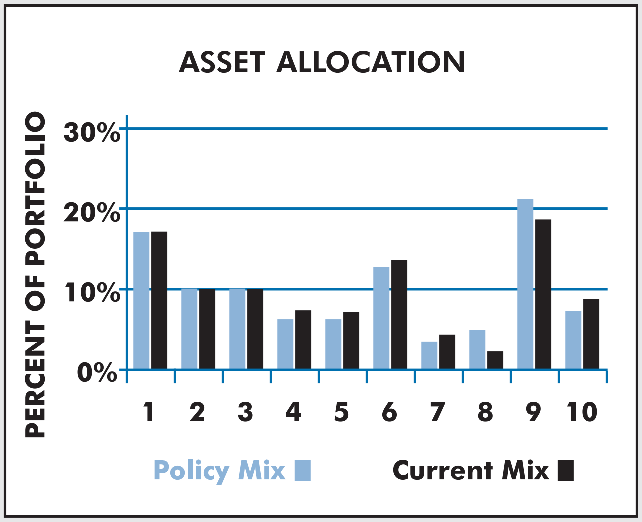
These two statements report the System's net assets and changes in them. You can think of the System's net assets – the difference between assets and liabilities – as one way to measure the System's financial health, or financial position. Over time, increases or decreases in the System's net assets are one indicator of whether its financial health is improving or deteriorating. You will also need to consider the actuarial liability or surplus as determined at the first day of each plan year.

INVESTMENT POLICY

The Board's investment policy permits fund assets to be invested in U.S. and non-U.S. equities, U.S. and non-U.S. fixed income securities, and equity real estate commingled funds.

ASSET ALLOCATIONS AMONG VARIOUS CLASSES ARE:

	POLICY MIX	CURRENT MIX
1) TAA	17.00%	17.00%
2) Large Cap Value	10.00%	10.00%
3) Large Cap Growth	10.00%	10.00%
4) Mid Cap Value	6.30%	7.70%
5) Mid Cap Growth	6.30%	7.30%
6) International Equity	12.90%	13.40%
7) Emerging Markets	3.90%	4.50%
8) Alternative Equity	5.00%	2.40%
9) Domestic Fixed	21.10%	18.70%
10) Cash/Other	7.50%	9.00%



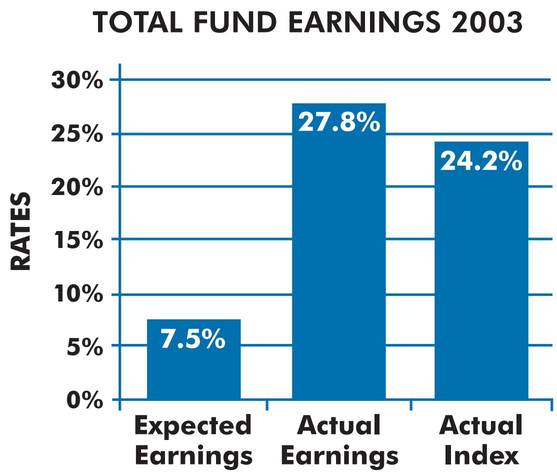
The Board of Trustees' investment objectives and risk tolerance are intended to achieve a maximum total return with emphasis on preservation of capital in real terms. The investment mix is designed to participate in rising markets, with defensive action expected to an even greater degree in declining markets. Total return includes interest, dividends, and realized/unrealized gains or losses from investments.

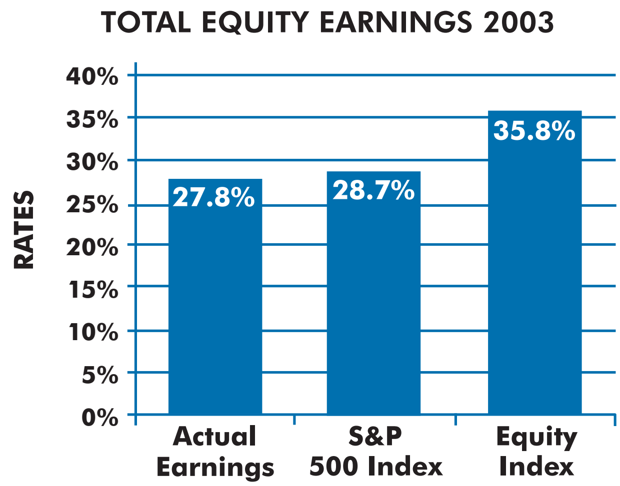
SYSTEM'S ACTIVITIES

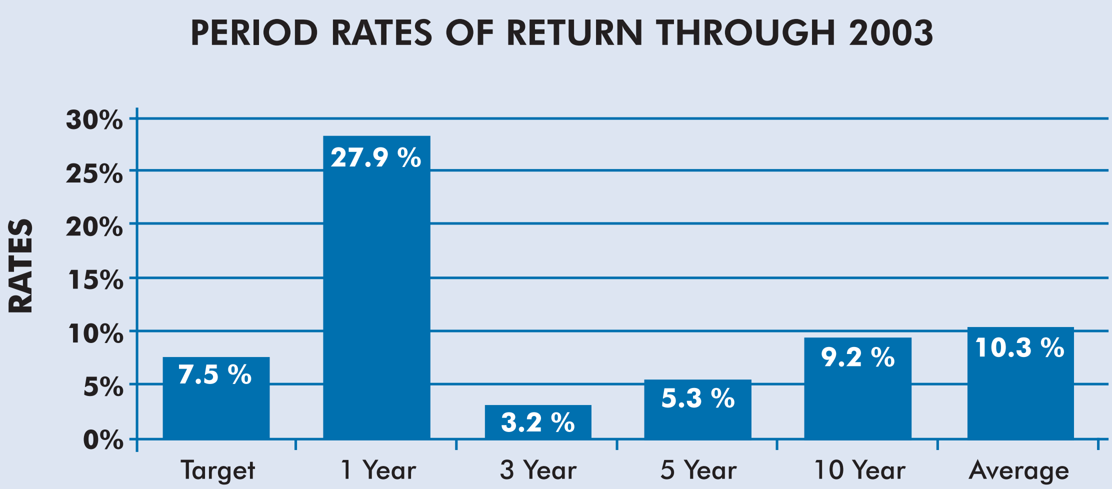
Operationally, Plan expenses for the period ending December 31, 2003 were $5.9 million. This total includes $.8 million in administrative expenses, $.2 million in refund of employee contributions plus interest and $4.9 million in benefits paid to retired members and beneficiaries. A total of 1,827 City employees were participants or beneficiaries at year-end.

The value of Plan assets, after subtracting liabilities of the Plan was $95.6 million and $74.8 million as of December 31, 2003 and December 31, 2002, respectively. For the year 2003, the Plan experienced an increase in its net assets in the amount of $20.8 million and an investment rate of return of 28%. Total fund earnings returned to positive territory after three disappointing years.

Total Plan Investments ended the year with a gain of 28%, slightly under-performing the 29% rate of return of the S&P 500 Index alone because of the mix of investments in other asset categories. Equities for the fund when measured alone however, achieved a return exceeding the S&P 500.

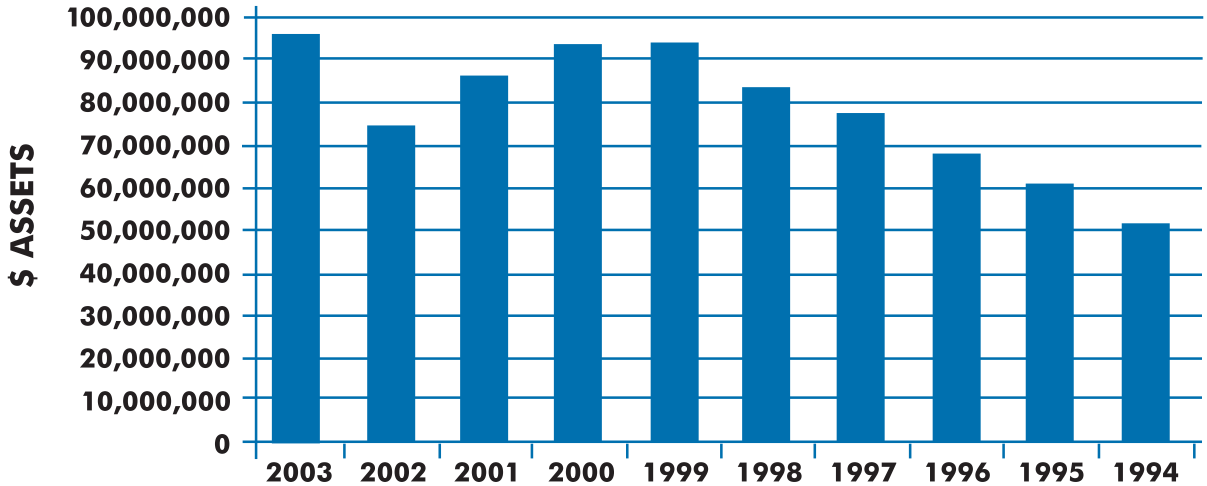






For the Plan year ended December 31, 2003, the Systems' rate of return for one and three year periods exceeded the target rate of 7.5% at 28% for the one year and underperformed the target rate for the three year average at 3.2%. The five year rate of return underperformed with a return of 5.3% and the ten year rate of return outperformed the anticipated rate of 7.5% at 9.2%. The historical rate of return (since the Plan's inception in March 1989) exceeded the anticipated return of 7.5% by 2.8%.

TEN YEAR ASSET VALUES AS OF 12/31/03



The year 2003 saw the return to positive performance in U.S. equities after three consecutive years of decline. The System's total portfolio increased by 28% during 2003, ending the year with $95.6 million in total assets. Historical asset values for the past ten years are shown here.

YEAR	NET ASSETS	YEAR	NET ASSETS
2003	$95,632,743	1998	$83,450,037
2002	$74,796,544	1997	$77,944,473
2001	$85,786,154	1996	$68,702,121
2000	$93,034,852	1995	$60,600,021
1999	$93,302,993	1994	$50,858,420

Administrative Budget

The Retirement System's operation budget is prepared annually for each plan year which begins on January 1st. The System's administrative budget is divided into, and accounts for, four categories of expenses: Administrative (inclusive of depreciation on capitalized acquisitions), Human Resources, Professional Services, and Special Projects.

Administrative expenses for 2003 were $177,274, an increase of 32% from the previous year but inclusive of significant one time expenses associated with the relocation of the administrative operations and with recruitment costs for an Executive Director. Human Resource expenses decreased in 2003 to $174,881 from $193,884 in Plan year 2002. Professional Services expenses in 2003 were $383,497, a change of 76% from $218,315 in the previous year.

Special Project expenses in 2003 which consisted of development work on a web portal for the new pension administration system which went on line in January of 2003, were reduced from the previous year from $31,473 to $28,123. Overall, operational expenses were $763,775, up by 32% from the previous year.

Schedule by Department of Active and Retired Members

FOR PERIOD ENDING DECEMBER 31, 2003

OFFICE/DEPARTMENT	ACTIVE OR VESTED	RETIRED
Assessors Office	7	5
Airport Authority	66	9
Building Department	20	9
Cemetery Department	13	9
CIP - (Inactive, Now Elderly Services)	0	2
City Clerk's Office	18	8
City Solicitor's Office	10	2
District Court	1	1
Employee Assistance Program	1	0
Elderly Services	4	1
Environmental Protection Division	42	8
Finance Department	12	4
Fire Department - (Non- NHRS Group II)	18	3
Health Department	64	22
Highway Department	166	63
Human Resources	11	6
Industrial Council	0	1
Information Systems	19	1
City Library	37	20
Mayor's Office	4	4
Manchester Economic Development Office	1	0
Municipal Facilities - (Inactive)	0	2
Office of Youth Services	7	2
Parking	0	1
Parking Meters	0	4
Parks & Recreation	40	19
Public Building Services	14	66
Planning Board	14	1
Police Department - (Non- NHRS Group II)	64	7
Probation Department	1	1
Retirement - (Inactive)	1	2
Risk Management	2	0
School Department	426	80
School Food & Nutrition Services	111	100
Tax Collector's Office	12	4
Traffic Department	15	3
Voter Registration - (Now part of City Clerk)	0	1
Water Works Department	85	37
Welfare Department	11	2
TOTAL	**1,317**	**510**

Comparative Statement of Net Assets Available for Benefits

DECEMBER 31, 2003 AND 2002

	2003	2002
ASSETS		
Cash	**$ 1,525,395**	$ 804,485
Investments	**94,582,885**	74,099,597
Receivable for investments sold	**129,655**	135,193
Accrued interest	**9,928**	165,872
Employee contribution receivable	**6,413**	42,197
Employer contribution receivable	**28,350**	0
Property, plant and equipment, net of accumulated depreciation	**215,971**	240,975
Other assets	**0**	8,927
Total assets	**$96,498,597**	$75,497,246
LIABILITIES AND NET ASSETS		
Payable for investments purchased	**333,230**	161,423
Accounts payable and accrued expenses	**116,863**	137,940
Pension benefits payable	**415,761**	401,339
Total liabilities	**865,854**	700,702
Commitments and Contingencies (notes 7, 8, and 10)		
Net assets held in trust for pension benefits	**95,632,743**	74,796,544
(See schedule of funding progress on page 32)		
Total liabilities and net assets	**$96,498,597**	$75,497,246

Comparative Statement of Changes in Net Assets Available for Benefits

YEARS ENDING DECEMBER 31, 2003 AND 2002

	2003	2002
Net assets at beginning of plan year	**$74,796,544**	$85,786,154
Increase to net assets attributed to investment income (loss)		
Interest	**193,160**	720,912
Dividends	**832,893**	1,067,951
Realized gain/(loss) on sale of investments	**1,694,909**	(2,816,199)
Unrealized gain/(loss) in market value	**19,499,825**	(7,458,798)
Other income	**18,388**	27,653
	22,239,175	(8,458,481)
Less investment expenses		
Investment management fees	**335,641**	324,651
Custodial fees	**72,344**	83,438
	407,985	408,089
Net investment income (loss)	**21,831,190**	(8,866,570)
Contributions		
Employer	**3,323,023**	1,794,576
Employee	**1,567,446**	1,504,453
Buybacks	**10,773**	27,005
Total contributions	**4,901,242**	3,326,034
Total increases (decreases) in net assets	**26,732,432**	(5,540,536)
Reduction in net assets attributed to		
Benefits paid directly to participants	**4,877,225**	4,568,960
Refunds of employee contributions plus interest	**255,233**	301,901
Administrative expenses	**763,775**	578,213
Total reductions	**5,896,233**	5,449,074
Net increase/(decrease) in net assets	**20,836,199**	(10,989,610)
Net assets at end of plan year	**$95,632,743**	$74,796,544

— Notes to Financial Statements —

DECEMBER 31, 2003 AND 2002

1. DESCRIPTION OF PLAN

The following brief description of the City of Manchester Employees' Contributory Retirement System (the Retirement System) is provided for general information purposes. Participants should refer to the plan document for more information.

■ GENERAL

The City of Manchester, New Hampshire (the City) established a single employer, public employee retirement system on January 1, 1974 to provide pension benefits for certain City employees. The Retirement System is a discretely presented component unit of the City's general purpose financial statements.

The Retirement System adopted Statement No. 34 of the Governmental Accounting Standards Board "Basic Financial Statements and Management's Discussion and Analysis (MD&A) for State and Local Governments" effective December 31, 2001. The only significant impact of this adoption is the inclusion of the MD&A report as an integral part of the financial statements.

At January 1, 2003 and 2002, the Retirement System membership consisted of:

	2003	2002
Retirees and beneficiaries currently receiving benefits	**499**	484
Terminated vested members	**103**	66
Active members	**1,291**	1,330
Total Participants	**1,893**	1,880

■ ADMINISTRATION

The Retirement System is administered by a Retirement Board of Trustees (the Board of Trustees) consisting of seven members. They are: (1) the City's Finance Director; (2) a person appointed by the Board of Mayor and Aldermen; (3) and (4) two citizens of the City, one appointed by the Mayor and one elected by the employees, neither of whom shall be an officer or employee of the City or a member of any commission of the City; and (5) and (6) two members who are employees of the City and elected by the membership of the Retirement System. The seventh Trustee is the Mayor of the City who is an ex officio member and can vote only to break a tie. The Board of Trustees is responsible for the operation of the Retirement System.

Duties of the Board of Trustees including overseeing investments, approving the actuarial valuation of the Retirement System, including the actuarial assumptions, interpreting statutory provisions, authorizing benefit payments, and formulating administrative policies and procedures.

The daily administrative functions of the Retirement System have been delegated by the Board of Trustees to the Retirement Office. The Retirement Office processes all requests for retirement, maintains member records, and serves as the Retirement System's information center.

All employer and employee contributions are deposited in a trust fund managed and controlled by the Board of Trustees. The Board of Trustees has appointed professional investment managers who are directed to invest the assets of the trust funds in high quality stocks, bonds, and other investments.

■ ELIGIBILITY AND PENSION BENEFITS

The Retirement System applies to all full-time and permanent employees of the City, including elected and appointed officials. The Retirement System does not cover certain categories of employees, such as temporary employees, members of boards and commissions who are not full-time or permanent part-time employees of the City, members of the fire and police departments who are eligible to participate in a state-administered retirement system, and other persons who are, or were, eligible to participate in the New Hampshire Retirement System.

All covered employees hired after January 1, 1974 are required to participate in the Retirement System as a condition of employment. Employees are 100% vested after five years of service. The normal retirement age is 60 and the benefit is calculated at 1.5% of final average total compensation during the highest three years of service in the last ten years of service (hereafter final average earnings) multiplied by the years of service. The benefit was increased to 2% for service completed after January 1, 1999. Permanent employees of the City of Manchester prior to January 1, 1974 who were in service as of January 1, 1974, are eligible for early retirement if credited with no less than twenty (20) years of service.

Such early retirement benefit shall be equal to the greater of: (i) fifty percent (50%) of the member's final average earnings, or (ii) the sum of the member's years of service multiplied by one an one-half percent (1.5%) of the member's final average earnings (2% for service completed after January 1, 1999). Members enrolled subsequent to January 1, 1974 are eligible for early retirement benefits if their years of age plus service are equal to or greater than 80, or if they have attained age 55 with 20 years or more of service. All eligible employees are required to contribute 3.75% of their salaries to the Retirement System. If an employee leaves covered employment or dies before five years of service, the Retirement System refunds accumulated employee contributions and their earnings, calculated at the rates determined annually by the Board of Trustees (5% for 2003 and 2002). The City is required to contribute the remaining amounts necessary to finance the benefits for its employees. Benefit provision and employee contribution changes require amendment of Chapter 218 of the City Charter, first by enabling legislation by the New Hampshire legislature and then subject to approval of the voters of the City through referendum.

■ DISABILITY RETIREMENT

If a participant becomes totally and permanently disabled from a job-related incident, there is no service or age requirement and the minimum benefit is 50% of the final average earnings.

For a nonjob-related incident, the disability benefits are payable only if 15 years of service have been rendered and are based on the accrued benefit to the date of disability.

■ COST OF LIVING ADJUSTMENTS

Cost of living adjustments (COLA) are granted at the discretion of the Board of Trustees. A 3% COLA was granted effective June 1, 2001 to all retirees or beneficiaries retired as of December 31, 2000. The effect of the COLA was to increase the actuarial accrued liability at December 31, 2001 by approximately $1,047,075. This increase will be funded over ten years. For 2003 and 2002, the impact on the customary contribution was an increase of approximately $142,000.

A 3% COLA was granted to retirees or beneficiaries receiving benefits at June 1, 2002 who retired on or before December 31, 2001. The effect of this COLA was to increase liabilities by $1.2 million. This increase is funded over ten years and for 2003, the impact on the customary contribution is a change of approximately $165,000. No COLA was granted in 2003.

■ SYSTEM TERMINATION

In the event the Retirement System is discontinued, members' retirement benefits will automatically become 100% vested to the extent they are funded. Members' termination benefits will be paid from plan assets to the extent accrued under the Retirement System's terms and in accordance with applicable laws.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in accordance with Governmental Accounting Standards Board Statements No. 25 and No. 34 and reflect the accrual basis of accounting.

■ INVESTMENTS

Investments are reported at fair value, which has been determined based primarily on quoted market prices (see note 3).

Gains and losses on the sale of investments are computed using the specific identification method of determining cost. The net appreciation (depreciation) in the fair value of investments held by the Retirement System is based on the valuation of investments as of the date of the *Statement of Net Assets Available for Benefits*.

■ PENSION BENEFITS PAYABLE

Pension benefits are recorded on an accrual basis. Pension benefits payable as of December 31, 2003 and 2002 amounting to $415,716 and $401,339 respectively, represents benefits earned by participants that have not been paid as of the end of the year.

■ ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets, liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

■ RECLASSIFICATION OF FINANCIAL STATEMENT PRESENTATION

Certain reclassifications have been made to the 2002 financial statements to conform with the 2003 financial statement presentation. Such reclassifications had no effect on change in net assets as previously reported.

3. INVESTMENTS

Investment managers have discretionary investment powers within guidelines developed by the Board of Trustees.

The Retirement System's investments are held by a custodian bank. The following tables present the fair values of the Retirement System's investments at December 31, 2003 and 2002.

	2003	2002
Equity Funds	**$33,665,369**	$19,160,184
Foreign Equity	**12,776,991**	7,660,412
Alternative Equity	**3,022,429**	2,677,501
Fixed Income	**17,873,994**	22,537,628
Emerging Market Funds	**4,270,282**	2,669,449
Real Estate	**2,317,989**	2,139,860
Timberfunds	**4,332,536**	4,020,160
Specialty Investments	**16,323,296**	13,234,403
Total	**$94,582,885**	$74,099,597

The following table presents the fair value of investments held that represent 5% or more of the Retirement System's net assets available for benefits:

	2003	2002
BIAM Group Trust	**$12,776,991**	$7,660,412
Income Research Management Core Bond Fund	**8,473,434**	11,527,204
Loomis Sayles Fixed Income Fund	**9,410,488**	11,176,295
Mellon Capital – Domestic Asset Allocation Fund	**8,526,285**	7,334,657
Mellon Capital – Global Tactical Asset Allocation	**7,783,811**	5,880,214
State Street Global Advisors U.S. Large Cap Value Fund	**9,549,832**	4,695,902
Turner Midcap Growth Fund	**6,985,173**	n/a
Wachovia Timber Fund	**n/a**	4,020,160

n/a – Not applicable in the year in question

4. CONTRIBUTIONS

The City's funding policy requires contributions to the plan in amounts sufficient to fund the benefits set forth in the plan. The contributions are determined by the Retirement System's Board of Trustees on the basis of the actuary's valuation. Significant actuarial assumptions used to compute the actuarially determined contribution requirements are the same as those used to compute the pension fund obligation.

The City's contributions in 2003 and 2002 were based primarily on actuarial valuations performed as of January 1, 2003 and 2002. The City's contributions for 2003 and 2002 were in the amounts recommended by the outside actuary. The recommended City contributions for 2003 and 2002 consisted of normal cost of $2,252,492 and $2,173,489, respectively, and amortization of the unfunded actuarial accrued liability (credits) related to actuarial gains and assumption changes of $1,052,959 and $(378,913), respectively. Unfunded prior service costs are being amortized over periods of fifteen to forty years. The employer customary contributions represented 8.5% of covered payroll for 2003 and 4.6% of covered payroll for 2002. Total employee contributions used to calculate the percentage of covered payroll include mandatory contributions and buy-backs.

On June 23, 1995, the Retirement System purchased from an insurance company a non-participating single premium contract for $1,943,011 to fund the 1992, 1993, and 1995 COLA benefits granted to current retirees covered by the Retirement System. The Retirement System continues to make the entire monthly payment to retirees; however, the insurance company transfers to the Retirement System the aggregate COLA amount each month.

5. INCOME TAX STATUS

The Retirement System received a determination letter, dated January 7, 1975, from the Internal Revenue Service that the original plan was qualified under Section 401(a) of the Internal Revenue Code (IRC) and, therefore, was exempt from Federal income taxes under provisions of Section 501(a) of the IRC. The Plan has been amended subsequent to receiving the determination letter. However, the Plan Administrator and the Plan's Tax Counsel believe that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

6. RELATED PARTY TRANSACTIONS

Charles B. Manning, Inc. (The Company) was wholly owned by the Retirement System. In 1997, the Retirement System invested $626,300 in the Company to acquire and operate a building located at 1838 Elm Street, Manchester, NH. In October 2001, the Company sold the building at a loss of approximately $300,000 which was included in the *Statement of Changes in Net Assets Available for Benefit*s for that year. In 2002, the Company was dissolved and its remaining assets were distributed to the Retirement System. That resulted in an increase in cash of approximately $618,000 and a realized gain of $5,000.

7. OPERATING LEASE

In July of 2003, the System entered into a five year non-cancelable operating lease for office space with Metropolis Property Management Group. The present lease affords the System 2,500 feet of office space with the initial term expiring on June 30, 2008. The System has one option to extend for a three year period at the end of the initial term. After the initial year, the base rent of $30,000 per year will be increased on an annual basis by the lesser of the cumulative increase in the Consumer Price Index for All Urban Consumers as published by the Department of Labor for the Manchester, NH area or 5%. The Retirement System paid approximately $31,700 and $37,800 in total rent expense in 2003 and 2002, respectively.

8. LITIGATION

The Retirement System was involved in an appeal to the New Hampshire Supreme Court resulting from the System's denial of a pension claim. In addition, the System brought a civil action against the same former employee seeking reimbursement of certain sums the System believed to be unauthorized payments of overtime, vacation pay, sick leave, severance and expense reimbursements. During 2003, a compromise settlement was reached under which the party in question was granted a periodic payment equivalent to a pension amount for a period of service up to the time when the System Board and Executive Director received a legal opinion that the System employees were not eligible to participate in the plan. As part of this compromise settlement, the party also agreed to pay back to the System the amounts claimed for overtime, vacation and expense reimbursements. The settlement effectively brought closure to the issues.

9. CONCENTRATION OF CREDIT RISK

At times, the Retirement System maintains cash balances in excess of the amount insured by the Federal Deposit Insurance Corporation. The Retirement System has not experienced any losses in such accounts. The Retirement System believes it is not exposed to any significant risk with respect to these accounts.

10. STAFF RETIREMENT PLAN

During 2003, the System established a defined contribution 401(k) Retirement Plan covering the employees of the System. The System will match up to 4% of the participants' compensation that is contributed to the Plan. Contributions to the Plan by the System totaled $5,181 for the year ended December 31, 2003.

Required Supplemental Information

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Plan Assets	Unfunded Actuarial Liability (Surplus)	Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	Unfunded Liability to Covered Payroll
01/01/03	$89,755,853	$16,364,857	$106,120,710	84.6%	$38,940,104	42.02%
01/01/02	$94,812,631	$1,457,848	$96,270,479	98.5%	$38,692,738	3.76%
01/01/01	90,144,513	(3,049,404)	87,095,109	103.5%	35,370,961	-
01/01/00	82,584,305	(3,263,538)	79,320,767	104.1%	29,581,577	-
01/01/99	72,569,967	(1,494,444)	71,075,523	102.1%	28,439,796	-
01/01/98	65,839,177	(4,296,452)	61,542,725	107.0%	26,961,375	-
01/01/97	59,838,164	(3,121,758)	56,716,406	105.5%	24,418,320	-
01/01/96	55,546,837	(2,973,375)	52,573,462	105.7%	23,320,343	-

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2003	$3,323,023	100%
2002	1,794,576	100%
2001	1,117,163	100%
2000	713,685	100%
1999	796,552	100%
1998	514,216	100%
1997	543,835	100%
1996	504,328	100%

Funded ratio is the actuarial value of assets as a percentage of the actuarial accrued liability.

Actuarial Valuation Method and Assumptions

The Board of Trustees employs an independent actuarial firm to estimate the actuarial present value of accumulated plan benefits and to determine future contribution rates.

The system reduced the normal retirement age from 62 to 60 and provided for a two percent annual subsidiary on early retirement for participants who meet certain age and service requirements. This amendment was granted during 2002 and became effective November 1, 2002. The increase in Plan liabilities is $3 million, which reflects the impact of the plan amendment as well as a change in assumed retirement rates. The amortization of this change increases the customary contribution by $200,000 for the first 20 years and $500,000 for the subsequent 10 years.

Actuarial Funding Method

The actuarial cost method used in the valuation was the Entry Age Actuarial Cost Method. Under this method an allocation of liability to past service and future service is made by spreading the cost over an employee's career as a level percentage of pay. The normal cost is computed for each employee as a level percentage of pay. The actuarial present value of future normal cost payments is determined for each employee, based on an application of each employee's normal cost percentage to the actuarial present value of future compensation of the employee. The sum of such values for all employees is the actuarial present value of future normal costs.

The portion of the actuarial present value of protected benefits to be paid from the plan which is not expected to be provided by the actuarial present value of future normal costs is called the actuarial accrued liability. The unfunded actuarial accrued liability is the amount by which the actuarial accrued liability exceeds the actuarial value of assets. An initial unfunded actuarial accrued liability under the new method has been established as of January 1, 1991 and is being funded by level annual contributions over 40 years from that date. Subsequent amendments to the plan which create increases or decreases to the unfunded actuarial accrued liability are scheduled to be amortized over 30 years. Subsequent changes in actuarial assumptions which create increases or decreases to the unfunded actuarial accrued liability are scheduled to be amortized over 20 years. Actuarial gains (or losses) are calculated each year under the method, and are scheduled to be amortized over 15 years. COLA increases granted after the beginning of any year will be amortized over 10 years beginning with the next plan year.

Actuarial Asset Valuation Method

Effective January 1, 1991, the actuarial value of assets will be determined using the Long Range Yield method. Under this asset valuation method, a preliminary asset value is determined based on the assumed investment return. Difference between this preliminary value and the market value of assets, whether positive or negative, are phased in over a five-year period, thus providing stability in the year-to-year progression of asset values. Use of this method began January 1, 1991 with an initial value set equal to the market value of assets, as reported.

Actuarial Assumptions

Significant actuarial assumptions used in the actuarial valuation include those listed below:

Valuation Date	January 1, 2003
Pre- and Post-Retirement Mortality	The 1983 Group Annuity Mortality Table. For disabled lives the preceding table with rates set forward ten (10) years was used.
Investment return	7.5% per year compounded annually, net of expenses
Salary increases	Under 35 – 5.5%; 35 to 49 – 5%; 50 and over – 4.5%
CPI increases	4.5% per year
Credited int. on employee contributions	5.0% per year compounded annually
Valuation compensation	Equal to the annualized reported compensation in the prior year adjusted by the compensation increase assumption to account for anticipated increases during the current year.
Employee withdrawal	Termination rates for sample ages range from 12.5% for age 20 to 0% for age 50

Assumed retirement age

Terminated vested participants are assumed to retire at age 60.

Age	Rate	Age	Rate	Age	Rate
50	5%	56	10%	61	10%
51	5%	57	10%	62	50%
52	5%	58	10%	63	15%
53	5%	59	10%	64	15%
54	10%	60	10%	65	100%
55	10%				

Rates from the last year valuation were as follows:

Terminated vested participants are assumed to retire at age 62.

Employees hired prior to 1974

Age	Rate
Under 60	0.0%
60	15%
61	15%
62	50%
63	15%
64	15%
65	100%

All other employees

Age	Rate
Under 62	0.0%
62	50%
63	15%
64	15%
65	100%

Disability

50% of disablements are assumed to be work-related.

Calculated using disability rates equal to 50% of 1955 United Auto Workers Table.
Sample incident rates are as follows:

Age	Male	Female
25	.015%	.025%
40	.035%	.050%
55	.180%	.245%

Asset Valuation Method	Long-Range Yield Method
Pre-retirement Death Benefit	Calculated using aforementioned mortality, interest and termination assumptions and on assumption that 100% of System members have spouses, with husbands three years older than wives.
Assumed future COLA's	None
Amortization Method	Level Percentage Closed

City of Manchester Employees' Contributory Retirement System

COMPREHENSIVE ANNUAL FINANCIAL REPORT • FOR PERIOD ENDING DECEMBER 31, 2003

THIS REPORT HAS BEEN PREPARED PURSUANT TO CHAPTER 218:6, II, LAWS OF 1973 OF THE STATE OF NEW HAMPSHIRE, AS AMENDED, AND IS INTENDED TO SATISFY PUBLIC PENSION PLAN FINANCIAL REPORTING REQUIREMENTS.

CITY OF
MANCHESTER
EMPLOYEES'
CONTRIBUTORY
RETIREMENT
SYSTEM

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