



**KPMG LLP**  
Suite 1500  
777 East Wisconsin Avenue  
Milwaukee, WI 53202-5337

July 30, 2013

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

Ladies and Gentlemen:

We have audited the basic financial statements of the City of Milwaukee, Wisconsin (the City) as of December 31, 2012 and have issued our report thereon under the date of July 30, 2013. Under our professional standards, we are providing you with the accompanying information related to the conduct of our audit.

#### **Our Responsibility under Professional Standards**

We are responsible for forming and expressing opinions about whether the basic financial statements, which have been prepared by management with the oversight of the Common Council, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We have a responsibility to perform our audit of the basic financial statements in accordance with professional standards. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, 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. Our audit does not relieve management or the Common Council of their responsibilities.

In addition, in planning and performing our audit of the financial statements, we considered 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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control. However, during the course of our audit, we identified a certain deficiency in internal control that we consider to be a significant deficiency. Our required communications to you in writing, under professional standards, of the significant deficiency in internal control identified during our audit was provided to you under separate cover.

We also have a responsibility to communicate significant matters related to the financial statement audit that are, in our professional judgment, relevant to the responsibilities of the Common Council in overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate to you.



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### **Other Information in Documents Containing Audited Financial Statements**

Our responsibility for other information in documents containing the City's basic financial statements and our auditors' report thereon does not extend beyond the financial information identified in our auditors' report, and we have no obligation to perform any procedures to corroborate other information contained in these documents. We have, however, read the other information included in the City's comprehensive annual financial report, and no matters came to our attention that cause us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the basic financial statements.

### **Accounting Practices and Alternative Treatments**

#### *Significant Accounting Policies*

The significant accounting policies used by the City are described in note 1 to the basic financial statements. As described in note 1(w), the City early adopted GASB Statement No. 61, *The Financial Reporting Entity Omnibus*.

#### *Unusual Transactions*

We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

#### *Qualitative Aspects of Accounting Practices*

We have discussed with the Common Council and management our judgments about the quality, not just the acceptability, of the City's accounting principles as applied in its financial reporting. The discussions generally included such matters as the consistency of the City's accounting policies and their application, and the understandability and completeness of the City's basic statements, which include related disclosures.

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

The preparation of the basic financial statements requires management of the City to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the period.

Management's estimate of the allowance for uncollectible property taxes is based on an analysis of delinquent property taxes. We evaluated management's analysis of the delinquent property taxes and the estimate of the allowance for uncollectible property taxes, including possible management bias in developing the estimate, and determined that it was reasonable in relation to the basic financial statements.



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Management's estimate of the allowance for doubtful accounts is based on an analysis of past-due accounts to arrive at an overall assessment of whether past-due accounts will be collected. We evaluated management's analysis of the allowance for doubtful accounts and determined that it was reasonable in relation to the basic financial statements.

Management's estimate of the claims and judgments liability includes general liability insurance, workers' compensation insurance, unemployment insurance, health insurance, and pollution remediation liabilities. Management's estimate of each liability can be based upon a variety of factors, which may include historical payouts, evaluation of the facts and circumstances of each claim, and actual payouts subsequent to year-end. We evaluated the key factors and assumptions used to develop management's estimates and determined that they were reasonable in relation to the basic financial statements.

Management's estimate of other postemployment benefits liability is based on a variety of important actuarial assumptions related to participant mortality, interest rates, historical experience, as well as the provisions of the related benefit programs. We evaluated the key factors and assumptions used to develop management's estimates and determined that it is reasonable in relation to the basic financial statements.

### **Uncorrected and Corrected Misstatements**

#### *Uncorrected Misstatements*

In connection with our audit of the City's basic financial statements, we have discussed with management certain uncorrected and corrected financial statement misstatements in the City's books and records as of and for the year ended December 31, 2012. We have reported such misstatements to management on a Summary of Audit Differences and have received written representations from management that management believes that the effects of the uncorrected financial statement misstatements are immaterial, both individually and in the aggregate, to the basic financial statements. Attached is a copy of the summary that has been provided to, and discussed with, management.

#### *Corrected Misstatements*

In addition, during the course of our audit, we identified and discussed with management a material financial statement misstatement that was corrected by the City. Specifically, we proposed a correction relating to in-transit cash for the school operations fund. Attached is a copy of the adjustment that has been discussed with management and corrected by the City.

### **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 auditors' report on the City's basic financial statements.



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The City of Milwaukee  
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### **Management's 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 year ended December 31, 2012, other than the opinions obtained related to the component units.

### **Significant Issues Discussed, or Subject to Correspondence, with Management**

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

We generally discuss a variety of matters with management each year prior to our retention by the Common Council as the City's auditors. These discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention as the City's auditors.

#### *Material Written Communications*

Attached to this letter please find copies of the following material written communications between management and us:

1. Engagement letter
2. Management representation letter

### **Significant Difficulties Encountered during the Audit**

In order to enable us to complete our audit, management must complete its closing schedule on a timely basis, prepare audit-related reports, answer questions, and provide documentation where required. Although we received the draft comprehensive annual financial report later than what was established in the initial audit timeline during planning, City personnel accomplished all of these tasks and we encountered no significant difficulties in dealing with management in performing our audit.

\* \* \* \* \*

This letter to the Common Council 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 these specified parties.

Very truly yours,

**KPMG LLP**



**KPMG LLP**  
200 East Randolph Drive  
Chicago, IL 60601-6436

Telephone +1 312 665 1000  
Fax +1 312 665 6000  
Internet www.us.kpmg.com

November 2, 2012

The City of Milwaukee  
200 East Wells Street  
Room 404, City Hall  
Milwaukee, Wisconsin 53202

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CONFIDENTIAL

COPY

Attention: Mr. Martin Matson, *Comptroller*

This letter (the Engagement Letter) confirms our understanding of our engagement to provide professional services to the City of Milwaukee, Wisconsin (the City).

**Objectives and Limitations of Services**

***Financial Statement Audit Services***

We will issue a written report upon our audit of the City's financial statements as set forth in Appendix I.

We have the responsibility to conduct and will conduct the audit of the financial statements in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, with the objective of expressing an opinion as to whether the presentation of the financial statements that have been prepared by management with the oversight of those charged with governance, conforms with U.S. generally accepted accounting principles.

In conducting the audit, we will perform tests of the accounting records and such other procedures, as we consider necessary in the circumstances, to provide a reasonable basis for our opinion on the financial statements. We also will assess the accounting principles used and significant estimates made by management, and evaluate the overall financial statement presentation.

Our audit of the financial statements is planned and performed to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Therefore, there is a risk that material errors, fraud (including fraud that may be an illegal act), and other illegal acts may exist and not be detected by an audit of financial statements performed in accordance with the auditing standards generally accepted in the United States of America. Also, an audit is not designed to detect matters that are immaterial to the financial statements, and because the determination of abuse is subjective, *Government Auditing Standards* does not expect auditors to provide reasonable assurance of detecting abuse.



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We will also perform certain limited procedures to the required supplementary information as required by auditing standards generally accepted in the United States of America. However, we will not express an opinion or provide any assurance on the information. Our report relating to the financial statements will include our consideration of required supplementary information.

Our report will be addressed to the Common Council of the City. We cannot provide assurance that an unqualified opinion will be rendered. Circumstances may arise in which it is necessary for us to modify our report or withdraw from the engagement.

While our report may be sent to the City electronically for your convenience, only the hard copy report is to be relied upon as our work product.

***Internal Control over Financial Reporting and Compliance and Other Matters***

In planning and performing our audit of the financial statements, we will consider the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements and not to provide an opinion on the effectiveness of the City's internal control over financial reporting. In accordance with *Government Auditing Standards*, we are required to communicate that the limited purpose of our consideration of internal control may not meet the needs of some users who require additional information about internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, violations of which could have a direct and material effect on the financial statements. However, our objective is not to provide an opinion on compliance with such provisions.

In accordance with *Government Auditing Standards*, we will prepare a written report, *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* (GAGAS report), on our consideration of internal control over financial reporting and tests of compliance made as part of our audit of the financial statements. While the objective of our audit of the financial statements is not to report on the City's internal control over financial reporting and we are not obligated to search for material weaknesses or significant deficiencies as part of our audit of the financial statements, this report will include any material weaknesses and significant deficiencies to the extent they come to our attention. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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. This report will also include illegal acts and fraud, unless clearly inconsequential, and material violations of provisions of contracts and grant agreements and abuse. It will indicate that it is intended solely for the information and use of the Common Council and management of the City and federal awarding

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agencies and pass-through entities and that it is not intended to be and should not be used by anyone other than these specified parties.

In accordance with *Government Auditing Standards*, we will also issue a management letter to communicate violations of provisions of contracts or grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential that come to our attention.

In accordance with *Government Auditing Standards*, we are also required in certain circumstances to report fraud or illegal acts directly to parties outside the auditee.

#### ***OMB Circular A-133 Audit Services***

We will also perform audit procedures with respect to the City's major federal programs in accordance with the provisions of OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133). OMB Circular A-133 includes specific audit requirements, mainly in the areas of internal control and compliance with laws, regulations, contracts, and grant agreements that exceed those required by *Government Auditing Standards*.

As part of our audit procedures performed in accordance with the provisions of OMB Circular A-133, we will perform tests to evaluate the effectiveness of the design and operation of internal controls that we consider relevant to preventing or detecting material noncompliance with laws, regulations, contracts, and grant agreements applicable to each of the City's major programs. The tests of internal control performed in accordance with OMB Circular A-133 are less in scope than would be necessary to render an opinion on internal control.

Compliance with laws, regulations, contracts, and grant agreements applicable to federal programs is the responsibility of management, including:

- Identifying the City's government programs and understanding and complying with the compliance requirements.
- Establishing and maintaining effective controls that provide reasonable assurance that the City administers government programs in compliance with the compliance requirements.
- Evaluating and monitoring the City's compliance with the compliance requirements.
- Taking corrective action when instances of noncompliance are identified, including corrective action on audit findings of the compliance audit.

We will perform tests of the City's compliance with certain provisions of laws, regulations, contracts, and grant agreements we determine to be necessary based on the *OMB Circular A-133 Compliance Supplement (Compliance Supplement)*. The procedures outlined in the *Compliance Supplement* are those suggested by each federal agency and do not cover all areas of regulations governing each program. Program reviews by federal agencies may identify additional instances of noncompliance.

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As required by OMB Circular A-133, we will prepare a written report which provides our opinion on the schedule of expenditures of federal awards in relation to the City's financial statements. In addition, we will prepare a written report (A-133 report) which 1) provides our opinion on compliance with laws, regulations, contracts, and grant agreements that could have a direct and material effect on a major federal program and 2) communicates our consideration of internal control over major federal programs. The A-133 report will indicate that it is intended solely for the information and use of the Common Council and management of the City and federal awarding agencies and pass-through entities and that it is not intended to be and should not be used by anyone other than these specified parties.

#### ***Offering Document***

Should the City wish to include or incorporate by reference these financial statements and our audit report thereon into an offering of exempt securities, prior to our consenting to include or incorporate by reference our report on such financial statements, we would consider our consent to the inclusion of our report and the terms thereof at that time. We will be required to perform procedures as required by the standards of the American Institute of Certified Public Accountants, including, but not limited to, reading other information incorporated by reference in the offering document and performing subsequent event procedures. Our reading of the other information included or incorporated by reference in the offering document will consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. However, we will not perform procedures to corroborate such other information (including forward-looking statements). The specific terms of our future services with respect to future offering documents will be determined at the time the services are to be performed.

Should the City wish to include or incorporate by reference these financial statements and our audit report thereon into an offering of exempt securities without obtaining our consent to include or incorporate by reference our report on such financial statements, and we are not otherwise associated with the offering document, then the City agrees to include the following language in the offering document:

“KPMG LLP, our independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this official statement.”

#### **Our Responsibility to Communicate with the Common Council**

We will report to the Common Council, in writing, the following matters:

- Corrected misstatements arising from the audit that could, in our judgment, either individually or in aggregate, have a significant effect on the City's financial reporting process. In this context, corrected misstatements are proposed corrections of the financial statements that were recorded by management and, in our judgment, may not have been detected except through the auditing procedures performed.

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- Uncorrected misstatements aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in aggregate.
- Any disagreements with management or other significant difficulties encountered in performance of our audit.
- Other matters required to be communicated by auditing standards generally accepted in the United States of America.

We will also read minutes, if any, of audit committee meetings for consistency with our understanding of the communications made to the audit committee and determine that the audit committee has received copies of all material written communications between ourselves and management. We will also determine that the audit committee has been informed of i) the initial selection of, or the reasons for any change in, significant accounting policies or their application during the period under audit, ii) the methods used by management to account for significant unusual transactions, and iii) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

If, in performance of our audit procedures, circumstances arise which make it necessary to modify our report or withdraw from the engagement, we will communicate to the audit committee our reasons for modification or withdrawal.

#### **Management Responsibilities**

The management of the City is responsible for the fair presentation, in accordance with U.S generally accepted accounting principles, of the financial statements and all representations contained therein. Management also is responsible for identifying and ensuring that the City complies with laws, regulations, contracts, and grant agreements applicable to its activities, and for informing us of any known material violations of such laws and regulations and provisions of contracts and grant agreements. Management also is responsible for preventing and detecting fraud, including the design and implementation of programs and controls to prevent and detect fraud, for adopting sound accounting policies, and for establishing and maintaining effective internal controls and procedures for financial reporting to maintain the reliability of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements. Management is also responsible for informing us, of which it has knowledge, of all material weaknesses and significant deficiencies in the design or operation of such controls. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Management of the City also agrees that all records, documentation, and information we request in connection with our audit will be made available to us, that all material information will be disclosed to us, and that we will have the full cooperation of the City's personnel. As required by the auditing standards generally accepted in the United States of America, we will make specific inquiries of management about the representations embodied in the financial statements and the effectiveness of internal control, and obtain a representation letter from management about these matters. The responses to our inquiries, the written representations, and the results of audit tests,

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among other things, comprise the evidential matter we will rely upon in forming an opinion on the financial statements.

In addition to the OMB Circular A-133 requirements to maintain internal control and comply with the compliance requirements applicable to federal programs as discussed above, OMB Circular A-133 also requires the City to prepare a:

- Schedule of expenditures of federal awards;
- Summary schedule of prior audit findings;
- Corrective action plan; and
- Data collection form (Part I).

While we may be separately engaged to assist you in the preparation of these items, preparation is the responsibility of the City.

Certain provisions of OMB Circular A-133 allow a granting agency to request that a specific program be selected as a major program provided that the federal granting agency is willing to pay the incremental audit cost arising from such selection. The City agrees to notify KPMG LLP (KPMG) of any such request by a granting agency and to work with KPMG to modify the terms of this letter as necessary to accommodate such a request.

In accordance with *Government Auditing Standards*, as part of our planning of the audit we will evaluate whether the City has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a material effect on the financial statements. To assist us, management agrees to identify previous audits, attestation engagements, or other studies that relate to the objectives of the audit, including whether related recommendations have been implemented, prior to March 1, 2013.

Management is responsible for adjusting the financial statements to correct material misstatements and for affirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements being reported upon. Because of the importance of management's representations to the effective performance of our services, the City will release KPMG and its personnel from any claims, liabilities, costs and expenses relating to our services under this letter attributable to any misrepresentations in the representation letter referred to above. The provisions of this paragraph shall apply regardless of the form of action, damage, claim, liability, cost, expense, or loss asserted, whether in contract, statute, tort (including but not limited to negligence) or otherwise.

Management is also responsible for providing us with written responses in accordance with *Government Auditing Standards* to the findings included in the GAGAS or A-133 report within 14 days of being provided with draft findings. If such information is not provided on a timely basis prior to release of the reports, the reports will indicate the status of management's responses.

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Management is responsible for the distribution of the reports issued by KPMG.

### **Dispute Resolution**

Any dispute or claim arising out of or relating to this Engagement Letter or the services provided hereunder, or any other audit or attest services provided by or on behalf of KPMG or any of its subcontractors or agents to the City or at its request, shall be submitted first to non-binding mediation (unless either party elects to forego mediation by initiating a written request for arbitration) and if mediation is not successful within 90 days after the issuance by one of the parties of a request for mediation then to binding arbitration in accordance with the Rules for Non-Administered Arbitration of the International Institute for Conflict Prevention and Resolution ("CPR Arbitration Rules"). Any issue concerning the extent to which any dispute is subject to arbitration, or any dispute concerning the applicability, interpretation, or enforceability of these dispute resolution procedures, including any contention that all or part of these procedures is invalid or unenforceable, shall be governed by the Federal Arbitration Act and resolved by the arbitrators. By operation of this provision, the parties agree to forego litigation over such disputes in any court of competent jurisdiction.

Mediation, if selected, may take place at a location to be designated by the parties using Mediation Procedures of the International Institute for Conflict Prevention and Resolution, with the exception of paragraph 2 (Selecting the Mediator). Arbitration shall take place in New York, New York. The arbitration panel shall have no power to award non-monetary or equitable relief of any sort except as provided in CPR Rule 13 (Interim Measures of Protection). Damages that are inconsistent with any applicable agreement between the parties, that are punitive in nature, or that are not measured by the prevailing party's actual damages shall be unavailable in arbitration or any other forum. In no event, even if any other portion of these provisions is held to be invalid or unenforceable, shall the arbitration panel have power to make an award or impose a remedy that could not be made or imposed by a court deciding the matter in the same jurisdiction.

Either party may seek to enforce any written agreement reached by the parties during mediation, or to confirm and enforce any final award entered in arbitration, in any court of competent jurisdiction. Notwithstanding the agreement to such procedures, either party may seek equitable relief to enforce its rights in any court of competent jurisdiction.

### **Other Matters**

This letter shall serve as the City's authorization for the use of e-mail and other electronic methods to transmit and receive information, including confidential information, between KPMG and the City and between KPMG and outside specialists or other entities engaged by either KPMG or the City. The City acknowledges that e-mail travels over the public Internet, which is not a secure means of communication and, thus, confidentiality of the transmitted information could be compromised through no fault of KPMG. KPMG will employ commercially reasonable efforts and take appropriate precautions to protect the privacy and confidentiality of transmitted information.

Further, for purposes of the services described in this letter only, the City hereby grants to KPMG a limited, revocable, non-exclusive, non-transferable, paid up and royalty-free license, without

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right of sublicense, to use all logos, trademarks and service marks of the City solely for presentations or reports to the City or for internal KPMG presentations and intranet sites.

KPMG is a limited liability partnership comprising both certified public accountants and certain principals who are not licensed as certified public accountants. Such principals may participate in the engagements to provide the services described in this letter.

In connection with the performance of services under the Engagement Letter, KPMG may utilize the services of KPMG controlled entities, KPMG member firms and/or third party service providers within and without the United States to complete the services under the Engagement Letter. Moreover, KPMG may utilize third party service providers within and without the United States to provide, at KPMG's direction, administrative and clerical support services to KPMG.

The City agrees to provide prompt notification if the City or any of its subsidiaries currently are or become subject to the laws of a foreign jurisdiction that require regulation of any securities issued by the City or such subsidiary.

The work papers for this engagement are the property of KPMG. Pursuant to *Government Auditing Standards*, we are required to make certain work papers available in a full and timely manner to Regulators upon request for their reviews of audit quality and for use by their auditors. In addition, we may be requested to make certain work papers available to regulators pursuant to authority provided by law or regulation. Access to the requested work papers will be provided under supervision of KPMG personnel. Furthermore, upon request, we may provide photocopies of selected work papers to Regulators. Such Regulators may intend, or decide, to distribute the photocopies or information contained therein to others, including other government agencies.

In the event KPMG is requested pursuant to subpoena or other legal process to produce its documents and/or testimony relating to this engagement for the City in judicial or administrative proceedings to which KPMG is not a party, the City shall reimburse KPMG at standard billing rates for its professional time and expenses, including reasonable attorney's fees, incurred in responding to such requests.

#### ***Collaboration Site***

KPMG has developed a collaborative, virtual workspace ('Collaboration Site') in a protected, online environment. This Collaboration Site allows for the placement of certain documents into the Collaboration Site to be used by those providing the Services to you. The Collaboration Site will be decommissioned at the end of the Engagement, unless otherwise required by applicable law or professional standards, or other requirements of the engagement team.

In order to maintain the confidentiality of the information contained in the Collaboration Site, KPMG has taken certain steps to provide protection against unauthorized access. Access to the Collaboration Site is limited to KPMG authenticated and authorized users and the Collaboration Site is protected by encryption and a secure network.

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***Other Government Auditing Standards Matters***

As required by *Government Auditing Standards*, we have attached a copy of KPMG's most recent peer review report.

***Additional Reports and Fees for Services***

Appendix I to this letter lists the additional reports we will issue as part of this engagement and our fees for professional services to be performed per this letter.

In addition, fees for any special audit-related projects, such as research and/or consultation on special business or financial issues, will be billed separately from the audit fees for professional services set forth in Appendix I and may be subject to written arrangements supplemental to those in this letter.

\* \* \* \* \*

Our engagement herein is for the provision of annual audit services for the financial statements and OMB Circular A-133 and for the periods described in Appendix I, and it is understood that such services are provided as a single annual engagement. Pursuant to our arrangement as reflected in this letter we will provide the services set forth in Appendix I as a single engagement for each of the City's subsequent fiscal years until either Management or we terminate this agreement, or mutually agree to the modification of its terms. The fees for each subsequent year will be annually subject to negotiation and approval by the Management.

In accordance with your instructions, we have forwarded a copy of this letter to the chair of the finance & personnel committee of the Common Council.

We shall be pleased to discuss this letter with you at any time. For your convenience in confirming these arrangements, we enclose a copy of this letter. Please sign and return it to us.

Very truly yours,

KPMG LLP

Joseph A. Kowalski  
*Partner*

cc: Michael Murphy, (*Chair, Finance & Personnel Committee*)

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ACCEPTED:

**The City of Milwaukee, Wisconsin**

*Martin Matson*

Authorized Signature

COMPTROLLER

Title

~~11~~ 1-10-13

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**Appendix I**

**Fees for Services**

Based upon our discussions with and representations of management, our fees for services we will perform based on our original proposal will be \$362,000 for the audit of the basic financial statements, the audit in accordance with OMB Circular A-133, the audit in accordance with the Wisconsin State Single Audit Guidelines, and the audit of the stand-alone financial statements for the Water Works for the year ended December 31, 2012. Our engagement fees in our original proposal assumed the audit of no more than three major Federal programs and three major state programs pursuant to OMB Circular A-133 and Wisconsin State Single Audit Guidelines. If there are any additional programs that are required to be audited, each additional federal program will be \$16,700 and each additional state program will be \$5,565.

Our fees for the separate audit report of the tax incremental districts for the year ended December 31, 2012 will be \$24,130.

Additionally, our proposal included expenses of up to \$10,000 for speaker fees and travel costs related to training provided to the City. These costs will be billed separately as incurred based on prior approval of management.

We have prepared the following billing schedule which bills the City for time and expenses as it is projected to be incurred. We expect the City will have a total of 7 major federal programs and 4 state programs, thus total fees are estimated at \$458,495 for the purposes of developing this billing schedule. The schedule will be adjusted upon final determination of the number of major programs required to be audited in accordance with OMB Circular A-133.

Progress billing – Week of March 2, 2013	\$ 107,125
Progress billing – Week of April 17, 2013	107,125
Progress billing – Week of June 1, 2013	107,125
Progress billing – Week of July 16, 2013	107,125
Final billing – Upon submission of all reports	29,995
<b>Total billed to City’s Comptroller’s office</b>	<b>\$458,495</b>

Fees for procedures identified related to City offering documents will be \$25,000 to \$30,000 for each offering. Should additional procedures be requested or needed, the fees will be adjusted accordingly. Billing will be upon issuance of the bonds.

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The above estimates are based on the level of experience of the individuals who will perform the services. Circumstances encountered during the performance of these services that warrant additional time or expense could cause us to be unable to deliver them within the above estimates. We will endeavor to notify you of any such circumstances as they are assessed.

Where KPMG is reimbursed for expenses, it is KPMG's policy to bill clients the amount incurred at the time the good or service is purchased. If KPMG subsequently receives a volume rebate or other incentive payment from a vendor relating to such expenses, KPMG does not credit such payment to the client. Instead, KPMG applies such payments to reduce its overhead costs, which costs are taken into account in determining KPMG's standard billing rates and certain transaction charges which may be charged to clients.

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## System Review Report

To the Partners of KPMG LLP  
and the National Peer Review Committee of the AICPA Peer Review Board

We have reviewed the system of quality control for the accounting and auditing practice of KPMG LLP (the Firm), applicable to non-SEC issuers, in effect for the year ended March 31, 2011. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The Firm is responsible for designing a system of quality control and complying with it to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the Firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*, audits of employee benefit plans, an audit performed under FDICIA, and an audit of a carrying broker-dealer.

In our opinion, the system of quality control for the accounting and auditing practice of KPMG LLP, applicable to non-SEC issuers, in effect for the year ended March 31, 2011, has been suitably designed and complied with to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. KPMG LLP has received a peer review rating of *pass*.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

December 2, 2011

December 8, 2011

John B. Veihmeyer, CPA  
KPMG LLP  
345 Park Ave Bsmt LB6  
New York, NY 10154

Dear Mr. Veihmeyer:

It is my pleasure to notify you that on December 8, 2011 the National Peer Review Committee accepted the report on the most recent system peer review of your firm. The due date for your next review is September 30, 2014. This is the date by which all review documents should be completed and submitted to the administering entity.

As you know, the report had a peer review rating of pass. The Committee asked me to convey its congratulations to the firm.

Sincerely,



James W. Brackens, Jr.  
Vice President—Ethics and Quality Practice  
+1.919.402.4502  
[nprc@aicpa.org](mailto:nprc@aicpa.org)

cc: Betty Jo Charles, CPA

Firm Number: 10054128

Review Number: 320334

*Administered by the  
National Peer Review Committee*

**Martin Matson**  
Comptroller

**John M. Egan, CPA**  
Deputy Comptroller



**Office of the Comptroller**

**Glenn Steinbrecher, CPA**  
Special Deputy Comptroller

**Toni Biscobing**  
Special Deputy Comptroller

July 30, 2013

KPMG LLP  
777 East Wisconsin Avenue, Suite 1500  
Milwaukee, WI 53202

Ladies and Gentlemen:

We are providing this letter in connection with your audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, the aggregate remaining fund information, and the related notes to the financial statements, of the City of Milwaukee, Wisconsin, (the City) as of and for the year ended December 31, 2012, for the purpose of expressing opinions as to whether these financial statements present fairly, in all material respects, the respective financial positions, changes in financial positions, and, where applicable, cash flows thereof in conformity with U.S. generally accepted accounting principles.

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, as of July 30, 2013, the following representations made to you during your audit:

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated November 2, 2012, for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles.
2. We have made available to you:
  - a. All records, documentation, and information that is relevant to the preparation and fair presentation of the financial statements.
  - b. Additional information that you have requested from us for the purpose of the audit.
  - c. Unrestricted access and the full cooperation of personnel within the entity from whom you determined it necessary to obtain audit evidence.
  - d. All minutes of the meetings of the common council and 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. Circumstances that have resulted in communications from the City's external legal counsel to the City reporting evidence of a material violation of securities law or breach of fiduciary duty, or similar violation by the City or any agent thereof.
  - b. Communications from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations in any jurisdiction, deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements.
  - c. False statements affecting the City's financial statements made to 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:
- a. Violations or possible violations of laws or regulations, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
  - b. Unasserted claims or assessments that our lawyers have advised us are probable of assertion and must be disclosed in accordance with paragraphs 96 – 113 of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Statement No. 62, paragraphs 96 – 113.
  - d. Material transactions, for example, grants and other contractual arrangements, that have not been properly recorded in the accounting records underlying the financial statements.
  - e. Events that have occurred subsequent to the date of the statement of net position and through the date of this letter that would require adjustment to or disclosure in the financial statements.
5. All known actual or possible litigation and claims have been accounted for and disclosed in accordance with GASB Statement No. 62, paragraphs 96 – 113.
6. 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 respective opinion unit.
7. We acknowledge our responsibility for preventing and detecting fraud, including the design and implementation of programs and controls to prevent and detect fraud; for adopting sound accounting policies; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements whether due to error or fraud.

*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 financial statements not to be presented in conformity with U.S. generally accepted accounting principles.

8. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting of which we are aware, which could adversely affect the City's ability to initiate, authorize, record, process, or report financial data. We have separately disclosed to you all such deficiencies that we believe to be significant deficiencies or material weaknesses in internal control over financial reporting, as those terms are defined in AU-C Section 265, *Communicating Internal Control Related Matters Identified in an Audit*.
9. 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.
10. We have no knowledge of any fraud or suspected fraud affecting the City involving:
  - a. Management
  - b. Employees who have significant roles in internal control over financial reporting, or
  - c. Others where the fraud could have a material effect on the financial statements.
11. We have no knowledge of any allegations of fraud or suspected fraud affecting the City received in communications from employees, former employees, analysts, regulators, or others.
12. We have no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, and deferred inflows of resources.
13. We have no knowledge of any officer or member of the Common Council of the City, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate, or mislead you during your audit.
14. The following have been properly recorded or disclosed in the financial statements:
  - a. Related party relationships and transactions of which we are aware in accordance with the requirements of U.S. generally accepted accounting principles, including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments, and amounts receivable from or payable to related parties.

The term "related party" refers to government's related organizations, joint ventures, and jointly governed organizations, as defined in GASB Statement No. 14, *The Financial Reporting Entity*, as amended; elected and appointed officials of the government; its management; members of the immediate families of elected or appointed officials of the government and its management; and other parties with which the government may deal if one party 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.
15. The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral.
  16. The City has complied with all aspects of laws, regulations, contractual agreements, and grants that may affect the financial statements, including noncompliance.
  17. Management is responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the City. Management has identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts.
  18. The City's reporting entity includes all entities that are component units of the City. Such component units have been properly presented as either blended or discrete. Investments in joint ventures in which the City holds an equity interest have been properly recorded on the statement of net position. The financial statements disclose all other joint ventures and other related organizations.
  19. The financial statements properly classify all funds and activities, including governmental funds, which are presented in accordance with the fund type definitions in GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.
  20. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments*, for presentation as major are identified and presented as such, and all other funds that are presented as major are considered to be particularly important to financial statement users by management.
  21. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
  22. Amounts advanced to related entities represent valid receivables and are expected to be recovered at some future date in accordance with the terms of related agreements.
  23. Receivables reported in the financial statements represent valid claims against debtors arising on or before the date of the statement of net position and have been appropriately reduced to their estimated net realizable value.
  24. Deposits and investment securities are properly classified and reported.
  25. 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*, as amended. 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, and the nature of investments reported at amortized cost.
  26. The City has identified and properly reported all of its derivative instruments and any related deferred outflows of resources or deferred inflows of resources related to hedging derivative instruments in

- accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The City complied with the requirements of GASB Statement No. 53 related to the determination of hedging derivative instruments and the application of hedge accounting. Further, the City has disclosed all material information about its derivative and hedging arrangement in accordance with GASB Statement No. 53.
27. The estimate of fair value of derivative instruments is in compliance with GASB Statement No. 53. For derivative instruments with fair values that are based on other than quoted market prices, the City has disclosed the methods and significant assumptions used to estimate those fair values.
  28. 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 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.
  29. We believe that all material expenditures or expenses that have been deferred to future periods will be recoverable.
  30. Capital assets, including infrastructure assets, are properly capitalized, reported and, if applicable, depreciated.
  31. The City has properly applied the requirements of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, including those related to the recognition of outlays associated with the development of internally generated computer software.
  32. 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.
  33. For variable-rate demand bond obligations that are reported as general long-term debt or excluded from current liabilities of proprietary funds, we believe all of the conditions described in GASB Interpretation No. 1, *Demand Bonds Issued by State and Local Government Entities*, have been met.
  34. The City has complied with all tax and debt limits and with all debt related covenants.
  35. 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 section 103 of 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.

36. We believe that the actuarial assumptions and methods used to measure financial statement liabilities and costs associated with pension and other post-employment benefits and to determine information related to the City's funding progress related to such benefits for financial reporting purposes are appropriate in the City's circumstances and that the related actuarial valuation was prepared in conformity with U.S. generally accepted accounting principles.
37. Provision has been made in the financial statements for the City's pollution remediation obligations. We believe that such estimate has been determined in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and is reasonable based on available information.
38. The City has identified and properly accounted for and presented all deferred outflows of resources and deferred inflows of resources.
39. Components of net position (net investment in capital assets; restricted; and unrestricted) and fund balance components (nonspendable; restricted; committed; assigned; and unassigned) are properly classified and, if applicable, approved.
40. 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.
41. The City has identified and properly accounted for all nonexchange transactions.
42. 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.
43. Special and extraordinary items are appropriately classified and reported.
44. The financial statements disclose all of the matters of which we are aware that are relevant to the entity's ability to continue as a going concern, including significant conditions and events, and our plans.
45. We have disclosed to you all accounting policies and practices we have adopted that, if applied to significant items or transactions, would not be in accordance with U.S. generally accepted accounting principles. We have evaluated the impact of the application of each such policy and practice, both individually and in the aggregate, on the City's current period financial statements and our assessment of internal control over financial reporting, and the expected impact of each such policy and practice on future periods' financial reporting. We believe the effect of these policies and practices on the financial statements and our assessment of internal control over financial reporting is not material. Furthermore, we do not believe the impact of the application of these policies and practices will be material to the financial statements in future periods.
46. We agree with the findings of specialists in evaluating the other postemployment benefit obligation and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.



47. We acknowledge our responsibility for the presentation of the supplementary information, which includes the combining and individual fund financial statements and schedules , in accordance with the applicable criteria and/or prescribed guidelines and:
- a. Believe the supplementary information, including its form and content, is fairly presented in accordance with the applicable criteria and/or prescribed guidelines.
  - b. The methods of measurement or presentation of the supplementary information have not changed from those used in the prior period.
  - c. The significant assumptions or interpretations underlying the measurement or presentation of the supplementary information are reasonable and appropriate in the circumstances.
48. We acknowledge our responsibility for the presentation of the required supplementary information which includes the management's discussion and analysis, the budgetary comparison information, and the schedule of funding progress, in accordance with the applicable criteria and prescribed guidelines established by the *Governmental Accounting Standards Board* and:
- a. Believe the required supplementary information, including its form and content, is fairly presented in accordance with the applicable criteria and prescribed guidelines.
  - b. The methods of measurement or presentation of the required supplementary information have not changed from those used in the prior period.
  - c. The significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information are reasonable and appropriate in the circumstances.
49. The City has complied with all applicable laws and regulations in adopting, approving, and amending budgets.
50. In accordance with *Government Auditing Standards*, we have identified to you all previous audits, attestation engagements, and other studies that relate to the objectives of this audit, including whether related recommendations have been implemented.
51. We are responsible for establishing and maintaining effective internal control over compliance for federal programs that provides reasonable assurance that federal awards are administered in compliance with laws, regulations, and the provisions of contracts or grant agreements.
52. We are responsible for understanding and complying with the requirements of laws and regulations and the provisions of contracts and grant agreements related to each of its federal programs.
53. We are responsible for taking corrective action on audit findings of the compliance audit.
54. We are responsible for the design and implementation of programs and controls to prevent and detect fraud in the administration of federal programs. We have no knowledge of any fraud or suspected fraud affecting the entity's federal programs involving:
- a. Management, including management involved in the administration of federal programs.
  - b. Employees who have significant roles in internal control over the administration of federal programs.

- c. Others where the fraud could have a material effect on compliance with laws and regulations, and provisions of contract and grant agreements related to its federal programs.
55. We are responsible for the presentation of the schedule of expenditures of federal awards (SEFA) in accordance with OMB Circular A-133 and:
- a. The methods of measurement or presentation of the supplementary information have not changed from those used in the prior period.
  - b. The significant assumptions or interpretations underlying the measurement or presentation of the supplementary information are reasonable and appropriate in the circumstances.

Additionally, we confirm, to the best of our knowledge and belief, as of December 31, 2012, the following representations made to you during your A-133 audit:

56. The City is responsible for complying, and has complied, with the requirements of OMB Circular A-133.
57. The City has prepared the SEFA in accordance with the requirements of OMB Circular A-133 and:
- a. Has included all expenditures made during the year ended December 31, 2012 for all awards provided by federal agencies in the form of grants, American Recovery and Reinvestment Act (ARRA) awards, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.
  - b. Appropriately identified and separated all ARRA awards, if any, within the SEFA.
58. The City has complied with requirements of laws and regulations, and the provisions of contracts and grant agreements related to each of its federal programs.
59. The City has disclosed to you any interpretations of any compliance requirements that have varying interpretations.
60. The City established and maintained effective internal control over compliance for federal programs that provides reasonable assurance that federal awards are administered in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on a federal program.
61. We have communicated to you all significant deficiencies and material weaknesses in the design or operation of internal control over compliance that we have identified, which could adversely affect the City's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, and the provisions of contracts and grant agreements. Under standards established by the American Institute of Certified Public Accountants, a deficiency in internal control over compliance 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 on a timely basis, noncompliance with a type of compliance requirement of a federal program. A "material weakness" is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement 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 over

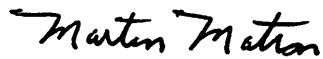
compliance with a compliance requirement that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

62. We have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.
63. We have made available all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities related to major federal programs.
64. We have made available all documentation related to the compliance requirements, including information related to federal financial reports and claims for advances and reimbursements for major federal programs.
65. We have identified and disclosed to you all questioned costs and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews.
66. We have disclosed to you any communications from grantors and pass-through entities concerning possible noncompliance with the applicable compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
67. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
68. The City is in compliance with documentation requirements contained in OMB Circular A-87, "Cost Principles for State, Local and Tribal Governments" for all costs charged to federal awards, including both direct costs and indirect costs charged through cost allocation plans or indirect cost proposals. Costs charged to federal awards are considered allowable under the applicable cost principles contained in OMB Circular A-87.
69. Federal financial reports and claims for advances and reimbursements are supported by the accounting records from which the financial statements have been prepared.
70. The copies of federal financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
71. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133. If applicable, the City has issued management decisions on a timely basis after receipt of subrecipient audit reports that identified non-compliance with laws, regulations, or the provisions of contracts or grant agreements and has ensured that subrecipients have taken appropriate and timely corrective action on such findings.
72. If applicable, we have considered the results of subrecipient audits and have made any necessary adjustments to the City accounting records.
73. We are responsible for, and have accurately prepared, the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133.

74. If applicable, the City has provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
75. The City has accurately completed Part I of the data collection form.
76. The City has advised you of all contracts or other agreements with service organizations.
77. If applicable, the City has disclosed to you all communications from its service organizations relating to noncompliance at the service organizations.
78. The City has disclosed any known noncompliance occurring subsequent to the period for which compliance is audited.
79. The City has disclosed whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies (including material weaknesses), have occurred subsequent to the date as to which compliance is audited.

Further, we confirm that we are responsible for the fair presentation in the financial statements 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, and the related notes to the financial statements, in conformity with U.S. generally accepted accounting principles. We are also responsible for establishing and maintaining effective internal control over financial reporting.

Very truly yours,



Martin Matson  
Comptroller



Department of Public Works  
Milwaukee Water Works

**Ghassan Korban**  
Commissioner of Public Works

**Preston D. Cole**  
Director of Operations

**Carrie M. Lewis**  
Superintendent of Water Works

July 30, 2013

KPMG LLP  
777 East Wisconsin Avenue, Suite 1500  
Milwaukee, WI 53202

Ladies and Gentlemen:

We are providing this letter in connection with your audit of the financial statements of the City of Milwaukee-Water Works, (Water Works), an enterprise fund of the City of Milwaukee, Wisconsin as of and for the years ended December 31, 2012 and 2011, for the purpose of expressing an opinion as to whether these financial statements present fairly, in all material respects, the respective financial position, changes in financial position, and, where applicable, cash flows thereof in conformity with U.S. generally accepted accounting principles.

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, as of July 30, 2013, the following representations made to you during your audit:

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated November 2, 2012, for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles.
2. We have made available to you:
  - a. All records, documentation, and information that is relevant to the preparation and fair presentation of the financial statements.

- b. Additional information that you have requested from us for the purpose of the audit.
  - c. Unrestricted access and the full cooperation of personnel within the entity from whom you determined it necessary to obtain audit evidence.
  - d. All minutes of the meetings of 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. Circumstances that have resulted in communications from Water Works' external legal counsel to Water Works reporting evidence of a material violation of securities law or breach of fiduciary duty, or similar violation by Water Works or any agent thereof.
  - b. Communications from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations in any jurisdiction, deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements.
  - c. False statements affecting the Water Works' financial statements made to 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 audits.
4. There are no:
- a. Violations or possible violations of laws or regulations, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
  - b. Unasserted claims or assessments that our lawyers have advised us are probable of assertion and must be disclosed in accordance with paragraphs 96 – 113 of Governmental Accounting Standards Board (GASB) Statement No. 62.
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Statement No. 62, paragraphs 96 – 113.
  - d. Material transactions, for example, grants and other contractual arrangements, that have not been properly recorded in the accounting records underlying the financial statements.

- e. Events that have occurred subsequent to the date of the statement of net position and through the date of this letter that would require adjustment to or disclosure in the financial statements.
5. All known actual or possible litigation and claims have been accounted for and disclosed in accordance with GASB Statement No. 62, paragraphs 96 – 113.
  6. There are no uncorrected financial statement misstatements which we are aware of.
  7. We acknowledge our responsibility for preventing and detecting fraud, including the design and implementation of programs and controls to prevent and detect fraud; for adopting sound accounting policies; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements whether due to error or fraud.

*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 financial statements not to be presented in conformity with U.S. generally accepted accounting principles.

8. There are no deficiencies, significant deficiencies, or material weaknesses in the design or operation of internal control over financial reporting of which we are aware, which could adversely affect Water Works' ability to initiate, authorize, record, process, or report financial data. We have applied the definitions of a "significant deficiency" and a "material weakness" in accordance with the definitions in AU-C Section 265, Communicating Internal Control Related Matters Identified in an Audit.
9. 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.
10. We have no knowledge of any fraud or suspected fraud affecting the City involving:
  - a. Management
  - b. Employees who have significant roles in internal control over financial reporting, or
  - c. Others where the fraud could have a material effect on the financial statements.

11. We have no knowledge of any allegations of fraud or suspected fraud affecting Water Works received in communications from employees, former employees, analysts, regulators, or others.
12. We have no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, and deferred inflows of resources.
13. We have no knowledge of any officer or member of the Common Council of Water Works, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate, or mislead you during your audit.
14. The following have been properly recorded or disclosed in the financial statements:
  - a. Related party relationships and transactions of which we are aware in accordance with the requirements of U.S. generally accepted accounting principles, including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments, and amounts receivable from or payable to related parties.

The term "related party" refers to government's related organizations, joint ventures, and jointly governed organizations, as defined in GASB Statement No. 14, The Financial Reporting Entity, as amended; elected and appointed officials of the government; its management; members of the immediate families of elected or appointed officials of the government and its management; and other parties with which the government may deal if one party 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 Water Works 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.
15. Water Works has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral.
16. Water Works has complied with all aspects of laws, regulations, contractual agreements, and grants that may affect the financial statements, including noncompliance.
17. Management is responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to Water Works. Management has identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts.
18. The financial statements properly classify all funds and activities.
19. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
20. Amounts advanced to related entities represent valid receivables and are expected to be recovered at some future date in accordance with the terms of related agreements.
21. Receivables reported in the financial statements represent valid claims against debtors arising on or before the date of the statement of net position and have been appropriately reduced to their estimated net realizable value.
22. Deposits and investment securities are properly classified and reported.
23. Water Works 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*, as amended. 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, and the nature of investments reported at amortized cost.

24. Water Works has identified and properly reported all of its derivative instruments and any related deferred outflows of resources or deferred inflows of resources related to hedging derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The City complied with the requirements of GASB Statement No. 53 related to the determination of hedging derivative instruments and the application of hedge accounting. Further, the City has disclosed all material information about its derivative and hedging arrangement in accordance with GASB Statement No. 53.
25. The estimate of fair value of derivative instruments is in compliance with GASB Statement No. 53. For derivative instruments with fair values that are based on other than quoted market prices, Water Works has disclosed the methods and significant assumptions used to estimate those fair values.
26. 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 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.
27. We believe that all material expenditures or expenses that have been deferred to future periods will be recoverable.
28. Capital assets, including infrastructure assets, are properly capitalized, reported and, if applicable, depreciated.
29. Water Works has properly applied the requirements of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, including those related to the recognition of outlays associated with the development of internally generated computer software.
30. Water Works 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.**
31. **For variable-rate demand bond obligations that are reported as general long-term debt or excluded from current liabilities of proprietary funds, we believe all of the conditions described in GASB Interpretation No. 1, *Demand Bonds Issued by State and Local Government Entities*, have been met.**
32. **Water Works has complied with all tax and debt limits and with all debt related covenants.**
33. **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 section 103 of 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.**
34. **We believe that the actuarial assumptions and methods used to measure financial statement liabilities and costs associated with pension and other post-employment benefits and to determine information related to t Water Works' funding progress related to such benefits for financial reporting purposes are appropriate in Water Works' circumstances and that the related actuarial valuation was prepared in conformity with U.S. generally accepted accounting principles.**
35. **Provision has been made in the financial statements for the City's pollution remediation obligations. We believe that such estimate has been determined in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and is reasonable based on available information.**
36. **Water Works has identified and properly accounted for and presented all deferred outflows of resources and deferred inflows of resources.**
37. **Components of net position (net investment in capital assets; restricted; and unrestricted) and fund balance components (nonspendable; restricted; committed; assigned; and unassigned) are properly classified and, if applicable, approved.**

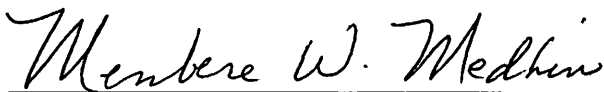
38. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
39. Water Works has identified and properly accounted for all nonexchange transactions.
40. 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.
41. Special and extraordinary items are appropriately classified and reported.
42. The financial statements disclose all of the matters of which we are aware that are relevant to the entity's ability to continue as a going concern, including significant conditions and events, and our plans.
43. We have disclosed to you all accounting policies and practices we have adopted that, if applied to significant items or transactions, would not be in accordance with U.S. generally accepted accounting principles. We have evaluated the impact of the application of each such policy and practice, both individually and in the aggregate, on Water Works' current period financial statements and our assessment of internal control over financial reporting, and the expected impact of each such policy and practice on future periods' financial reporting. We believe the effect of these policies and practices on the financial statements and our assessment of internal control over financial reporting is not material. Furthermore, we do not believe the impact of the application of these policies and practices will be material to the financial statements in future periods.
44. We agree with the findings of specialists in evaluating the other postemployment benefits obligation and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
45. We acknowledge our responsibility for the presentation of the required supplementary information which includes the management's discussion and analysis, in accordance with the applicable criteria and prescribed guidelines established by the *Governmental Accounting Standards Board* and:
  - a. Believe the required supplementary information, including its form and content, is fairly presented in accordance with the applicable criteria and prescribed guidelines.

- b. The methods of measurement or presentation of the required supplementary information have not changed from those used in the prior period.
- c. The significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information are reasonable and appropriate in the circumstances.

46. Water Works has complied with all applicable laws and regulations in adopting, approving, and amending budgets.
47. In accordance with *Government Auditing Standards*, we have identified to you all previous audits, attestation engagements, and other studies that relate to the objectives of this audit, including whether related recommendations have been implemented.

Further, we confirm that we are responsible for the fair presentation in the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Water Works, and the related notes to the financial statements, in conformity with U.S. generally accepted accounting principles. We are also responsible for establishing and maintaining effective internal control over financial reporting.

Very truly yours,



MENBERE W. MEDHIN

*Water Works Accounting Manager*



CARRIE M. LEWIS

*Water Works Superintendent*



City of Milwaukee  
Summary of Uncorrected Audit Misstatements  
For year ended 12/31/2012

Governmental Activities

Method used to quantify audit misstatements:

Rollover (Income Statement)

W/P Ref	#	Accounts and Description	Correcting Entry Required at Current Period End (Note - If there is an end-of-period balance sheet error, the correcting entry should be written irrespective of the period in which the error originated (i.e., there should not be any adjustments to opening retained earnings). If there was an uncorrected error in the prior end-of-period balance sheet, but there is not an error in the current end-of-period balance sheet, include only a description in this section.)		Factual Misstatement or Projected Misstatement		Impact of audit misstatement on financial statement captions						Identify the deficiency in internal control or provide rationale if no deficiency is noted, or cross-reference to the work paper where this is documented.		
			Debit	(Credit)	Income effect of correcting the balance sheet in prior period (carried forward from prior period's column C)	Income Statement Effect Debit/(Credit)		Balance Sheet Effect							
						Income effect of correcting the current period balance sheet	C = A (Only Inc Stmt accounts)	C - B	Equity at period end	Current Assets	Non-Current Assets	Current Liabilities		Non-Current Liabilities	
			----- A -----		B	C = A (Only Inc Stmt accounts)	C - B								
3.2.450.4.4	AM 6	Dr. Long Term Obligations - Terminal Leave Cr. Primary Government Expenses  (to adjust the terminal leave liability for the rolling average error identified in 2009)	3,844,800	(3,844,800)	Factual Misstatement	(3,844,800)	(3,844,800)	(3,844,800)						3,844,800	See SICD
3.2.550.4.1	AM 10	Dr. Taxes Receivable Cr. Cash (To correct for cash not recorded for Advanced Taxes)	1,379,004	(1,379,004)	Factual		-			1,379,004 (1,379,004)					
3.2.550.4.1	AM 10	Dr. Cash Cr. Taxes Receivable (To correct for cash not recorded for Advanced Taxes)	10,258,311	(10,258,311)	Factual		-			10,258,311 (10,258,311)					
3.2.150.4.3.1	AM 11	Dr. Deferred loss on refunding transactions Cr. Interest expense (to capitalize deferred loss on refunding)	4,174,968	(4,174,168)	Factual	(4,174,168)	(4,174,168)	(4,174,168)			4,174,968				
3.2.500.4.12	AM 2	Dr. Prepaid Expenses Cr. Operating Expenses (To correct for an expense recorded fully in 2012 that had a portion of the service related to 2013. Factual = \$12,554, Projection = \$1,861,588)	1,874,142	(1,874,142)	Projected	(1,874,142)	(1,874,142)	(1,874,142)	1,874,142						
<b>Aggregate of uncorrected audit misstatements (after tax)</b>								(9,893,110)	(9,893,110)	1,874,142	4,174,968	-	3,844,800		
<b>Financial statement amounts (per final financial statements)</b>								(14,654,000)	(251,707,000)	944,889,000	1,002,919,000	(656,103,000)	(1,039,998,000)		
<b>Uncorrected audit misstatements after tax effect as a percentage of financial statement amounts</b>								67.5%	3.9%	0.2%	0.4%	0.0%	-0.4%		

Communication of Uncorrected Audit Misstatements

Discussed with: Beverly LaFlex and John Egan

Discussed by: Julie Barrientos



City of Milwaukee  
Summary of Uncorrected Audit Misstatements  
For year ended 12/31/2012

**Business Type Activities**

Method used to quantify audit misstatements:

**Rollover (Income Statement)**

W/P Ref	#	Correcting Entry Required at Current Period End (Note - If there is an end-of-period balance sheet error, the correcting entry should be written irrespective of the period in which the error originated (i.e., there should not be any adjustments to opening retained earnings). If there was an uncorrected error in the prior end-of-period balance sheet, but there is not an error in the current end-of-period balance sheet, include only a description in this section.)				Impact of audit misstatement on financial statement captions										Identify the deficiency in internal control or provide rationale if no deficiency is noted, or cross-reference to the work paper where this is documented.		
						Income Statement Effect Debit(Credit)			Balance Sheet Effect				Cash Flow Effect - Increase (Decrease)					
						Debit	(Credit)	Factual Misstatement or Projected Misstatement	Income effect of correcting the balance sheet in prior period (carried forward from prior period's column C)	Income effect of correcting the current period balance sheet C = A (Only Inc Stmt accounts)	Income effect according to the Rollover (Income Statement) method	Equity at period end	Current Assets	Non-Current Assets	Current Liabilities		Non-Current Liabilities	Operating Activities
		----- A -----				B	C = A (Only Inc Stmt accounts)	C - B										
3.2.300.4.2	AM1	Dr. Sewer Maintenance Infrastructure - beginning balance Cr. 2012 Sewer maintenance additions ( To adjust for item incorrectly capitalized in 2012 instead of 2011. Factual - \$9,878 , Projected \$1,866,119)	1,875,997	(1,875,997)	Projected	-	-	-	-	-	1,875,997 (1,875,997)							
<b>Aggregate of uncorrected audit misstatement</b>						-	-	-	-	-	-	-	-	-	-	-	-	
<b>Financial statement amounts (per final financial statements)</b>									(19,792,000)	(711,646,000)	122,949,000	885,951,000	(113,904,000)	(183,350,000)				
<b>Uncorrected audit misstatements after tax effect as a percentage of financial statement amounts</b>									0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	

**Communication of Uncorrected Audit Misstatements**

Discussed with: Beverly LaFlex and John Egan

Discussed by: Julie Barricento



City of Milwaukee  
Summary of Uncorrected Audit Misstatements  
For year ended 12/31/2012

General Fund

Method used to quantify audit misstatements:

Rollover (Income Statement)

W/P Ref	#	Accounts and Description	Debit (Credit)		Factual Misstatement or Projected Misstatement	Impact of audit misstatement on financial statement captions							Identify the deficiency in internal control or provide rationale if no deficiency is noted, or cross-reference to the work paper where this is documented.	
			Correcting Entry Required at Current Period End (Note - If there is an end-of-period balance sheet error, the correcting entry should be written irrespective of the period in which the error originated (i.e., there should not be any adjustments to opening retained earnings). If there was an uncorrected error in the prior end-of-period balance sheet, but there is not an error in the current end-of-period balance sheet, include only a description in this section.)			Income Statement Effect Debit/(Credit)			Balance Sheet Effect Debit/(Credit)					
			Income effect of correcting the balance sheet in prior period (carried forward from prior period's column C)	Income effect of correcting the current period balance sheet		Income effect according to the Rollover (Income Statement) method	Equity at period end	Assets	Liabilities					
			----- A -----			B	C = A (Only Inc Stmt accounts)	C - B						
3.2.500.4.12	AM 2	Dr. Prepaid Expenses Cr. Operating Expenses (To correct for an expense recorded fully in 2012 that had a portion of the service related to 2013. Factual - \$12,554, Projection - \$1,861,588)	1,874,142	(1,874,142)	Projected		(1,874,142)	(1,874,142)	(1,874,142)	1,874,142				
3.2.550.4.1	AM 10	Dr. Cash Cr. Taxes Receivable (To correct for cash not recorded for Advanced Taxes)	10,258,311.37	(10,258,311)	Factual			-		10,258,311 (10,258,311)				
Aggregate of uncorrected audit misstatement						-	(1,874,142)	(1,874,142)	(1,874,142)	1,874,142			-	
Financial statement amounts (per final financial statements)									(33,804,000)	(105,790,000)	367,993,000		(262,203,000)	
Uncorrected audit misstatements after tax effect as a percentage of financial statement amounts								5.5%	1.8%	0.5%		0.0%		

Communication of Uncorrected Audit Misstatements

Discussed with: Beverly LaFlex and John Egan

Discussed by: Julie Barrientos





City of Milwaukee  
Summary of Uncorrected Audit Misstatements  
For year ended 12/31/2012

**General Obligation Debt**

Method used to quantify audit misstatements:

Rollover (Income Statement)

WP Ref	#	Accounts and Description	Correcting Entry Required at Current Period End (Note - If there is an end-of-period balance sheet error, the correcting entry should be written irrespective of the period in which the error originated (i.e., there should not be any adjustments to opening retained earnings). If there was an uncorrected error in the prior end-of-period balance sheet, but there is not an error in the current end-of-period balance sheet, include only a description in this section.)			Impact of audit misstatement on financial statement captions						Identify the deficiency in internal control or provide rationale if no deficiency is noted, or cross-reference to the work paper where this is documented.
			Debit	(Credit)	Factual Misstatement or Projected Misstatement	Income Statement Effect Debit/(Credit)			Balance Sheet Effect Debit/(Credit)			
						Income effect of correcting the balance sheet in prior period (carried forward from prior period's column C)	Income effect of correcting the current period balance sheet	Income effect according to the Rollover (Income Statement) method	Equity at period end	Assets	Liabilities	
			----- A -----			B	C = A (Only Inc Stmt accounts)	C - B				
3.2.550.4.1	AM 10	Dr. Taxes Receivable Cr. Cash (To correct for cash not recorded for Advanced Taxes)	1,379,004.47	(1,379,004)	Factual			-			1,379,004 (1,379,004)	
								-				
								-				
								-				
<b>Aggregate of uncorrected audit misstatement</b>								-				
<b>Financial statement amounts (per final financial statements)</b>								(7,474,000)	(133,696,000)	437,559,000	(303,863,000)	
<b>Uncorrected audit misstatements after tax effect as a percentage of financial statement amounts</b>								0.0%	0.0%	0.0%	0.0%	

**Communication of Uncorrected Audit Misstatements**

Discussed with: Beverly LaFlex and John Egan

Discussed by: Julie Barrientos



City of Milwaukee  
Summary of Uncorrected Audit Misstatements  
For year ended 12/31/2012

**Public Debt Amortization**

Method used to quantify audit misstatements:

Rollover (Income Statement)

W/P Ref	#	Correcting Entry Required at Current Period End (Note - If there is an end-of-period balance sheet error, the correcting entry should be written irrespective of the period in which the error originated (i.e., there should not be any adjustments to opening retained earnings). If there was an uncorrected error in the prior end-of-period balance sheet, but there is not an error in the current end-of-period balance sheet, include only a description in this section.)			Impact of audit misstatement on financial statement captions							Identify the deficiency in internal control or provide rationale if no deficiency is noted, or cross-reference to the work paper where this is documented.
		Accounts and Description	Debit	(Credit)	Factual Misstatement or Projected Misstatement	Income Statement Effect Debit/(Credit)			Balance Sheet Effect Debit/(Credit)			
						Income effect of correcting the balance sheet in prior period (carried forward from prior period's column C)	Income effect of correcting the current period balance sheet	Income effect according to the Rollover (Income Statement) method	Equity at period end	Assets	Liabilities	
		----- A -----			B	C = A (Only Inc Stmt accounts)	C - B					
		NONE NOTED						-				
								-	-			
								-	-			
								-	-			
								-	-			
Aggregate of uncorrected audit misstatement								-	-			
Financial statement amounts (per final financial statements)								(707,000)	(67,971,000)	67,971,000		-
Uncorrected audit misstatements after tax effect as a percentage of financial statement amounts								0.0%	0.0%	0.0%		#DIV/0!

Communication of Uncorrected Audit Misstatements

Discussed with: Beverly LaFlex and John Egan

Discussed by: Julie Barrientos



City of Milwaukee  
Summary of Uncorrected Audit Misstatements  
For year ended 12/31/2012

**Capital Projects**

Method used to quantify audit misstatements:

Rollover (Income Statement)

W/P Ref	#	Accounts and Description	Correcting Entry Required at Current Period End (Note - If there is an end-of-period balance sheet error, the correcting entry should be written irrespective of the period in which the error originated (i.e., there should not be any adjustments to opening retained earnings). If there was an uncorrected error in the prior end-of-period balance sheet, but there is not an error in the current end-of-period balance sheet, include only a description in this section.)		Factual Misstatement or Projected Misstatement	Impact of audit misstatement on financial statement captions						Identify the deficiency in internal control or provide rationale if no deficiency is noted, or cross-reference to the work paper where this is documented.
			Debit	(Credit)		Income Statement Effect Debit/(Credit)			Balance Sheet Effect Debit/(Credit)			
						Income effect of correcting the balance sheet in prior period (carried forward from prior period's column C)	Income effect of correcting the current period balance sheet	Income effect according to the Rollover (Income Statement) method	Equity at period end	Assets	Liabilities	
			----- A -----		B	C = A (Only Inc Stmt accounts)	C - B					
3.2.400.4.3.0100	AM5	Dr. Capital outlay expenditures Cr. AP  (Fund 336 relating to expenses relating to 2012 there were not accrued as of 12/31/12 that were identified during the Extended Search for Unrecorded Liabilities testing. Factual \$252,831, Projected \$4,422)	257,253	(257,253)	Projected		257,253	257,253	257,253	-	(257,253)	See SICD
3.2.400.4.3.0150	AM6	Dr. Capital outlay expenditures Cr. AP  (Fund 336 relating to expenses relating to 2012 there were not accrued as of 12/31/12 that were identified during the updated Search for Unrecorded Liabilities testing)	21,823	(21,823)	Factual		21,823	21,823	21,823	-	(21,823)	See SICD
3.2.400.4.6.0010	AM3	Dr. Beg Fund Balance Cr. Capital outlay expenditures  (Tax Incremental Fund 0336 expenditures related to FY2010 and FY2011 were not recorded until FY2012 resulting in 2012 expenditures being overstated. Factual \$130,765, Projected - \$(65,485) (negative values were tested which caused a negative projection)	65,280	(65,280)	Projected		(65,280)	(65,280)	65,280	(65,280)		See SICD
PY		Beginning net assets Cr. Capital outlay expenditures  (To adjust for the results of the updated search for unrecorded liabilities. Item related to 2011 not recorded until 2012.)	145,570	(145,570)	Factual		(145,570)	(145,570)	145,570	(145,570)		NA PY
3.2.500.4.8.0010	AM8	Dr. Capital outlay expenditures Cr. AP  (Fund 336 relating to expenses relating to 2012 there were not accrued as of 12/31/12 that were identified during the Extended Search for Unrecorded Liabilities testing)	199,357	(199,357)	Factual		199,357	199,357	199,357	-	(199,357)	See SICD
3.2.550.4.1	AM 10	Dr. Taxes Receivable Cr. Cash  (To correct for cash not recorded for Advanced Taxes)	74,137.00	(74,137)	Factual			-		74,137	(74,137)	
<b>Aggregate of uncorrected audit misstatement</b>						-	199,357	267,583	478,433	-	(478,433)	
<b>Financial statement amounts (per final financial statements)</b>								4,484,000	4,601,000	47,054,000	(51,655,000)	
<b>Uncorrected audit misstatements after tax effect as a percentage of financial statement amounts</b>								6.0%	10.4%	0.0%	0.9%	

**Communication of Uncorrected Audit Misstatements**

Discussed with: Beverly LaFlex and John Egan

Discussed by: Julie Barrientos

City of Milwaukee  
 Summary of Uncorrected Audit Misstatements  
 For year ended 12/31/2012

**Tax Incremental Districts**

Method used to quantify audit misstatements:

**Rollover (Income Statement)**

W/P Ref	#	Correcting Entry Required at Current Period End (Note - If there is an end-of-period balance sheet error, the correcting entry should be written irrespective of the period in which the error originated (i.e., there should not be any adjustments to opening retained earnings). If there was an uncorrected error in the prior end-of-period balance sheet, but there is not an error in the current end-of-period balance sheet)			Impact of audit misstatement on financial statement captions						Identify the deficiency in internal control or provide rationale if no deficiency is noted, or cross-reference to the work paper where this is documented.	
		Accounts and Description	Debit	(Credit)	Factual Misstatement or Projected Misstatement	Income Statement Effect Debit/(Credit)			Balance Sheet Effect Debit/(Credit)			
						Income effect of correcting the balance sheet in prior period (carried forward from prior period's column C)	Income effect of correcting the current period balance sheet	Income effect according to the Rollover (Income Statement) method	Equity at period end	Assets		Liabilities
		----- A -----			B	C = A (Only Inc Stmt accounts)	C - B					
3.2.400.4.3.0100	AM5	Dr. Capital outlay expenditures Cr. AP  (Fund 336 relating to expenses relating to 2012 there were not accrued as of 12/31/12 that were identified during the Extended Search for Unrecorded Liabilities testing. Factual \$252,831 , Projected \$4,422)	257,253	(257,253)	Projected		257,253	257,253	257,253	-	(257,253)	See SICD
3.2.400.4.3.0150	AM6	Dr. Capital outlay expenditures Cr. AP  (Fund 336 relating to expenses relating to 2012 there were not accrued as of 12/31/12 that were identified during the updated Search for Unrecorded Liabilities testing)	21,823	(21,823)	Factual		21,823	21,823	21,823	-	(21,823)	See SICD
3.2.400.4.6.0010	AM3	Dr. Beg Fund Balance Cr. Capital outlay expenditures  (Tax Incremental Fund 0336 expenditures related to FY2010 and FY2011 were not recorded until FY2012 resulting in 2012 expenditures being overstated. Factual \$130,765, Projected - \$(65,485) (negative values were tested which caused a negative projection)	65,280	(65,280)	Factual		(65,280)	-	65,280	(65,280)		See SICD
PY		Dr. Beg Fund Balance Cr. Capital outlay expenditures  (To adjust for the results of the updated search for unrecorded liabilities. Item related to 2011 not recorded until 2012.)	145,570	(145,570)	Factual		(145,570)	-	145,570	(145,570)		NA PY
<b>Aggregate of uncorrected audit misstatement</b>						-	68,226	68,226	279,076	-	(279,076)	
<b>Financial statement amounts (per final financial statements)</b>							-232,000	(6,849,000)	41,838,000		(34,989,000)	
<b>Uncorrected audit misstatements as a percentage of financial statement amounts</b>							-29.4%	-4.1%	0.0%		0.8%	

**Communication of Uncorrected Audit Misstatements**

Discussed with: Beverly LaFlex and John Egan

Discussed by: Julie Barrientos



Water Works  
 Summary of Uncorrected Audit Misstatements  
 For year ended 12/31/2012

Water Works

Method used to quantify audit misstatements:

Rollover (Income Statement)

W/P Ref	#	Correcting Entry Required at Current Period End (Note - If there is an end-of-period balance sheet error, the correcting entry should be written irrespective of the period in which the error originated (i.e., there should not be any adjustments to opening retained earnings). If there was an uncorrected error in the prior end-of-period balance sheet, but there is not an error in the current end-of-period balance sheet, include only a description in this section.)				Impact of audit misstatement on financial statement captions											Identify the deficiency in internal control or provide rationale if no deficiency is noted, or cross-reference to the work paper where this is documented.	
						Income Statement Effect Debit/(Credit)			Balance Sheet Effect Debit/(Credit)					Cash Flow Effect - Increase (Decrease)				
						Accounts and Description	Debit	(Credit)	Factual Misstatement or Projected Misstatement	Income effect of correcting the balance sheet in prior period (carried forward from prior period's column C)	Income effect of correcting the current period balance sheet	Income effect according to the Rollover (Income Statement) method	Equity at period end	Current Assets	Non-Current Assets	Current Liabilities		Non-Current Liabilities
		----- A -----		B	C = A (Only Inc Stmt accounts)	C - B												
		None															NA - PY	
Aggregate of uncorrected audit misstatement							-	-	-	-	-	-	-	-	-	-		
Financial statement amounts (per final financial statements)								(10,418,000)	(397,982,000)	49,914,000	403,835,000	(30,093,000)	(25,674,000)					
Uncorrected audit misstatements after tax effect as a percentage of financial statement amounts								0.0%	0.0%	0.0%	0.0%	0.0%	0.0%					

Communication of Uncorrected Audit Misstatements

Discussed with: Beverly LaFlex and John Egan

Discussed by: Julie Barrientos



City of Milwaukee  
Summary of Uncorrected Audit Misstatements  
For year ended 12/31/2012

**Aggregate Remaining**

Method used to quantify audit misstatements:

Rollover (Income Statement)

W/P Ref	#	Accounts and Description	Correcting Entry Required at Current Period End (Note - If there is an end-of-period balance sheet error, the correcting entry should be written irrespective of the period in which the error originated (i.e., there should not be any adjustments to opening retained earnings). If there was an uncorrected error in the prior end-of-period balance sheet, but there is not an error in the current end-of-period balance sheet, include only a description in this section.)		Factual Misstatement or Projected Misstatement	Impact of audit misstatement on financial statement captions									Identify the deficiency in internal control or provide rationale if no deficiency is noted, or cross-reference to the work paper where this is documented.
			Debit	(Credit)		Income Statement Effect Debit/(Credit)			Balance Sheet Effect Debit/(Credit)			Cash Flow Effect - Increase (Decrease)			
						Income effect of correcting the balance sheet in prior period (carried forward from prior period's column C)	Income effect of correcting the current period balance sheet	Income effect according to the Rollover (Income Statement) method	Equity at period end	Total Assets	Total Liabilities	Operating Activities	Investing Activities	Financing Activities	
			----- A -----			B	C = A (Only Inc Stmt accounts)	C - B							
3.2.550.4.1	AM 10	Dr. Due to Other Governmental Agencies Cr. Cash (To correct for cash not recorded for Advanced Taxes)	8,805,169.78	(8,805,170)	Factual			-		8,805,170 (8,805,170)					
<b>Aggregate of uncorrected audit misstatement</b>															
Financial statement amounts (per final financial statements)							(778,000)		(101,478,000)	464,697,000	(363,219,000)				
Uncorrected audit misstatements after tax effect as a percentage of financial statement amounts							0.0%		0.0%	0.0%	0.0%				

**Communication of Uncorrected Audit Misstatements**

Discussed with: Beverly LaFlex and John Egan

Discussed by: Julie Barrientos



City of Milwaukee  
 Summary of Corrected Audit Misstatements  
 For year ended 12/31/2012

Governmental Activities

W/P Ref	#	Accounts and Description	Debit	(Credit)	Income effect Debit / (Credit)	Factual Misstatement or Projected Misstatement	Balance Sheet Impact			Identify the deficiency in internal control or provide rationale if no deficiency is noted, or cross-reference to the work paper where this is documented.
							Equity	Assets	Liabilities	
Corrected audit misstatements at interim period(s)										
Corrected audit misstatements at the period-end										
3.2.300.4.13	AM 4	DR. Capital Outlay CR. CIP (government wide financials - to correct a capital asset amount that should have been expensed)	1,253,198	(1,253,198)	1,253,198	Factual	1,253,198	(1,253,198)		
<b>Total income effect of audit misstatements at the period-end</b>					1,253,198		1,253,198	(1,253,198)		-
<b>Total Income</b>					(14,654,000)		(251,707,000)	1,947,808,000		(1,696,101,000)
<b>Percentage</b>					9%		0%	0%		0%

Communication of Corrected Audit misstatements

Discussed with: Beverly LaFlex and John Egan

Discussed by: Julie Barrientos





City of Milwaukee  
 Summary of Corrected Audit misstatements  
 For year ended 12/31/2012

Fund Level

W/P Ref	#	Accounts and Description	Debit	(Credit)	Income effect Debit / (Credit)	Type of Error  Known Audit misstatement (KD) or Most Likely Audit misstatement (MLD)	Identify the deficiency in internal control or provide rationale if no deficiency is noted, or cross-reference to the work paper where this is documented.
<b>Corrected audit misstatements at interim period(s)</b>							
		None					
<b>Corrected audit misstatements at the period-end</b>							
200.4.7.2	AM9	Dr. Cash Cr. Due to Other Governmental Agencies (Agency funds - to record cash received and owed to other agencies)	10,093,945	(10,093,945)		KD	See SICD
<b>Total income effect of audit misstatements at the period-end</b>					-		

**Communication of Corrected Audit misstatements**

Discussed with: Beverly LaFlex and John Egan

Discussed by: Julie Barrientos



City of Milwaukee  
Summary of Omissions and Other Errors in Presentation and Disclosure  
For year ended 12/31/2012

W/P Ref	#	Description of Omission or Other Error	Resolution (Corrected/ Uncorrected)	Rationale for Uncorrected Items	Identify the deficiency in internal control or provide rationale if no deficiency is noted, or cross-reference to the work paper where this is documented.
		None			

Communication of Omissions and Other Errors

Discussed with: Beverly LaFlex and John Egan

Discussed by: Julie Barrientos