



Executive Governance Summary

City of New Prague

New Prague, Minnesota

For the year ended December 31, 2024



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March 24, 2025

Management, Honorable Mayor and City Council
City of New Prague, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of New Prague, Minnesota (the City), for the year ended December 31, 2024. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 26, 2024. Professional standards also require that we communicate the following information related to our audit.

Significant Audit Findings

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did identify one deficiency in internal control that we consider to be material weaknesses described in the following pages as item 2024-002. We also identified certain significant deficiencies as items 2024-001, and 2024-003.

2024-001**Segregation of Duties**

During our audit we reviewed internal control procedures over payroll, disbursements, cash receipts, utility billing and investments and found the City to have limited segregation of duties in these areas as noted below.

Internal Control Over Cash Receipts

Cause: The City does not have consistent oversight related to the golf course cash receipt activity.

Recommendation: We recommend the City review current controls and implement additional procedures to provide further oversight of the golf course.

Management Response:

The City is aware of the inconsistencies at the golf course and will review current procedures and implement new controls where possible.

2024-002**Material Audit Adjustments**

Condition: Adjustments were needed to allocate capital project activity for the 2025 street project.

Criteria: The financial statements are the responsibility of the City's management.

Cause: The financial statements required material audit adjustments to be reasonably stated.

Effect: This indicated that it would be likely that a misstatement may occur and not be detected by the City's system of internal control. The audit firm cannot serve as a compensating control over this deficiency.

Recommendation: We recommend that management review large capital projects and obtain project breakouts from the engineer on a regular basis.

Management response:

The City will review the adjustments necessary and try to eliminate these entries in the future.

2024-003**Online PERA enrollment**

Condition: Employees who were terminated were not terminated within the PERA website.

Criteria: Terminated employees are required to be terminated within the PERA system upon termination from the city.

Cause: It appears the city did not review terminated employees within the PERA system. Ultimately it is the City's responsibility to ensure they are terminated within the PERA system.

Effect: As a result the City did not terminate employees within the system, showing they are still getting PERA and could be subject to penalty.

Recommendation: We recommend that management review employees within the PERA system to ensure their status is accurate.

Management response:

The City will review the employees within the PERA system and adjust status as needed.



Compliance and Other Matters

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

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. The City changed accounting policies during the year ended December 31, 2024 related to the accounting and financial reporting for accounting changes and error corrections (GASB 100) and compensated absences (GASB 101). We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumption about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements include depreciation on capital assets, allocation of wage expenses, liability for the City's pension, and the liability for the City's other postemployment benefits (OPEB).

- Management's estimate of depreciation is based on estimated useful lives of the assets. Depreciation is calculated using the straight-line method.
- Allocations of gross wages and payroll benefits are approved by the City Council within the City's budget and are derived from each employee's estimated time to be spent serving in the respective function of the City. These allocations are also used in allocating accrued compensated absences payable.
- Management's estimate of future paid sick time usage is based on historical usage data.
- Management's estimate of its pension liability is based on several factors including, but not limited to, anticipated investment return rate, retirement age for active employees, life expectancy, salary increases and form of annuity payment upon retirement.
- Management's estimate of its OPEB liability is based on several factors including, but not limited to, anticipated retirement age for active employees, life expectancy, turnover, and healthcare cost trend rates.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements as a whole. The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.



Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We proposed several journal entries that we consider to be audit entries or corrections of management decisions of which the following we consider to be material audit adjustments:

- To adjust capital asset balances.

Disagreements with Management

For purposes of this letter professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 24, 2025.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Matters

We applied certain limited procedures to the required supplementary information (RSI) (Management's Discussion and Analysis, the Schedules of Employer's Share of the Net Pension Liability, the Schedule of Changes in Net Pension Liability (Asset) and Related Ratios, the Schedules of Employer's Contributions and the Schedule of Changes in the City's Total OPEB Liability and Related Ratios), which is information that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information (combining and individual fund financial statements and schedules), which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory or statistical sections, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on them.



Future Accounting Standard Changes

The following Governmental Accounting Standards Board (GASB) Statements have been issued and may have an impact on future City financial statements: ⁽¹⁾

GASB Statement No. 102 – *Certain Risk Disclosures*

Effective: 12/31/2025

GASB Statement No. 103 – *Financial Reporting Model Improvements*

Effective: 12/31/2026

GASB Statement No. 104 – *Disclosure of Certain Capital Assets*

Effective: 12/31/2026

Further information on upcoming [GASB pronouncements](#).

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Restriction on Use

This purpose of this communication is solely for the information and use of the City Council and management of the City and is not intended to be, and should not be used by anyone other than those specified parties.

Our audit would not necessarily disclose all weaknesses in the system because it was based on selected tests of the accounting records and related data. The comments and recommendations in the report are purely constructive in nature, and should be read in this context.

If you have any questions or wish to discuss any of the items contained in this letter, please feel free to contact us at your convenience. We wish to thank you for the continued opportunity to be of service and for the courtesy and cooperation extended to us by your staff.



Abdo
Mankato, Minnesota
March 24, 2025

