



REPORT TO THE RISK AND AUDIT COMMITTEE

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

2025 AUDIT RESULTS



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The following communication was prepared as part of our audit, has consequential limitations, and is intended solely for the information and use of those charged with governance (e.g., Board of Directors) and, if appropriate, management of the System, and is not intended and should not be used by anyone other than these specified parties.

Required Communications Dashboard

Professional standards require that we communicate the following matters to those charged with governance. We have indicated in the table below where these communications are included within this report or in previous communications, as well as which matters warrant discussion during this meeting.

Topic	Matters to Discuss	Topic	Matters to Discuss
Independence	YES	Significant Matters Identified by Component Auditors	N/A
Overall Strategy, Timing of the Audit, & Significant Risks	YES	Difficult or Contentious Matters for Which We Consulted Outside the Engagement Team	NO
Significant Changes to the Overall Audit Strategy, Significant Risks, or Planned Use of Others	NO	Consultation with Other Accountants	N/A
Use of Internal Audit	N/A	Going Concern	N/A
Use of Other Auditors and Persons Not Employed by BDO USA, P.C.	N/A	Uncorrected and Corrected Misstatements	NO
Information from Those Charged with Governance	NO	Departure from the Auditor's Standard Reports	NO
Significant Accounting Practices, Policies, Estimates & Disclosures	YES	Disagreements with Management	NO
Significant Unusual Transactions	NO	Difficulties Encountered in Performing the Audit	NO
Quality of Financial Reporting	YES	Other Matters	NO
New Accounting Pronouncements Not Yet Effective	NO	Related Parties	NO
Alternative Accounting Treatment	NO	Internal Control Matters	NO
Nature and Extent of Specialized Skills or Knowledge Needed Related to Significant Risk	YES	Subsequent Events	NO
Other Information in the Annual Comprehensive Financial Report	YES		

Audit Results



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Overview & Status of Our Audit

We have substantially completed our audit of the financial statements of the fiduciary activities and proprietary activities of California Public Employees' Retirement System (CalPERS or the System), a component unit of the State of California, as of and for the year ended June 30, 2025. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*.

- ▶ The objective of our audit was to obtain reasonable - not absolute - assurance about whether the financial statements are free from material misstatements.
- ▶ The scope of the work performed was substantially the same as that described to you in our earlier Audit Plan communications.
- ▶ We expect to issue an unmodified opinion on the financial statements and release our report on November 21, 2025.
- ▶ We expect to issue our 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*.
- ▶ Our responsibility for other information in documents containing CalPERS' audited financial statements (e.g. management's discussion and analysis, required supplementary information) does not extend beyond the financial information identified in the audit report, and we are not required to perform procedures to corroborate such other information. However, in accordance with professional standards, we have read the information included by CalPERS and considered whether such information, or the manner of its presentation, is materially inconsistent with its presentation in the financial statements. Our responsibility also includes calling to management's attention any information that we believe is a material misstatement of fact. We have not identified any material inconsistencies or concluded there are any material misstatements of facts in the other information that management has chosen not to correct.
- ▶ All records and information requested by BDO were freely available for our inspection.
- ▶ Management's cooperation was excellent. We received full access to all information that we requested while performing our audit, and we acknowledge the full cooperation extended to us by all levels of CalPERS' personnel throughout the course of our work.



Quality of the System's Financial Reporting

A discussion will be held regarding the quality of the System's financial reporting, which will include the following:

- ▶ Qualitative aspects of significant accounting policies and practices
- ▶ Our assessment of critical accounting estimates, accounting policies and practices
- ▶ Significant unusual transactions
- ▶ Financial statement presentation
- ▶ New accounting pronouncements
- ▶ Alternative accounting treatments



Areas of Significant Risk

Our areas of significant risk, which are risks with both a higher likelihood of occurrence and a higher magnitude of effect that require special audit considerations, are as follows. Our audit procedures for these risks are detailed starting on page 11.

Valuation of Investments

Management Override of Internal Controls Over
Financial Reporting

Valuation of Estimated Future Policy Liability

Corrected and Uncorrected Misstatements

- ▶ There were no corrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we brought to the attention of management.
- ▶ There were no uncorrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we presented to management.

Internal Control Over Financial Reporting



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Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 System’s internal control. Accordingly, we do not express an opinion on the effectiveness of the System’s internal control.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We are required to communicate, in writing, to those charged with governance all material weaknesses and significant deficiencies that have been identified in the System’s internal control over financial reporting. The definitions of control deficiency, significant deficiency and material weakness follow:

Category	Definition
Control Deficiency	A deficiency in internal control over financial reporting 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.
Significant Deficiency	A deficiency or combination of deficiencies in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
Material Weakness	A deficiency or combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of CalPERS’ financial statements will not be prevented or detected and corrected on a timely basis.

In conjunction with our audit of the financial statements, we noted no material weaknesses.

Detail of Significant Risks & Additional Audit Considerations



Valuation of Investments

SUMMARY OF AREA OF SIGNIFICANT RISK

There is a significant risk of material misstatement that non-coterminous private equity (PE) and real asset (RA) investments, and their related unrealized gains and losses, are not properly valued as of the System's financial statement year-end.

SUMMARY OF AUDIT PROCEDURES

To address this significant risk, we performed the following procedures:

- Performed walkthroughs over the System's controls over the valuation of investments.
- Confirmed holdings with investment managers.
- Performed retrospective review of significant estimates related to valuation of investments made in prior year financial statements.
- Performed testing over valuation of investments through rollforward testing procedures which included a lag analysis for non-coterminous investments.
- Utilized BDO valuation specialists to assist in auditing the valuations related to investments including the valuation methodology used and the key assumptions included.

Management Override of Internal Controls Over Financial Reporting

SUMMARY OF AREA OF SIGNIFICANT RISK

There is a significant risk of material misstatement due to the risk of fraud from overriding of internal controls by management. This risk applies across the System for both the fiduciary and proprietary financial statements.

SUMMARY OF AUDIT PROCEDURES

To address this significant risk, we performed the following procedures:

- Performed walkthroughs over the System's internal controls over the financial reporting process and journal entries.
- Performed fraud inquiries across the organization.
- Examined tip-line activity.
- For journal entry testing, evaluated the general ledger detail for completeness of transactions, set journal entry selection criteria based on risk of fraud, and tested all journal entries that meet the selection criteria.
- Incorporated elements of unpredictability into our audit.
- Sent external confirmations.
- Performed risk-based testing of certain accounts.

Valuation of Estimated Future Policy Liability

SUMMARY OF AREA OF SIGNIFICANT RISK

There is a significant risk of material misstatement that management's estimate of the liability for future policy benefits is improperly valued due to improper assumptions used, specifically related to the discount rate.

SUMMARY OF AUDIT PROCEDURES

To address this significant risk, we performed the following procedures:

- Performed walkthroughs over the System's controls over the estimated future policy liability process.
- Obtained and reviewed the actuarial valuation report with the assistance of BDO actuarial specialists including management's valuation model and related assumptions including the discount rate for reasonableness.
- Reviewed third-party parallel valuation reports and evaluated whether they are materially consistent with management's assessment and assumptions.
- Performed retrospective review of significant estimates related to the discount rate used in the valuation of the estimated future policy liability.
- Performed substantive analytic procedures for existence and accuracy over the IBNR liability.

Additional Areas of Audit Focus

In addition to the significant risks discussed on the previous page, we identified the areas below that are not considered significant risks but were areas of focus during the audit due to materiality of the balance, complexity, or judgment involved in the accounting. The table below summarizes the audit procedures performed.

Audit Area	Discussion
Health Care Estimated Insurance Claims Due	Tested a sample of claims for accuracy, performed a retrospective review of the prior year incurred but not reported (IBNR) reserve, used in-house actuarial professionals to evaluate the reasonableness of the IBNR estimate and methodology, performed substantive analytic procedures for existence and accuracy over the IBNR liability, and performed recalculation of the liability amounts.
Pension and Other Postemployment Benefit Liabilities and Related Disclosures	Tested samples of underlying census data for completeness and accuracy, used in-house actuarial professionals to evaluate reasonableness of assumptions based on published data and most recent experience study, performed certain recalculations including modeling long term rate of return and sufficiency of net position calculations.
Plan Contributions	Utilized data analytics over contributions data to analyze such data, test a sample of recorded contributions for a given period based on recalculations of required contribution rates and performed substantive analytics over contributions including investigating any unexpected changes.
Plan Benefit Payments	Tested a sample of benefit payments for consistency with plan provisions and used data analytics to identify benefit payment trend anomalies for investigation.
Premium and Administrative Fee Revenues	Tested a sample of premium revenues for existence, completeness and accuracy, and performed substantive analytical procedures for existence. Performed substantive analytical procedures over administrative fees for existence, completeness, and accuracy.
Information Systems	Identified all systems relevant to the financial reporting process, reviewed the design and implementation of logical access, change management, and cybersecurity controls, and reviewed user control considerations for interacting with key service providers' information systems.

Detail of Significant Accounting Practices, Policies, Estimates and Disclosures



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Significant Accounting Practices (including Policies, Estimates, and Disclosures)

ACCOUNTING PRACTICES, POLICIES, ESTIMATES, AND DISCLOSURES

The following summarizes the more significant required communications related to our audit concerning CalPERS' accounting practices, policies, and estimates:

CalPERS' significant accounting practices and policies are those included in Note 2 to the financial statements. These accounting practices and policies are appropriate, comply with the applicable financial reporting framework and industry practice, were consistently applied, and are adequately described within Note 2 to the financial statements.

- ▶ A summary of recently issued accounting pronouncements is included in Note 2 to CalPERS' financial statements.
 - CalPERS adopted GASB's new standards on *Compensated Absences*, GASB Statement No. 101. The impact upon adoption was not material to the financial statements.
 - CalPERS adopted GASB's new standards on *Certain Risk Disclosures*, GASB Statement No. 102. CalPERS determined there were no disclosures required under GASB 102.
- ▶ There were no other changes in significant accounting policies and practices during the year ended June 30, 2025.

Critical accounting estimates are those that require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. CalPERS' critical accounting estimates, including a description of management's processes and significant assumptions used in development of the estimates, are disclosed in the notes of the financial statements.

Critical Accounting Estimates

Private Equity and Real Asset Investments

Long Term Care Fund Liabilities

Health Care Fund Estimated Insurance Claims Due

Pension Liabilities

- ▶ Management did not make any significant changes to the processes or significant assumptions used to develop the critical accounting estimates in 2025.

Additional Required Communications



Other Required Communications

Following is a summary of other required items, along with specific discussion points as they pertain to CalPERS:

Requirement	Discussion Point
Significant changes to planned audit strategy or significant risks initially identified	There were no significant changes to the planned audit strategy or significant risks initially identified and previously communicated to those charged with governance as part of our Audit Plan communications.
Obtain information from those charged with governance relevant to the audit	There were no matters noted relevant to the audit, including, but not limited to: violations or possible violations of laws or regulations; risk of material misstatements, including fraud risks; or tips or complaints regarding CalPERS' financial reporting that we were made aware of as a result of our inquiry of those charged with governance.
Alternative accounting treatment	No alternative accounting treatments permissible under the applicable financial reporting framework for policies and practices related to material items were identified and discussed with management.
Significant unusual transactions	During the year ended June 30, 2025, we were not aware of any significant unusual transactions.
Consultations with other accountants	We are not aware of any consultations about accounting or auditing matters between management and other independent public accountants. Nor are we aware of opinions obtained by management from other independent public accountants on the application of requirements of an applicable financial reporting framework.
Significant findings and issues arising during the audit in connection with CalPERS' related parties	We have evaluated whether the identified related party relationships and transactions have been appropriately identified, accounted for, and disclosed and whether the effects of the related party relationships and transactions, based on the audit evidence obtained, prevent the financial statements from achieving fair presentation.
Significant findings or issues arising during the audit that were discussed, or were the subject of correspondence, with management	There were no significant findings or issues arising during the audit that were discussed, or were the subject of correspondence, with management.

Other Required Communications (cont.)

Following is a summary of other required items, along with specific discussion points as they pertain to CalPERS:

Requirement	Discussion Point
Instances of Noncompliance with Laws and Regulations	In accordance with GAS, no matters that involve instances of noncompliance with laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements have been identified.
Representations requested from management	Please refer to the management representation letter that will be provided upon receipt.
Disagreements with management	There were no disagreements with management about matters, whether or not satisfactorily resolved, that individually or in aggregate could be significant to CalPERS' financial statements or to our auditor's report.
Significant difficulties encountered during the audit	There were no significant difficulties encountered during the audit.
Matters that are difficult or contentious for which the auditor consulted outside the engagement team	There were no difficult or contentious matters that we consulted with others outside the engagement team that we reasonably determined to be relevant to those charged with governance regarding their oversight of the financial reporting process.

Independence

Our engagement letter to you dated February 7, 2025 describes our responsibilities in accordance with professional standards and certain regulatory authorities and *Government Auditing Standards* regarding independence and the performance of our services. This letter also stipulates the responsibilities of CalPERS with respect to independence as agreed to by CalPERS. Please refer to that letter for further information.



Other Topics



BDO's System of Quality Management

An audit firm's effective system of quality management ("SoQM") is crucial for supporting the consistent performance of high-quality audits and reviews of financial statements, or other assurance or related services engagements under professional standards, and applicable legal and regulatory requirements.

Accordingly, BDO has implemented a SoQM designed to provide reasonable assurance that its professionals fulfill their responsibilities and conduct engagements in accordance with those standards and requirements. The firm's SoQM supports the consistent performance of quality audits through many ongoing activities including, at least annually, certification by leaders with responsibility for key controls and related processes. Our Assurance Quality Management team performs regular reviews and testing of key controls and processes throughout the SoQM and identifies and communicates areas for improvement. In addition, our Audit Quality Advisory Council supports our SoQM by providing guidance and input on audit quality initiatives.

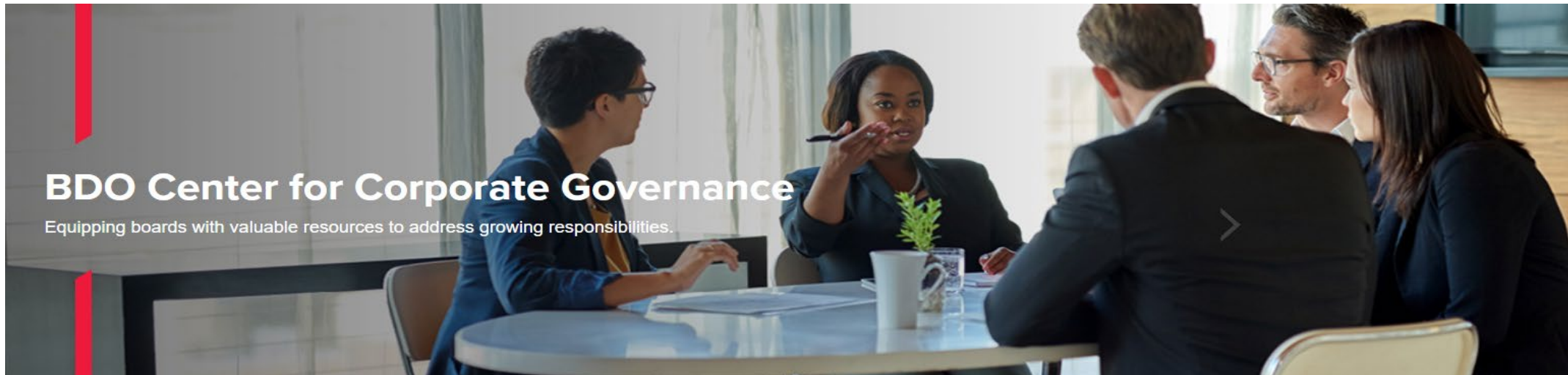
As required by International Standard on Quality Management 1 (ISQM 1) under the International Auditing and Assurance Standards Board (IAASB), BDO has conducted an evaluation of the effectiveness of its system of quality management and concluded, as of July 31, 2024, that, except for certain deficiencies related to the execution of its issuer audits, that system provides the reasonable assurance that our professionals will perform audits and reviews of financial statements or related assurance services engagements in accordance with professional standards, and applicable legal and regulatory requirements. BDO has either implemented or is designing remedial actions to address those deficiencies prior to our next evaluation.



We will continue to provide you with updates on our progress. Currently, you may find discussion of BDO's system of quality management within our annual [Audit Quality Reports](#), the most recent of which is accessible [here](#).

[CLICK HERE TO ACCESS IAASB ISQM-1 IN ITS ENTIRETY >](#)

The BDO Center for Corporate Governance



[BDO's Center for Corporate Governance](#) recognizes board members need easy access to comprehensive information and insights they can rely on. Corporate governance and related risks and opportunities is an evolving landscape encompassing a variety of issues and requires subject matter experts who engage regularly with stakeholders - including regulators, management, board members and thought leaders - and share information directly with client management teams, the board and its committees. Whether you are new to board service, assuming a new role or a seasoned director who wants to remain up to date, we have you covered.

Our governance team delivers:

- ▶ Thought leadership, practice aids, tools, and newsletters
- ▶ Technical updates and insights on emerging business issues
- ▶ [BDO In the Boardroom](#) podcast series for board of directors and those charged with governance
- ▶ A three-pronged evolving curriculum consisting of upcoming webinars & archived self-studies
- ▶ Opportunities to engage directly with BDO thought leaders
- ▶ External governance community resources

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