



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

October 31, 2012

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, 2011 and have issued our report thereon under the date of July 30, 2012. 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.



The Common Council  
The City of Milwaukee  
October 31, 2012  
Page 2 of 4

### **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(s), in order to comply with the requirements of U.S. generally accepted accounting principles, the City adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

#### *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.



The Common Council  
The City of Milwaukee  
October 31, 2012  
Page 3 of 4

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 post-employment 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**

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, 2011. 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.

#### **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.

#### **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, 2011, other than the opinions obtained related to the component units.



The Common Council  
The City of Milwaukee  
October 31, 2012  
Page 4 of 4

### **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. 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  
303 East Wacker Drive  
Chicago, IL 60601-5212

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

February 28, 2012

Mr. Michael J. Daun  
Deputy Comptroller  
City of Milwaukee  
200 East Wells Street  
Room 404, City Hall  
Milwaukee, Wisconsin 53202

COMPTROLLER  
2012 MAR 28 PM 1:33

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.

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



Mr. Michael J. Daun  
City of Milwaukee, Wisconsin  
February 28, 2012  
Page 2 of 11

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 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



Mr. Michael J. Daun  
City of Milwaukee, Wisconsin  
February 28, 2012  
Page 3 of 11

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.

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



Mr. Michael J. Daun  
City of Milwaukee, Wisconsin  
February 28, 2012  
Page 4 of 11

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 reports thereon into an offering of exempt securities, prior to our consenting to include or incorporate by reference our reports 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(s) thereon into an offering of exempt securities without obtaining our consent to include or incorporate by reference our reports 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.
- 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.





Mr. Michael J. Daun  
City of Milwaukee, Wisconsin  
February 28, 2012  
Page 5 of 11

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, 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;



Mr. Michael J. Daun  
City of Milwaukee, Wisconsin  
February 28, 2012  
Page 6 of 11

- 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 April 30, 2012.

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 ten 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.

*Government Auditing Standards* require external and internal auditors to meet minimum Continuing Professional Education (CPE) hours. Therefore, management is responsible for monitoring and documenting the compliance with the Government Auditing Standards CPE hours of those internal auditors assigned to the audit in direct assistance roles.

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



Mr. Michael J. Daun  
City of Milwaukee, Wisconsin  
February 28, 2012  
Page 7 of 11

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 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.



Mr. Michael J. Daun  
City of Milwaukee, Wisconsin  
February 28, 2012  
Page 8 of 11

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.

#### ***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.

\* \* \* \* \*



Mr. Michael J. Daun  
City of Milwaukee, Wisconsin  
February 28, 2012  
Page 9 of 11

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 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

ACCEPTED:

City of Milwaukee, Wisconsin

  
Authorized Signature

Deputy Comptroller  
Title

4-4-12  
Date



Office of the Comptroller

July 30, 2012

**Martin Matson**  
Comptroller

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

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, Wisconsin, as of and for the year ended December 31, 2011, for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Milwaukee, Wisconsin (the City), and the respective changes in financial position, and, where applicable, cash flows thereof in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation in the financial statements of financial position, changes in financial position, and cash flows in conformity with U.S. generally accepted accounting principles. We are also responsible for establishing and maintaining effective internal control over financial reporting.

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

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

1. The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles.
2. We have made available to you:
  - a. All financial records and related data.
  - b. All minutes of the meetings of appropriate councils and 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 communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
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 Statement of Financial Accounting Standards (SFAS) No. 5, *Accounting for Contingencies*.
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by SFAS No. 5.
  - 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 assets and through the date of this letter that would require adjustment to or disclosure in the financial statements.
5. We believe that the effects of the uncorrected financial statement misstatements summarized in the accompanying schedule are immaterial, both individually and in the aggregate, to the financial statements for each respective opinion unit.
  6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud. We understand that the term "fraud" includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets.

Misstatements arising from fraudulent financial reporting are intentional misstatements, or omissions of amounts or disclosures in financial statements to deceive financial statement users. Misstatements arising from misappropriation of assets involve the theft of an entity's assets where the effect of the theft causes the financial statements not to be presented in conformity with U.S. generally accepted accounting principles.

7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
  - a. Management
  - b. Employees who have significant roles in internal control over financial reporting, or
  - c. Others where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the City received in communications from employees, former employees, analysts, regulators, short sellers, or others.
9. The City has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
10. 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.
11. The following have been properly recorded or disclosed in the financial statements:
  - a. Related party transactions 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 affiliates of the enterprise; entities for which investments in their equity securities would be required to be accounted for by the equity method by the enterprise; trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; principal owners of the enterprise; its management; members of the immediate families of principal owners of the enterprise and its management; members of the immediate families of principal owners of the enterprise and its management; and other parties with which the enterprise may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. Another party also is a related party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

- b. Guarantees, whether written or oral, under which the City is contingently liable.
  - c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and lines of credit or similar arrangements.
  - d. Agreements to repurchase assets previously sold, including sales with recourse.
  - e. Changes in accounting principle affecting consistency.
  - f. The existence of and transactions with joint ventures and other related organizations.
12. 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.
  13. The City has complied, in all material respects, with applicable laws, regulations, contracts, and grants that could have a material effect on the financial statements in the event of noncompliance.
  14. 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.
  15. 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 Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit*.
  16. 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 assets. The financial statements disclose all other joint ventures and other related organizations.
  17. The financial statements properly classify all funds and activities, including governmental funds, which are presented in accordance with the fund type definition in GASB Statement No. 54, *Fund*



*Balance Reporting and Governmental Fund Type Definitions.*

18. 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.
19. The City has not elected to apply the option allowed in paragraph 7 of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Activities*, to the enterprise.
20. Inter-fund, internal and intra-entity activity and balances have been appropriately classified and reported.
21. Receivables reported in the financial statements represent valid claims against debtors arising on or before the date of the statement of net assets and have been appropriately reduced to their estimated net realizable value.
22. Deposits and investment securities are properly classified and reported.
23. 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.
24. The City has identified and properly reported all of its derivative instruments and any related deferred inflows/outflows 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.
25. 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.
26. We believe that all material expenditures or expenses that have been deferred to future periods will be recoverable.
27. Capital assets, including infrastructure assets, are properly capitalized, reported and, if applicable, depreciated.
28. 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.

29. 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.
30. 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.
31. The City has complied with all tax and debt limits and with all debt related covenants.
32. 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.
33. 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.
34. We acknowledge our responsibility for the presentation of required supplementary information which include the management's discussion and analysis and the schedule of funding progress, in accordance with the applicable criteria and/or prescribed guidelines and we believe:
- a. The required 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 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.
35. We acknowledge our responsibility for the presentation of supplementary information, the combining and individual fund statements and schedules, in accordance with the applicable criteria and/or prescribed guidelines and we believe:
- a. 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.
36. 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.
37. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
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. The City 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 (GAAP). 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.
44. We agree with the findings of specialists in evaluating the Retiree Healthcare and Life Insurance Program Liability 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. The City has complied with all applicable laws and regulations in adopting, approving and amending budgets.

46. The City is responsible for complying, and has complied, with the requirements of OMB Circular A-133.
47. The City has prepared the schedule of expenditures of federal awards (SEFA) in accordance with the requirements of OMB Circular A-133 and has included all expenditures made during the year ended December 31, 2011 for all awards provided by federal agencies in the form of grants, awards under the American Recovery and Reinvestment Act (ARRA), federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance. The City has appropriately identified and separated all ARRA awards, if any, within the SEFA.
48. The City is responsible for complying, and has complied, in all material respects, with the requirements of laws and regulations, and the provisions of contracts and grant agreements related to each of its federal programs. The City has disclosed to you any interpretations of any compliance requirements that have varying interpretations.
49. The City is responsible for establishing and maintaining, and has 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.
50. 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 type of compliance requirement of a federal program 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 type of compliance requirement of a federal program that, is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
51. We acknowledge our responsibility 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.
52. The City has 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

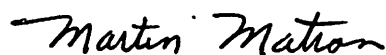
major federal program.

53. The City has 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.
54. The City has 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.
55. The City has 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.
56. 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.
57. Federal financial reports and claims for advances and reimbursements are supported by the accounting records from which the financial statements have been prepared.
58. 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.
59. If applicable, the City has 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.
60. If applicable, the City has considered the results of subrecipient audits and has made any necessary adjustments to its own accounting records.
61. The City is responsible for, and has accurately prepared, the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133.
62. 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.
63. The City has accurately completed Part I of the data collection form.
64. The City has advised you of all contracts or other agreements with service organizations.
65. If applicable, the City has disclosed to you all communications from its service organizations relating to noncompliance at the service organizations.

66. The City has disclosed any known noncompliance occurring subsequent to the period for which compliance is audited.
67. 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.

Sincerely,

City of Milwaukee



MARTIN MATSON  
Comptroller



City of Milwaukee  
Summary of Uncorrected Audit Misstatements  
For year ended 12/31/2011

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.)		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	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							
Prior year reversal	PY	(to reverse prior year adjustment to adjust the liability due to errors noted in the summary reports)			Factual Misstatement	1,129,798	-	(1,129,798)	-						N/A - Prior year SUAM							
2.6.12.0030		Other financing sources - issuance premium	1,466,293	(1,466,293)	Factual		153,622	153,622						1,466,293								
		Other financing sources - proceeds from current refunding																				
		Premium on Bonds Payable	1,466,293	(1,466,293)																		1,466,293
		Bonds Payable																				
		Amortization Expense	153,622	(153,622)																		
		Premium on Bonds Payable (To adjust for 2011 Debt premiums not allocated to Water Works Fund based on Non-GAAP analysis.)												(153,622)								
<b>Aggregate of uncorrected audit misstatements (after tax)</b>									(4,820,976)	-	-	-	-	(153,622)								
<b>Financial statement amounts (per final financial statements)</b>									50,791,000	(222,223,000)	917,918,000	990,822,000	(640,290,000)	(1,046,227,000)								
<b>Uncorrected audit misstatements after tax effect as a percentage of financial statement amounts</b>									-9.5%	0.0%	0.0%	0.0%	0.0%	0.0%								



City of Milwaukee  
Summary of Uncorrected Audit Misstatements  
For year ended 12/31/2011

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 Debit/(Credit)				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	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											
2.6.12.0030		Premium on Bonds Payable Bonds Payable Amortization Expense Premium on Bonds Payable (To adjust for 2011 Debt premiums not allocated to Water Works Fund based on Non-GAAP analysis.)	1,466,293 153,622	(1,466,293) (153,622)	Factual		153,622	153,622	-					1,466,293 (1,466,293) (153,622)	NA	
3.2.200.1.1	AM5	Current Restricted Cash Non Current Restricted Cash (To adjust for guidance within ARB 43 for Restriction classification following use of the funds.)	4,513,000	(4,513,000)	Factual				-	4,513,000	(4,513,000)			4,513,000 (4,513,000)	NA	
3.2.100.4 (WW)	AM2	Non Current Restricted Cash Current Restricted Cash following use of the funds.)	692,467	(692,467)	Factual				-	(692,467)	692,467			-	NA	
PY (WW)	PY	Cr. Operating expense (Adjust for Prior Year: To accrue two invoices incurred in 2010 and were not accrued at year-end. The factual misstatement is \$6,818 and the projected misstatement is \$446,747. Adjustment includes entry to beginning fund balance but for purposes of this schedule this is not shown.)		(446,747)	Factual and projected misstatement		(446,747)	(446,747)						-	NA - PY	
<b>Aggregate of uncorrected audit misstatement</b>																
					(293,125)	(293,125)				3,820,533	(3,820,533)			(153,622)		
<b>Financial statement amounts (per final financial statements)</b>							(15,049,000)	(691,854,000)	123,281,000	862,923,000	(57,289,000)	(237,061,000)				
<b>Uncorrected audit misstatements after tax effect as a percentage of financial statement amounts</b>							1.9%	0.0%	3.1%	-0.4%	0.0%	0.1%				





City of Milwaukee  
Summary of Uncorrected Audit Misstatements  
For year ended 12/31/2011

**General Fund**

Method used to quantify audit misstatements:

**Rollover (Income Statement)**

WP 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						
PY		Dr. Beginning Fund Balance Cr. Operating expenditures  (to reverse prior year adjustment to accrue for two invoices identified during the search for unrecorded liabilities testwork that should have been accrued as of year end. The factual amount totalled \$980, the projected misstatement totalled \$863,001)	863,981	(863,981)	Factual Misstatement and Projected Misstatement	863,981	(863,981)	(863,981) (863,981)	863,981 (863,981)				N/A - Prior year SUAM
								-	-				
								-	-				
<b>Aggregate of uncorrected audit misstatement</b>						863,981	(863,981)	(1,727,962)	-	-	-		
<b>Financial statement amounts (per final financial statements)</b>								(12,360,000)	(71,986,000)	319,124,000	(247,138,000)		
<b>Uncorrected audit misstatements after tax effect as a percentage of financial statement amounts</b>								14.0%	0.0%	0.0%	0.0%		



City of Milwaukee  
Summary of Uncorrected Audit Misstatements  
For year ended 12/31/2011

**General Obligation Debt**

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)			
					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	
----- A -----				B	C = A (Only Inc Stmt accounts)	C - B					
							-				
		NONE NOTED					-				
							-				
							-				
							-				
Aggregate of uncorrected audit misstatement							-				
Financial statement amounts (per final financial statements)							(8,497,000)	(126,222,000)	464,516,000	(338,294,000)	
Uncorrected audit misstatements after tax effect as a percentage of financial statement amounts							0.0%	0.0%	0.0%	0.0%	



City of Milwaukee  
Summary of Uncorrected Audit Misstatements  
For year ended 12/31/2011

**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.
					Income Statement Effect Debit/(Credit)			Balance Sheet Effect Debit/(Credit)			
					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	
----- A -----				B	C = A (Only Inc Stmt accounts)	C - B					
							-				
		NONE NOTED					-				
							-				
							-				
							-				
Aggregate of uncorrected audit misstatement							-				
Financial statement amounts (per final financial statements)							(4,148,000)	(67,264,000)	67,264,000		
Uncorrected audit misstatements after tax effect as a percentage of financial statement amounts							0.0%	0.0%	0.0%		#DIV/0!



City of Milwaukee  
Summary of Uncorrected Audit Misstatements  
For year ended 12/31/2011

**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				
PY		Dr. Beg Fund Balance Cr. Capital outlay expenditures  (To accrue for TID invoices incurred in 2010 and that were not accrued. The factual misstatement was \$291,393 and the projected misstatement was \$351,081)	351,081	(351,081)	Factual and Projected Misstatement	351,081	351,081 (351,081)	- (351,081)	351,081 (351,081)			N/A - Prior year SUAM
PY		Dr. Beg Fund Balance Cr. Capital outlay expenditures  (Adjustment for PY: To record an invoice that was not accrued for as of year-end that was incurred in FY2010)	1,064,940	(1,064,940)	Factual Misstatement	1,064,940	1,064,940 (1,064,940)	- (1,064,940)	1,064,940 (1,064,940)			N/A - Prior year SUAM
500.4.13.0010	AM2	Dr. Beg Fund Balance Cr. Capital outlay expenditures  (To adjust for misstatement found within the capital projects expenditure testing for expenses not recorded in correct period. Item should have been recorded in 2010 however was recorded in 2011.)	294,586	(294,586)	Factual	294,586	294,586 (294,586)	(294,586)	294,586 (294,586)			See SICD
400.4.5.0100	AM3	Dr. Beg Fund Balance Cr. Capital outlay expenditures  (To adjust for invoices recorded in 2011 that had services related to 2010 and were not recorded in the correct period. KPMG performed an analysis over the entire population to determine the factual misstatement.)	533,612	(533,612)	Factual	533,612	533,612 (533,612)	- (533,612)	533,612 (533,612)			See SICD
400.4.3.0160	AM4	Dr. Capital outlay expenditures Cr. Accounts payable  (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)	
<b>Aggregate of uncorrected audit misstatement</b>						2,244,218	145,570	(2,098,648)	145,570	-	(145,570)	See SICD
<b>Financial statement amounts (per final financial statements)</b>								(19,738,000)	117,000	46,169,000	(46,286,000)	
<b>Uncorrected audit misstatements after tax effect as a percentage of financial statement amounts</b>								10.6%	124.4%	0.0%	0.3%	

City of Milwaukee  
 Summary of Uncorrected Audit Misstatements  
 For year ended 12/31/2011

**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.		
			Income Statement Effect			Balance Sheet Effect							
			Debit/(Credit)			Debit/(Credit)							
		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	Assets	Liabilities		
			----- A -----			B	C = A (Only Inc Stmt accounts)	C - B					
PY		Dr. Beg Fund Balance Cr. Capital outlay expenditures  (to accrue for TID invoices incurred in 2010 and were not accrued. The factual misstatement was \$305,693 and the final projected misstatement was \$387,942)	387,942	(387,942)	Projected Misstatement	387,942	387,942 (387,942)	(387,942)	387,942 (387,942)			See control deficiency CD 1	
400.4.5.0100	AM3	Dr. Beg Fund Balance Cr. Capital outlay expenditures (To adjust for invoices recorded in 2011 that had services related to 2010 and were not recorded in the correct period. KPMG performed an analysis over the entire population to determine the factual misstatement.)	533,612	(533,612)	Factual		(533,612)	(533,612)	(533,612)			See SICD	
400.4.3.0160	AM4	Dr. Capital outlay expenditures Cr. Accounts payable (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)	See SICD	
<b>Aggregate of uncorrected audit misstatement</b>						387,942	(388,042)	(775,984)	(388,042)	-	(145,570)		
<b>Financial statement amounts (per final financial statements)</b>						18,617,000	(7,060,000)	11,557,000	41,600,000	41,600,000	(34,540,000)		
<b>Uncorrected audit misstatements as a percentage of financial statement amounts</b>								-4.2%	5.5%	0.0%	0.4%		





City of Milwaukee  
Summary of Uncorrected Audit Misstatements  
For year ended 12/31/2011

**Aggregate Remaining**

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)				
						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		
			Debit	(Credit)	Factual Misstatement or Projected Misstatement	B	C = A (Only Inc Stmt accounts)	C - B								
			----- A -----													
PY		(to adjust for prior year entry: to record revenue to agree to confirmed amounts from privatized company)			Factual	816,668		(816,668)								N/A - Prior year SUAM
						816,668	-	(816,668)	-	-	-					
Aggregate of uncorrected audit misstatement																
Financial statement amounts (per final financial statements)							7,050,000	(100,700,000)	504,853,000	(404,153,000)						
Uncorrected audit misstatements after tax effect as a percentage of financial statement amounts							-11.6%	0.0%	0.0%	0.0%						



City of Milwaukee  
 Summary of Corrected Audit Misstatements  
 For year ended 12/31/2011

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)										
		None								
Corrected audit misstatements at the period-end										
Total income effect of audit misstatements at the period-end					-		-	-	-	
Total Income					50,791,000		(222,223,000)	1,908,740,000	(1,686,517,000)	
Percentage					0%		0%	0%	0%	





City of Milwaukee  
 Summary of Corrected Audit misstatements  
 For year ended 12/31/2011

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 the period-end</b>							
AM 1		Prepaid Expense	886,445			KD	Expense items are being recognized as expenses right away instead of being expensed in the period to which the expense item relates.
		Equipment Expense (Fund 318) Instead of spreading the expense over the life of the contract, the full maintainence contract was expensed in 2011 resulting in a \$886,444.82 overstatement of expenses.		(886,445)	(886,445)		
<b>Total income effect of audit misstatements at the period-end</b>					(886,445)		



City of Milwaukee  
Summary of Omissions and Other Errors in Presentation and Disclosure  
For year ended 12/31/2011

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			