Garza/Gonzalez & Associates
CERTIFIED PUBLIC ACCOUNTANTS

UNIVERSITY HEALTH SYSTEM PENSION PLAN

(A Component Unit of the University Health System)
San Antonio, Texas

FINANCIAL STATEMENTS

For The Years Ended December 31, 2016 and 2015

207 Arden Grove
San Antonio, TX 78215
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INDEPENDENT AUDITOR'S REPORT

To the Board of Pension Trustees
University Health System Pension Plan
San Antonio, Texas

We have audited the accompanying financial statements of the University Health System Pension Plan (the Plan), a component unit of the University Health System, which comprise the statements of fiduciary net position as of December 31, 2016 and 2015, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Plan 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Plan'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 Plan'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 Plan 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 Plan as of December 31, 2016 and 2015, and the changes in fiduciary net position for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

Alternative Investment Valuation

As explained in note IIC and III in the notes to financial statements, the financial statements include alternative investments valued at $59,331,211 (19% of total investments) as of December 31, 2016 and $76,183,474 (27% of total investments) at December 31, 2015, whose fair values have been estimated by the Plan using the net asset value (NAV) per share, in the absence of readily available and determinable fair values. The NAV per share measurement is based upon the net position value of the Plan's investment in the alternative investment as determined by the alternative investment's fund managers or general partners, which could differ materially from a readily available and determinable fair value. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information, as listed in the table of contents, be presented to supplement the Plan's basic financial statements. Such information, although not part of the Plan's 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 Plan's basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the 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 Plan's basic financial statements, and other knowledge we obtained during our audit of the Plan's 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.

Garza/Gonzalez & Associates

May 3, 2017

UNIVERSITY HEALTH SYSTEM PENSION PLAN
(A Component Unit of the University Health System)

Management's Discussion and Analysis

The University Health System Pension Plan (the Plan) offers readers this narrative overview and analysis of its financial performance during the fiscal years ended December 31, 2016 and 2015. Readers are encouraged to consider the information presented here in conjunction with the Plan's financial statements, which follow this section.

Financial Highlights

- Net position held in trust by the Plan totaled \$312,610,522 and \$282,481,799 at December 31, 2016 and 2015, respectively. The Plan's net position increased by \$30,128,723 in 2016 compared to an increase of \$11,620,242 in 2015. The net position of the Plan is held exclusively for the benefit of the Plan participants, their beneficiaries, and reasonable administrative expenses for administering the Plan.

- The Plan experienced a \$920,682 increase in contributions in 2016 compared to the contributions made in 2015, which represents a 4% increase. Contributions made in 2015 totaled \$24,957,053, which was an increase of \$1,674,033 which represents a 7% increase compared to the contributions made in 2014.

- The Plan experienced an increase of \$3,258,436 or 22%, in benefit payments in 2016 compared to 2015, and in 2015, it experienced a \$341,169 or 2%, increase from the benefit payments in 2014.

Overview of the Financial Statements

The Plan's financial statements are comprised of two components: 1) the financial statements and 2) the notes to the financial statements.

The financial statements are designed to give the reader an overview of the Plan's finances with an emphasis on the Plan's net position available for payment of pension benefits and the changes in the net position for the period reported.

The Statements of Fiduciary Net Position present information on all of the Plan's assets and liabilities with the difference reported as net position restricted for pension benefits. This statement provides a snapshot of account balances at the end of the fiscal year and reports the assets available for future payments of benefits and expenses. These assets, less liabilities, give the reader a clear picture of the amount of funds that are available for future payments.

The Statements of Changes in Fiduciary Net Position present information showing how the Plan's net position changed during the fiscal year. This statement identifies to the reader the source and values of the current year's additions to and deductions from the Plan.

The notes to the financial statements provide additional information that is essential for a full understanding of the data presented in the Plan's financial statements.

Other Information

In addition to the financial statement components described above, the Plan also presents certain required supplementary information concerning the Schedule of Employer Contributions, Schedule of Investment Returns, Schedule of Changes in Net Pension Liability and Related Ratios, and Notes to Required Supplementary Information. The information, although not part of the Plan's financial statements, is required by the Governmental Accounting Standards (GASB) as supplementary information.

Financial Analysis

Assets and Liabilities

The assets of the Plan are predominately cash, money market mutual funds, common stocks, and investments in limited liability partnerships. The majority of the investments are held by the custodian bank and reported at fair value. Assets increased as of December 31, 2016 by $30,123,102 due to contributions and the rise in fair value of the Plan's investments. Liabilities of the Plan are comprised of accounts payable and accrued expenses. Liabilities of the Plan total only $214,050 at December 31, 2016, which is a decrease of $5,621 or 3% compared to the balance at December 31, 2015 due to the timing of investment advisor fees.

Below is the condensed statement of fiduciary net position as of December 31, 2016, 2015, and 2014:

Condensed Statement of Fiduciary Net Position

	Years Ended December 31,		
	2016	2015	2014
Cash Equivalents	$ 3,627,533	$ 1,353,755	$ 2,215,285
Receivables	1,067,230	366,274	340,950
Investments	308,129,809	280,981,441	268,583,876
Total Assets	$ 312,824,572	$ 282,701,470	$ 271,140,111
Accounts Payable and Accrued Expenses	$ 214,050	$ 219,671	$ 278,555
Total Liabilities	214,050	219,671	278,555
Net Position Restricted for Pension Benefits	$ 312,610,522	$ 282,481,799	$ 270,861,557

Additions and Deductions

The additions to the Plan are comprised of contributions and investment returns. The contributions increased in 2016 by $920,682 and in 2015 by $1,674,033, in line with expected increases. The Plan's net investment income increased $20,875,138 in 2016 and decreased $11,949,238 in 2015, which reflects the market conditions during each year.

The primary deductions from the Plan are for benefits paid to the Plan's participants and their beneficiaries. The total benefit payments increased by $3,258,436 in 2016 and $341,169 in 2015. The administrative expenses are consistent with prior years and represent less than 2% of the total deductions for the years ended December 2016 and 2015.

Below is the condensed statement of changes in fiduciary net position for the years ended December 31, 2016, 2015, and 2014.

Condensed Statement of Changes in Fiduciary Net Position

	Years Ended December 31,		
	2016	2015	2014
Employer Contributions	$ 19,289,190	$ 18,233,177	$ 18,070,486
Plan Member Contributions	6,588,545	6,723,876	5,212,534
Net Investment Income/(Loss)	22,538,468	1,663,330	13,612,568
Total Additions	48,416,203	26,620,383	36,893,588
Benefits Paid	18,040,063	14,781,627	14,440,458
Administrative Expenses	247,417	218,514	178,590
Total Deductions	18,287,480	15,000,141	14,619,048
Net Increase in Net Position	30,128,723	11,620,242	22,276,540
Net Position-Restricted for Pension Benefits – End of Year	$ 312,610,522	$ 282,481,799	$ 270,861,557

Other Matters

The Plan is a single employer defined benefit pension plan which covers substantially all full-time and part-time employees of its sponsor, the System, and provides for pension and death benefits. The System has agreed (but does not guarantee) to voluntarily contribute such amounts as are necessary to maintain the Plan on a sound actuarial basis. The actuarially determined annual required contributions of the System for fiscal years ended December 31, 2016, 2015 and 2014 were $17,891,000, $16,903,000, and $16,297,000, respectively. Participants in the Plan contribute 2%, or 3%, depending on their date of hire, of gross pay upon achievement of eligibility and thereafter until the time of retirement or separation from employment with the System.

Contact Information

This financial report is designed to provide our citizens, customer, investors and creditors with a general overview of the Plan's finances and to show the Plan's accountability and financial fiduciary for the contributions it receives. If you have any questions about this report or need additional financial information, contact the Plan's office at 4502 Medical Drive, San Antonio, Texas 78229.

FINANCIAL STATEMENTS

UNIVERSITY HEALTH SYSTEM PENSION PLAN
(A Component Unit of the University Health System)
San Antonio, Texas

STATEMENTS OF FIDUCIARY NET POSITION

	December 31, 2016	December 31, 2015
Assets:		
Cash and Cash Equivalents	$ 3,627,533	$ 1,353,755
Receivables:		
Transfer Receivable	727,422	-
Accrued Income	18,558	7,115
Accrued Employer Contributions	321,251	359,159
Total Receivables	1,067,230	366,274
Investments:		
Common Stocks	32,986,441	29,586,991
Mutual Fund - Common Stocks	60,363,477	53,196,091
Mutual Fund – Fixed Income Securities	80,593,536	58,738,433
Pooled International Equity Fund	74,855,144	63,276,452
Total Marketable Securities	248,798,598	204,797,967
Alternative Investments:		
Investment in Portfolio Advisors Private Equity Fund VI, VII, and VIII, L.P.	20,123,759	20,343,115
Investment in Crestline Offshore Fund, Ltd.	901,974	13,990,360
Investment in Private Advisors Stable Value ERISA Fund, LTD	5,033,988	13,447,180
Investment in Heitman Real Estate Trust	33,271,490	28,402,819
Total Alternative Investments	59,331,211	76,183,474
Total Investments	308,129,809	280,981,441
Total Assets	$ 312,824,572	$ 282,701,470
Liabilities:		
Accounts Payable and Accrued Expenses	$ 214,050	$ 219,671
Net Position:		
Net Position – Restricted for Pension Benefits	$ 312,610,522	$ 282,481,799

See accompanying notes to financial statements

UNIVERSITY HEALTH SYSTEM PENSION PLAN
(A Component Unit of the University Health System)
San Antonio, Texas

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

For the Years Ended December 31,

	2016	2015
Additions:		
Contributions		
Plan Member	$ 6,588,545	$ 6,723,876
Employer	19,289,190	18,233,177
Total Contributions	25,877,735	24,957,053
Investment Income:		
Interest	48,102	111,325
Dividends	5,274,677	4,268,869
Net Appreciation /(Depreciation) in Fair Value of Investments	17,885,256	(2,075,248)
Total Investment Income	23,208,035	2,304,946
Less Investment Expenses	(669,567)	(641,616)
Net Investment Income	22,538,468	1,663,330
Total Additions	48,416,203	26,620,383
Deductions:		
Benefit Payments	18,040,063	14,781,627
Administrative Expenses:		
Actuary	131,788	99,767
Custodian	90,009	84,247
Insurance	10,720	13,300
Audit	14,900	21,260
Total Deductions	18,287,480	15,000,141
Net Increase in Net Position	30,128,723	11,620,242
Net Position-Restricted for Pension Benefits – Beginning of Year	282,481,799	270,861,557
Net Position-Restricted for Pension Benefits – End of Year	$ 312,610,522	$ 282,481,799

See accompanying notes to financial statements

UNIVERSITY HEALTH SYSTEM PENSION PLAN
(A Component Unit of the University Health System)
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

I. DESCRIPTION OF PLAN

A. General

The University Health System Pension Plan (the Plan) is a single employer defined benefit pension plan which covers substantially all full-time and part-time employees of its sponsor, the University Health System (System) and provides for pension and death benefits. Participation in the Plan is a condition of employment for all eligible employees. The Plan is administered by a Board of Trustees, approved by the System Board of Managers consisting of seven to nine individuals. Two Trustees are appointed from System Administrative Staff, two Trustees are appointed from the System Board of Managers and three to five Trustees are appointed from Bexar County residents. Plan membership consisted of the following:

	January 1,	
	2016	2015
Inactive Participants:		
Retirees and beneficiaries currently receiving benefits	935	867
Terminated employees entitled to, but not yet receiving benefits	1,474	1,346
Total Inactive Participants	2,409	2,213
Active Participants		
Fully vested	3,286	3,232
Non-vested	2,181	1,941
Total Active Participants	5,467	5,173
Total Participants	7,876	7,386

B. Contributions

The System has agreed (but does not guarantee) to voluntarily contribute such amounts as are necessary to maintain the Plan on a sound actuarial basis. The System has the right to discontinue such contributions and terminate the Plan at any time. However, under no conditions may the System withdraw its contributions, or use them for any purpose other than the exclusive benefit of the Plan participants and their beneficiaries; and, to pay for administrative expenses.

Participants in the Plan, hired before June 30, 2012, contribute 2% of gross pay upon achievement of eligibility and thereafter until the time of retirement or separation from employment with the System. The System makes contributions which are actuarially determined to pay the Plan's total cost (determined as a level of percentage of total participant compensation) less the projected employee contributions.

I. DESCRIPTION OF PLAN (Continued)

Participants in the Cash Balance portion of the Plan, which are those employees hired after June 30, 2012, contribute 3% of gross pay upon achievement of eligibility; and thereafter, until the time of retirement or separation from employment with the System. The System makes contributions to the Plan, on behalf of the employee equal to 3% of the employee's gross pay. Benefits for Cash Balance participants are based on the actuarial equivalent of 6% of the participant's compensation plus interest earned. The System began making contributions to the Cash Balance portion of the Plan effective January 1, 2014.

The System also deposits amounts to the Plan to fund a Match Savings Plan to encourage eligible employees to participate in a 457 Deferred Compensation Retirement Savings Plan (457 Plan). Under the Match Savings Plan, the System will deposit 25% of an employee's contribution to the 457 Plan, up to the lower of 4% of compensation or $12,000. Benefits will be distributed upon retirement or separation from service after satisfying the vesting requirements.

In the event of Plan termination, the net position of the Plan is to be used to pay benefits in the following order:

(a) to retired participants, contingent pensioners and other beneficiaries who are receiving benefits on the date of termination, and to participants who have attained normal retirement age but who have not yet retired before the date of termination;
(b) to retired participants whose early pension or deferred vested pension payments are deferred to commence after the date of termination:
(c) to participants who have met the eligibility requirements for early retirement for early retirement or deferred vested retirement but who have not yet retired before the date of termination;
(d) to all other participants according to the respective actuarial values of their accrued benefits as of the date of termination.

The actuarially determined annual required contributions of the System for fiscal years ended December 31, 2016 and 2015 were $17,891,000 and $16,903,000, respectively, which were paid or accrued by the end of the respective fiscal year end.

	December 31, 2016	December 31, 2015
Pension Plan Matching Contributions	$ 17,891,000	$ 16,903,000
457 Plan Matching Contributions	1,398,190	1,330,177
	$ 19,289,190	$ 18,233,177

I. DESCRIPTION OF PLAN (Continued)

The schedule of employer contributions, presented as required supplementary information, following the notes to the financial statements, presents multiyear trend information about the actuarially determined annual required contributions of the System.

Additional information as of the latest actuarial valuation follows:

Actuarial Methods and Assumptions

Valuation Date	January 1, 2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage, closed
Remaining Amortization Period	28 years
Asset Valuation Method	5-year smoothed market
Actuarial Assumptions	
Inflation Rate	3.5% per year, composed of 3% price inflation plus .5% assumed productivity increase
Assumed Rate of Return on Investments	7 % per year, compounded annually
Salary Increases	Annual rates based on age & service
Payroll Growth Rate	3.5% per year, compounded annually

C. Eligibility

The System sponsors a single employer defined benefit pension plan which covers substantially all of the System's employees who work at least 20 hours per week or at least 1,000 hours annually. Employees are eligible for participation in the Plan after attaining the age of 21 and completing one year of service. Employees hired as of June 30, 2012 participate in the Defined Benefit aspect of the Plan while those hired after June 30, 2012 participate in the Cash Balance portion of the Plan.

D. Vesting

Plan participants have a 100% vested right in the accrued benefits derived from their accumulated contributions.

With regard to participants' accrued benefits derived from employer contributions, the participants become fully vested at the completion of 5 years of vesting service.

I. DESCRIPTION OF PLAN (Continued)

E. Retirement and Death Benefits

Participants are eligible for normal retirement benefits after attaining age 65 and completing 5 years of vesting service; or, after age 55 and the number of years of service needed to equal 85 (Rule of 85). Annual normal retirement benefits (accrued benefits) are equal to 1.5% of the participant's average 5 highest years' pay in the last 10 years, time the number of years of credited service.

An early retirement provision is available to participants who attain age 55 and 5 years vest service, but do not satisfy the Rule of 85. The early retirement benefit equals the normal retirement benefit at actual retirement reduced at the rate of $1/15^{th}$ for each of the first 5 years before age 65 and $1/30^{th}$ for each of the next 5 years before age 65 and the participants actual retirement age.

Pre-retirement death benefits before vesting or attainment of age 55 are equal to the amount of the participant's contributions plus 4 1/2 % interest per annum and may be distributed in a lump sum or in installments up to 60 months.

Pre-retirement death benefits on or after eligibility for normal retirement are a monthly benefit payable to named beneficiary equal to 50% of the present actuarial value of the participant's accrued benefit otherwise payable on the participant's date of death.

F. Plan Amendments

On September 24, 2013, the Plan was amended to indicate that employees hired by the University Health System (System) after June 30, 2012 and previously unvested rehires are eligible to participate in a contributory Cash Balance benefit.

On June 11, 2012, the Plan was amended to indicate that employees hired by the System after June 30, 2012 shall not be eligible to participate in the Plan, except for the Match Savings Plan. Other employees rehired after June 30, 2012 shall be treated as subject to this amendment unless they were vested in their accrual benefits prior to the date of being rehired.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of the Plan have been prepared in conformity with accounting principles generally accepted in the United States of America for local governmental units as prescribed by the Governmental Accounting Standards Board (GASB). The Plan's financial statements are prepared using the accrual basis of accounting. With the accrual basis of accounting, the Plan's contributions are recognized as revenues in the period in which they are withheld; and, expenses are recognized as incurred.

B. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America required the Plan to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

C. Valuation of Investments

The Plan's investments are stated at fair values and, accordingly, unrealized appreciation and depreciation are reported in the statement of changes in net position. The fair value of money market funds is considered to be the same as the cost of these investments due to their nature. The fair values of U.S. government securities, corporate bonds, and common stocks are based on quoted market prices.

Shares of mutual funds and pooled funds are reported based on net asset values at year end.

Alternative investments are held in the form of nonmarketable limited partnerships and private equity funds. The fair valuation of these investments is based on net asset values as set by the fund managers or general partners. These values may differ from the value that would have been used had a readily available market for the investments existed, and such differences could be material.

All investment income, including change in the fair value of investments, is reported as additions in the statement of changes in plan net position.

Purchases and sales of investments are recorded on a trade date basis and, accordingly, the related receivable and payable for any unsettled trades are recorded.

D. Recent Accounting Pronouncements

The GASB has issued Statement No. 72, "Fair Value Measurements and Application." This statement requires disclosure to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Governments should organize these disclosures by type of asset or liability reported at fair value.

GASB Statement No. 72 also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or as equivalent). The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015 and was therefore adopted by the Plan in fiscal year 2016.

III. CASH AND INVESTMENTS

The investment policy is reviewed by the Plan Trustees annually with any amendments requiring the approval of the System Board of Managers. The policy includes target asset allocations and benchmark criteria. There were no changes to the policy in 2016.

The Plan's assets are invested as authorized by the Plan's investment policy. The Plan utilizes investment consultants that make recommendations to the Plan as to the appropriate target portfolio (e.g. stocks, mutual funds, limited partnerships, cash, etc.) within the Plan. The majority of the Plan's assets, with the exception of alternative investments, are held by a custodian bank, Wells Fargo Bank. Cash equivalents are invested in a short term money market fund administered by the Plan's custodian bank.

The Plan has also invested in Portfolio Advisors Private Equity Fund VI, Fund VII and Fund VIII (Offshore), LP., a limited partnership organized under the laws of the Cayman Islands. "The Partnership will invest in the following private equity industry sectors: Buyout, Venture Capital, and Special Situations (each a "Sector," and collectively, the "Sectors"). The Plan selected to invest based on the model portfolio of 40% Diversified Buyout, 20% Venture Capital and 40% Diversified Special Situations. The Plan's allocable portion of the Partnership's net assets was $20,123,759 and $20,343,115 at December 31, 2016 and 2015 respectively.

The Plan invested in Heitman American Real Estate Trust, L.P., a Delaware limited partnership (HART) organized as a perpetual-life, open-ended commingled fund that invests in real estate assets. The Plan's allocable portion of these net assets was $33,271,490 and $28,402,819 at December 31, 2016 and 2015, respectively.

The Plan also invested in two hedge funds of funds: Crestline Offshore Fund, Ltd. (Crestline) and Private Advisors Stable Value ERISA Fund, Ltd. (Private Advisors). Crestline is an exempted company incorporated under the laws of the Cayman Islands. Crestline allocates assets among a select group of portfolio managers utilizing strategies which seek returns that are not correlated, or are hedged, with respect to major fixed income and equity markets. The Plan's allocable portion of Crestline net assets was $901,974 and $13,990,360 at December 31, 2016 and 2015, respectively. Private Advisors is an exempted company incorporated under the laws of the Cayman Islands. Private Advisors also places capital with a variety of experienced portfolio managers who employ a variety of trading styles or strategies where returns are not necessarily correlated to traditional stock and bond indices. The Plan's allocable portion of Private Advisors net assets was $5,033,988 and $13,447,180 at December 31, 2016 and 2015, respectively.

III. CASH AND INVESTMENTS (Continued)

The Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value as follows:

	December 31, 2016	December 31, 2015
Mutual Funds – Common Stocks	$ 5,378,183	$ (757,828)
Common Stocks	2,918,095	(1,416,410)
Fixed Income Securities	1,870,038	(3,164,372)
Pooled International Equity Fund	3,848,209	(614,258)
Portfolio Advisors Private Equity Fund VI and VII, L.P.	1,314,038	1,689,851
Crestline Offshore Fund, Ltd	(174,204)	(374,292)
Private Advisors Stable Value ERISA Fund, Ltd	186,108	(614,806)
Heitman Real Estate Trust	2,544,789	3,176,867
Net Appreciation / (Depreciation)	$ 17,885,256	$ (2,075,248)

The Plan may invest in equity securities, securities convertible to equity and fixed income securities which are readily marketable and diversified by issuer, industry and sector. Investments in venture capital, private placements, lettered stock and real estate, except for publicly traded real estate investment trusts, are prohibited as are investments using options, futures, derivatives, short sales, margin transactions or other hedging strategies. The Plan uses a target asset allocation model of 53% equity and 20% fixed income, 10% real estate, 10% absolute return/hedge fund and 7% private equity.

The long-term expected rate of return on pension plan investments of 7.5% was determined using an economic simulation method in which best-estimates ranges of expected future rates of return (expected returns, net of pension plan investment expense) are developed for each major asset class. These ranges are combined using simulations that also coherently link the expected returns of each asset class to ensure that there is economic consistency between the various asset classes in each individual trial to produce the long-term expected rate of returns. These returns are then weighted by the target asset allocation percentage. Rates include expected inflation of 3.0% and are net of investment expenses. Best estimate of geometric rates of return for each major asset class as of January 1, 2016 are summarized in the table below.

	Target Allocation	Long-Term Expected Real Rate of Return
Asset Class		
Domestic equity	29%	6.8%
International equity	24%	6.8%
Fixed income	20%	3.0%
Alternative investments	27%	5.9%
Total	100%	

III. CASH AND INVESTMENTS (Continued)

The Plan's investments, with the exception of alternative investments, are held in trust and managed through the use of independent investment managers with oversight by independent investment consultants. Investment managers may include mutual funds, index funds, commingled or pooled investments and limited partnerships. The Board of Directors has established investment guidelines and bench marks for the investment consultant to use in evaluating and reporting on investment manager performance.

The following table reflects the fair value of investments by type:

Description	December 31, 2016	December 31, 2015
Mutual Funds – Common Stocks	$ 60,363,477	$ 53,196,091
Common Stocks	32,986,441	29,586,991
Pooled International Equity Fund	74,855,144	63,276,452
Mutual Fund – Fixed Income Securities	80,593,536	58,738,433
Alternative Investments:		
Portfolio Advisors Private Equity Fund, VI, VII, and VIII, L.P.	20,123,759	20,343,115
Crestline Offshore Fund, Ltd.	901,974	13,990,360
Private Advisors Stable Value ERISA Fund, Ltd.	5,033,988	13,447,180
Heitman Real Estate Trust	33,271,490	28,402,819
Total Investments, at Fair Value	$ 308,129,809	$ 280,981,441

Foreign Currency Risk – Foreign currency risk is the risk of losses arising from foreign changes in exchange rates. The Plan's investment policy has a target allocation for foreign investments of 24% with a range of 19% to 29%. At December 31, 2016, 24% of the Plan's investments were in two pooled international equity funds (Fund). The Plan is subject to currency risk as currency exposures are unhedged. As international currencies gain or lose value in relation to the U.S. dollar, the Fund will gain or lose value. The currency risk inherent in the Fund's investments is mitigated as a result of the Fund investing only in developed markets.

III. CASH AND INVESTMENTS (Continued)

The following schedule addresses foreign currency risk exposure by investment type and by specific currencies:

Currency		Carrying Amount / Fair Value	Allocation
Pooled International Equity Fund:			
Argentina (ARS)	$	14,008	0.02%
Australia (AUD)		2,143,092	2.86%
Brazil (BRL)		1,850,203	2.47%
Canada (CAD)		1,752,809	2.34%
Chile		21	0.00%
China (CNY)		1,798,961	2.40%
Czech Republic		70,648	0.09%
Denmark (DKK)		669,734	0.89%
Euro (EUR)		16,954,852	22.67%
Hong Kong (HKD)		998,850	1.33%
Hungary		38,561	0.05%
Indonesia		137,703	0.18%
Israel (ILS)		(94,089)	-0.13%
Japan (JPY)		11,568,011	15.45%
Korea (KRW)		1,934,012	2.58%
Malaysia		59	00.0%
Mexico (MXN)		466,878	0.62%
New Zealand (NZD)		1,466,846	1.96%
Nigeria		47	0.00%
Norway (NOK)		141,140	0.19%
Pakistan (PKR)		22,422	0.03%
Peru		53,249	0.07%
Poland		146,525	0.20%
Russia (RUB)		1,026,585	1.37%
Singapore (SGD)		304,331	0.41%
South Africa (ZAR)		1,621,072	2.17%
Sweden (SEK)		1,713,001	2.29%
Switzerland (CHF)		3,077,874	4.11%
Taiwan (TWD)		1,607,140	2.15%
Thailand		239,768	0.32%
Turkey (TRY)		73,667	0.10%
United Arab Emirates		43,518	0.06%
United Kingdom (GBP)		8,778,640	11.73%
United States (USD)		14,235,006	19.02%
	$	74,855,144	100.0%

III. CASH AND INVESTMENTS (Continued)

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Plan invests in high-quality, short-term money market instruments. These investments may have fixed, floating, or variable rates of interest. The security selection is based on several factors, including credit quality, yield and maturity, while taking into account the fund's overall level of liquidity and weighted average maturity.

The Plan's investment in Wells Fargo Advantage Treasury Plus Money Market Fund is $3,627,533, at December 31, 2016, with a weighted average maturity of 7 days.

The Plan's fixed income mutual bond funds are also subject to interest rate risk. As indicated in the Plan's investment policy, investments in fixed income securities should range between 20% - 30% of the total investments. This target range helps limit its exposure to fair value losses arising from rising interest rates. The Plan invests in two fixed income mutual funds, Dodge Cox Income Fund and Loomis Core Plus, with values of $40,618,426 and $39,975,110, respectively at December 31, 2016. As of December 31, 2016 the Dodge Cox Income Fund and Loomis Core Plus carried a weighted average maturity of 4.2 years and 6.2 years, respectively.

The Plan's investments in the fixed income mutual bond funds are not rated by a nationally recognized statistical ranking organization.

Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of failure of the counterparty to an investment transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At December 31, 2016, the Plan's money market funds in the amount of $3,627,533 are held by Wells Fargo. Wells Fargo acts as the disbursing agent for benefits to participants and to pay expenses approved by an authorized officer member of the Board of Trustees.

Concentration Risk – Concentration risk is the exposure to loss that can result from failing to diversify investments. Accordingly, a government should disclose investments that represent 5% or more of its total investments that are invested in a single issuer. Concentration risk does not arise in connection with U.S. government obligations and obligations explicitly guaranteed by the U.S. government; mutual funds; and, similar pooled investments which are designed, in part, to provide diversification.

The Plan's alternative investments are managed through independent investment managers organized as limited partnerships. The limited partnerships invest in diversified portfolios of investments within market sectors. Investments that represent 5% or more of the Plan's total investments are as follows:

	December 31, 2016	% of Total Investments	December 31, 2015	% of Total Investments
Portfolio Advisors Private Equity Fund VI, VII, and VIII, L.P.	$ 20,123,759	6.5%	$ 20,343,115	7.2%
Heitman Real Estate Trust	$ 33,271,490	10.8%	$ 28,402,819	10.1%

III. CASH AND INVESTMENTS (Continued)

The money weighted rates of return for the years ended December 31, 2016 and 2015 were 7.2% and 0.3% respectively. The returns are net of investment expenses and adjusted for the changing amounts actually invested.

The Plan is required to disclose the fair value level of investments within the fair value hierarchy established by GASB Statement No.72.

At December 31, 2016, the Plan had the following recurring fair value measurements:

		Fair Value Measurements Using		
	December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment by Fair Value				
Common Stocks	$ 32,986,441	$ 32,986,441	$ -	$ -
Mutual Fund - Common Stocks	60,363,477	60,363,477	-	-
Mutual Fund - Fixed Income Securities	80,593,536	80,593,536	-	-
Total Investments by Fair Value	$ 173,943,454	$ 173,943,454	$ -	$ -
Investment measured at the net asset value (NAV)				
Pooled International Equity Funds	$ 74,855,144			
Portfolio Advisors Private Equity	20,123,759			
Crestline Offshore Hedge fund	901,974			
Private Advisors Stable Value	5,033,988			
Heitman Real Estate Trust	33,271,490			
Total Investments Measured at the NAV	$ 134,186,355			
Total Investments	$ 308,129,809			

Equity and fixed income securities classified as Level 1 of the fair value hierarchy are value using prices quoted in active markets for those securities.

III. CASH AND INVESTMENTS (Continued)

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the following table:

		Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Investments measured at the net asset value (NAV)				
Arrowstreet International Equity	$ 37,459,052	$ N/A	Monthly	30 days
Harding Loevner International Equity	37,396,092	N/A	Daily	
Portfolio Advisors Private Equity	20,123,759	16,187,357		
Crestline Offshore Hedge fund	901,974	N/A	Monthly	95 days
Private Advisors Stable Value	5,033,988	N/A		
Heitman Real Estate Trust	33,271,490	N/A	Quarterly	90 days
	$ 134,186,355	$ 16,187,357		

Arrowstreet international equity fund invests in risk-controlled core portfolio of international equities similar to the MSCI ACWIxUS index. The fair values of the investments in this asset have been determined using the NAV per share (or its equivalents) based on the market value of securities held.

Harding Loevner international equity fund invests in a portfolio of international equities based on the managers evaluation of growth potential compared to their growth criteria be sector and region. The fair value of the investments in this asset have been determined using the NAV per share (or its equivalent) based on the market value of securities held.

Portfolio Advisors Private Equity Funds VI, VII and VIII are private equity investments, with 40% in the Buyout sector, 20% in the Venture Capital sector and 40% in the Special Situations sector. These investments cannot be withdrawn or transferred without the consent of the General Partner. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of each fund. The availability of observable inputs can vary from security to security and is affected by a wide variety of factors, including, for example the type of security, whether the security is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the security. Investments in the limited partnerships are fair valued at their net asset value as reported by their underlying investment manager.

Crestline Offshore Hedge Fund is a “fund of funds” manager who allocates or reallocates capital to the investment discretion of portfolio managers by investing in the underlying private funds they manage. The fair value of the investments in this asset have been determined using the NAV per share (or its equivalent) based on the NAV of each manager.

III. CASH AND INVESTMENTS (Continued)

Private Advisors Stable Value Hedge Fund is a "fund of funds" manager investing with hedge funds and other experienced portfolio managers or otherwise utilizes the services of investment advisors or other investment managers employing a variety of trading styles or strategies, including, but not limited to, direct lending, convertible arbitrage, merger or risk arbitrage and other event-driven investing, distressed and long/short credit, long/short equity, multi-strategy and other relative value strategies. The availability of valuation techniques and observable inputs can vary from investment to investment and are affected by a wide variety of factors. The fair value of the investments in this asset have been determined using valuation processes and procedures developed by a Private Advisor designated valuation committee to ensure valuation techniques are fair, consistent and verifiable.

Heitman Real Estate Trust is a perpetual life, open-ended comingled fund for the objective and purpose of creating a high quality, low risk, diversified portfolio of stabilized, income-producing real estate investments. Fair value of this asset is using the NAV per share (or its equivalent) based on an annual appraisal performed by an independent appraisal management firm.

IV. NET PENSION LIABILITY

The components of the net pension liability for the Plan as of December 31, 2016 were as follows:

Total Pension Liability	$ 461,733,867
Plan Fiduciary Net Position	295,051,029
Net Pension Liability	$ 166,682,838
Plan fiduciary net position as a percentage of the total pension liability	63.9%

Healthy mortality rates were based on the sex-distinct RP 2000 Combined Health, no Collar Adjustment Mortality Table, with rates projected using Scale AA on a generational basis, with separate tables for males and females.

The actuarial assumptions used in the January 1, 2016 valuation were based on the results of an experience study for the period January 1, 2011 to January 1, 2016.

Discount Rate

The blended discount rate used to measure the total pension liability is 7.50%. The projection of cash flows used to determine the discount rate assumed employer contributions will continue to be made at 6.41% of payroll and employee contributions will continue to be made at 2.00% of the compensation from plan members (3.0% for cash balance participants.) Based on these assumptions, the 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 Fund's investments was applied to all periods of projected benefit payments to determine the total pension liability.

IV. NET PENSION LIABILITY (Continued)

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

The following presents the net pension liability of the Fund, calculated using the discount rate of 7.50%, as well as what the Fund's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net pension liability	$ 225,323,039	$ 166,682,838	$ 114,650,716

V. NET POSITION HELD IN TRUST

The System deposits amounts to the Plan to fund a Defined Benefit Plan and a Match Savings Plan. Amounts held in trust to satisfy employer obligations are as follows:

	December 31, 2016	December 31, 2015
Net Position Held in Trust for:		
Defined Benefit Plan	$ 295,051,029	$ 267,492,612
Match Savings Plan	17,559,493	14,989,187
Total	$ 312,610,522	$ 282,481,799

VI. CAPITAL COMMITMENTS

The Plan has a commitment to invest capital in two investment companies under investment capital agreements: These commitments are subject to periodic calls from the investment companies.

Following are the changes in capital commitments:

	December 31, 2016	December 31, 2015
Commitment Balance – Beginning	$ 16,934,047	$ 17,881,814
Add: Amount Committed in Current Year	-	-
Less: Amount Called in Current Year	(746,690)	(947,771)
Commitment Balance – Ending	$ 16,187,357	$ 16,934,047

VII. FEDERAL INCOME TAX STATUS

The Plan was determined to be qualified pursuant to Section 401 of the Internal Revenue Code and is, therefore, exempt from income taxes. The Plan has obtained a favorable determination letter from the Internal Revenue Service and believes that it continues to qualify and operate as designed.

VIII. RISKS AND UNCERTAINTIES

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statements of changes in fiduciary net position.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumption in the near term would be material to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

UNIVERSITY HEALTH SYSTEM PENSION PLAN
(A Component Unit of the University Health System)
San Antonio, Texas

SCHEDULE OF EMPLOYER CONTRIBUTIONS

(Unaudited)

Date	Actuarially Determined Contributions	Amount of Contributions Recognized	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
January 1, 2016	$17,891,000	$ 17,891,000	$ -	$ 307,617,260	5.82%
January 1, 2015	$17,697,000	$ 16,903,000	$ 794,000	$ 280,165,100	6.32%
January 1, 2014	$16,297,000	$ 16,826,504	$ (529,504)	$ 254,100,410	6.62%

Note: GASB statement No. 67 was adopted in fiscal year 2014. Additional years will be presented as the information becomes available.

UNIVERSITY HEALTH SYSTEM PENSION PLAN
(A Component Unit of the University Health System)
San Antonio, Texas

SCHEDULE OF INVESTMENT RETURNS

(Unaudited)

Annual Money-Weighted Rate of Return Net of Investment Expense	
Years Ended December 31,	
2016	7.2%
2015	0.3%
2014	5.2%

Note: GASB statement No. 67 was adopted in fiscal year 2014. Additional years will be presented as the information becomes available.

UNIVERSITY HEALTH SYSTEM PENSION PLAN
(A Component Unit of the University Health System)
San Antonio, Texas

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

(Unaudited)

	Years Ended December 31, 2016	2015
Total Pension Liability		
Service Cost	$ 19,175,228	$ 17,036,363
Interest	29,286,293	28,861,682
Demographic (gain/loss)	(4,243,338)	748,736
Assumption Changes	26,890,274	-
Benefit Payments		
Including refunds of employee contributions	(16,864,728)	(13,638,851)
Net Plan Change in Total Pension Liability	54,243,729	33,007,930
Total Pension Liability, beginning	407,490,138	374,485,208
Total Pension Liability, ending (a)	461,733,867	407,490,138
Plan Fiduciary Net Position		
Contributions - Employer	17,891,000	16,903,000
Contributions - Employee	6,588,545	6,723,876
Net Investment Income	19,943,600	1,370,527
Benefit Payments		
Including refunds of employee contributions	(16,864,728)	(13,638,851)
Net Change in Plan Fiduciary Net Position	27,558,417	11,358,552
Plan Fiduciary Net Position, beginning	267,492,612	256,134,060
Plan Fiduciary Net Position, ending (b)	295,051,029	267,492,612
Net Pension Liability, ending (a) – (b)	$ 166,682,838	$ 139,997,526
Plan Fiduciary Net Position		
as a Percentage of the Total Pension Liability	63.9%	65.6%
Covered Employee Payroll	$ 307,617,260	$ 280,165,000
Plan's Net Pension Liability		
As a Percentage of Covered Employee Payroll	54.2%	50.0%

Note: GASB statement No. 67 was adopted in fiscal year 2014. Additional years will be presented as the information becomes available.

UNIVERSITY HEALTH SYSTEM PENSION PLAN
(A Component Unit of the University Health System)
San Antonio, Texas

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

Valuation Date	Actuarially determined contribution is calculated using a January valuation date as of the beginning of the prior fiscal year in which contributions are reported
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll, assuming payroll increases 3.5% per year, closed
Remaining amortization period	28 years remaining as of January 1, 2016
Asset valuation method	Five-year smoothed market value based on expected return of 7.0%
Actuarial assumptions:	
Investment rate of return	7.0%, including inflation, net of pension plan investment expense
Inflation rate	3.50%
Projected salary increases	4.9% (plus merit scale of 0.75% - 3.75%)
Retirement rates	Based on age, ranging from age 55 to age 70, with 100% retirement at Age 70. Higher rates apply when eligible for Rule of 85 prior to age 65
Mortality:	
Healthy	RP-2000 Combined Healthy with no Collar adjustment projected using Scale AA on a generational basis (males, females)
Other Information:	See Actuarial Experience Study dated January 1, 2016