

**OKLAHOMA DEVELOPMENT
FINANCE AUTHORITY**

AND

**CREDIT ENHANCEMENT
RESERVE FUND**

June 30, 2008

OKLAHOMA DEVELOPMENT FINANCE AUTHORITY

June 30, 2008

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Management's Discussion and Analysis

THE OKLAHOMA DEVELOPMENT FINANCE AUTHORITY

This section of the Oklahoma Development Finance Authority's (the Authority's) annual financial report presents a discussion and analysis of its financial performance for the year ended June 30, 2008. Please read it in conjunction with the financial statements which follow this section. The following table summarizes the financial position and results of operations of the Authority for 2008 and 2007.

Assets:	<u>2008</u>	<u>2007</u>
Current assets	\$ 12,096,718	\$ 11,268,469
Capital assets	588,068	601,391
Other non-current assets	1,507,882	2,322,354
Total Assets	<u>14,192,668</u>	<u>14,192,214</u>
 Liabilities:		
Current liabilities	41,941	42,615
Other non-current liabilities	-	32,728
Bonds payable	9,999,000	9,999,000
Total Liabilities	<u>10,040,941</u>	<u>10,074,343</u>
 Net Assets:		
Invested in capital assets	588,068	601,391
Unrestricted	3,563,659	3,516,480
Total Net Assets	<u>\$ 4,151,727</u>	<u>\$ 4,117,871</u>
 Operating Revenues:		
Fee revenue	\$ 714,282	\$ 682,590
Interest and Investment income	501,552	580,225
Other	37,422	37,422
Total Operating Revenues	<u>1,253,256</u>	<u>1,300,237</u>
 Operating Expenses:		
Interest expense	412,727	537,688
Other operating expenses	806,673	679,151
Total Operating Expenses	<u>1,219,400</u>	<u>1,216,839</u>
 Change in net assets	33,856	83,398
 Total net assets, beginning of the year	<u>4,117,871</u>	<u>4,034,473</u>
 Total net assets, end of the year	<u>\$ 4,151,727</u>	<u>\$ 4,117,871</u>

Management's Discussion and Analysis

THE OKLAHOMA DEVELOPMENT FINANCE AUTHORITY

OVERVIEW OF THE FINANCIAL STATEMENTS

The three financial statements presented within the financial statements are as follows:

- Statement of Net Assets – This statement presents information reflecting the Authority's assets, liabilities and net assets. Net assets represent the amount of total assets less total liabilities. The statement of net assets is categorized as to current and non-current assets and liabilities. For purposes of the financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or becoming due within 12 months of the statement date. The Authority's investment balances are considered current assets, as the Authority has historically experienced a high portfolio turnover rate.
- Statement of Revenues, Expenses and Changes in Net Assets – This statement reflects the operating revenues and expenses, as well as non-operating revenues and expenses during the operating year. Major sources of operating revenues are administrative fee income and major sources of operating expenses being personnel and interest expense. The change in net assets for an enterprise fund is similar to net profit or loss for any other business enterprise.
- Statement of Cash Flows – The statement of cash flows is presented on the direct method of reporting which reflects cash flows from operating, financial and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash for the calendar year.

FINANCIAL HIGHLIGHTS

- The Authority's total assets at June 30, 2008 increased by approximately \$500 which is very consistent with the prior year.
- Total liabilities decreased for the year. The approximately \$33,400 decrease in liabilities compared to the prior year is primarily due to a decrease in unearned revenue.
- The decrease in total operating revenues of approximately \$47,000 in 2008 is due to increased fee revenues of approximately \$31,700, and a net decrease in interest and investment income of approximately \$78,700.
- The increase in total operating expenses of approximately \$2,500 in 2008 compared to the prior year is due to a decrease of interest expense of approximately \$125,000 and an approximate increase of other general expenses of \$127,500.
- Total net assets increased by approximately \$33,900 between July 1, 2007 and June 30, 2008.

Management's Discussion and Analysis

THE OKLAHOMA DEVELOPMENT FINANCE AUTHORITY

OVERVIEW OF THE FINANCIAL STATEMENTS

CAPITAL ASSETS

As of June 30, 2008, the Authority had invested approximately \$809,000 in capital assets, including land, buildings, automobiles, furniture and equipment. Net of accumulated depreciation, the Authority's net capital assets at June 30, 2008 total approximately \$588,000. The Authority's net capital assets at June 30, 2007 totaled approximately \$601,000.

DEBT ADMINISTRATION

As of June 30, 2008, the Authority had approximately \$1.6 billion of conduit debt (non-recourse debt to the Authority that is repaid solely from revenues derived from the related facilities) outstanding. This is an approximate \$100 million increase from June 30, 2007. The Authority also had outstanding as of June 30, 2008 and 2007, \$9,999,000 of bonds related to the Oklahoma Quality Jobs Investment Program, a designated fund within the Authority.

CONTACTING THE AUTHORITY'S MANAGEMENT

This financial report is designed to provide patrons and interested parties with a general overview of the Authority's finances and to demonstrate the Authority's accountability for its finances. If you have questions about this report or need additional financial information, contact:

James G. Fulmer, President
The Oklahoma Development Finance Authority
5900 N Classen Court
Oklahoma City, Oklahoma 73118

Telephone: 405-842-1145

Independent Auditors' Report

The Board of Directors
The Oklahoma Development Finance Authority

We have audited the statement of net assets of the Oklahoma Development Finance Authority ("ODFA"), a component unit of the state of Oklahoma, as of June 30, 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. We have also audited the financial statements of ODFA's discretely presented component unit, the Credit Enhancement Reserve Fund ("the Fund"). Collectively, ODFA and the Fund are referred to as the "Authority". These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority and its discretely presented component unit as of June 30, 2008, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2008, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting and compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Authority, taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Oklahoma City, Oklahoma
October 17, 2008

Cole & Reed P.C.

STATEMENT OF NET ASSETS

OKLAHOMA DEVELOPMENT FINANCE AUTHORITY

June 30, 2008

	Total Primary Government	Component Unit (Credit Enhancement Reserve Fund)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,219,710	\$ 214,755
Interest receivable	79,137	2,204
Fees receivable and other current assets	375,866	25,300
Notes receivable	202,690	-
Investments	10,219,315	891,553
TOTAL CURRENT ASSETS	<u>12,096,718</u>	<u>1,133,812</u>
NONCURRENT ASSETS		
Notes receivable, net of allowance for uncollectible loans of \$226,660	1,357,882	-
Capital assets, net of accumulated depreciation of \$221,043	588,068	-
Other assets	150,000	-
TOTAL NONCURRENT ASSETS	<u>2,095,950</u>	<u>-</u>
TOTAL ASSETS	<u>14,192,668</u>	<u>1,133,812</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	9,213	-
Deferred revenue	32,728	24,068
TOTAL CURRENT LIABILITIES	<u>41,941</u>	<u>24,068</u>
NONCURRENT LIABILITIES		
Bonds payable	9,999,000	-
Deferred revenue	-	247,388
Reserve for losses	-	51,371
TOTAL NONCURRENT LIABILITIES	<u>9,999,000</u>	<u>298,759</u>
TOTAL LIABILITIES	<u>10,040,941</u>	<u>322,827</u>
NET ASSETS		
Invested in capital assets	588,068	-
Unrestricted	3,563,659	810,985
TOTAL NET ASSETS	<u>\$ 4,151,727</u>	<u>\$ 810,985</u>

See accompanying notes to financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

OKLAHOMA DEVELOPMENT FINANCE AUTHORITY

Year Ended June 30, 2008

	Total Primary Government	Component Unit (Credit Enhancement Reserve Fund)
OPERATING REVENUES		
Fee revenue	\$ 714,282	\$ -
Insurance premiums	-	56,878
Interest and investment income	501,552	36,763
Other	37,422	-
TOTAL OPERATING REVENUES	<u>1,253,256</u>	<u>93,641</u>
OPERATING EXPENSES		
Personnel services	526,595	-
Professional services	52,520	1,801
Administrative	58,319	3,500
Program expenses	55,115	-
Depreciation	32,572	-
Interest expense	412,727	-
Other	81,552	-
TOTAL OPERATING EXPENSES	<u>1,219,400</u>	<u>5,301</u>
OPERATING INCOME	33,856	88,340
NET ASSETS AT BEGINNING OF YEAR	<u>4,117,871</u>	<u>722,645</u>
NET ASSETS AT END OF YEAR	<u>\$ 4,151,727</u>	<u>\$ 810,985</u>

See accompanying notes to financial statements.

STATEMENT OF CASH FLOWS

OKLAHOMA DEVELOPMENT FINANCE AUTHORITY

Year Ended June 30, 2008

	Total Primary Government	Component Unit (Credit Enhancement Reserve Fund)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received for fees and insurance premiums	\$ 623,934	\$ 57,092
Cash paid to suppliers and employees	(774,775)	(6,491)
Interest and investment income received	626,070	42,336
Interest paid	(412,727)	-
Other receipts	38,394	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>100,896</u>	<u>92,937</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payment for acquisition of capital assets	(27,587)	-
Sale of capital assets	8,338	-
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(19,249)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(12,444,988)	(1,775,609)
Proceeds from sale of investments	12,086,617	1,762,519
Payments received on notes receivable	1,165,664	-
Advances on notes receivable	(375,000)	-
NET CASH USED PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>432,293</u>	<u>(13,090)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	513,940	79,847
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>705,770</u>	<u>134,908</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,219,710</u>	<u>\$ 214,755</u>

(Continued)

See accompanying notes to financial statements.

STATEMENT OF CASH FLOWS--Continued

OKLAHOMA DEVELOPMENT FINANCE AUTHORITY

Year Ended June 30, 2008

	Total Primary Government	Component Unit (Credit Enhancement Reserve Fund)
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 33,856	\$ 88,340
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for uncollectible loans	50,000	-
Depreciation	32,572	-
Change in assets and liabilities:		
Fees receivable and other current assets	(56,648)	(18,975)
Interest receivable	74,518	5,573
Accounts payable	(674)	(1,190)
Deferred revenue and reserve for losses	(32,728)	19,189
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 100,896</u>	<u>\$ 92,937</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

OKLAHOMA DEVELOPMENT FINANCE AUTHORITY

June 30, 2008

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete.

The Oklahoma Development Finance Authority (the "Authority") is a tax-exempt public trust organized under the laws of the state of Oklahoma (the "State") by Declaration of Trust dated November 1, 1974. The Authority (previously the Oklahoma Development Authority) amended its Declaration of Trust and changed its name to the Oklahoma Development Finance Authority in 1988. The beneficiary of the Authority is the State.

The Authority was established to provide financing for both public and private entities in the State. The Authority obtains funds through the issuance of bonds and notes. Private entities qualifying for Authority financing are generally agricultural, civic, educational, health care, industrial, or manufacturing enterprises. Financing is also provided to governmental agencies and instrumentalities of the State. For public programs, bond and note proceeds are deposited into trust funds to be loaned out to qualifying program participants. Interest from the trust investments and the loans is used to pay interest on the bonds and notes issued by the Authority.

The Authority is a component unit of the State and is combined with other similar funds to comprise the Proprietary Component Units of the State. In evaluating how to define the Authority, for financial reporting purposes, management has determined that there is one entity over which the Authority exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the Authority. The Authority exercises significant influence or accountability over the Oklahoma Credit Enhancement Reserve Fund (the "Fund").

Under Oklahoma statutes, the Credit Enhancement Reserve Fund Act (the "Act") created the Fund to be managed, administered, and utilized by the Authority solely to secure the payment of interest, principal, and premium, if any, on the revenue bonds and other financial obligations issued by the Authority for the purpose of enhancing and supporting the credit of such obligations.

In addition, the Act authorizes the Fund to issue bonds which are the direct and general obligations of the State (to which the full faith and credit of the State is pledged) in a total principal amount not to exceed \$100,000,000 for the purpose of generating monies to be deposited to the Fund.

The Fund is a discretely presented component unit of the Authority and is reported as an enterprise fund. The Fund does not prepare separately issued financial statements. Collectively, the Authority and the Fund are also referred to as the Authority.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA DEVELOPMENT FINANCE AUTHORITY

June 30, 2008

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Nature of Activities: The Authority administers a broad mix of programs, as noted below, to meet the various economic needs of the State.

Conduit Lending Program: The Conduit Lending Program is completed through the authorization and sale of revenue bonds, notes, certificates of participation, or other evidence of indebtedness. Funds generated by such sale are then available for loans to qualified borrowers. The Authority does not guarantee such obligations.

First-Time Farmer Loan Program: The First-Time Farmer Loan Program is administered in conjunction with the Oklahoma Department of Agriculture and was established during 1994. This program is administered by the Authority using federal and state tax-exempt bond financing to reduce a farmer's interest rate for capital purchases. This program is structured so that a direct loan can be made between a borrower and a lender or between a buyer and a seller.

Small Business Financing Program: The Small Business Financing Program continues its efforts to provide additional funds and financing opportunities to Oklahoma's small business community. The Authority has assisted Rural Enterprises, Inc. ("REI") of Durant, Oklahoma, with the development of their SBA Micro Loan Program by furnishing seed money for the program.

Quality Jobs Investment Program: The Quality Jobs Investment Program encourages the growth of equity and near equity capital for Oklahoma businesses. Under this program, the Authority can match dollar for dollar an investment enterprise's private capital for helping new and expanding businesses. The Program was created by the Authority and funded through a bond issuance in the amount of \$9,999,000 in 1997 with the proceeds restricted to fund the program.

Tax-Exempt Guaranty Pool: The Tax-Exempt Guaranty Pool (the "Pool") is designed to assist the Oklahoma Industrial Finance Authority (the "OIFA") in issuing tax-exempt bonds. The Pool acts as a private credit enhancement reserve fund to guarantee any loss after all resources of the OIFA have been exhausted. The guarantee is limited to the resources of the Pool. The program was created by the Authority and funded through a transfer of \$500,000 from the Authority's unrestricted net assets.

The Public Facilities Financing Program: The Public Facilities Financing Program is designed to provide low-cost financing to an applying governmental entity for practically any need of the entity. In order to qualify, the governmental entity's project must contribute to the economic viability or attractiveness of the area impacted by the project, demonstrate strong public support, and the governmental entity must demonstrate the ability to repay borrowed funds.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA DEVELOPMENT FINANCE AUTHORITY

June 30, 2008

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

The Fund administers the following program:

Credit Enhancement Reserve Fund ("CERF") Lending Program - The Authority is concentrating on CERF lending activities involving municipal or other governmentally supported obligations, primarily through the Public Facilities Financing Program.

Basis of Accounting: The operations of the Authority and the Fund are accounted for as enterprise funds on an accrual basis in order to recognize the flow of economic resources. Under this basis, revenues are recognized in the period in which they are earned, and expenses are recognized in the period in which they are incurred.

Balances classified as operating revenues and expenses are those which comprise the Authority's principal ongoing operations. Since the Authority's operations consist of administering economic development through the issuance of bonds and notes, most revenues and expenses are considered operating.

The Authority applies Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

Use of Estimates: Accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and Cash Equivalents: The Authority and the Fund, for purposes of reporting cash flows, consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Fees Receivable and Other Current Assets: The majority of the fees receivable and other current assets consist of fees receivable. Fees receivable include amounts billed for administrative fees as of June 30, 2008. Fees receivable are accrued based on the annual fee as stipulated in the various bond indentures.

Investments: The Authority is currently invested in various SBA Loan Pools, certificates of deposit and U.S. Treasury Bills. The SBA Loan Pools are recorded at fair value based on the average of two bids from independent brokers. U.S. Treasury Bills and certificates of deposit are recorded at cost which approximates fair value. Unrealized gains and losses and interest income are included in investment income.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA DEVELOPMENT FINANCE AUTHORITY

June 30, 2008

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Capital Assets: Capital assets are stated at cost, net of accumulated depreciation. Depreciation is computed on the straight-line method over an estimated useful life of 39 years for the building and five years for automobiles, furniture, and equipment.

Reserve for Losses: The reserve for losses is an estimate based on management's evaluation of the loan portfolio (those obligations guaranteed by the Fund) giving consideration to general economic conditions, the nature and volume of the loan portfolio, and the historic loan loss experience of the Fund. It is maintained at a level that management considers adequate to absorb potential losses in the loan portfolio.

Deferred Revenue: On certain debt financing which the Fund is guaranteeing, the Fund will receive all of its insurance premiums in advance. These premiums are deferred and recognized as revenue over the life of the various debt obligations on a straight-line basis.

Income Taxes: The Authority, as an integral part of the State, is exempt from federal and state income taxes.

NOTE B--DEPOSITS AND INVESTMENTS

Custodial Credit Risk - Deposits: Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority's deposit policy for custodial credit risk is described as follows:

The Authority requires that balances on deposit with financial institutions, including trustees related to the Authority's bonds, be insured by Federal Deposit Insurance or collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. Government obligations, in the Authority's name.

Interest Rate Risk: The Authority does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk: The Authority places no limit on the amount the Authority may invest in any one issuer. More than 5% of the Authority's investments are in SBA Loan Pools, certificates of deposit and U.S. Treasury Bills. These investments comprise 100% of the Authority's total investments.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA DEVELOPMENT FINANCE AUTHORITY

June 30, 2008

NOTE B--DEPOSITS AND INVESTMENTS--Continued

The Authority's and the Fund's deposits and investments consisted of the following at June 30, 2008:

Type	Carrying Value	
	Authority	Fund
<u>Deposits:</u>		
Demand	\$ 1,219,710	\$ 214,755
<u>Investments:</u>		
Certificate of deposit	\$ 4,645,201	\$ -
SBA Loan Pools	2,299,047	-
US Treasury Bills	3,275,067	891,553
	<u>\$ 10,219,315</u>	<u>\$ 891,553</u>

Deposits: At June 30, 2008, the bank balances of the Authority's and the Fund's cash deposits were \$1,219,710 and \$214,755, respectively. All bank balances were covered by Federal Deposit Insurance or collateralized with securities held by the Authority's or Fund's agent in the Authority's or Fund's name.

Investments: The Authority's investments in SBA Loan Pools of \$2,299,047 are not evidenced by securities; therefore, these investments are not subject to risk categorization. The Authority's and the Fund's investments in US Treasury Bills of \$3,275,067 are backed by the full faith and credit of the U. S. Government. The Authority's certificates of deposit totaling \$4,645,201 have original maturity dates exceeding three months and therefore are classified as investments.

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than One	One to Five	Six to Ten	More Than Ten
Certificate of deposit	\$ 4,645,201	\$ 4,645,201	\$ -	\$ -	\$ -
Authority's SBA Loan Pools	2,299,047	-	-	252,833	2,046,214
Authority's U.S. Treasury Bills	3,275,067	3,275,067	-	-	-
	<u>\$ 10,219,315</u>	<u>\$ 7,920,268</u>	<u>\$ -</u>	<u>\$ 252,833</u>	<u>\$ 2,046,214</u>
Fund's U.S. Treasury Bills	\$ 891,553	\$ 891,553	\$ -	\$ -	\$ -

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA DEVELOPMENT FINANCE AUTHORITY

June 30, 2008

NOTE C--NOTES RECEIVABLE

At June 30, 2008, the Authority's Quality Job Investment Program has various notes receivable from four entities totaling \$1,664,517. The Authority has provided an allowance for loan losses of \$226,660 due to uncertainties of collection in connection with one of the notes; however, the Authority believes that the remaining balances are collectible. The Authority's Operating Fund has a note receivable from one entity totaling \$122,715 as of June 30, 2008. The notes bear interest at variable interest rates ranging from the national prime rate to national prime plus 300 basis points. Interest is compounded monthly, quarterly or annually, as defined in each note agreement. The notes mature from January 2009 to October 2014 and are unsecured.

NOTE D--CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2008, was as follows:

Estimated Useful Life (Years)		June 30, 2007	Additions	Reductions	June 30, 2008
N/A	Land	\$ 100,000	\$ -	\$ -	\$ 100,000
39	Buildings	563,185	-	-	563,185
5	Automobiles	79,823	26,092	(26,334)	79,581
5	Furniture and equipment	64,850	1,495	-	66,345
		807,858	27,587	(26,334)	809,111
	Accumulated depreciation	(206,467)	(32,572)	17,996	(221,043)
		<u>\$ 601,391</u>	<u>\$ (4,985)</u>	<u>\$ (8,338)</u>	<u>\$ 588,068</u>

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA DEVELOPMENT FINANCE AUTHORITY

June 30, 2008

NOTE E--NONRECOURSE DEBT, NOTES RECEIVABLE, AND FUNDS IN TRUST (Conduit Debt)

Certain financing agreements are structured such that the debt is to be repaid solely from the revenues derived from the related facilities leased or acquired with proceeds of the debt obligations, or from the disposition of collateral. The Authority does not hold these notes receivable or trust investments in amounts equal to the long-term financings. As of June 30, 2008, the Authority had 266 series of debt outstanding totaling approximately \$2.0 billion in the original amount of issuance with approximately \$1.6 billion outstanding for all public and private programs. Of this amount, the Authority had 218 series of debt outstanding for non-state entities totaling approximately \$1.5 billion in the original amount of issuance with approximately \$1.3 billion outstanding.

The financings are not the general obligations of the Authority, and it is the opinion of the Authority's management and its legal counsel that, in the event of default by the borrower(s), the Authority has no responsibility for repayment of such financings.

Accordingly, the nonrecourse debt and the related notes receivables and trust investments have been excluded from the financial statements.

NOTE F--THE OKLAHOMA CREDIT ENHANCEMENT RESERVE FUND

Under the constitution of the State, the Fund may issue bonds of the State, to be known as the Oklahoma Credit Enhancement Reserve General Obligation Bonds, in a total principal amount of \$100,000,000 for the sole purpose of generating monies to be deposited to the Fund if there are insufficient assets to meet insurance obligations. The Fund is managed, administered, and utilized by the Authority solely to secure the payment of principal and interest on revenue bonds and other financial obligations issued by the Authority for the specific purpose of enhancing and supporting the credit of such obligations.

As of June 30, 2008, there were approximately \$45 million of outstanding financial obligations insured by the Fund. The Authority has accrued a reserve for losses of approximately \$51,000 as of June 30, 2008, to cover potential losses from the outstanding financial obligations insured by the Fund. Through June 30, 2008, Oklahoma Credit Enhancement Reserve Fund General Obligation Bonds have not been issued since it is the intention of the Authority to utilize existing assets to meet obligations arising from losses reserved by the Fund.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA DEVELOPMENT FINANCE AUTHORITY

June 30, 2008

NOTE G--TAX-EXEMPT GUARANTY POOL

In August 1995, the Authority's Board of Directors created the Pool to assist the OIFA in obtaining tax-exempt financing on OIFA projects. The Pool was funded in fiscal year 1998 with \$500,000 of unrestricted monies held by the Authority. The Pool sets up a private credit enhancement reserve fund to guarantee a portion of any loss up to the amount in the Pool after all other resources to collect by OIFA have been exhausted. At no time will the liability of the Pool be greater than the \$500,000 funding plus any premiums retained by the Pool.

At June 30, 2008, there were approximately \$6.1 million of outstanding financial obligations insured by the Pool. All obligations are making payments in a timely manner.

NOTE H--RELATED PARTIES

On July 1, 1992, the Authority entered into an agreement with OIFA. Under this agreement, OIFA will provide the Authority with staff support and administrative services. The Authority has agreed to pay OIFA its proportionate costs of OIFA employees including related benefits, taxes, and other costs. Based on this agreement, the Authority does not accrue annual vacation or sick leave. The Authority paid OIFA approximately \$465,000 during the year ended June 30, 2008, to cover its share of the aforementioned expenses. The current agreement is in effect on a month-to-month basis.

NOTE I--BONDS PAYABLE

The Authority has issued revenue bonds to fund loans to various investment enterprises in connection with the Quality Jobs Investment Program.

Revenue bonds outstanding at June 30, 2008, are as follows:

Oklahoma Development Finance Authority Oklahoma Quality Jobs Investment Program Revenue Bond, Series 1996, due April 1, 2031	<u>\$ 9,999,000</u>
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The registered owner of the bonds is the OIFA, a related party. There were no additions or retirements of revenue bonds during the year ended June 30, 2008. The original maturity date of the bond was April 1, 2006. However, on April 1, 2006 the Authority and OIFA signed an agreement to extend the maturity date to April 1, 2031.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA DEVELOPMENT FINANCE AUTHORITY

June 30, 2008

NOTE I--BONDS PAYABLE--Continued

Interest rates are variable with payments due quarterly with principal and all unpaid interest due at maturity. The variable rate of interest is equal to the OIFA's cost of funds on its outstanding variable rate bond issues. The interest rate at June 30, 2008 was 2.5%.

The bonds are payable solely from and secured by (1) revenues derived by the Quality Job Investment Program from loan repayments, (2) funds in the Quality Job Investment Program fund established by the Authority to support this bond and (3) a Credit Enhancement Reserve Fund guarantee insurance policy issued to the Oklahoma Industrial Finance Authority.

Neither the State nor any political subdivision is obligated to pay principal or interest on the bonds. The Authority does not have any taxing authority.

The annual debt service requirements to pay principal and interest on the Quality Jobs Investment Program Revenue Bond, Series 1996, are as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>
2009	\$ -	\$ 249,975
2010	-	249,975
2011	-	249,975
2012	-	249,975
2013	-	249,975
2014-2018	-	1,249,875
2019-2023	-	1,249,875
2024-2028	-	1,249,875
2029-2031	<u>9,999,000</u>	<u>687,430</u>
Total	<u>\$ 9,999,000</u>	<u>\$ 5,686,930</u>

Interest requirements for the variable rate debt were determined by using the rate in effect at June 30, 2008.

NOTE J--LEASE OBLIGATIONS

The Authority leased a portion of its office space to the OIFA and the State Bond Advisor. Rental income from leases for the year ended June 30, 2008, was approximately \$37,000.

Independent Auditors' Report on Compliance and Other Matters and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Directors
The Oklahoma Development Finance Authority

We have audited the financial statements of the Oklahoma Development Finance Authority and the Credit Enhancement Reserve Fund, collectively referred to as the "Authority", as of and for the year ended June 30, 2008, and have issued our report thereon dated October 17, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting 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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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 combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles 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 significant deficiency, or combination of significant 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 17, 2008

SCHEDULE OF NET ASSETS - QUALITY JOBS INVESTMENT PROGRAM

OKLAHOMA DEVELOPMENT FINANCE AUTHORITY

June 30, 2008

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 336,845
Interest receivable	71,874
Notes receivable	187,105
Investments	<u>7,190,993</u>
TOTAL CURRENT ASSETS	<u>7,786,817</u>

NONCURRENT ASSETS

Notes receivable, net of allowance for uncollectible loans of \$226,660	<u>1,250,752</u>
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TOTAL ASSETS 9,037,569

LIABILITIES

LONG-TERM LIABILITIES

Bonds payable	<u>9,999,000</u>
TOTAL LIABILITIES	<u>9,999,000</u>

NET ASSETS (DEFICIT)

TOTAL NET ASSETS (DEFICIT) \$ (961,431)

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - QUALITY
JOBS INVESTMENT PROGRAM

OKLAHOMA DEVELOPMENT FINANCE AUTHORITY

Year Ended June 30, 2008

OPERATING REVENUES

Investment income	\$ 280,042
Interest income on projects	<u>55,222</u>

TOTAL OPERATING REVENUES	<u>335,264</u>
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OPERATING EXPENSES

Professional services	8,850
Interest expense	412,667
Other	<u>53,201</u>

TOTAL OPERATING EXPENSES	<u>474,718</u>
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CHANGE IN NET ASSETS	(139,454)
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TOTAL NET ASSETS (DEFICIT) AT BEGINNING OF YEAR	<u>(821,977)</u>
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TOTAL NET ASSETS (DEFICIT) AT END OF YEAR	<u>\$ (961,431)</u>
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SCHEDULE OF NET ASSETS - TAX-EXEMPT GUARANTY POOL

OKLAHOMA DEVELOPMENT FINANCE AUTHORITY

June 30, 2008

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	52,187
Interest receivable		697
Investments		<u>668,269</u>

TOTAL ASSETS 721,153

LIABILITIES

CURRENT LIABILITIES

TOTAL LIABILITIES -

NET ASSETS

TOTAL NET ASSETS \$ 721,153

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - TAX-EXEMPT
GUARANTY POOL

OKLAHOMA DEVELOPMENT FINANCE AUTHORITY

Year Ended June 30, 2008

OPERATING REVENUES

Fee revenue	\$ 22,076
Investment income	<u>23,894</u>
	45,970

OPERATING EXPENSES

Guaranty obligation	46,740
Investment expense	<u>60</u>
	46,800

CHANGE IN NET ASSETS (830)

TOTAL NET ASSETS AT BEGINNING OF YEAR 721,983

TOTAL NET ASSETS AT END OF YEAR \$ 721,153





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