



**CONEJO OPEN SPACE
CONSERVATION AGENCY**

**ANNUAL FINANCIAL REPORT
For The Fiscal Year Ended
June 30, 2010**

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CERTIFIED PUBLIC ACCOUNTANTS

- Brandon W. Burrows, CPA
- Donald L. Parker, CPA
- Michael K. Chu, CPA
- David E. Hale, CPA, CFP
A Professional Corporation
- Donald G. Slater, CPA
- Richard K. Kikuchi, CPA
- Susan F. Matz, CPA
- Shelly K. Jackley, CPA

INDEPENDENT AUDITORS' REPORT

To the Honorable Chair and Members of the Governing Board
Conejo Open Space Conservation Agency
Thousand Oaks, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Conejo Open Space Conservation Agency as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Conejo Open Space Conservation Agency's management. Our responsibility is to express opinions on these 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 misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Conejo Open Space Conservation Agency as of June 30, 2010, and the respective changes in financial position, and the respective budgetary comparison for the General Fund, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we have also issued our report dated November 2, 2010, on our consideration of the Conejo Open Space Conservation Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 or on 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.

The accompanying 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 measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Lance, Soll & Lunghard, LLP

November 2, 2010

**CONEJO OPEN SPACE CONSERVATION AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year ended June 30, 2010

In 1977, the City of Thousand Oaks (City) entered into a Joint Powers Agreement with the Conejo Recreation and Park District (District) to form the Conejo Open Space Conservation Agency (COSCA). COSCA was formed to assist the City and the District in the conservation of open space in and around the City by acquiring and maintaining open space acreage.

COSCA is governed by a five-member board consisting of two City Council members, two District board members, and one private citizen of the City. Expenditures of COSCA are shared equally between the City and the District. The City is responsible for the fiscal management of COSCA activities. The City and District have an equity interest in COSCA of fifty percent each, which is reported in their respective annual financial reports.

FINANCIAL HIGHLIGHTS

COSCA assets exceeded its liabilities at the close of fiscal year 2009-10 by \$65.9 million. Of this amount, \$65.1 million is invested in capital assets, while the remaining unrestricted net assets may be used to meet COSCA's ongoing obligation to acquire and maintain open space acreage (Page 4).

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to COSCA's basic financial statements. COSCA's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of COSCA's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of COSCA's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of COSCA is improving or deteriorating.

CONEJO OPEN SPACE CONSERVATION AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
Year ended June 30, 2010

The statement of activities presents information showing how COSCA's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The government-wide financial statements can be found on pages 7-8 of this report.

Fund financial statements

The fund financial statements consist of COSCA's governmental funds. These governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The basic governmental fund financial statements can be found on pages 9-11 of this report.

Notes to the basic financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 12-15 of this report.

**CONEJO OPEN SPACE CONSERVATION AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
Year ended June 30, 2010**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of an Agency's financial position. COSCA's assets exceeded liabilities by \$65.9 million.

COSCA's capital assets are comprised primarily of \$65.0 million in open space land. Current assets of \$0.9 million are cash and investments held for future open space acquisitions. Current liabilities are security deposits.

**SUMMARY OF NET ASSETS
June 30, 2010 and 2009**

	2010	2009
Current assets	\$ 877,685	\$ 923,903
Capital assets	65,072,489	65,061,350
Total assets	65,950,174	65,985,253
Current liabilities	39,672	39,672
Total liabilities	39,672	39,672
Net assets:		
Invested in capital assets	65,072,489	65,061,350
Unrestricted	838,013	884,231
Total net assets	\$ 65,910,502	\$ 65,945,581

Liquidity

Due to the nature of COSCA business operations, there have been minimal cash transactions. The City and the District incur and fund most of COSCA's annual operating expenses. Therefore, COSCA's liquidity position usually remains constant. The decrease in net cash was primarily from one-time encroachment related costs.

**CONEJO OPEN SPACE CONSERVATION AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

(Continued)

Year ended June 30, 2010

Statement of Activities

The statement of activities shows how COSCA's net assets changed during fiscal year 2009-10. COSCA's net assets showed a slight decrease compared to prior fiscal year's increase of \$0.1 million. Lease revenue decreased \$40,000 due to termination of a Sprint lease, while expenses increased due to a \$70,000 one-time expense for compliance work on encroachment issues and a \$20,000 parcel adjustment by Ventura County Assessor's Office. Expenses of \$1.4 million, comparable to prior fiscal year, were incurred for the maintenance of existing open space, which were completely offset by donations of services of equal value by the City and the District.

SUMMARY OF ACTIVITIES

Year ended June 30, 2010 and 2009

	2010	2009
Program revenues	\$ 1,317,034	\$ 1,259,341
General revenues	20,724	29,933
Total revenues	1,337,758	1,289,274
Program expenses	1,372,837	1,194,347
Change in net assets	(35,079)	94,927
Net assets - beginning	65,945,581	65,850,654
Net assets - ending	\$ 65,910,502	\$ 65,945,581

Budgetary Highlights

The budget to actual report can be found on page 11. Historically, COSCA's Board of Directors has chosen not to budget revenues. Total expenditures were \$1.4 million compared to budget of \$1.7 million. The variance was primarily due to \$0.2 million less in expenditures than budget in: contracted services, salaries and benefits, and service and supplies, as well as \$0.2 million less in expenses than budget in capital outlay.

**CONEJO OPEN SPACE CONSERVATION AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
Year ended June 30, 2010**

Capital Assets

COSCA's capital assets at June 30, 2010 and 2009 were comprised of the following:

Capital Assets (Net of accumulated depreciation)		
	<u>2010</u>	<u>2009</u>
Land	\$ 64,995,258	\$ 64,974,411
Improvements, net	72,480	76,997
Equipment, net	4,751	9,942
Total, net	<u>\$ 65,072,489</u>	<u>\$ 65,061,350</u>

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of COSCA finances. Questions concerning information provided in this report, or requests for additional financial information may be addressed to the Finance Director, City of Thousand Oaks, 2100 Thousand Oaks Boulevard, Thousand Oaks, California 91362, or call (805) 449-2200.

CONEJO OPEN SPACE CONSERVATION AGENCY
Statement of Net Assets
June 30, 2010

	Governmental Activities
<u>Assets:</u>	
Current assets:	
Cash and investments (Note 3)	\$ 874,918
Interest receivable	2,715
Accounts receivable	52
Total current assets	877,685
Non-current assets:	
Capital assets (Note 2):	
Land	64,995,258
Improvements, net of depreciation	72,480
Equipment, net of depreciation	4,751
Total non-current assets	65,072,489
 Total assets	 65,950,174
 <u>Current liabilities:</u>	
Deposits in trust	4,500
Unearned revenue	35,172
Total current liabilities	39,672
 <u>Net assets:</u>	
Invested in capital assets	65,072,489
Unrestricted	838,013
Total net assets	\$ 65,910,502

See accompanying notes to basic financial statements.

CONEJO OPEN SPACE CONSERVATION AGENCY
Statement of Activities
Year ended June 30, 2010

<u>Function/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u> <u>Revenue & Changes</u> <u>in Net Assets</u>
		<u>Charges for</u> <u>Services</u>	<u>Operating Grants</u> <u>& Contributions</u>	
Governmental Activities:				
Open space acquisition, maintenance, and administration	<u>\$1,372,837</u>	<u>\$38,756</u>	<u>\$1,278,278</u>	<u>(\$55,803)</u>
 General revenues:				
				20,724
				<u>20,724</u>
				(35,079)
				65,945,581
				<u>\$65,910,502</u>

See accompanying notes to basic financial statements.

CONEJO OPEN SPACE CONSERVATION AGENCY
Balance Sheet
June 30, 2010

	General Fund
<u>Assets</u>	
Cash and investments (Note 3)	\$ 874,918
Interest receivable	2,715
Accounts receivable	52
Total assets	877,685
 <u>Liabilities and Fund Balances</u>	
Liabilities:	
Deposits in trust	4,500
Deferred revenue	35,172
Total liabilities	39,672
Fund balances:	
Unreserved designated (Note 4)	838,013
Total fund balances	838,013
 Total liabilities and fund balances	 \$ 877,685

**Reconciliation of the Governmental Funds Balance Sheet
To the Statement of Net Assets**

Amounts reported for governmental activities in the statement of net assets (page 7) are different because:

Total fund balances - total governmental funds, as above	\$ 838,013
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the funds.	65,072,489
Net assets of governmental activities (page 7)	\$ 65,910,502

See accompanying notes to basic financial statements.

CONEJO OPEN SPACE CONSERVATION AGENCY
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year ended June 30, 2010

	<u>General Fund</u>
<u>Revenues</u>	
Contributions and donations	\$ 1,278,278
Rental Income	38,756
Investment earnings	<u>20,724</u>
Total revenues	<u>1,337,758</u>
<u>Expenditures</u>	
Current:	
Culture and recreation	1,273,299
Administrative costs	70,000
Land	<u>40,677</u>
Total expenditures	<u>1,383,976</u>
Net change in fund balances	(46,218)
Fund balances - beginning	<u>884,231</u>
Fund balances - ending	<u><u>\$ 838,013</u></u>

**Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities**

Amounts reported for governmental activities in the statement of activities (page 8) are different because:

Net change in fund balances, as above	\$ (46,218)
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The net effect of donations of capital assets is to increase net assets.

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay of \$40,677, offset by a parcel adjustment of (\$19,830), exceeded depreciation of \$9,708

	<u>11,139</u>
Change in net assets of governmental activities (page 8)	<u><u>\$ (35,079)</u></u>

See accompanying notes to basic financial statements.

CONEJO OPEN SPACE CONSERVATION AGENCY
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Year ended June 30, 2010

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	
Revenues:				
Contributions and donations	\$ -	-	1,278,278	(1,278,278)
Rental Income	-	-	38,756	(38,756)
Investment earnings	-	-	20,724	(20,724)
Total Revenues	<u>-</u>	<u>-</u>	<u>1,337,758</u>	<u>(1,337,758)</u>
Expenditures:				
Current:				
Culture and recreation	1,513,556	1,513,556	1,343,299	170,257
Capital Outlay:				
Land	-	-	40,677	(40,677)
Equipment	2,500	2,500	-	2,500
Improvements	180,000	180,000	-	180,000
Total expenditures	<u>1,696,056</u>	<u>1,696,056</u>	<u>1,383,976</u>	<u>312,080</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,696,056)</u>	<u>(1,696,056)</u>	<u>(46,218)</u>	<u>(1,649,838)</u>
Net change in fund balance	(1,696,056)	(1,696,056)	(46,218)	(1,649,838)
Fund balance-beginning	<u>884,231</u>	<u>884,231</u>	<u>884,231</u>	<u>-</u>
Fund balance-ending	<u>\$ (811,825)</u>	<u>(811,825)</u>	<u>838,013</u>	<u>(1,649,838)</u>

CONEJO OPEN SPACE CONSERVATION AGENCY

Notes to Basic Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies

(a) Description of Reporting Entity

In 1977, the City of Thousand Oaks, California (City) entered into a Joint Powers Agreement with the Conejo Recreation and Park District (District) to form the Conejo Open Space Conservation Agency (COSCA). COSCA is governed by a five-member board consisting of two City Council members, two District members, and one private citizen of the City. Expenditures of COSCA are shared equally between the City and the District. The City is responsible for the fiscal management of COSCA activities, but does not have primary oversight responsibility for COSCA, which is included as an Agency fund in the City's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010.

(b) Government-wide Financial Statements

COSCA's government-wide financial statements include a statement of net assets and a statement of activities. These statements present a summary of COSCA's governmental activities.

The government-wide financial statements are reported using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of COSCA's assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying statement of net assets. The statement of activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for COSCA include charges for services, operating grants, and contributions.

In accordance with Governmental Standards Accounting Board Statement No. 34 (GASB 34), a reconciliation of the difference between the fund financial statements and the government-wide financial statements is provided. The General Fund has been identified as COSCA's major fund.

(c) Governmental Fund Financial Statements

In accordance with GASB 34, COSCA's governmental fund financial statements include a balance sheet and statement of revenues, expenditures and changes in fund balances.

The accompanying governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. COSCA's only governmental fund is the General Fund. Revenues are recognized when received unless susceptible to accrual, i.e., measurable and available to finance COSCA's operations. Monies received to fund specific future expenditures, such as trail or capital improvements, are classified as deferred revenue and are recognized when the related expenditure is made. Expenditures generally are recorded when the related liability is incurred.

CONEJO OPEN SPACE CONSERVATION AGENCY

**Notes to Basic Financial Statements
(Continued)**

June 30, 2010

(d) Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires 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 amount of revenue and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

(e) Reconciliation of Government-wide and Fund Financial Statements

Explanations of certain differences between governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between fund balance – *total governmental funds and net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that, “capital assets net of accumulated depreciation used in governmental activities are not financial resources and therefore are not reported in the funds. The details of this \$65,072,489 difference are as follows:

Land	\$64,995,258
Improvements	90,550
Equipment	87,591
Depreciation	<u>(100,910)</u>
Net adjustment to increase fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$65,072,489</u>

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds and changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of the reconciliation explains that the governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period. The details of this \$11,139 difference are as follows:

Capital outlay	\$40,677
Land adjustment	(19,830)
Depreciation expense	<u>(9,708)</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$11,139</u>

CONEJO OPEN SPACE CONSERVATION AGENCY

**Notes to Basic Financial Statements
(Continued)**

June 30, 2010

(2) Changes in Capital Assets

The following is a summary of COSCA's changes in capital assets for the year ended June 30, 2010:

	Balance at July 1, 2009	Additions	Disposals	Balance at June 30, 2010
Capital assets, not being depreciated:				
Land	\$ 64,974,411	\$ 40,677	\$ 19,830	\$ 64,995,258
Total	<u>64,974,411</u>	<u>40,677</u>	<u>19,830</u>	<u>64,995,258</u>
Capital assets, being depreciated:				
Improvements	90,550	-	-	90,550
Equipment	180,831	-	93,240	87,591
Total	<u>271,381</u>	<u>-</u>	<u>93,240</u>	<u>178,141</u>
Less accumulated depreciation for:				
Improvements	13,553	4,517	-	18,070
Equipment	170,889	5,191	93,240	82,840
Total	<u>184,442</u>	<u>9,708</u>	<u>93,240</u>	<u>100,910</u>
Total, net of accumulated depreciation	<u>86,939</u>	<u>(9,708)</u>	<u>-</u>	<u>77,231</u>
Capital Assets, net	<u>\$ 65,061,350</u>	<u>\$ 30,969</u>	<u>\$ 19,830</u>	<u>\$ 65,072,489</u>

In FY 2009-10, open space land was purchased for \$40,677. Additionally, approximately 1,150 acres of land was donated to COSCA. The donated land consisted primarily of 843 acres in Dos Vientos, donated by the City and various developers and 306 acres at Rancho Potrero, donated by Mountains Recreation and Conservation Authority. The donations were not officially transferred to COSCA on Ventura County's assessor's roll as of June 30, 2010; and therefore, are not reflected in the financial statements.

(3) Cash and Investments

COSCA's cash and investments are pooled with those of the City. The City's pooled cash and investments are stated at fair value. COSCA's share of the City's pooled cash and investments at June 30, 2010, was \$874,918. COSCA's underlying cash and investment pool instruments consist of demand deposits, money market funds, certificates of deposits, securities of U.S. government sponsored agencies, U.S. Treasury securities and the California Local Agency Investment Fund (LAIF).

For further information regarding the City's pooled cash and investments including, custodial risk, concentration of credit risk, and interest rate risk, please refer to the City's CAFR for the year ended June 30, 2010.

CONEJO OPEN SPACE CONSERVATION AGENCY

Notes to Basic Financial Statements
(Continued)

June 30, 2010

(4) Fund Balance

The fund balance of the General Fund has been designated at June 30, 2010, as indicated below. The “designated” fund balance reflects tentative plans on the part of COSCA’s management.

Unreserved - Designated:	
Trail/Capital Improvement	<u>\$838,013</u>



CERTIFIED PUBLIC ACCOUNTANTS

- Brandon W. Burrows, CPA
- Donald L. Parker, CPA
- Michael K. Chu, CPA
- David E. Hale, CPA, CFP
A Professional Corporation
- Donald G. Slater, CPA
- Richard K. Kikuchi, CPA
- Susan F. Matz, CPA
- Shelly K. Jackley, CPA

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*

To the Honorable Chair and Members of the Governing Board
Conejo Open Space Conservation Agency
Thousand Oaks, California

We have audited the financial statements of the governmental activities and each major fund of the Conejo Open Space Conservation Agency as of and for the year ended June 30, 2010, which collectively comprise the Conejo Open Space Conservation Agency's basic financial statements and have issued our report thereon dated November 2, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Conejo Open Space Conservation Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Conejo Open Space Conservation Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Conejo Open Space Conservation Agency's internal control over financial reporting.

A *deficiency in internal control* 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 *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 in a timely basis by the Thousand Oaks Redevelopment Agency'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 was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.



To the Honorable Chair and Members of the Governing Board
Conejo Open Space Conservation Agency
Thousand Oaks, California

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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* issued by the Comptroller General of the United States.

This report is intended solely for the information and use of management, the governing board and the State Controller and is not intended to be and should not be used by anyone other than these specified parties.

Lance, Soll & Loughard, LLP

November 2, 2010