

Board of Directors
The Indianapolis Local Improvement Bond Bank

We have audited the financial statements of The Indianapolis Local Public Improvement Bond Bank (the Bond Bank) as of and for the year ended December 31, 2007, and have issued our report thereon dated September 15, 2008. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States

As communicated in our engagement letter our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Bond Bank solely for the purpose of determining the extent of our audit procedures and not to provide any assurance concerning such internal control.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Internal Control

In planning and performing our audit of the financial statements of the Bond Bank as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States, we considered the Bond Bank's 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 Bond Bank's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bond Bank's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Material Weaknesses in Internal Control

We consider the following to be material weaknesses in internal control.

- ***Establish and Implement Accounting Policies and Procedures***

During our audit, we found an overall lack of review and reconciliation in many areas of the accounting and finance functions. We noted numerous instances where input was incomplete and journal entries and transfers between accounts were incorrect. We believe that the following factors contributed to causing the material weaknesses described above include:

- Lack of well-defined accounting policies and procedures
- Lack of training and expertise in the accounting department

It is imperative that the Bond Bank establish review and reconciliation policies and procedures. Many of the problems identified by the audit process could have been avoided or brought to the attention of management much earlier if the records were reviewed and reconciled on a timely basis by appropriate personnel.

- ***Accounting Discipline***

Accounting tasks need to be performed on a timely and routine basis. To provide more accurate and timely accounting information, we strongly recommend that the Bond Bank establish a timeline for monthly accounting procedures and an effective review as a customary part of the accounting process. This would involve monthly reconciliations of all accounts and making various adjustments throughout the year rather than just at year-end.

- ***Material Audit Adjustments Recorded***

During the our audit, we proposed adjusting journal entries to correct previously undetected misstatements in the Bond Bank's accounting records. Management should designate someone with a high degree of accounting knowledge to oversee the accounting services being provided and to review the end product. In addition, this person should ensure the accounting work is being performed by staff with the appropriate level of experience and accounting knowledge.

Qualitative Aspects of the Bond Bank's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Bond Bank is included in Note 1 to the financial statements. There was no initial selection of accounting policies and no changes in significant accounting policies or their application during 2007. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are the fair market value disclosures of derivative instruments and the allowance for doubtful accounts.

Management's estimate of the fair market value of derivatives is based on a mark to market calculation prepared by a third party financial services firm. Management's estimate of the allowance for doubtful accounts is determined by a review of accounts receivable that are past due and management's determination of the individual balances' collectability. We evaluated the key factors and assumptions used to calculate the fair value on derivative instruments and the allowance for doubtful accounts and determined that they are reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Bond Bank's financial statements relate to cash and investments, loans to qualified entities, bonds and notes payable and debt arrangements and defeased debt.

Significant Difficulties Encountered During the Audit

We encountered significant difficulties in performing and completing the audit process. Primarily, these difficulties related to the incomplete and poor condition of the Bond Bank's books and records, lack of consistent and standard accounting procedures, lack of available documentation, and the lack of qualified internal accounting staff. All of these issues resulted in additional time and cost, and they delayed the completion of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. See the attached list.

Disagreements with Management

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

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated September 15, 2008.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Findings or Issues

In the normal course of our professional association with the Bond Bank, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Bond Bank, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Bond Bank's auditors.

This report is intended solely for the information and use of the management and Board of Directors of the Bond Bank, and is not intended to be and should not be used by anyone other than these specified parties.

Katy, Aragon & Miller, LLP

Indianapolis, Indiana
September 15, 2008