



KPMG LLP  
777 East Wisconsin Avenue  
Milwaukee, WI 53202

July 29, 2003

To the Honorable Members  
of the Common Council  
of the City of Milwaukee

Ladies and Gentlemen:

We have audited the basic financial statements of the City of Milwaukee (the City) as of and for the year ended December 31, 2002, and have issued our report thereon dated July 29, 2003. Under generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States, we are providing you with the attached information related to the conduct of our audit.

#### **Our Responsibility Under Generally Accepted Auditing Standards**

We have a responsibility to conduct our audits in accordance with auditing standards generally accepted in the United States of America. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected.

In addition, in planning and performing our audit, we consider internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control.

#### **Significant Accounting Policies and Alternative Treatments**

The significant accounting policies used by the City are described in note 1 to the City's financial statements. As described in note 1, in order to comply with the requirements of accounting principles generally accepted in the United States of America, the City adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB No. 37, *Basic Financial Statements and Management's Discussions and Analysis for State and Local Governments: Omnibus*. These statements establish new financial reporting requirements and significantly change the format and content of the City's financial statements. They require new information and restructure much of the information that the City has presented in the past.

Effective January 1, 2002, the City also adopted the provisions of GASB No. 38, *Certain Financial Statement Note Disclosures*. This Statement modifies, establishes, and rescinds certain financial statement note disclosures.





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Effective January 1, 2002, the City also adopted the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. This Interpretation clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in governmental funds. There was no significant impact on the City's financial statements as a result of adopting this Interpretation.

### **Management Judgments and Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions 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 markedly from management's current judgments. The significant accounting estimates in the financial statements as of December 31, 2002 consist of:

- Allowance for uncollectible taxes;
- Accrual for compensated absences; and
- Accrual for self-insurance claims.

We evaluated these estimates in accordance with general accepted auditing standards. We have concluded that the estimates are reasonable when considered in relation to the financial statements taken as whole.

### **Audit Adjustments and Uncorrected Misstatements**

No corrections to the financial statements were proposed that could, in our judgment, either individually or in the aggregate, have a significant effect on the City's financial reporting process.

### **Disagreements with Management**

There were no disagreements with management on financial accounting and reporting matters that, if not satisfactorily resolved, would have caused a modification of our report on the City's financial statements.

### **Consultation with Other Accountants**

To the best of our knowledge, management has not consulted with or obtained opinions, written or oral, from other independent accountants during the past year that were subject to the requirements of Statement of Auditing Standards No. 50, *Reports on the Application of Accounting Principles*.

### **Major Issues Discussed with Management Prior to Retention**

We generally discuss a variety of matters, including the application of certain accounting principles and auditing standards, with management prior to the annual retention as the City's auditors. The results of these discussions were not a condition to our retention.

### **Difficulties Encountered in Performing the Audit**

We encountered no serious difficulties in dealing with management in performing our audit.



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**Significant Written Communications between the Auditor and Management**

In accordance with the communication requirements of Statement of Auditing Standards No. 61, attached to our letter please find copies of the following material written communications between management and us:

- Management Letter
- Managements Representation Letter

This report is intended solely for the information and use of the Common Council and management and is not intended to be and should not be used by anyone other than this these specified parties.

Very truly yours,

KPMG LLP



KPMG LLP  
777 East Wisconsin Avenue  
Milwaukee, WI 53202

July 29, 2003

**CONFIDENTIAL**

The Honorable Members  
of the Common Council  
of the City of Milwaukee

Dear Council Members:

We have audited the basic financial statements of the City of Milwaukee (a municipality incorporated under the laws of the State of Wisconsin) (the City) as of and for the year ended December 31, 2002 and have issued our report thereon dated July 29, 2003. In planning and performing our audit of the financial statements of the City, we considered internal control in order to determine our audit procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

During our audit, we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the City's Comptroller, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

**Operating Leases**

***Comment:***

We noted the City's listing of operating leases was not complete. Generally accepted accounting principles (GAAP) require disclosure of future minimum rental payments to be made under noncancelable operating leases (City as lessee), future minimum rental payments to be received under noncancelable subleases (City as sublessor), and future minimum rental payments to be received under noncancelable operating leases (City as lessor). GAAP also requires the disclosure of total rental expense for each period for which an income statement is presented. The lack of a listing of all operating leases prevents the City from assessing the materiality of this disclosure information.

***Recommendation:***

We recommend the City develop procedures to ensure that all leases are submitted to the Comptroller's office. We also recommend the Comptroller's office maintain a comprehensive listing of all leases and the related future payments.





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## **Capital Assets**

### ***Comment:***

During our audit of the City's capital assets we noted the following:

- Costs related to closed construction projects remained in construction in progress balances while also being added to other capital asset balances when the projects were closed. This resulted in double capitalization of certain project costs.
- The City does not have a formal method for tracking construction in progress balances in order to add current year costs or transfer costs of closed projects to capital asset balances.
- The City does not have an accurate record of the original or historical cost of City owned land. Additionally, the City does not have a complete listing of land parcels owned by the City.
- The City was unable to provide a rollforward of capital assets balances which included current year additions and retirements with supporting documentation.
- Several machinery and equipment items were included on both the City's capital assets listing and the Department of Public Works' listing, causing items to be double counted.

Sound financial administration in safeguarding the City's capital assets is an important exercise of stewardship responsibilities. The value of the City's assets is substantial and the safeguarding of these assets is the fiduciary responsibility of management. Accurate financial records regarding the City's capital assets are necessary to make informed judgments concerning the costs of providing services to residents. In addition, sound capital asset records provide useful information for evaluating the adequacy of insurance coverage and for planning future acquisitions or dispositions.

### ***Recommendation:***

We recommend the following procedures be implemented by the City to improve the record keeping of the City's capital assets:

- A complete physical inventory of capital assets be completed and appropriate historical cost information be researched and/or developed and documented in order to properly value all categories of capital assets.
- A complete schedule of capital asset and construction in progress additions and retirements by category should be maintained based upon historical costs and transfers made throughout the year. Maintenance of this schedule on a current basis will allow for timely and accurate year end reporting.
- The general ledger and detail supporting records should be routinely updated to reflect all capital asset transactions. Furthermore, the assets should be periodically inspected and compared against the records, preferably at fiscal year end. This will provide for adequate safeguarding of assets, control over capital expenditures/expenses, and a basis for determining insurance needs of the City.



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### **New Accounting Pronouncement**

***Comment:***

In March 2003, the Governmental Accounting Standards Board (GASB) issued Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3*. The City is required to implement the provisions of this Statement for the year ended December 31, 2005. Earlier implementation is encouraged by GASB.

This Statement requires certain disclosures in the financial statements for deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. This Statement also requires disclosure of deposit and investment policies related to the risks.

***Recommendation:***

We recommend the City review the requirements of this Statement and consider implementing for the year ending December 31, 2004.

\* \* \* \* \*

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore, may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the City's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of the Common Council, management, and others within the City.

Very truly yours,

KPMG LLP



Office of the Comptroller

July 31, 2003

W. Martin Morics, C.P.A.  
Comptroller

John M. Egan, C.P.A.  
Deputy Comptroller

Michael J. Daun  
Special Deputy Comptroller

Anita W. Paretti, C.P.A.  
Special Deputy Comptroller

KPMG LLP  
777 East Wisconsin Avenue, Suite 3100  
Milwaukee, WI 53202

Ladies and Gentlemen:

We are providing this letter in connection with your audit of the basic financial statements of the City of Milwaukee, Wisconsin, as of and for the year ended December 31, 2002. We understand that your audit was conducted for the purpose of expressing opinions as to whether the basic financial statements present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Milwaukee, Wisconsin, and the respective changes in financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation in the basic financial statements of financial position, changes in financial position, and cash flows in conformity with accounting principles generally accepted in the United States of America. We are also responsible for establishing and maintaining effective internal control over financial reporting.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit:

1. The basic financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. We have made available to you:
  - a. All financial records and related data.
  - b. All minutes of the meetings of (legislative body, finance board, appropriate committees), or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. Except as disclosed to you in writing, there have been no:

- a. Communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
  - b. Violations or possible violations of laws or regulations, the effects of which should be considered for disclosure in the basic financial statements or as a basis for recording a loss contingency.
  - c. False statements affecting the City's (consolidated) financial statements made to you, the City's internal auditors, or other auditors who have audited entities under our control upon whose work you may be relying in connection with your audit.
4. There are no significant deficiencies in the design or operation of internal controls which could adversely affect the City's ability to record, process, summarize and report financial data, and we have identified no material weaknesses in internal controls. We interpret "significant deficiencies in the design or operation of internal controls" to be consistent with the concept of a "reportable condition," defined under standards established by the American Institute of Certified Public Accountants. Such standards define a "reportable condition" as a significant deficiency in the design or operation of internal control that could adversely affect the entity's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. We understand that the term "material weakness in internal control" is a reportable condition for which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that could be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
5. There are no:
- a. Unasserted claims or assessments that our lawyer(s) has (have) advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards (SFAS) No. 5, *Accounting for Contingencies*.
  - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by SFAS No. 5.
  - c. Material transactions, for example, grants or encumbrances, that have not been properly recorded in the accounting records underlying the basic financial statements.
  - d. Events that have occurred subsequent to the date of the statement of net assets and through the date of this letter that would require adjustments to or disclosure in the basic financial statements.
6. We believe that the effects of the uncorrected financial statement misstatements summarized in the accompanying schedule are immaterial, both individually and in the aggregate, to the financial statements for each opinion unit.
7. The City has no:
- a. Commitments for the purchase or sale of services or assets at prices involving material probable loss.
  - b. Material amounts of obsolete, damaged, or unusable items included in the inventories at greater than salvage values.



- c. Loss to be sustained as a result of other-than-temporary declines in the fair value of investments.
8. The City has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
9. Capital assets, including infrastructure assets, are properly capitalized, reported and, if applicable, depreciated. There are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
10. Deposits and investment securities are properly classified and reported.
11. The City is responsible for the identification of and compliance with all aspects of laws, regulations, contracts, or grants that could have a material effect on the basic financial statement amounts in the event of noncompliance including legal and contractual provisions for reporting specific activities in separate funds and has disclosed those aspects of laws, regulations, contracts, or grants to you.
12. The City has complied, in all material respects, with applicable laws, regulations, contracts and grants that could have a material effect on the basic financial statements in the event of noncompliance.
13. The following have been properly recorded or disclosed in the basic financial statements:
  - a. Related party (such as key administrative, financial, and legislative personnel or businesses they represent or have an interest in) transactions including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments and amounts receivable from or payable to related parties, including revenues, expenditures, loans, transfers, leasing arrangements, and guarantees. We understand that the term "related party" refers to affiliates of the City; entities for which investments are accounted for by the equity method by the City; trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; City management; members of the immediate families of City management; and other parties with which the enterprise may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. Another party also is a related party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.
  - b. Guarantees, whether written or oral, under which the City is contingently liable.
  - c. Arrangements with financial institutions involving compensating balances, or other arrangements involving restrictions on cash balances and lines of credit or similar arrangements.
  - d. Agreements to repurchase assets previously sold, including sales with recourse.
  - e. Changes in accounting principle affecting consistency.

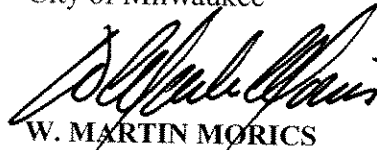
- f. The existence of and transactions with joint ventures and other related organizations.
14. The City has identified and properly accounted for all nonexchange transactions.
15. The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the basic financial statements:
- a. Extent, nature, and terms of financial instruments with off-balance-sheet risk;
  - b. The amount of credit risk of financial instruments with off-balance-sheet credit risk and information about the collateral supporting such financial instruments; and
  - c. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.
16. The City's basic financial statements include all entities that are component units of the City as well as joint ventures with an equity interest and the component units have been properly presented as either blended or discrete. The basic financial statements disclose all other joint ventures and other related organizations.
17. The basic financial statements properly classify all funds and activities.
18. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
19. The City has complied with all tax and debt limits and with debt related covenants.
20. The City has presented all required supplementary information. This information has been measured and prepared within prescribed guidelines.
21. The City has complied with all applicable laws and regulations in adopting, approving and amending budgets.
22. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud. We understand that the term "fraud" includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets. Misstatements arising from fraudulent financial reporting are intentional misstatements, or omissions of amounts or disclosures in financial statements to deceive financial statement users. Misstatements arising from misappropriation of assets involve the theft of an entity's assets where the effect of the theft causes the (consolidated) financial statements not to be presented in conformity with accounting principles generally accepted in the United States of America.
23. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
- a. Management,
  - b. Employees who have significant roles in internal control, or
  - c. Others where the fraud could have a material effect on the financial statements.
24. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity

received in communications from employees, former employees, analysts, regulators, short sellers, or others.

25. We have received opinions of counsel upon each issuance of tax-exempt bonds that the interest on such bonds is exempt from federal income taxes under the Internal Revenue Code of 1986, as amended. There have been no changes in the use of property financed with the proceeds of tax-exempt bonds, or any other occurrences, subsequent to the issuance of such opinions, that would jeopardize the tax-exempt status of the bonds. Provision has been made, where material, for the amount of any required arbitrage rebate.
26. Receivables reported in the basic financial statements represent valid claims arising on or before the balance-sheet date and appropriate provisions for uncollectible receivables have been properly identified and recorded.
27. The City is responsible for determining the fair value of certain investments as required by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The amounts reported represent the City's best estimate of fair value of investments required to be reported under the Statement. The City also has disclosed the methods and significant assumptions used to estimate the fair value of its investments.
28. All funds that meet the quantitative criteria in GASB Statement No. 34 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
29. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
30. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
31. Interfund, internal and intra-entity activity and balances have been appropriately classified and reported.
32. Special and extraordinary items are appropriately classified and reported.
33. We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.
34. Provision has been made for any material loss that is probable from environmental remediation liabilities associated with various properties throughout the City. We believe that such estimate is reasonable based on available information and that the liabilities and related loss contingencies and the expected outcome of uncertainties have been adequately disclosed in the City's basic financial statements.
35. KPMG assisted management in drafting the financial statements and notes. In accordance with *Government Auditing Standards*, we confirm that we accept responsibility for the financial statements and notes and that we are in a position to make informed judgments about them. We also confirm that we
  - a. Designated a qualified management-level individual to be responsible and accountable for overseeing the drafting of the financial statements and notes.

- b. Established and monitored the performance of the drafting of the financial statements and notes to ensure it meets our objectives.
- c. Made all decisions that involve management functions and accept full responsibility for such decisions.
- d. Evaluated the adequacy of the financial statements and notes.

Very truly yours,  
City of Milwaukee



W. MARTIN MORICS  
Comptroller

WMM:BL:

CITY OF MILWAUKEE											
Summary of Proposed Audit Differences											
12/31/02											
					/--Balance Sheet--/			/--Income Statement--/			
AD No.	Fund Type	Fund	Account Titles	W/P Ref	Known Dr. (Cr.)	Most Likely Dr. (Cr.)	Total Dr. (Cr.)	Known Dr. (Cr.)	Most Likely Dr. (Cr.)	Total Dr. (Cr.)	Disposition
							-			-	
1	GF		Utility Expenditures	G-12			-	328,606		328,606	
	GF		Accounts Payable	G-12	(328,606)		(328,606)			-	
	CP	TID	Outlay	G-12			-	447,141		447,141	
	CP	TID	Accounts Payable	G-12	(447,141)		(447,141)			-	
			<i>To record additional accounts payable found during the search for unrecorded accounts payable. (We energies and CW Purpero)</i>								
<b>Total</b>					<b>(775,747)</b>	<b>-</b>	<b>(775,747)</b>	<b>775,747</b>	<b>-</b>	<b>775,747</b>	