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To the Board of Administration
California Public Employees' Retirement System
Sacramento, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the fiduciary activities and proprietary activities of the California Public Employees' Retirement System (the System or CalPERS), a component unit of the State of California, as of and for the fiscal year ended June 30, 2012, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the System's 2011 financial statements and, in our report dated December 2, 2011, we expressed unqualified opinions on the respective financial statements of the fiduciary activities and the proprietary activities.

We conducted our audit 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the fiduciary activities and the proprietary activities of the California Public Employees' Retirement System as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 5 to the basic financial statements, actuarial data presented for the California Employers' Retirement Benefit Trust Fund was derived from actuarial valuations performed by actuarial firms engaged by participating employers. Actuarial valuations must comply with the CalPERS OPEB Assumption Model, which requires the use of specified actuarial methods and assumptions.

As discussed in Note 5 to the basic financial statements, actual contributions made by the State of California (State) to the Judges Retirement Fund are made pursuant to State statute and were significantly less than the actuarially determined annual required contributions. State contributions were used to fund benefit payments of the current period. As such, the Judges Retirement Fund does not retain the accumulated contributions of active members. Without the State contributions, the Judges Retirement Fund will not be able to pay accumulated benefit payments due in fiscal year 2013. Management and legal counsel believe the State is legally required to provide contributions to fund benefits when due.

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As discussed in Notes 8 and 12 to the basic financial statements, the determination of the estimated liability for future policy benefits of the Public Employers' Long-Term Care Fund (the Fund) is very sensitive to the underlying actuarial assumptions. The actuarial valuation as of June 30, 2012 used to estimate the liability for future policy benefits changed its discount rates from 6.25% and 7.60% for certain periods to a single discount rate of 5.75%, which contributed to the decrease in net assets of \$830.7 million for the Fund for the fiscal year ended June 30, 2012 and a net deficit of \$159.7 million for the Fund at June 30, 2012.

As discussed in Note 9 to the basic financial statements, based on the most recent actuarial valuations of the Public Employees' Retirement Fund as of June 30, 2011, the System's actuaries determined that, at June 30, 2011, the actuarial accrued liability exceeded the actuarial value of its assets by \$57.2 billion. The 2011 actuarial valuations do not reflect the impact of the remaining deferred investment losses from fiscal year 2009.

The financial statements include summarized prior year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the System's basic financial statements for the fiscal year ended June 30, 2011, from which such summarized comparative information was derived.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedules of Funding Progress, Schedules of Employer Contributions, and Schedule of Claims Development Information, as listed in 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 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 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The other supplemental schedules in the financial section are presented for purposes of additional analysis and are not required part of the basic financial statements. Such information 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. The 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 to 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 other supplemental schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Sacramento, California
_____, 2012