



City of Penticton

**Audit final communication to the Mayor and
Members of Council for the year ended
December 31, 2025**



To the Mayor and Members of Council of City of Penticton

We are pleased to provide you with the results of our audit of City of Penticton (the "City") financial statements for the year ended December 31, 2025.

The enclosed final communication includes our approach to your audit, including; significant risks identified and the nature, extent and the results of our audit work. We will also communicate any significant internal control deficiencies identified during our audit and reconfirm our independence.

During the course of our audit, management made certain representations to us - in discussions and in writing. We documented these representations in the audit working papers.

We look forward to discussing our audit conclusions with you. In the meantime, please feel free to contact us if you have any questions or concerns.

Yours truly,

BDO Canada LLP

May 5, 2026

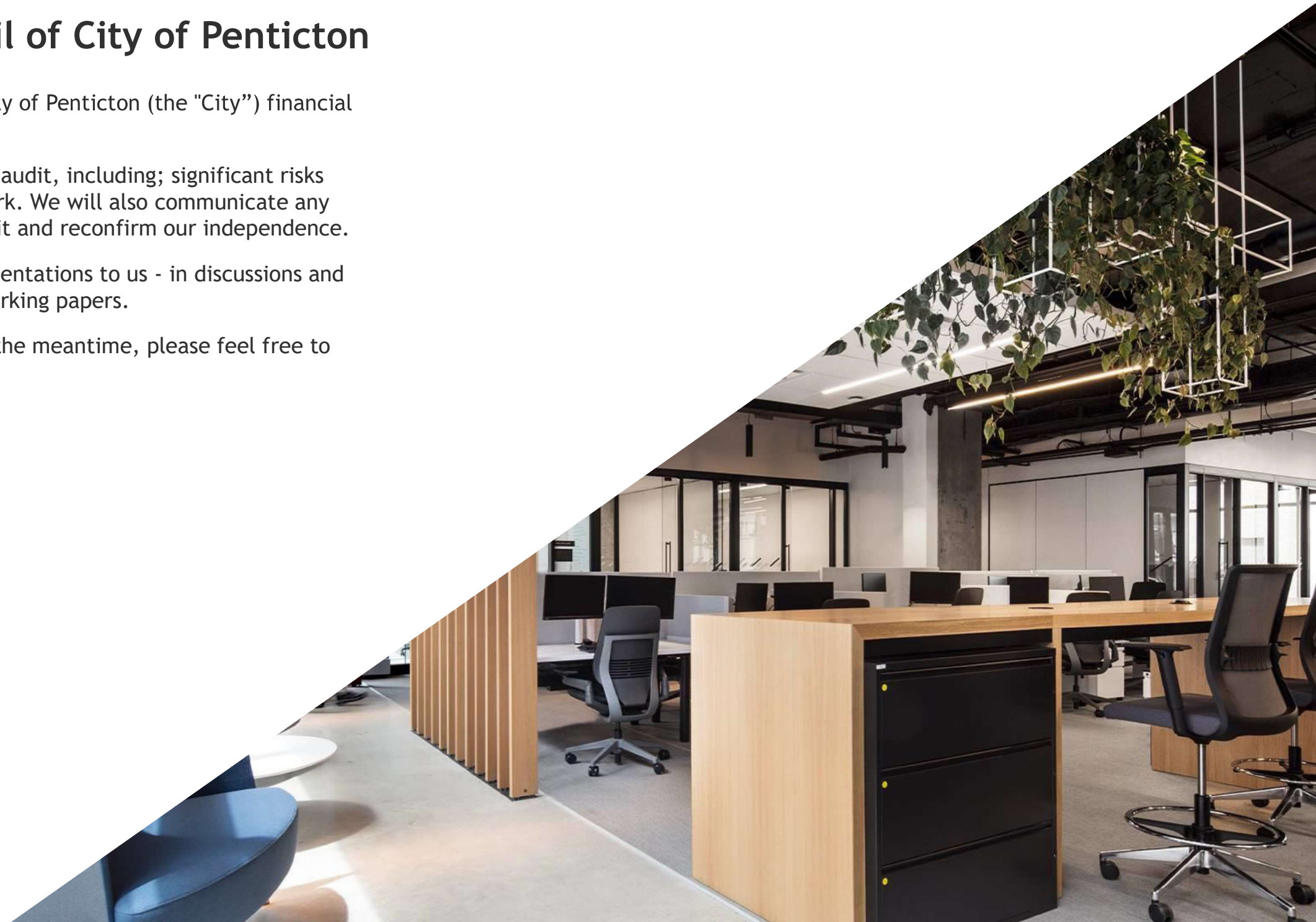


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Audit at a glance



Start date
October 2026



End date
April 2026



Materiality*
\$5,500,000



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***Materiality** in a financial audit means the size or nature of an error or omission that could influence decisions made by users of financial statements.

Notes

- Preliminary materiality was \$5,500,000 for all financial statement areas associated with tangible capital assets, including long-term debt, development cost charges and asset retirement obligations. Preliminary materiality was \$3,500,000 for all other financial statement areas. Final materiality remained unchanged from our preliminary assessment.
- We are not aware of any fraud affecting the City. If you have become aware of changes to processes or are aware of any instances of actual, suspected, or alleged fraud since our discussions held at planning, please let us know.
- We confirm that we are independent accountants with respect to the City, within the meaning of the Code of Professional Conduct of the Chartered Professional Accountants of British Columbia and the requirements of the Code of Ethics of the International Ethics Standards Board for Accountants (“IESBA”), (the “Relevant Ethical Requirements”).
- Since the date of our last communication on December 17, 2025, there have been no changes to relationships between the City and our Firm that may reasonably be thought to bear on independence.



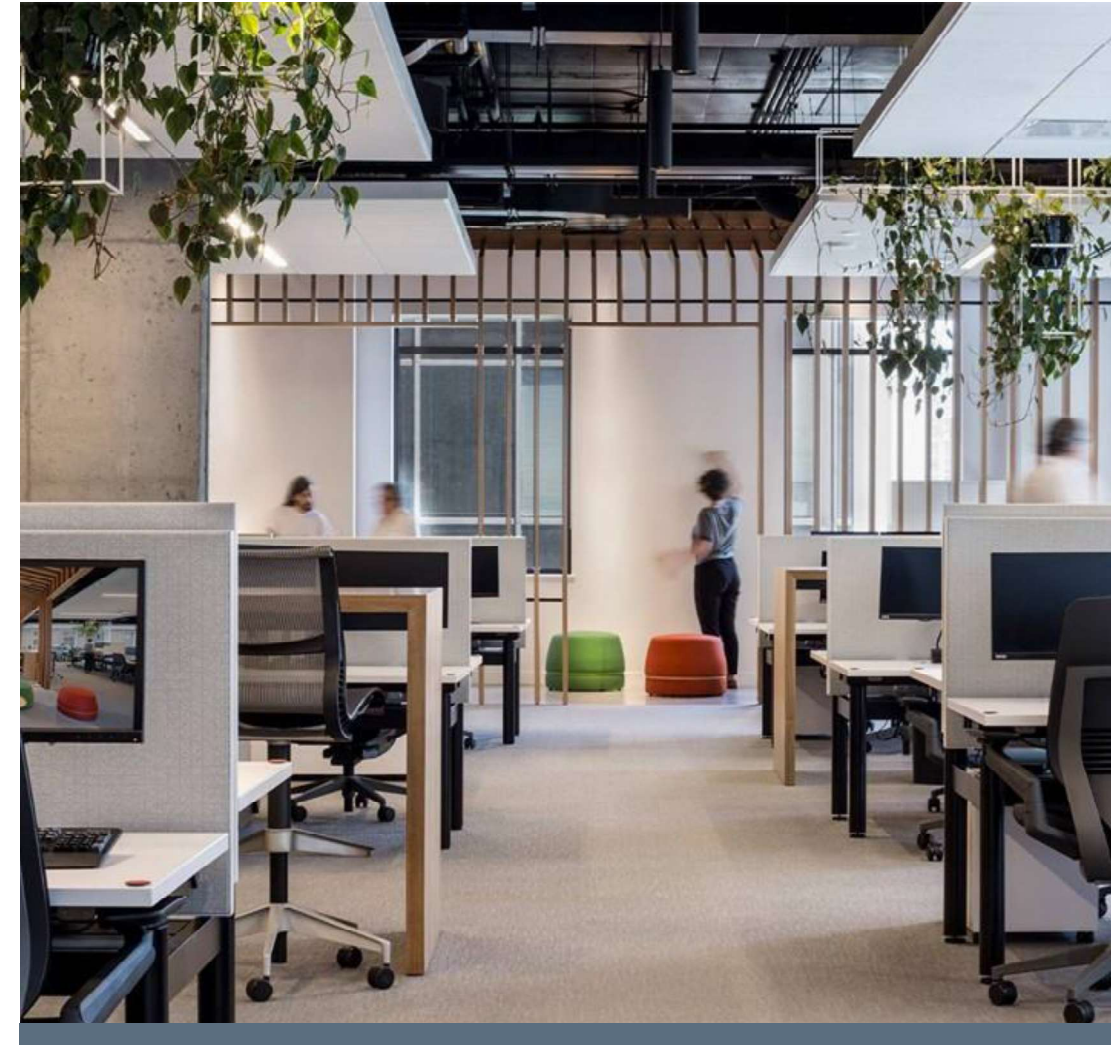
Status of the audit



We have substantially completed our audit of the year ended December 31, 2025 financial statements.

We conducted our audit in accordance with Canadian generally accepted auditing standards. The objective of our audit was to obtain reasonable, not absolute, assurance about whether the financial statements are free from material misstatement. See Appendix A for our final independent auditor’s report.

The scope of the work performed was substantially the same as that described in our Planning Communication to the Mayor and Members of Council dated December 17, 2025.



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Audit findings

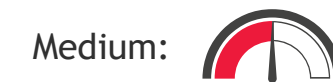
As part of our ongoing communications with you, we are required to have a discussion on our views about significant qualitative aspects of the City's accounting practices, including accounting policies, accounting estimates and financial statements disclosures. We look forward to exploring these topics in depth and answering your questions

A summary of the key discussion points are below:

Financial statement areas	Risks noted	Audit findings	Impact
Fraud risk due to improper revenue recognition	Per CAS 240.26, the auditor shall presume that there are risks of fraud in revenue recognition. Per CAS 240.A28, material misstatement due to fraudulent financial reporting relating to revenue recognition often results from an overstatement of revenues through or recording fictitious revenues. It may result also from an understatement of revenues.	BDO executed the planned procedures and found no instances of revenues recognized inaccurately.	
Fraud relating to management override of control	Per CAS 240.32 irrespective of our assessment of the risk of management override, audit procedures must be performed including review of specific JE's, accounting estimates and unusual transactions.	BDO executed the planned procedures and found no instances of management overriding the controls.	
Budget allocation	Risk that management may manage purchases to match budget. Municipalities may defer costs to a later period, accrue costs early to utilize unused budget amounts, or allocate costs to a different category.	BDO executive the planned procedures and found no instances of management overriding the purchases to match the budget.	
New vendors	Risk that new vendors are not legitimate - potential fraud risk.	BDO executed the planned procedures and found no instances of illegitimate vendors.	
Improper payments to council and senior officer expenses	Improper payments to senior officers and council members may occur.	BDO executed the planned procedures and found no instances of management making improper payments to council and senior officers.	



Impact indication



Internal control matters

During the audit, we performed the following procedures regarding the City’s internal control environment:

- Documented operating systems to assess the design and implementation of control activities that were relevant to the audit.
- Discussed and considered potential audit risks with management.

We considered the results of these procedures in determining the extent and nature of audit testing required.



The audit expresses an opinion on the City’s financial statements. As a result, it does not cover every aspect of internal controls—only those relevant to preparing the financial statements and designing appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

No control deficiencies were noted that, in our opinion, are of significant importance to discuss.

We are required to report to you in writing about any significant deficiencies in internal control that we have identified during the audit.

Category	Definition
Deficiency	<p>A deficiency in internal control exists when:</p> <ul style="list-style-type: none"> (a) A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis; or (b) A control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing.
Significant deficiency	<p>A significant deficiency in internal control is defined as a deficiency or a combination of deficiencies in internal control that, in the auditor’s professional judgment, is of sufficient importance to merit the attention of those charged with governance.</p>

Adjusted and unadjusted differences

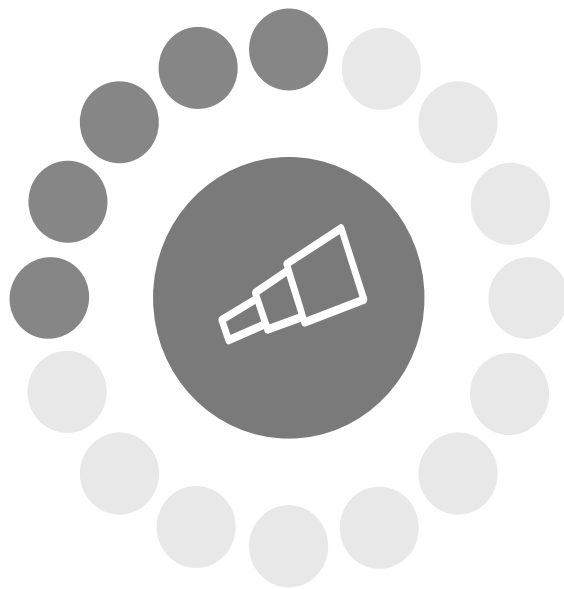
Summary of unadjusted differences

A summary of unadjusted differences have been provided to and approved by management during the course of our audit engagement. We are proposing no further changes.

Summary of adjusted differences

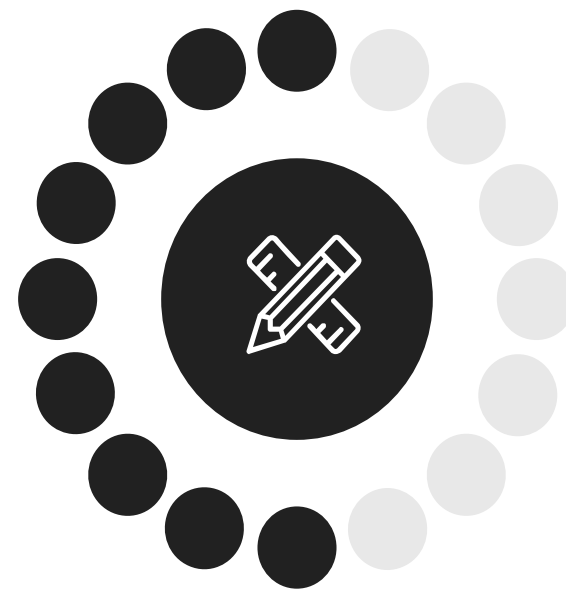
Other than differences identified and adjusted by management throughout the course, there were no other adjusted differences that we noted during the course of the audit.

How we audit financial statements: Our audit process



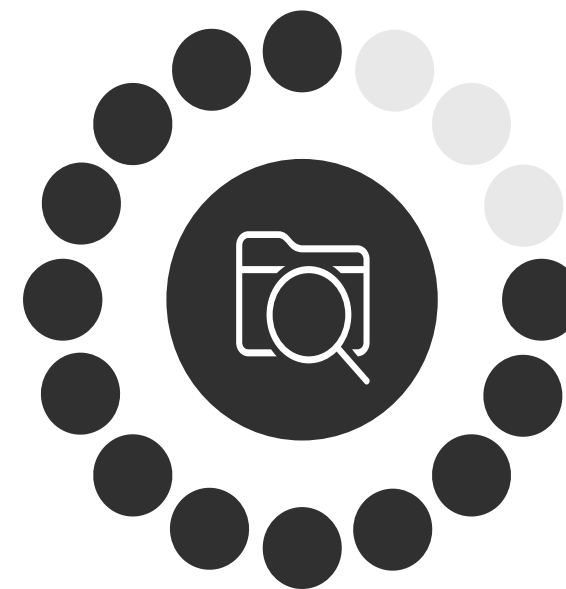
Scoping

Engage with our client, determine the materiality level, and define the audit scope



Planning

Focus on those areas of financial statements that contain potential material misstatements as a consequence of the risks you face;
Design an appropriate audit strategy to obtain sufficient assurance and enable us to report on the financial statements



Obtain evidence

Perform audit procedures while maintaining appropriate degree of professional skepticism, to conclude whether or not the financial statements are presented fairly



Completion

Evaluate whether we have enough evidence to conclude that the financial statements are free from material misstatement, and consider the effect of any potential misstatements found;
Communicate our opinion and details of matters on which we are required to communicate

How the firm’s system of quality management(SoQM) supports the consistent performance of quality audit engagements

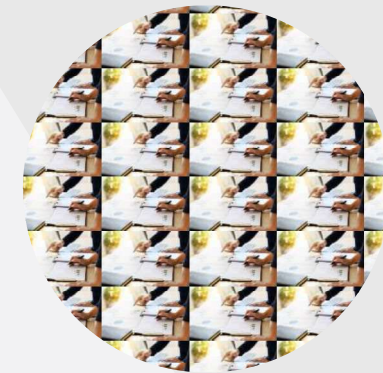
The firm is committed to maintaining high standards of audit quality that meet stakeholders’ expectations and serve the public interest. We foster a culture where audit quality is at the center of our strategy and priorities. All partners and staff are accountable for performing quality engagements and upholding professional ethics, values, and attitudes.

The firm invested significant time and resources to establish and operate a SoQM that complies with the requirements set out in Canadian Standard on Quality Management 1 - Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements (CSQM 1) as issued by the Auditing and Assurance Standards Board (AASB). The SoQM ensures the firm and its personnel meet professional standards, legal and regulatory requirements, and conduct engagements accordingly, with reports issued appropriately for the circumstances.

Taken together our system of quality management supports consistent performance of audit engagements by focusing on eight components that operate in an iterative and integrated manner. These include:

- 1 Firm risk assessment process
- 2 Governance and leadership
- 3 Relevant ethical requirements
- 4 Acceptance and continuance
- 5 Engagement performance
- 6 Resources
- 7 Information and communication
- 8 Monitoring and remediation process

Standard for Audit Quality

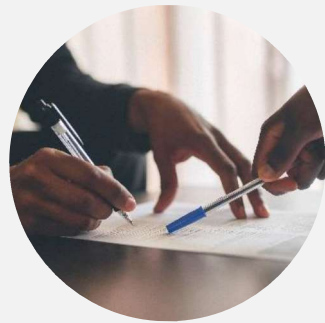


CSQM 1

The quality of an audit depends not only on the people conducting it—but also on the systems underpinning it. These new rules up the ante for your audit quality.

Recommended resources

Staying in the know with knowledge and perspective



Key changes to financial reporting

When the rules of reporting change, you may need to fine-tune how to present financial statements and govern the organization.

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The latest tax pointers

Corporate. Commodity. Transfer pricing. International tax. Government programs. Together they add up to immense differences on the organization's bottom line. Our tax collection keeps you current.

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Trending topics

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Four challenges facing Canadian municipalities

We identify growing financial pressures, aging infrastructure, workforce constraints, and rising service expectations as key challenges facing Canadian municipalities, underscoring the need to prioritize strong financial governance and proactive long-term planning to support sustainable service delivery.

[READ ARTICLE](#)

Section PS 1202 - Financial Statement Presentation

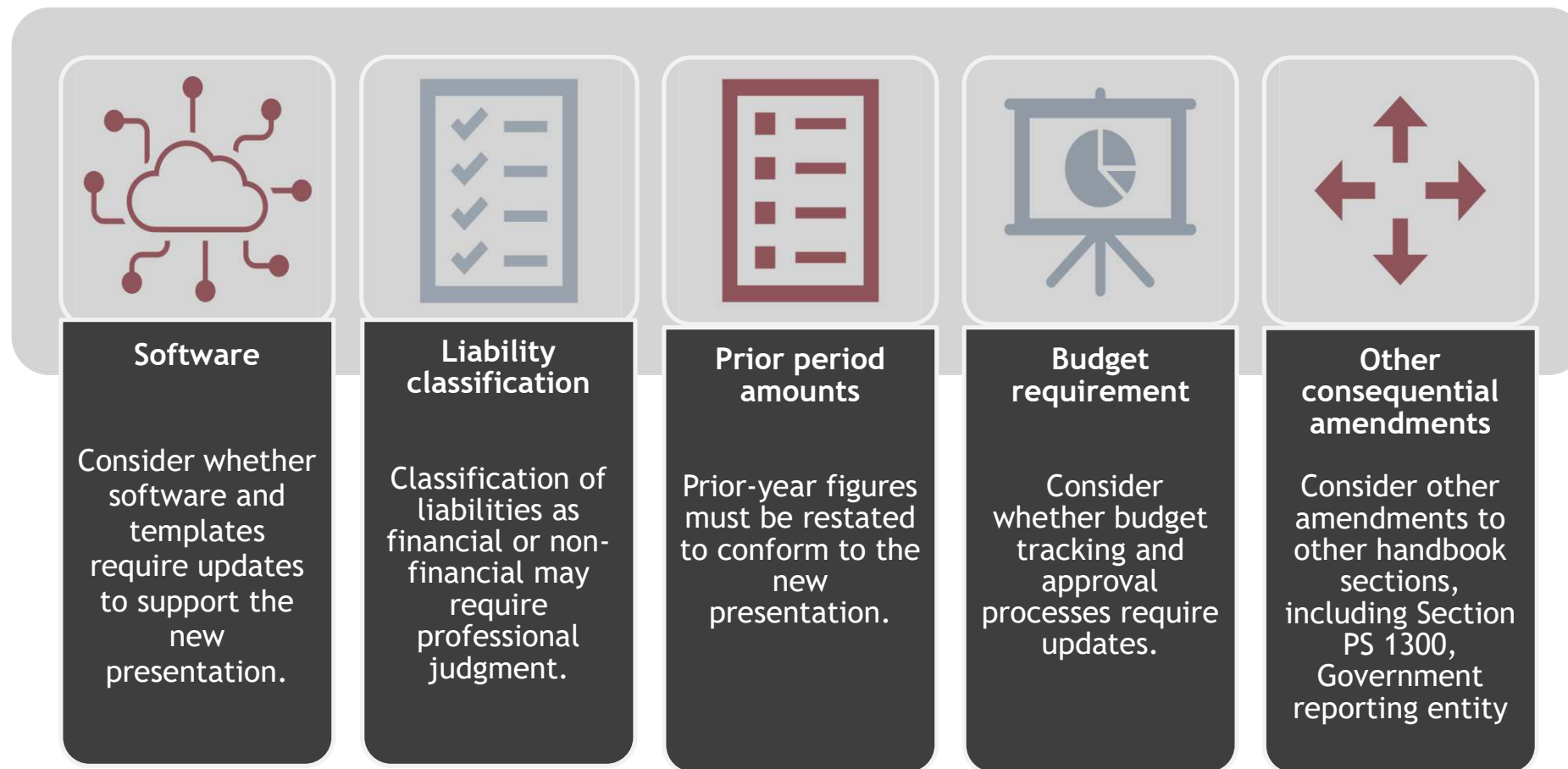
The Public Sector Accounting Board (PSAB) has introduced Section PS 1202 - Financial Statement Presentation, effective for fiscal years beginning on or after April 1, 2026. The new reporting model reshapes how public sector entities present and disclose financial information, adding new statements and refining existing ones to improve transparency and comparability. Entities should begin preparing now to ensure a smooth transition ahead of the effective date.

Key changes at a Glance

Statement of Financial Position	→	Significantly restructured
Statement of Net Financial Assets (Net Financial Liabilities)	→	New statement displaying revised calculation of net debt
Statement of Change in Net Financial Assets/Net Debt	→	Removed
Statement of Changes in Net Assets (Net Liabilities)	→	New statement showing reconciliation between opening and closing balances of each component of net assets
Statement of Cashflow	→	Restructured that financing activities separated from other items
Budget	→	New budget requirements



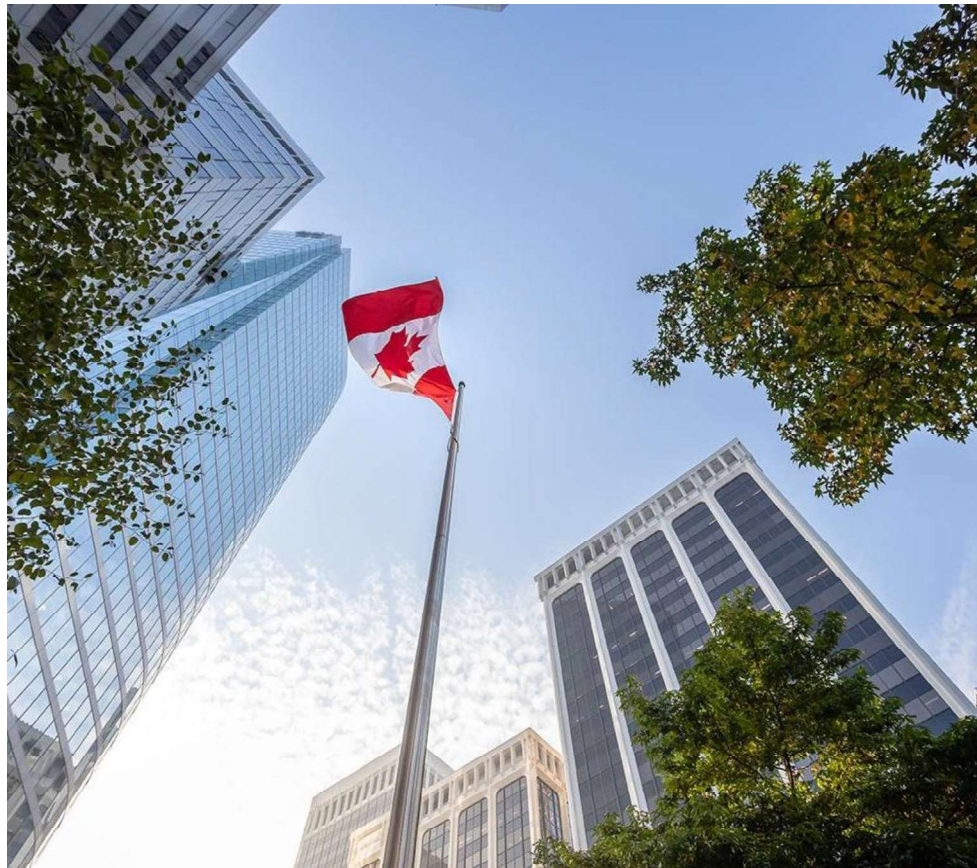
Section PS 1202 - Financial Statement Presentation - Key Considerations to Getting Ready



Action Checklist: What should you do

- Understand the impact: Review the new requirements to determine how your current financial statements and reporting packages will be affected.
- Assess policies and templates: Update financial statement formats, accounting policies, and internal templates as needed.
- Plan for software updates: Confirm that financial reporting tools can support the revised presentation and disclosure requirements.
- Train key personnel: Ensure finance and audit teams are informed and prepared for the changes.
- Engage stakeholders: Communicate anticipated impacts to councils, boards, and oversight bodies.
- Prepare early: Develop an implementation timeline to meet the April 1, 2026 effective date.

Spotlight on public sector



Industry insights to shape your business

At BDO, we help governments create efficient ways of working to achieve better outcomes for their citizens and public servants. From technology-based solutions to program development, advisory and audit, our team can guide you through critical strategic decisions to ensure you deliver on your vision, goals, and accountability expectations.

Public sector
Insights



Resources to
support your business

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Appendices

Appendices



Appendix A:
Independent auditor's report



Appendix B:
Representation Letter



Appendix A: Independent auditor's report



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Independent Auditor's Report

To the Mayor and Council of the Corporation of the City of Penticton

Opinion

We have audited the consolidated financial statements of the Corporation of the City of Penticton and its controlled entities (the "City"), which comprise the consolidated statement of financial position as at December 31, 2025, and the consolidated statement of operations and accumulated surplus, the consolidated statement of change in net financial assets and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the City as at December 31, 2025, and its consolidated results of operations, its consolidated change in net financial assets, and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the City in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Unaudited Information

We have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the unaudited schedules of the City's financial statements.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the City's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the City or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the City's financial reporting process.



Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the City's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the City to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the City as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Chartered Professional Accountants

Penticton, British Columbia
May 5, 2026

Appendix B: Representation letter

The Corporation of the City of Penticton
171 Main St
Penticton, British Columbia
V2A 5A9

May 5, 2026

BDO Canada LLP
Chartered Professional Accountants
1631 Dickson Avenue
Suite 400
Kelowna British Columbia
V1Y 0B5

This representation letter is provided in connection with your audit of the financial statements of The Corporation of the City of Penticton for the year ended December 31, 2025, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with Canadian Public Sector Accounting Standards.

We confirm that to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated September 4, 2025, for the preparation of the financial statements in accordance with Canadian Public Sector Accounting Standards; in particular, the financial statements are fairly presented in accordance therewith.

- The methods, significant assumptions, and data used in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement and/or disclosure that are reasonable in accordance with Canadian Public Sector Accounting Standards.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Canadian Public Sector Accounting Standards.
- All events subsequent to the date of the financial statements and for which Canadian Public Sector Accounting Standards require adjustment or disclosure have been adjusted or disclosed.
- The financial statements of the entity use appropriate accounting policies that have been properly disclosed and consistently applied.
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter.

Information Provided

- We have provided you with:
 - access to all information of which we are aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from us for the purpose of the audit; and
 - unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

- We are responsible for the design, implementation and maintenance of internal controls to prevent, detect and correct fraud and error, and have communicated to you all deficiencies in internal control of which we are aware.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

Fraud and Error

- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators, or others.

General Representations

- Where the value of any asset has been impaired, an appropriate provision has been made in the financial statements or has otherwise been disclosed to you.
- We have provided you with significant assumptions that in our opinion are reasonable and appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity when relevant to the use of fair value measurements or disclosures in the financial statements.
- The nature of all material uncertainties have been appropriately measured and disclosed in the financial statements, including all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the financial statements.
- There were no direct contingencies or provisions (including those associated with guarantees or indemnification provisions), unusual contractual obligations nor any substantial commitments, whether oral or written, other than in the ordinary course of business, which would materially affect the financial statements or financial position of the entity, except as disclosed in the financial statements.

Other Representations Where the Situation Exists

- We have informed you of all known actual or possible litigation and claims, whether or not they have been discussed with legal counsel. When applicable, these litigation and claims have been accounted for and disclosed in the financial statements.
- We will provide to you, when available and prior to issuance by the entity, the final version of the document(s) comprising the annual report.

Yours truly,

Signature

Position

Final Draft for Mayor and Council Approval

City of Penticton
Summary of Unadjusted Misstatements
December 31, 2025

Description of Misstatement	Identified Misstatements	Projections of Identified Misstatements	Estimates	Proposed Adjustments			
				Assets Dr(Cr)	Liabilities Dr(Cr)	Opening R/E Dr(Cr)	Income Dr(Cr)
Local Government Housing Initiative - immaterial total of funding not eligible for deferral.	281,804				281,804		(281,804)
MFA Debt Reserve Fund asset not presented on statement of financial position.	1,054,361			1,054,361		(904,350)	(150,011)
Likely Aggregate Misstatements Before Effect of Previous Year's Errors and Estimates	1,336,165	-	-	1,054,361	281,804	(904,350)	(431,815)
Effect of Previous Year's Errors				-	-	-	-
Likely Aggregate Misstatements				1,054,361	281,804	(904,350)	(431,815)

<p>Details of why no adjustment has been made to the financial statements for the above items:</p> <p>Per discussion with management for both areas, as amounts individually and in aggregate are not material to the audited financial statements, no further proposed changes are necessary.</p>
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