



**Fire and Police Pension Fund,
San Antonio**
(A Component Unit of the City
of San Antonio, Texas)

Financial Statements
Three Months ended December 31, 2015

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(A Component Unit of the City of San Antonio, Texas)

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Independent Auditor's Report

To the Board of Trustees
Fire and Police Pension Fund, San Antonio
San Antonio, Texas

Report on the Financial Statement

We have audited the accompanying financial statements of the Fire and Police Pension Fund, San Antonio (the Pension Fund), a component unit of the City of San Antonio, as of and for the three months then ended December 31, 2015 and the related notes to the financial statements which collectively comprise the Pension Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Fire and Police Pension Fund, San Antonio as of December 31, 2015 and the changes in its fiduciary net position for the three months then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that "Management's Discussion and Analysis" and the "Required Supplementary Information" listed on the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to this required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fire and Police Pension Fund, San Antonio's basic financial statements. The executive summary is presented for purposes of additional analysis and is not a required part of the basic financial statements. The executive summary is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the executive summary is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2016, on our consideration of the Fire and Police Pension Fund, San Antonio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pension Fund's internal control over financial reporting and compliance.

BDO USA, LLP

July 27, 2016

Fire and Police Pension Fund, San Antonio
(A Component Unit of the City of San Antonio, Texas)

Executive Summary
(Dollars in Thousands)

As of December 31, 2015

Valuation Date:	10/1/2015
Plan Year Ending:	12/31/2015

Membership

Number of

- | | |
|---|-------|
| - Retirees and beneficiaries currently receiving benefits | 2,478 |
| - Inactive members due a refund of contributions | 22 |
| - Active employees | 3,815 |

Total	6,315
--------------	--------------

The Pension Fund's plan year changed from a September 30th year-end to a December 31st year end in 2015. Demographic information remained substantially the same during that 3 month period.

Information below is presented as of December 31, 2015:

Covered payroll (10/1/2015 to 12/31/2015 annualized)	\$308,671
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Net Pension Liability

Total Pension Liability	\$3,302,956
Plan Fiduciary Net Position	2,633,696

Net Pension Liability	\$669,260
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Plan Fiduciary Net Position as a Percentage of Total Pension Liability	79.74%
Net Pension Liability as a Percentage of Covered Payroll	216.82%

Development of the Single Discount Rate

Applicable GASB No. 67 Discount Rate	7.25%
Long-Term Expected Rate of Return	7.25%
Long-Term Municipal Bond Rate	N/A
Year when the Plan Fiduciary Net Position is projected to no longer be sufficient to make Projected Benefit Payments	N/A

Fire and Police Pension Fund, San Antonio
(A Component Unit of the City of San Antonio, Texas)

Management's Discussion and Analysis (MDA)
(Dollars in Thousands)

On March 30, 2016, the Board of Trustees (the Board) of the Fire and Police Pension Fund, San Antonio (the Pension Fund) voted to change the fiscal year end of the Pension Fund from September 30 to December 31. The Board authorized the presentation and audit of the Changes in Net Position for the three month period from October 1, 2015 to December 31, 2015, and the presentation and audit of the Net Position of the Pension Fund as of December 31, 2015. What follows is management's discussion of that financial activity and financial position. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets of the Pension Fund exceeded its liabilities as of December 31, 2015 by \$2,633,696 (Net Position). The Net Position is held exclusively for the benefit of the members and retirees of the Pension Fund, and their beneficiaries, and for defraying reasonable administrative expenses of the Pension Fund.
- During the three months ended December 31, 2015, the Pension Fund's Net Position increased by \$37,785. Increases in Net Position came from contributions from the City of San Antonio (the City) and the active participants in the Pension Fund and from investment gains on the accumulated assets of the Pension Fund. Decreases came from benefits paid to retirees and their beneficiaries and expenses related to the administration of the Pension Fund.

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction to the Pension Fund's basic financial statements. The Pension Fund is a *fiduciary fund* of the City, and, as such, is used to account for resources held for the benefit of the firefighters and police officers of the City. The assets held in trust in the fiduciary fund are not available to support the City's own programs. The Pension Fund's basic financial statements are comprised of two components: 1) the financial statements, and 2) the notes to the financial statements.

Financial Statements. The financial statements are designed to give the reader an overview of the Pension Fund's finances with an emphasis on the Pension Fund's Net Position Restricted for Pension Benefits and the changes in Net Position for the period reported.

The Statements of Fiduciary Net Position present information on all of the Pension Fund's assets and liabilities, with the difference reported as Net Position Restricted for Pension Benefits.

The Statements of Changes in Fiduciary Net Position present information showing how the Pension Fund's net position changed during the most recent period. All of the changes are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of the related cash flows. Thus, revenue and expenses are reported in the statements for some items that will only result in cash flows in future fiscal periods.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the Pension Fund's financial statements.

Other Information. In addition to the basic financial statements, including the notes to the financial statements, this report also presents certain required supplementary information concerning the periodic fluctuations in the Net Pension Liability of the Pension Fund, and

Fire and Police Pension Fund, San Antonio
(A Component Unit of the City of San Antonio, Texas)

Management's Discussion and Analysis (MDA)
(Dollars in Thousands)

employer contributions required of the City to the Pension Fund. Also included are certain actuarial assumptions that have an effect on the Net Pension Liability and required contributions. This information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board as supplementary information.

Financial Analysis

As stated earlier, Net Position of the Pension Fund is to be used exclusively for the benefit of the participants and retirees of the Pension Fund and their beneficiaries, and for defraying reasonable administrative expenses of the Pension Fund. The Net Position of the Pension Fund is invested in a diversified portfolio consisting of cash and cash equivalents, equity and fixed income marketable securities, hedge funds, real estate, private equity, private debt, and real assets. These investments make use of international diversification including emerging markets in equities, fixed income, private equity, hedge funds, private debt, real estate and real assets. The portfolio is designed to produce returns sufficient to meet the actuarial assumptions at risk levels that meet the Pension Fund's risk tolerances. A small portion of the Pension Fund's net position, fixed assets such as leasehold improvements and office equipment, is used by the Pension Fund's administrative staff. Below is a schedule of the assets, liabilities, and net position as of December 31, 2015, compared to the information as reported in the preceding fiscal years ended September 30:

Fire and Police Pension Fund, San Antonio

Net Position
(Dollars in Thousands)

<i>As of</i>	12/31/2015	9/30/2015	9/30/2014	9/30/2013
Cash and Short-Term Investments	\$ 51,692	\$ 44,866	\$ 156,722	\$ 57,764
Securities Lending Collateral	96,370	111,932	107,230	118,106
Investments	2,553,489	2,561,318	2,527,539	2,415,385
Receivables	61,267	14,571	14,817	17,738
Assets Used in Plan Operations - Net	598	615	662	726
Total Assets	2,763,416	2,733,302	2,806,970	2,609,719
Accounts Payable	4,833	5,436	4,723	4,070
Payable for Securities Purchased	8,274	19,770	17,919	22,652
Loan Payable - Northern Trust	20,000	-	-	-
Accrued Expenses	243	253	243	213
Securities Lending Collateral	96,370	111,932	107,230	118,106
Total Liabilities	129,720	137,391	130,115	145,041
Net Position Restricted for Pension Benefits	\$ 2,633,696	\$ 2,595,911	\$ 2,676,855	\$ 2,464,678

Fire and Police Pension Fund, San Antonio
(A Component Unit of the City of San Antonio, Texas)

Management's Discussion and Analysis (MDA)
(Dollars in Thousands)

The Pension Fund receives revenue from two main sources. First, contributions are received from the City and the active members of the Pension Fund. Second, investment income or loss is earned or lost on the funds that have accumulated over the years. Most of the Pension Fund's cash flow needs are provided for out of the contributions that are received. The investment income or loss is important to the Pension Fund's Net Pension Liability, which is discussed in the required supplementary information of this report.

The Pension Fund's expenses are mainly the benefits paid to its retired members. A small percentage of the total expenses are spent on the administrative costs of the Pension Fund.

As mentioned above, the Pension Fund's net position increased \$37,785 for the three months ended December 31, 2015, as detailed in the following schedule:

Fire and Police Pension Fund, San Antonio

Changes in Net Position

(Dollars in Thousands)

	<i>3 Months Ended 12/31/2015</i>	<i>Year Ended September 30,</i>		
		2015	2014	2013
Additions				
Contributions:				
Employer	\$ 19,014	\$ 75,802	\$ 76,146	\$ 73,256
Employee	9,507	37,901	38,073	36,629
Total Contributions	28,521	113,703	114,219	109,885
Investment Income:				
Interest	7,242	25,667	22,887	26,890
Dividends	3,866	17,868	18,148	20,038
Net appreciation (depreciation) in fair value of investments	34,423	(93,219)	185,817	202,145
Income from real estate operations	3,148	15,790	9,332	11,157
Securities lending (net of fees)	87	285	392	371
Other income	213	609	66	248
Investment expenses	(3,311)	(14,587)	(13,588)	(12,661)
Investment Income (loss)	45,668	(47,587)	223,054	248,188
Total Additions	74,189	66,116	337,273	358,073
Deductions				
Benefits paid to participants	35,118	143,454	121,945	118,428
Refunds paid to participants	512	703	362	254
Other deductions	774	2,903	2,789	2,715
Total Deductions	36,404	147,060	125,096	121,397
Increase (decrease) in Net Position	37,785	(80,944)	212,177	236,676
Net Position, beginning of year	2,595,911	2,676,855	2,464,678	2,228,002
Net Position, end of year	\$ 2,633,696	\$ 2,595,911	\$ 2,676,855	\$ 2,464,678

The increase in Net Position for the 3 months ended December 31, 2015 was 1.5%. The increase was mainly due to the gain in value of the securities held for investment.

Fire and Police Pension Fund, San Antonio

(A Component Unit of the City of San Antonio, Texas)

Statement of Fiduciary Net Position

(Dollars in Thousands)

December 31, 2015

Assets

Cash and short-term investments	\$ 51,692
Securities lending collateral - cash and cash equivalents, at fair value (See note 9)	96,370
Investments, at fair value (See note 4)	2,553,489

Total Cash and Investments 2,701,551

Accrued interest and dividends	4,578
Receivable from the sale of securities	56,689

Assets used in Plan Operations

Buildings	551
Furniture and equipment	311
Computer equipment	85
	947
Accumulated depreciation	(349)

Assets used in Plan Operations - Net 598

Total Assets \$ 2,763,416

Liabilities

Accounts payable	\$ 4,833
Payable for securities purchased	8,274
Loan payable - Northern Trust	20,000
Accrued expenses	243
Securities lending collateral	96,370

Total Liabilities 129,720

**Net Position Restricted
for Pension Benefits** \$ 2,633,696

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

Fire and Police Pension Fund, San Antonio

(A Component Unit of the City of San Antonio, Texas)

Statement of Changes in Fiduciary Net Position

(Dollars in Thousands)

Three months ended December 31, 2015

Additions To Net Position Attributable to

Investment Income

Net appreciation in fair value of investments	\$	34,423
Interest		7,242
Dividends		3,866
Real estate income, net		3,148
Securities lending income		120
Other income		213
Less Investment Expenses:		
Investment management and custodial fees		(3,311)
Securities lending borrower rebates		14
Securities lending fees		(47)

Net Investment Income 45,668

Contributions

Employer (See note 6)	19,014
Members (See note 6)	9,507

Total Contributions 28,521

Total Additions 74,189

Deductions From Net Position Attributable to:

Benefits Paid to Participants:

Annuities	30,365
BackDROP payments (See note 1)	4,753
Refunds of participant contributions	512
Personnel costs	358
Contractual services	308
Depreciation	17
Maintenance and utilities	91

Total Deductions 36,404

Net Increase 37,785

Net position restricted for
pension benefits, beginning of year 2,595,911

**Net Position Restricted for
Pension Benefits, End of Year** \$ 2,633,696

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

Fire and Police Pension Fund, San Antonio
(A Component Unit of the City of San Antonio, Texas)

Notes to Financial Statements
(Dollars In Thousands)

1. Change of Fiscal Year

On March 30, 2016, the Board of Trustees (the Board) of the Fire and Police Pension Fund, San Antonio (the Pension Fund) voted to change the fiscal year end of the Pension Fund from September 30 to December 31. The Board authorized the presentation and audit of the Statement of Changes in Fiduciary Net Position for the three month period from October 1, 2015 to December 31, 2015, and the presentation and audit of the Statement of Fiduciary Net Position of the Pension Fund as of December 31, 2015.

2. Plan Description

The Fire and Police Pension Fund, San Antonio (the Pension Fund) is a single-employer defined benefit retirement plan established in accordance with the laws of the State of Texas. The governing document for the Pension Fund is found in Vernon's Texas Civil Statutes, Article 6243o. The pension law governing the Pension Fund for the three months ended December 31, 2015 was last amended October 1, 2009. The Pension Fund is administered by a nine-member Board of Trustees (the Board), which includes two City Council members, the mayor or his appointee, two police officers, two firefighters, and two retirees. The Pension Fund meets the criteria of a "fiduciary fund" of the City of San Antonio (the City) as established by *Governmental Accounting Financial and Reporting Standards*, and is therefore included in the City's financial statements as a pension trust fund. A more complete description of the Pension Fund is provided in the summary plan description. At December 31, 2015, membership of the Pension Fund consisted of:

Retirees and beneficiaries receiving benefits	2,392
Active and Inactive participants	3,852

Total	6,244
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Currently, the Pension Fund provides retirement benefits to eligible employees of the fire and police departments of the City who have served for 20 years or more. Employees who terminate prior to accumulating 20 years of service may apply to receive a refund of their contributions. Upon application for a service retirement pension from the Pension Fund, retiring employees are entitled to a retirement annuity computed based on the average of the employee's total salary, excluding overtime pay, for the highest three years of the last five years. The retirement annuity computation (Annuity Computation) for employees retiring during the period covered by the financial statements and following, is 2-1/4% of such average for each of the first 20 years served, plus 5% of the participant's average total salary for each of the next seven (7) years, plus 2% of the participant's average total salary for each of the next three (3) years of service, plus 1/2% of the participant's average total salary for each of the next three (3) years of service, with fractional years of service prorated based on full months served as a contributing participant. In making the computation for a year, the year is considered to begin on the first day a contribution is made. A retirement annuity under this subsection may not exceed, as of the date of retirement, 87-1/2% of the participant's average total salary.

Fire and Police Pension Fund, San Antonio
(A Component Unit of the City of San Antonio, Texas)

Notes to Financial Statements
(Dollars In Thousands)

2. Plan Description (Continued)

There is a provision for the Backwards Deferred Retirement Option Plan (BackDROP), which, as of October 1, 2009, permits retiring participants who had actual service credit of at least 20 years and one month to elect to receive a lump-sum payment for a number of full months of service elected by the participant that does not exceed the lesser of the number of months of service credit the participant had in excess of 20 years, or 60 months and a reduced annuity payment.

For purposes of a BackDROP benefit calculation, the participant's salary beyond 34 years of service is used to determine the participant's average salary.

There is also a provision for a 13th and 14th pension check. At the end of each fiscal year, the Board may authorize the disbursement of a 13th monthly pension check if the annualized yield on the Pension Fund's investments exceeds the actuarial projections for the preceding five-year period by at least 100 basis points. In the same way, the Board may authorize a 14th monthly pension check if the annualized yield on the Pension Fund's investments exceeds the actuarial projections for the preceding five-year period by at least 300 basis points. The 13th and 14th pension checks are paid to each retiree and beneficiary receiving a pension at the end of the fiscal year, and are in an amount equal to the pension check paid in the last month of the preceding fiscal year of the Pension Fund (retirees/beneficiaries with less than one (1) year of benefits will receive a prorated check, and no check will be paid to retirees who retired after the end of the fiscal year). Authorization for one (1) year does not obligate the Board to authorize a 13th or 14th check for any other year. The Pension Fund has not met the criteria for the 13th check since the year ended September 30, 2014 and has not met the criteria for the 14th check since the year ended September 30, 2007.

The Pension Fund also provides benefits when service is terminated by reason of death or disability. The beneficiary or the employee is entitled to one-half of the average of the employee's total salary, excluding overtime pay, or vested benefit as is provided in the computation of normal retirement benefits, whichever is higher. If a participant dies after retiring, spouses or beneficiaries who were married to, or dependents of, the participant at the time of retirement receive the same annuity paid to the participant as of the date of the participant's death up to the maximum benefit. The maximum benefit for surviving spouses and dependent children is equal to a 27-year service pension. As of October 1, 2009, the allocation of death benefits between a surviving spouse and the dependent children of a member is 75% to spouse and 25% to children. The spousal death benefit provided to a spouse who married a retiree after retirement, and at least five (5) years prior to the date of the retiree's death, is the same as a spouse who married a participant prior to retirement. In the case of a marriage after retirement, a spouse who is otherwise qualified to receive a pension is subject to a 55-year-old minimum age to begin receiving annuity payments. As of October 1, 2009, the spousal death benefit for a spouse who married a retiree after retirement, and less than five (5) years prior to the date of the retiree's death, is \$15,000 if there are no other beneficiaries.

The Pension Fund provides a disability annuity equal to 87.5% of average total salary, if the participant suffers a catastrophic injury. A catastrophic injury is described as an irreparable physical bodily injury suffered during the performance of high-risk line of duty activities, when the injury results in the individual being unable to obtain any sort of employment sufficient to generate income above the poverty level.

Fire and Police Pension Fund, San Antonio
(A Component Unit of the City of San Antonio, Texas)

Notes to Financial Statements
(Dollars In Thousands)

2. Plan Description (Continued)

The surviving spouse of an active participant may elect to receive benefits in the form of a lump-sum payment and reduced annuity, similar to a BackDROP election made by a retiring participant.

The estate of an active participant who dies and does not leave a beneficiary will receive either ten (10) times the amount of an annuity computed according to the Annuity Computation mentioned above, using the deceased participant's service credit and average total salary as of the date of death, or the deceased participant's contributions that were picked up by the City. The estate of a retiree who dies and does not leave a beneficiary will receive a lump sum benefit equal to ten (10) times the amount of the annuity awarded by the Board effective on the retiree's date of retirement, less any retirement or disability annuity, and any lump-sum payments paid to the retiree.

The Pension Fund also provides benefits when an eligible participant is killed in the line of duty. The participant's surviving spouse and dependent children are entitled to a total pension equal to the participant's base salary at the time of death.

Another important provision of the Pension Fund is the Cost of Living Adjustment (COLA). The COLA is based on the Consumer Price Index for all Urban Consumers - U.S. City Average (CPI-U) as published by the Bureau of Labor Statistics. Participants whose retirement, disability, or death occurred before August 30, 1971, receive an increase equal to 100% of the increase in the CPI-U. Participants whose retirement, disability, or death occurred after August 30, 1971, but before October 1, 1999, receive an increase equal to 100% of the increase in the CPI-U up to 8% and 75% of the increase in the CPI-U in excess of 8%. Members whose retirement, disability, or death occurred after October 1, 1999, receive an increase equal to 75% of the increase in the CPI-U.

The Pension Fund is funded in accordance with Texas state statutes. The City is required to contribute 24.64% of salary, excluding overtime pay. The participant contribution rate is 12.32%. New firefighters and police officers are immediately eligible for membership after they receive state certification and complete all other requirements. The new participant contributes to the Pension Fund upon becoming eligible.

The Pension Fund has a provision that allows the fire chief and police chief to opt out of membership in the Pension Fund.

3. Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting

The financial statements of the Pension Fund are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for local governmental units as prescribed by the Governmental Accounting Standards Board (GASB). The Pension Fund financial statements are prepared using the accrual basis of accounting. Participant and employer contributions are recognized as revenue in the period in which participant services are performed. Benefits, with the exception of BackDROP payments and refunds, are recorded in the period they are due and payable. BackDROPs and refunds are accrued when payment is approved by the Board.

Fire and Police Pension Fund, San Antonio
(A Component Unit of the City of San Antonio, Texas)

Notes to Financial Statements
(Dollars In Thousands)

3. Summary of Significant Accounting Policies and Plan Asset Matters (Continued)

Cash and Short-Term Investments

Cash and short-term investments include demand deposit accounts and short-term U.S. Government and other investments.

Investments

Investment purchases and sales are recorded as of the trade date. Dividend income is recognized on the ex-dividend date. Other investment income is recognized when earned.

Investments are reported at fair value. Fair value is the amount reasonably expected to be received for an investment in a current sale between a willing buyer and a willing seller. Common and preferred stocks are valued based on published marked prices and quotations from national security exchanges and securities pricing services. International stocks are then adjusted to reflect the current exchange rate of the underlying currency. Investments for which no notional exchanges or pricing service exists, such as private equity, are valued by the investment partnership based on the valuation methodology outlined in the partnership agreement. Real estate may be valued by the manager or independent appraisers. Commingled assets that are not traded on a national exchange are valued by the commingled manager. The Pension Fund performs due diligence reviews of the investment pricing, process, and infrastructure of private equity, comingled, and real estate investments to assure that the asset values provided by the managers are reasonable.

Net appreciation (depreciation) is determined by calculating the change in fair value of investments between the beginning of the period and the end of the period, less purchases of investments at cost, plus sales of investments at fair value. Investment expenses consist of external expenses directly related to the Pension Fund's investment operations, as well as internal administrative expenses associated with the Pension Fund's investment program.

Assets Used in Plan Operations

Assets used in plan operations are reported on the basis of cost. The Pension Fund provides for depreciation on the straight-line method over the estimated useful lives of the assets. The following estimated useful lives are used in providing for depreciation:

Buildings	40 years
Furniture and equipment	5-10 years
Computer equipment	3-5 years

Fire and Police Pension Fund, San Antonio
(A Component Unit of the City of San Antonio, Texas)

Notes to Financial Statements
(Dollars In Thousands)

3. Summary of Significant Accounting Policies and Plan Asset Matters (Continued)

Federal Income Tax

The Pension Fund obtained its latest determination letter on May 25, 2012, in which the Internal Revenue Service stated that the Pension Fund, as designed, is in compliance with the applicable requirements of the Internal Revenue Code (IRC). The Pension Fund administrator believes that the Pension Fund is currently designed and being operated in compliance with the applicable requirements of the IRC.

Administrative Costs

All administrative costs of the Pension Fund are paid from Pension Fund assets.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements

GASB Statement No. 68, *Accounting and Financial reporting for Pensions*, is effective for fiscal years beginning after June 15, 2014. The provisions of GASB Statement No. 68 have been implemented as required in the Pension Fund's financial statements and note disclosures. New schedules in the *Required Supplementary Information* also reflect any required changes.

GASB Statement No. 72, *Fair Value Measurements and Application*, is effective for fiscal years beginning after June 15, 2015. The provisions of GASB Statement 72 have been implemented in these short-period financial statements. The Pension Fund's financial statements and note disclosures reflect any required changes.

4. Investments Reported at Fair Value

The Pension Fund's investments are measured and reported at fair value according to the following hierarchy:

Level 1 - Investments reflect prices quoted in active markets.

Level 2 - Investments reflect prices that are based on similar observable assets either directly or indirectly, which may include inputs in markets that are not considered to be active.

Level 3 - Investments reflect prices based on unobservable sources. The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

Fire and Police Pension Fund, San Antonio
(A Component Unit of the City of San Antonio, Texas)

Notes to Financial Statements
(Dollars In Thousands)

4. Investments Reported at Fair Value (Continued)

The Pension Fund has the following recurring fair value measurements as of December 31, 2015:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Debt Securities				
Government Bonds	\$48,094		\$48,094	
Government Agencies	5,234		5,234	
Municipal/Provincial Bonds	4,886		4,886	
Corporate Bonds	83,604		83,604	
Bank Loans	141,953		141,953	
Commercial Mortgage Obligations	3,524		3,524	
Total Debt Securities	287,295		287,295	
Equity Securities				
Domestic	263,654	\$263,599	35	\$20
International	145,400	145,400		
Total Equity Securities	409,054	408,999	35	20
Private Equity				
Venture	21,639			21,639
Buyout	29,890			29,890
Fund-of-funds Diversified	61,283			61,283
Real Assets	119,968			119,968
Total Private Equity	232,780			232,780
Private Debt				
Fund-of-funds - Distressed	16,068			16,068
Mezzanine	22,047			22,047
Distressed	68,691			68,691
Senior Debt	66,517			66,517
Total Private Debt	173,323			173,323
Total Investments by fair value level	1,102,452	\$408,999	\$287,330	\$406,123
Investments Measured at the net asset value (NAV)				
Relative Value Hedge Funds	58,078			
Event Driven Hedge Funds	25,901			
Macro/Directional Hedge Funds	97,641			
Re-Insurance Hedge Fund	10,377			
Hedge Fund-of-funds	49,220			
Risk Parity	80,817			
Commingled Funds				
Domestic Debt	65,222			
Global Debt	227,824			
Domestic Equity	217,390			
Global Equity	404,098			
Real Estate	214,469			
Total investments measured at the NAV	1,451,037			
Total investments measured at fair value	\$2,553,489			

Fire and Police Pension Fund, San Antonio
(A Component Unit of the City of San Antonio, Texas)

Notes to Financial Statements
(Dollars In Thousands)

4. Investments Reported at Fair Value (Continued)

Debt and Equity Securities

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt and equity securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Equity securities classified in Level 3 of the fair value hierarchy were valued based on theoretical relationships to other assets similar to the ones in the portfolio.

Private Equity

The Pension Fund is invested in 34 private equity funds that are diversified across 4 main types of strategies. There are 6 venture capital funds, 8 buyout funds, 11 real asset funds and 9 diversified fund-of-funds. These investee funds are considered level 3 in the fair value hierarchy. These investee funds are limited partnerships, and the managing general partner is responsible for determining the fair market value of the underlying investments. The methods used to determine fair value include discounted cash flow, small public company comparison and appraisal. The partnerships have a 10 year life with options to extend beyond the original term by as much as 2 years in most cases. Original capital commitments to these funds range from \$10,000 to \$20,000. It is expected that the investee funds will call between 70 and 80 percent of the committed capital. In most cases the final commitment is never called because the investee funds start to receive returned capital either from sales of or operations from the underlying investments. As of December 31, 2015, it is estimated that unfunded commitments were approximately \$96,000 of which \$37,000 is expected to be called. These investments in the investee funds are diversified across vintage years so the investee funds are in different stages of their life cycles. The Pension Fund's allocation to this asset class requires that capital that is received from these investments will be reinvested in other investee funds as they become available. Even though these investments could be sold to other investors or secondary funds, the Pension Fund has no intention of doing so, so these investments are considered illiquid.

Private Debt

The Pension Fund is invested in 16 private debt funds, which include 4 fund-of-funds focused on distressed debt opportunities, 3 funds focused on mezzanine lending to companies that have operations that have good growth potential, but limited access to bank loans or public debt or equity markets, 5 funds focused on loans that are senior in the borrowers' capital structure, and 4 funds that concentrate on distressed debt where debt is purchased at a cost that is less than the value of the collateral. These investee funds are considered level 3 in the fair value hierarchy. These investee funds are limited partnerships, and the managing general partner is responsible for determining the fair market value of the underlying investments. The methods used to determine fair value include discounted cash flows plus the value of any equity that investee funds receive as part of the lending arrangements. The partnerships have a 10 year life with options to extend beyond the original term by as much as 2 years in most cases. Original capital commitments to these funds range from \$10,000 to \$20,000. It is expected that the investee funds will call between 70 and 80 percent of the committed capital. In most cases the final commitment is never called because the investee funds start to receive repayment from the debt service of the underlying investments and in some cases extra capital from the sale of the equity received when underlying companies are sold or refinanced through public offerings.

Fire and Police Pension Fund, San Antonio
(A Component Unit of the City of San Antonio, Texas)

Notes to Financial Statements
(Dollars In Thousands)

4. Investments Reported at Fair Value (Continued)

Private Debt (Continued)

As of December 31, 2015, it is estimated that unfunded commitments were approximately \$66,000 of which \$17,000 is expected to be called. These investments in the investee funds are diversified across vintage years so the investee funds are in different stages of their life cycles. The Pension Fund's allocation to this asset class requires that capital that is received from these investments will be reinvested in other investee funds as they become available. Even though these investments could be sold to other investors or secondary funds, the Pension Fund has no intention of doing so, so these investments are considered illiquid.

Investment Measured at the Net Asset Value

The Pension Fund is also substantially invested in investee funds where fair value is measured at the net asset value (NAV). These funds invest in stocks, bonds, derivatives in some cases and real estate. The stocks, bonds or derivatives, if they were held directly by the Pension Fund, would have readily determinable values that would fit into the fair value levels. Most of these would be in level 1 or 2. Real estate would fall into level 3 since there is not usually a ready market for the underlying assets. The investee funds have both active and inactive managers. Inactive managers invest in stocks that are in an index such that the return on the investment equals the return on the index. Active managers will invest in stocks or bonds with intent of either achieving a higher rate of return than the market or one of the indexes, or lowering the amount of the risk involved. The investee funds in this category include hedge funds, a risk parity fund, index funds, commingled funds, and real estate funds.

Hedge Funds

The Pension Fund's investments in hedge funds include relative value, event driven, macro/directional and diversified hedge fund-of-funds. These hedge funds all require notice between 30-90 days of the intent to redeem cash from them. They will only redeem cash at the end of calendar quarters. The Pension Fund is invested in 4 relative value hedge funds. Relative value investing seeks to exploit relationships that are out of normal equilibrium. These investee funds are not concerned with the price of an asset such as a stock or bond by itself, but how that asset's price relates to other assets that historically display some correlation to the asset. The Pension Fund is invested in 7 hedge funds that invest using a macro/directional strategy. These strategies base their investments, such as long and short positions in various equity, fixed income, currency, commodities and futures markets, primarily on the overall economic and political views of various countries, or their macroeconomic principles. The Pension Fund is invested in two event driven hedge funds. Event driven hedge funds invest based on the expectation of a particular event such as a merger or acquisition and how that event is expected to affect the price of the underlying investment. One of the hedge funds that the Pension Fund invests in actually invests alongside a reinsurance company. The Pension Fund has an investment in a hedge fund-of-funds, which invests in a diversified group of underlying hedge funds. In this category there are 6 hedge fund remnants that are subject to a gate. These gates have been in place since 2008 when the Pension Fund gave notice of redemption. Most of the investments have been returned, but there is no certainty when the remaining investment of \$9,620 will be returned. The gates were put in place to prevent having to sell the assets under duress.

Fire and Police Pension Fund, San Antonio
(A Component Unit of the City of San Antonio, Texas)

Notes to Financial Statements
(Dollars In Thousands)

4. Investments Reported at Fair Value (Continued)

Risk Parity Fund

The Pension Fund has one investee that is called risk parity which is similar to a hedge fund in that it attempts to mitigate large systemic risks such as hyperinflation, or market corrections by increasing exposure to low risk strategies while decreasing or hedging exposures to investments that are sensitive to those systemic risks.

Comingled Funds

The Pension Fund's investments in commingled funds consist of bond investors and stock investors. The bond funds invest in domestic high yield bonds, opportunistic global bonds and emerging market bonds. The stock funds are invested in domestic large and small cap stocks and global and emerging market stocks. Commingled funds are chosen for these investments either because of the size of the investment, or because of the transfer of the complexity of investing internationally.

Real Estate Funds

Real estate investments are diversified by type of real estate such as residential, commercial office, industrial and retail. They are also diversified by stage of development such as opportunistic, value added and core properties. Finally they are diversified geographically. Two of the investee managers representing approximately \$81,000 were open-ended funds that allow redemptions. The balance of the investee managers were limited partnerships with durations of 10 to 15 years. These limited partnerships do not allow redemptions. They do distribute cash after the investment period, usually 2 to 4 years, from operations or sales of underlying properties. These investments are similar to the private equity partnerships and private debt partnerships in that funds are committed at the beginning of the investment and called by the partnerships as purchase opportunities present themselves. Commitments in this category are more likely to be called up. It is likely that 80 to 90 percent of the committed capital will ultimately be called. Unfunded commitments in this category were approximately \$30,000. Fair value for this asset class is determined by appraisals of the underlying properties. The Pension Fund's asset allocation requires that when capital is returned it is reinvested in new partnerships so that the percentage allotted to the asset class can be maintained. Like private equity and private debt limited partnerships, it is possible to sell partnership interests to other investors or secondary partnerships at a substantial cost to the Pension Fund. The Pension Fund has no intention of redeeming these investments prior to maturity. Consequently, these investments are considered illiquid.

Fire and Police Pension Fund, San Antonio
(A Component Unit of the City of San Antonio, Texas)

Notes to Financial Statements
(Dollars In Thousands)

5. Net Pension Liability of the City of San Antonio, Texas

The components of the net pension liability for the City related to the Pension Fund as of December 31, 2015, were as follows:

Total Pension Liability	\$ 3,302,956
Plan Fiduciary Net Position	2,633,696
City of San Antonio's Net Pension Liability	\$ 669,260

Plan fiduciary net position as a percentage of the total pension liability	79.74%
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Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of October 1, 2015, using the following actuarial assumptions, applied to the period included in the measurement, with the results rolled forward to December 31, 2015:

Inflation	3.00%
Salary increases - (plus merit scale of 0.75% - 11.25%):	3.00%
Investment rate of return - (including inflation, net of pension plan investment expense):	7.25%
Cost-of-living adjustments -	
for retirements before October 1, 1999:	3.00%
for retirements on or after October1, 1999:	2.25%

For the actuarial valuation as of October 1, 2015 with results rolled forward to December 31, 2015:

Healthy mortality rates were based on the sex-distinct RP-2014 Employee and Healthy Annuitant Tables, with rates loaded by 7% for females. Disabled mortality rates were based on sex-distinct RP-2014 Annuitant Tables, set forward by six years, again loading the female rates by 7%. The tables are projected generationally using 50% of the MP-2014 improvement scale to anticipate future mortality improvements.

The actuarial assumptions used are based on the results of an experience study for the period October 1, 2009 to September 30, 2014.

Fire and Police Pension Fund, San Antonio
(A Component Unit of the City of San Antonio, Texas)

Notes to Financial Statements
(Dollars In Thousands)

5. Net Pension Liability of the City of San Antonio, Texas (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Pension Fund's target asset allocation as of December 31, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return 2015
Domestic equity	18%	6.7%
International equity	21%	8.1%
Fixed Income	20%	2.3%
Alternative investments	29%	5.6%
Real estate	12%	4.5%
Total	100%	

Discount Rate

The blended discount rate used to measure the total pension liability is 7.25%. The projection of cash flows used to determine the discount rate assumed contributions will continue to be made at 12.32% of the compensation from plan members and 24.64% of the compensation from the City. Based on these assumptions, the Pension Fund's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on the Pension Fund's investments was applied to all periods of projected benefit payments to determine the total pension liability.

Fire and Police Pension Fund, San Antonio
(A Component Unit of the City of San Antonio, Texas)

Notes to Financial Statements
(Dollars In Thousands)

5. Net Pension Liability of the City of San Antonio, Texas (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Pension Fund, calculated using the discount rate of 7.25%, as well as what the Pension Fund's net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net pension liability	\$1,145,162	\$669,260	\$280,113

6. Contributions

Contribution requirements are established by state law as described in note 1, and are not actuarially determined. Contributions for the three months ended December 31, 2015, were as follows:

	Amount	Percentage
Employer	\$ 19,014	24.64%
Employee	9,507	12.32%
Total	\$ 28,521	

7. Required Supplementary Information

Required supplementary information (RSI) for the Pension Fund includes the Schedule of Changes in Pension Fund's Net Pension Liability, the Schedule of City of San Antonio's Contributions to the Fire and Police Pension Fund - Last Ten Fiscal Years, the Notes to Required Supplementary Information and the Schedule of Investment Returns. These are presented in order to demonstrate the City's ability to pay the Net Pension Liability and its progress in doing so. Since this is the second year since the adoption of the new Standard, only the first two years are presented in this section. The full trend information will be accumulated over the next eight years as the necessary information becomes available.

Fire and Police Pension Fund, San Antonio
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Notes to Financial Statements
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8. Cash and Investments

Investment Policy

The Pension Fund's policy in regard to the allocation of invested assets is established and may be amended by the Pension Fund's Board of Trustees. The primary long-term objective will be to achieve a return of at least the actuarial return assumption. Preservation of capital and consistent capital appreciation are the key considerations in establishing acceptable levels of risk, however, since the Pension Fund enjoys a very long-term investment horizon, significant short-term fluctuations in value can be tolerated. Based on existing contribution rates and benefit payments, current income from investments should be addressed in the management of these assets. To pursue the foregoing objectives at an acceptable risk level, the following policy (i.e., long-term) allocation is considered appropriate as updated in July 2013, and compared to actual allocations at December 31, 2015:

	Target Allocation	Actual Allocation
Large Cap U.S. Equities	15.0%	14.9%
Small Cap U.S. Equities	3.0%	3.6%
Developed International Equities	15.0%	15.5%
Emerging International Equities	6.0%	5.6%
Hedge Funds	10.0%	9.2%
Private Equity	7.0%	5.0%
Sub Total Equity	56.0%	53.8%
Risk Parity	5.0%	3.1%
High Yield	5.0%	5.6%
Bank Loans	5.0%	5.3%
Global Fixed Income	0.0%	2.8%
Unconstrained Fixed Income	3.0%	3.6%
Emerging Market Debt	7.0%	5.2%
Private Debt	7.0%	6.0%
Real Estate	9.0%	8.2%
Real Assets	3.0%	4.6%
Cash	0.0%	1.8%
Subtotal Fixed Income	44.0%	46.2%
Total Investments	100.0%	100.0%

Fire and Police Pension Fund, San Antonio
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Notes to Financial Statements
(Dollars In Thousands)

8. Cash and Investments (Continued)

Rate of Return

The money weighted rate of return for the three months ended December 31, 2015 was 1.7%. The return is net of investment expenses and adjusted for the changing amounts actually invested.

Investment Risk

The Pension Fund's investments have been categorized to address deposit and investment risks related to custodial credit risk, credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

Custodial Credit Risk for Deposits and Investments

Custodial credit risk for investments is the risk that in the event of a failure of the counterparty, the Pension Fund will not be able to recover the value of the investment or collateral in possession of the counterparty. The Pension Fund does not have an investment policy regarding custodial credit risk. The Pension Fund considers only demand deposits as cash. The Federal Depository Insurance Corporation (FDIC) covered cash on deposit up to \$250 at each financial institution. As of December 31, 2015, the Pension Fund had cash deposits held by investment managers in the amounts of \$637 that were uninsured and uncollateralized.

Credit Risk

Credit risk is the risk that an issuer will not fulfill its obligations.

The ratings of the Pension Fund's bond portfolio using Standard and Poor's rating system for fixed income securities as of December 31, 2015 are presented in the following table:

Rating	
U S Government & Agencies	4%
AAA	3%
AA	5%
A	7%
BBB	17%
BB	22%
B	28%
CCC	6%
Unrated or Not Rated	8%
	100%

Fire and Police Pension Fund, San Antonio
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Notes to Financial Statements
(Dollars In Thousands)

8. Cash and Investments (Continued)

Credit Risk (Continued)

Credit risk for derivative instruments held by the Pension Fund results from counterparty risk, which is essentially that the counterparty will be unable to fulfill its obligations, which are then assumed by the Pension Fund.

Information regarding the Pension Fund's credit risk related to derivatives is found under the derivatives disclosures.

Policies regarding credit risk pertaining to credit risk associated with the Pension Fund's securities lending program are found under the securities lending disclosures.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of the Pension Fund's investment in a single issue. As of December 31, 2015, the Pension Fund did not have any single investment in any one organization which represented greater than 5% of plan net position.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of fixed income securities will adversely affect the fair value of an investment.

Only the fixed income securities of the Pension Fund are subject to interest rate risk due to the possibility that prevailing interest rates could change before the securities reach maturity.

The Pension Fund does not have an investment policy specifically regarding interest rate risk. Investment managers have full discretion in adopting investment strategies to deal with these risks, and all of the Pension Fund's fixed income portfolios are managed in accordance with guidelines that are specific as to the degree of interest rate risk taken.

Securities that are subject to interest rate risk as of December 31, 2015 are shown in the table on the following page.

Fire and Police Pension Fund, San Antonio
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Notes to Financial Statements
(Dollars In Thousands)

8. Cash and Investments (Continued)

	Fair Value	WAM (Yrs)
Investment Type		
Corporate bonds	\$ 83,604	5.49
Government agencies	5,234	2.86
Government bonds	48,094	18.22
Municipal/provincial bonds	4,886	14.40
Non-government-backed C.M.O.s	3,523	30.57
Bank loans	141,953	5.06
Goldman Sachs Strategic Income **	92,642	6.08
Ashmore**	53,878	**
GoldenTree**	65,222	**
Wellington emerging Debt**	81,304	**
Total Interest Rate Sensitive Securities	\$ 580,340	
Portfolio Weighted Average Maturity (WAM)		7.40

**Goldman Sachs Strategic Income, a commingled fund, invests opportunistically in any type of bond. **Ashmore is a commingled fund invested in emerging market debt. Ashmore reports effective duration in lieu of WAM. The effective duration was 5.23 as of December 31, 2015. **GoldenTree is a commingled fund invested in high-yield corporate bonds. They report their portfolio effective duration as 3.30 as of December 31, 2015. **Wellington, a commingled fund, also invests in emerging market debt. Wellington also reports the effective duration of the portfolio in lieu of WAM. The effective duration for Wellington was 5.91 as of December 31, 2015.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment.

Fire and Police Pension Fund, San Antonio
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Notes to Financial Statements
(Dollars In Thousands)

8. Cash and Investments (Continued)

The Pension Fund's exposure to foreign currency risk in U.S. dollars as of December 31, 2015 is shown in the table below.

Country	Equities	Bonds	Cash	Total
Australian Dollar	\$ 19,093	\$ 4,028	\$ 79	\$ 23,200
Bermuda Dollar	811	-	-	811
Brazilian Real	13,292	5,020	-	18,312
Canadian Dollar	13,956	1,572	1	15,529
Swiss Franc	20,454	(92)	13	20,375
Chinese Yuan	28,842	(2,311)	-	26,531
Chilean Peso	1,568	401	-	1,969
Colombian Peso	-	2,491	-	2,491
Czech Republic Krona	-	431	-	431
Danish Krone	3,827	-	2	3,829
European Union	106,151	7,450	139	113,740
British Pound	52,930	462	117	53,509
Hong Kong Dollar	20,427	-	-	20,427
Hungarian Forint	-	4,600	-	4,600
Indonesian Rupiah	2,942	3,651	-	6,593
Israeli New Shekel	4,101	(185)	56	3,972
Indian Rupie	17,257	1,078	-	18,335
Japanese Yen	77,291	(1,572)	78	75,797
Kenyan Shilling	309	-	-	309
South Korean Won	33,369	238	-	33,607
Mexican Peso	10,617	16,667	-	27,284
Malaysian Ringgit	4,605	4,206	-	8,811
Nigeria Naira	309	-	-	309
Norwegian Krone	4,857	740	87	5,684
New Zealand Dollar	643	1,358	32	2,033
Pakistani Rupee	1,429	-	-	1,429
Peruvian Nuevo Sol	1,407	1,145	-	2,552
Philippine Peso	325	216	-	541
Polish Zloty	2,982	4,825	-	7,807
Qatar Riyal	433	-	-	433
Romanian Leu	-	593	-	593
Russian Ruble	4,736	3,196	-	7,932
Swedish Krona	9,314	4,161	7	13,482
Singapore Dollar	5,634	61	28	5,723
Thai Baht	8,911	1,832	-	10,743
Turkey New Lira	5,233	1,462	-	6,695
Taiwan Dollar	26,024	(1,280)	-	24,744
UAE Dirham	649	(2,589)	-	(1,940)
South African Rd	7,206	3,150	-	10,356
Total	\$ 511,934	\$ 67,005	\$ 639	\$ 579,578

Fire and Police Pension Fund, San Antonio
(A Component Unit of the City of San Antonio, Texas)

Notes to Financial Statements
(Dollars In Thousands)

9. Securities Lending Agreement

State statutes and Pension Fund policies allow for securities lending transactions. The Pension Fund has entered into an agreement with its custodian bank to lend the Pension Fund's securities to one or more borrowers for a fee. It is the policy of the Pension Fund and the custodian bank to require that collateral equal to 102% and 105% for domestic and international securities, respectively, of the loaned securities be maintained by the custodian bank. Collateral may be in the form of cash, U.S. government securities, and irrevocable letters of credit. Until such time as the loan is terminated, the borrower retains all incidents of ownership with respect to the collateral. In the event that the borrower fails to repay the borrowed securities when due and the value of the collateral is insufficient to replace the borrowed securities, the Pension Fund may suffer a loss. Management of the Pension Fund considers the possibility of such a loss to be remote.

Cash open collateral is invested in a short-term investment pool with an average weighted maturity to the interest rate reset date of 39 days at December 31, 2015. The investments in the pool are found in the chart at the end of this note.

As of December 31, 2015, the Pension Fund had lending arrangements outstanding with a total market value of \$100,427 which were fully collateralized with cash and securities. Cash collateral of \$96,370 is recorded in the accompanying Statement of Plan Net Position. Net income for the three months ended December 31, 2015, under the securities lending arrangement, was \$87.

Cash Collateral Pool

U.S. ABS Commercial Paper	\$ 7,049
U.S. Agency Bond/Note	9,028
U.S. Certificate of Deposit	780
U.S. Commercial Paper	1,356
U.S. Medium Term Notes	221
U.S. Sweep Vehicle	442
U.S. Time Deposit	6,282
U.S. Treasury Notes/Bonds	1,089
U.S. Variable Rate Certificates of Deposit	7,898
U.S. Variable Rate Notes/Bonds	942
International Certificate of Deposit	13,327
International Commercial Paper	18,772
International Corporate Bond	434
International Medium Term Notes	77
International Time Deposits	17,850
International Variable Rate Certificate of Deposit	8,692
International Variable Rate Notes/Bonds	2,131
Total	\$ 96,370

Fire and Police Pension Fund, San Antonio
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Notes to Financial Statements
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10. Derivatives and Structured Financial Instruments

The Pension Fund has only limited involvement with derivatives and other structured financial instruments. The Pension Fund's investment philosophy regarding the use of derivatives and other structured financial instruments is to use derivatives to replicate exposures to equity or fixed income securities. The fair value of structured financial instruments held by the Pension Fund at December 31, 2015 was approximately \$3,523 in commercial mortgage obligations, and is included with investments in the Statement of Plan Net Position. The Pension Fund also invests in hedge funds which may employ the use of derivatives to reduce volatility. The Pension Fund's total investment in hedge funds was \$322,034 as of December 31, 2015.

As of December 31, 2015, the Pension Fund held foreign currency forward contracts as follows:

	Market Value	Nominal Amount USD
Currency		
Australian Dollars	\$ -	(17)
British Pound	-	110
British Pound	-	(26)
Chilean Peso	(111)	4,945
Euro	(108)	(7,470)
Hong Kong Dollar	-	45
Hong Kong Dollar	-	(4)
India Rupee	40	3,617
Japanese Yen	71	3,764
Japanese Yen	-	(7)
New Zealand Dollar	-	(43)
Norwegian Krone	(189)	2,090
Swedish Krona	(94)	3,899
Total	\$ (391)	10,903

The market value of the currency forwards is included with the investments on the Statement of Fiduciary Net Position. The gain realized during the three months ended December 31, 2015 was \$81. This gain is included with net appreciation in fair value of investments on the Statement of Changes in Fiduciary Net Position.

Fire and Police Pension Fund, San Antonio
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Notes to Financial Statements
(Dollars In Thousands)

11. Risk Management

The Pension Fund is exposed to various risks of loss related to torts; errors and omissions; violation of civil rights; theft of, damage to, and destruction of assets; and natural disaster. These risks are covered by insurance purchased by the Pension Fund. Workers' compensation insurance is maintained by the Pension Fund to cover its staff employees, and the coverage complies with the workers' compensation laws of the State of Texas. Buildings and contents are insured against damage from fire and storm. Although the Pension Fund owns no vehicles, drivers' insurance is maintained to cover employees driving personal vehicles for business purposes. The Pension Fund maintains a pension and welfare fund fiduciary responsibility insurance policy.

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Required Supplementary Information Schedule 1
Schedules of Changes in Pension Fund's Net Pension Liability and Related Ratios
(See Notes 5 Required Supplementary Information)
(Unaudited - See accompanying independent auditor's report)
(Dollars in Thousands)

	12/31/2015	9/30/2015	9/30/2014
Total Pension Liability			
Service cost	\$ 18,081	\$ 78,550	\$ 75,600
Interest	58,796	218,206	207,003
Change of benefit terms	-	-	-
Differences between expected and actual experience	-	(20,698)	-
Changes of assumptions	-	148,315	-
Benefit payments, including refunds of employee contributions	(35,630)	(144,157)	(122,306)
Net Change in Total Pension Liability	\$ 41,247	\$ 280,216	\$ 160,297
Total Pension Liability, beginning	3,261,709	2,981,493	2,821,196
Total Pension Liability, ending (a)	\$ 3,302,956	\$ 3,261,709	\$ 2,981,493
Plan fiduciary net position			
Contributions - employer	\$ 19,014	\$ 75,802	\$ 76,146
Contributions - employee	9,507	37,901	38,073
Net investment income (loss)	45,668	(47,587)	223,054
Benefit payments, including refunds of employee contributions	(35,630)	(144,157)	(122,306)
Administrative expense	(774)	(2,903)	(2,790)
Other	-	-	-
Net Change in Plan Fiduciary Net Position	37,785	(80,944)	212,177
Plan Fiduciary Net Position, beginning	2,595,911	2,676,855	2,464,678
Plan Fiduciary Net Position, ending (b)	\$ 2,633,696	\$ 2,595,911	\$ 2,676,855
City's Net Pension Liability, ending (a)-(b)	\$ 669,260	\$ 665,798	\$ 304,638
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.74%	79.59%	89.78%
Covered Employee Payroll	\$ 77,168	\$ 307,639	\$ 309,031
City's Net Pension Liability as a Percentage of Covered Employee Payroll	216.82%	216.42%	98.58%

Fire and Police Pension Fund, San Antonio
(A Component Unit of the City of San Antonio, Texas)

Required Supplementary Information Schedule 1
Schedules of Changes in Pension Fund's Net Pension Liability and Related Ratios
(See Notes 5 Required Supplementary Information)
(Unaudited - See accompanying independent auditor's report)
(Dollars in Thousands)

Notes to Schedule:

Short plan year: The Pension Fund's plan year changed from a September 30th year-end to a December 31st year-end in 2015. The December 31, 2015 results shown above reflect a three-month period. The net pension liability as a percentage of pay in the above chart is adjusted to reflect an annualized payroll.

Benefit changes: There have been no changes in benefit provisions since GASB 67 implementation.

Change of assumptions: A detailed study of experience for the five-year period ending September 30, 2014 was performed and the recommendations of the experience study were approved by the Board in October 2015. The following assumption changes are included in this disclosure.

- The net investment return was lowered from 7.50% to 7.25%.
- The inflation assumption (including COLA) was lowered from 3.50% to 3.00%.
- Each salary scale rate was lowered by 0.50%.
- The administrative expense assumption of \$2,750 was increased to \$2,800.
- Nonactive liabilities are loaded by 0.1% and the active liabilities are loaded by 0.03% as an estimate for future payment of 13th and 14th checks. There was no assumption for this benefit previously.
- The pre-retirement mortality assumption was changed from the 1994 Group Annuity Mortality Table (GAM94), loaded by 25% for females, to the RP-2014 Employee Table, Loaded by 7% for females. The table is projected generationally with 50% of Scale MP-2014.
- The post-retirement mortality assumption for healthy annuitants was changed from the 1994 Group Annuity Mortality Table (GAM94), loaded by 25% for females, to the RP-2014 Healthy Annuity Table, loaded by 7% for females. The table is projected generationally with 50% of Scale MP-2014.
- The mortality assumption for disabled retirees was changed from the 1994 Male Group Annuity Mortality Table, with ages set forward five years, to the sex-distinct RP-2014 Healthy Annuitant Table, set forward six years. The table is projected generationally with 50% of Scale MO-2014.
- The assumption for the percentage of active deaths occurring in the line of duty was lowered from 30% to 10%.
- The turnover rates for Firefighters were reduced, and the rates for Police Officers were increased, to reflect the observed experience.

Fire and Police Pension Fund, San Antonio
(A Component Unit of the City of San Antonio, Texas)

Required Supplementary Information Schedule 1
Schedules of Changes in Pension Fund's Net Pension Liability and Related Ratios
(See Notes 5 Required Supplementary Information)
(Unaudited - See accompanying independent auditor's report)
(Dollars in Thousands)

- The assumed retirement rates were adjusted to reflect experience during the five-year study period.
- The assumed DROP period was changed from 3 ½ years to 4 years for Firefighters, and from 3 ½ years to 3 years for Police Officers. The assumption for DROP utilization was decreased from 80% to 75% for Police Officers.
- Disability rates were lowered by 20%.
- Based on average service at retirement, the assumed sick leave load on service was reduced from 1.33% to 0.2% for Police Officers and 1.0% for Firefighters.
- The load on spousal beneficiary liability to account for future increased spousal benefits when dependent children reach the age of majority and are no longer eligible to receive benefits was reduced from 4% to 2%.

Fire and Police Pension Fund, San Antonio
(A Component Unit of the City of San Antonio, Texas)

Required Supplementary Information Schedule 2
Schedule of City of San Antonio's Contributions to the Fire and Police Pension Fund
Last Ten Years

(Unaudited - See accompanying independent auditor's report)
(Dollars in Thousands)

	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered- Employee Payroll**	Contributions as a percentage of Covered- Employee Payroll
<u>September 30,</u>					
2006	\$ 51,614	\$ 51,614	\$ -	\$ 207,145	24.64%
2007	54,952	54,952	-	214,230	24.64%
2008	58,101	58,101	-	229,547	24.64%
2009	62,344	62,344	-	243,904	24.64%
2010	64,498	64,498	-	269,359	24.64%
2011	67,328	67,328	-	271,533	24.64%
2012	70,389	70,389	-	286,327	24.64%
2013	72,359	72,359	-	293,665	24.64%
2014	76,146	76,146	-	309,031	24.64%
2015	75,802	75,802	-	307,639	24.64%
<u>December 31,</u>					
2015	\$ 19,014	\$ 19,014	\$ -	\$ 77,168	24.64%

**The Actuarially Determined Contribution is based on the statutory rate of 24.64% of payroll.*

***Payroll is estimated based on the actual member contributions received and a 12.32% contribution rate.*

Note: The December 31, 2015 results above are for a three-month period.

Fire and Police Pension Fund, San Antonio
(A Component Unit of the City of San Antonio, Texas)

Required Supplementary Information Schedule 3
Schedule of Investment Returns
(Unaudited - See accompanying independent auditor's report)
(Dollars in Thousands)

Annual money-weighted rate of return, net of investment expense	
<hr/>	
<u>September 30,</u>	
2014	9.2%
2015	-2.0%
<u>December 31,</u>	
2015	1.7%

Note: The December 31, 2015 results above are for a three-month period.

Fire and Police Pension Fund, San Antonio
(A Component Unit of the City of San Antonio, Texas)

Notes to Required Supplementary Information
(Unaudited - See accompanying independent auditor's report)
(Dollars in Thousands)

Valuation Date	Actuarially determined contribution is calculated using an October valuation date as of the beginning of the fiscal year in which contributions are reported
Methods and used assumptions to determine contribution rates:	
Actuarial cost method	Entry age
Amortization method	Level percent of payroll, using 3.50% annual increases
Remaining amortization period	10.66 years remaining as of October 1, 2014
Asset valuation method	Five-year smoothed market value based on expected return of 7.25%

Actuarial assumptions:

Investment rate of return	7.25% , including inflation, net of pension plan investment expense
Inflation rate	3.00%
Projected salary increases	3.00% (plus merit scale of 0.75%-11.25%)
Cost-of-living adjustments	3.00% for retirement before October 1, 1999; 2.25% for retirement on or after October 1, 1999

Retirement rates Group-specific rates based on years of service ranging from 20 to 40 years, with 100% retirement at age 65 or 40 years of service

Mortality:

Healthy For October 1, 2014 valuation - RP-2014 Employee and Healthy Annuitant Tables, with rates loaded by 7% for females, projected generationally with 50% of Scale MP-2014

Disabled For October 1, 2014 valuation - RP-2014 Annuitant Tables, set forward six years, loaded by 7% for females, projected generationally with 50% of Scale MP-2014

Other information: See Schedules of Changes in Pension Fund's Net Pension Liability and related ratios for the history of changes to plan provisions and assumptions, if any

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To The Board of Trustees
Fire and Police Pension Fund, San Antonio
San Antonio, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Fire and Police Pension Fund, San Antonio (the Pension Fund), a component unit of the City of San Antonio, which comprise the statement of fiduciary net position as of December 31, 2015 and the related statement of changes in fiduciary net position for the three months then ended, and the related notes to the financial statements, and have issued our report thereon dated July 27, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Pension Fund's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pension Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pension Fund's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Pension Fund's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pension Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

July 27, 2016