

Hanover County, Virginia

3rd Quarter Financial Report

March 31, 2011

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Office of Finance and Management Services

May 11, 2011

Kathleen T. Seay, Director

Attached for your review are comparative interim financial reports for the County's General Fund and Utility Fund. These reports cover the periods July 1 through March 31, 2011 and 2010, respectively.

The reports have been prepared by the County's Department of Finance and Management Services and Utility Departments, respectively, from unaudited records and are for management purposes only. Input was provided from various departments and related entities throughout the County to help develop General Fund projections.

The purpose of these reports is to provide key financial management information in a format that is clear and concise.

The County's audited Comprehensive Annual Financial Reports, Budget Docu-



ments and Financial and Budget Policies and Regulations are available on the Department's web-site, at

<http://www.co.hanover.va.us/finance/default.htm>.

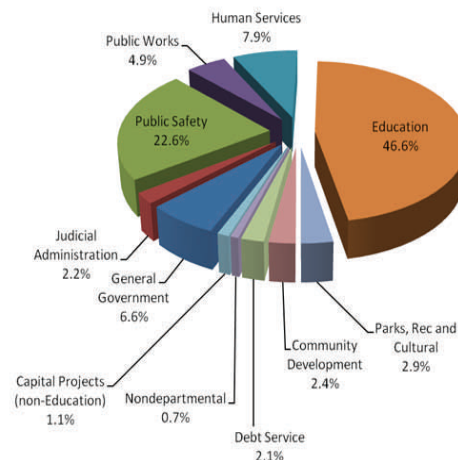
For additional information, contact Kathleen T. Seay, Director of Finance and Management Services at (804) 365-6015 or by e-mail at fms@co.hanover.va.us.

HANOVER ADOPTS FY12 BUDGET

On April 13, Hanover adopted its FY12 budget. The General Fund budget is \$202.7 million, a 2.1% increase from FY11. This was accomplished by using savings from attrition, and federal funds;

with no tax increase to Hanover citizens and no decrease in services provided. Employees will receive a 2.25% merit increase, their first in three years. Budgeted expenditures by function are shown at right.

FY12 General Fund Expenditures



GENERAL FUND - Statement of Budget Sources and Uses with Forecast

Nine months ended March 31, 2011

Revenues:	Last Fiscal Year - FY10				This Fiscal Year - FY11				Surplus/ (Deficit)	% of Budget	
	Nine months ended March 31, 2010		12 months - June 30, 2010		Nine months ended March 31, 2011		FY 2011				
	Budget	% Budget	Actual	% Budget	Budget	% Budget	Actual	% Budget			
General property taxes:											
Real property taxes	102,591,000	49.1%	99,803,064	97.3%	99,000,000	50.7%	50,206,839	50.7%	98,100,000	(900,000)	99.1%
Personal property taxes	22,856,000	90.3%	21,912,506	95.9%	22,348,875	94.8%	21,187,235	94.8%	22,315,125	(33,750)	99.8%
Other general property taxes	8,516,000	82.2%	10,480,270	123.1%	9,169,000	81.5%	7,473,281	81.5%	10,087,000	918,000	110.0%
Total general property taxes	133,963,000	58.2%	132,195,840	98.7%	130,517,875	60.4%	78,867,355	60.4%	130,502,125	(15,750)	100.0%
Other local taxes:											
Local sales and use taxes	16,110,653	54.0%	15,118,688	93.8%	15,112,000	61.6%	9,309,075	61.6%	16,193,000	1,081,000	107.2%
Telecommunications sales and use tax	5,761,000	55.1%	5,380,943	93.4%	5,474,000	56.9%	3,114,464	56.9%	5,300,000	(174,000)	96.8%
Other local taxes	5,856,198	63.2%	5,583,995	95.4%	5,730,000	66.8%	3,827,981	66.8%	5,596,000	(134,000)	97.7%
Total other local taxes	27,727,851	56.2%	26,083,626	94.1%	26,316,000	61.8%	16,251,520	61.8%	27,089,000	773,000	102.9%
Other local revenues:											
Permits, licenses and charges for service	4,814,288	68.8%	4,832,535	100.4%	5,252,553	61.4%	3,224,912	61.4%	5,061,253	(191,300)	96.4%
Revenue from use of money and property	1,421,703	35.8%	716,708	50.4%	1,509,000	29.3%	441,863	29.3%	759,300	(749,700)	50.3%
Recovered costs and other	4,775,788	78.5%	4,837,260	101.3%	4,953,265	81.4%	4,033,733	81.4%	5,304,067	350,802	107.1%
Total other local revenues	11,011,779	68.8%	10,386,503	94.3%	11,714,818	65.7%	7,700,508	65.7%	11,124,620	(590,198)	95.0%
Total revenues from local sources	172,702,630	58.6%	168,665,969	97.7%	168,548,693	61.0%	102,819,383	61.0%	168,715,745	167,052	100.1%
Intergovernmental revenue:											
State aid	23,538,100	82.9%	22,633,078	96.2%	22,389,437	85.1%	19,053,056	85.1%	22,471,633	82,196	100.4%
Federal aid	4,510,384	42.3%	3,332,566	73.9%	4,193,907	59.7%	2,504,380	59.7%	4,083,177	(110,730)	97.4%
Total intergovernmental revenue	28,048,484	76.3%	25,965,644	92.6%	26,583,344	81.1%	21,557,436	81.1%	26,554,810	(28,534)	99.9%
Subtotal - operating revenues	200,751,114	61.0%	194,631,613	97.0%	195,132,037	63.7%	124,376,818	63.7%	195,270,555	138,518	100.1%
Prior year's balance (See Note B):	5,600,678	0.0%	5,600,678	100.0%	5,898,483	0.0%	-	0.0%	5,898,483	-	100.0%
Total budget sources	206,351,792	59.4%	200,232,291	97.0%	201,030,520	61.9%	124,376,818	61.9%	201,169,038	138,518	100.1%

Comments—Budget Sources

- Reason for fluctuation in FY11 total projected revenues in comparison to FY10 —FY11 revenues are expected to be substantially in line with budgeted revenues (\$138,000 better than budget), while FY11 revenues are expected to exceed FY10 revenues by approximately \$1 million. Substantially all the increase is due to improved sales tax collections, with increases/decreases in other revenues offsetting one another in total.
- Real property tax revenue— FY11 Real Property tax revenue is projected to be \$900,000 short of budget. \$200,000 of the shortage is attributed to higher than expected land use and tax-exempt property credits, while \$700,000 of the shortage is attributed to lower than budgeted supplemental assessments and 2010 second half accounts receivable.
- Personal property tax revenue—FY11 Personal Property tax revenue is projected to be slightly under budget (\$34,000) as growth has still not completely outpaced depreciation.
- Other general property tax revenue—FY11 Other General Property tax revenue is projected to exceed budget by \$918,000, due primarily to better than expected collection of delinquent taxes on real and personal property.
- Sales tax revenue—Sales Tax trend is positive: projected to exceed budget by \$1,081,000, and is 7.9% ahead of March 31, 2010 receipts.
- Revenue from use of money and property—Reflective of ongoing market conditions, interest earned on investments continues to be projected at \$750,000 less than originally budgeted for FY11.
- Prior year balance—reinvestment of prior years' accumulated surplus into the current fiscal year; includes continuation of approved projects.

GENERAL FUND - Statement of Budget Sources and Uses with Forecast

Nine months ended March 31, 2011

	Last Fiscal Year - FY10			This Fiscal Year - FY11			Surplus/ (Deficit)	% of Budget	
	Nine months ended March 31, 2010		Nine months ended March 31, 2011		FY 2011				
	Budget	% Budget	Budget	% Budget	Projection	Budget Basis - See Note B			
Total budget sources (from previous page)	206,351,792	59.4%	200,232,291	97.0%	201,030,520	124,376,818	201,169,038	138,518	100.1%
Expenditures:									
General government administration	14,114,621	6.8%	12,814,131	90.8%	13,422,682	9,103,558	13,059,066	363,617	97.3%
Judicial administration	4,691,945	2.3%	4,467,218	95.2%	4,512,609	3,094,525	4,467,218	45,391	99.0%
Public safety	46,354,211	22.4%	44,433,665	95.9%	45,921,784	33,045,848	44,738,333	1,183,452	97.4%
Public works	8,615,975	4.2%	7,967,473	92.5%	8,254,317	5,338,091	8,077,736	176,581	97.9%
Human Services	16,462,687	7.9%	14,806,400	89.9%	15,956,130	10,520,831	14,876,700	1,079,430	93.2%
Parks, recreation and cultural	6,460,493	3.1%	6,125,890	94.8%	6,167,736	4,308,006	6,125,890	41,846	99.3%
Community development	7,271,574	3.5%	6,131,649	84.3%	6,115,732	4,010,173	5,718,209	397,523	93.5%
Debt service	3,017,608	1.5%	3,017,608	100.0%	3,741,919	3,219,044	3,592,013	149,906	96.0%
Nondepartmental	489,261	0.2%	298,979	61.1%	1,521,811	101,644	1,151,841	369,970	75.7%
Capital projects	2,802,800	1.4%	2,055,778	73.3%	1,998,800	1,998,800	1,998,800	-	100.0%
Education	96,070,617	46.5%	90,570,617	94.3%	93,417,000	70,628,975	88,745,889	4,671,111	95.0%
Planned use of prior-year fund balance:									
Funding of Schools budgets	-	-	1,000,000	-	-	-	4,671,111	(4,671,111)	-
Funding of County budget	-	-	2,343,776	-	-	-	2,699,510	(2,699,510)	-
Total budget uses	206,351,792	73.2%	196,033,184	95.0%	201,030,520	145,369,494	199,922,315	1,108,205	99.4%
Budget sources minus uses, net	-	-	4,199,107	-	-	(20,992,676)	1,246,723	1,246,723	-

Note A: The amounts in the fiscal year-to-date actual columns are on the modified accrual basis, which shows only actual revenues and expenditures year-to-date. Accordingly, those columns do not show prior year's balance amounts, as they represent remaining balances on projects for which funding was already received in the prior year, and planned use of prior-year fund balance for future budgets. Projection assumes 100% use of prior year's balance.

Note B: The amounts in the budget, projection, surplus/deficit and June 30, 2010 columns shown above are on the budget basis, and include year-end encumbrances, reappropriations, and planned use of prior-year fund balance for future budgets. The budget columns show the legally appropriated budget amounts, including budget transfers that have been approved year-to-date.

Comments—Budget Uses

- **Projected Net Budget Sources Minus Uses**—The Net Budget Sources Minus Uses Projection of \$1.2 million is the result of FY11 sources which are projected to exceed budget by \$138,000 and FY11 uses which are projected to be under budget by \$1.1 million. FY11's projected total budget use is \$199.9 million, and includes the use of prior year balances in the FY12 adopted budget of \$7.4 million (including \$4.7 for Schools and \$2.7M for the County).
- **Use of Projected Net Budget Sources Minus Uses**—\$355,000 of the projected budget sources minus uses of \$1.2 million is planned for addition to the reserve for future school needs, and the remainder is planned to replenish the reserve for revenue stabilization.
- **County Savings**—County expenditure savings (not including education) of \$3.8 million are projected, and include \$1.6 million in salary and benefit savings due to vacancies, and \$2.2 million in across-the-board operating savings.
- **School Savings**—County expenditures on Schools are projected to be \$4.7 million less than budget, which resulted from \$4.0 million in State Fiscal Stabilization ("Stimulus") funds which were available on a one-time basis in FY 2011, and which were used as a first source of FY 2011 funding in the School Fund, and an additional \$671,000 of school operating savings. The \$4.7 million of FY11 schools savings is included as a funding source in the FY12 Schools' budget. In addition, it is projected that the Schools Operating Fund will have \$3.0 million in prior-year fund balance (retained from additional school budget savings) available at June 30, 2011 to fund future School needs, which is up \$500,000 from the 2nd quarter estimate.
- **Human Services Savings**—Human Services savings consists primarily of \$462,000 cost savings projected by the Community Services Board, \$278,000 by the Comprehensive Services Act fund, and \$187,000 savings from Social Services. \$47,000 of the Social Services savings is offset by lower federal revenues.
- **Public Safety Savings**—Public Safety savings result primarily from projected operating savings of \$290,000 in the Sheriff's Office, \$150,000 from the Pamunkey Regional Jail, and \$40,000 from Juvenile Court Services.
- **Debt Service Savings**—Debt service savings of \$143,000 result from the delay due to market conditions in issuing the final installment of bonds to finance the final 2005 referendum projects for schools, public safety and parks and recreation facilities.

General Fund - Budget Highlights

Projected Change in Undesignated Fund Balance

Budget Sources Minus Uses, Net	\$ 1,246,723		
Allocation to Reserve for Future School Needs	(355,000)		
Allocation to Reserve for Revenue Stabilization	(891,723)		
Projected Net Change in Undesignated Fund Balance	-	% of revenue	June 30,
Beginning Fund Balance July 1, 2010	24,494,204	12.6%	2010
Projected Ending Fund Balance June 30, 2011	\$24,494,204	12.5%	2011

See additional comments on the next page.

Budget Comments

- The County's conservative budgeting practices and cost reduction initiatives are structured to generate positive budget variances. Positive budget variances from one year are applied to fund a portion of the next year's budget. Thus, positive budget variances are used in lieu of taxes in the coming year, and therefore help to keep Hanover's tax rates low and stable from year to year.
- As of March 31, 2011, it is projected that positive budget variances from FY11 will be sufficient to fund approximately \$7.7 million in future County and School budgets, of which \$7.4 million will fund the adopted FY12 County and School budgets, and \$355,000 is planned to be added to the reserve for future school needs.
- FY11's projected budget variance will be made possible by the County's focus on conservative spending on operations and savings realized from vacant positions.
- The County's undesignated fund balance is projected to remain substantially unchanged in dollar amount, but to decrease from 12.6% of revenues to 12.5% at June 30, 2011 in comparison to the prior year-end's percent of revenue. The undesignated fund balance as a percent of revenues was approximately 12.3% in 2007—2009. Fund balance reserves are discussed on the following page.

Reserve for Contingencies

Beginning FY11 Budget	\$ 980,400
Renovate Community Resources conference room	(5,000)
Document imaging software	(5,000)
Improvements to Old Stone Jail	(20,000)
Balance, March 31, 2011	\$ 950,400
Other projected uses:	
General Fund, Fleet and CIP transfer (approved 4/13)	(580,430)
Unused balance, May 11, 2011	\$ 369,970



The reserve for contingencies is budgeted to cover unexpected needs. As of the end of the 3rd Quarter, \$30,000 has been used from the reserve. On April 13, another \$580,430 was approved as shown above.

General Fund Reserves and Designations

RESERVE FOR REVENUE STABILIZATION

	Actuals		Projected
	FY09	FY10	FY11
Beginning balance	\$ -	2,066,529	3,725,246
Additions	2,066,529	2,658,717	891,723
Use:			
In subsequent year budget	-	(1,000,000)	(1,665,000)
Ending Balance	\$ 2,066,529	\$ 3,725,246	\$ 2,951,969

To help preserve essential services to County residents during the recession, since 2009, any amounts over a designated percentage of the County's undesignated fund balance target (currently 12.5%) generated by position vacancies and operating savings have been placed in a Reserve for Revenue Stabilization During Periods of Economic Downturn. This reserve provides a source of funds to mitigate future revenue declines, and to fund future year budgets in accordance with the five-year plan.

\$1.7M of the Reserve for Revenue Stabilization will be used to fund a portion of the adopted FY 2012 budget. The projected FY11 fiscal year-end balance of \$2.9 million is included as a funding source for the FY13 and FY14 budgets in the current five-year plan.

County General Fund Balance Designations and Reserves

	Actual	Projected
	6/30/2010	6/30/2011
Designated for:		
Economic Development	\$ 500,000	\$ 500,000
Funding of budgets	4,343,776	7,370,621
Funding of future school needs	2,000,000	2,355,000
Reappropriate unencumbered balances	1,018,929	1,000,000
Reserve for revenue stabilization	3,725,246	2,951,969
Total Designations	11,587,951	14,177,590
Reserved for:		
Encumbrances	812,191	800,000
Inventory	54,826	55,000
Grant programs	400,627	400,000
Debt service	199,106	199,000
Total Reserves	1,466,750	1,454,000
Total Designations and Reserves	\$ 13,054,701	\$ 15,631,590

The table at left shows the General Fund's fund balance reserves and designations at June 30, 2010, from the County's audited financial report, and current projections for June 30, 2011. Actual reserves and designations will be determined at fiscal year-end.

Fund balance designations indicate management's plans, while fund balance reserves indicate legal restrictions on the use of funds and amounts that are unspendable.

The Reserve for Future School Needs is designated to fund a portion of future Schools budgets.

General Fund Balance Sheet

	March 31,	
	2010	2011
	(FY 2010)	(FY 2011)
Assets		
Cash and cash equivalents	\$ 8,701,588	\$ 14,409,716
Receivables - net of allowance for uncollectibles:		
Taxes receivable	5,981,094	5,774,654
Landfill use and other receivables	13,930	26,418
Due from other governments	638,907	689,683
Inventory	25,637	56,631
Total assets	15,361,156	20,957,102
Liabilities and Fund Equity		
Liabilities:		
Accounts payable and accrued liabilities	552,327	360,785
Deferred revenue - property taxes	6,952,749	6,816,551
Total liabilities	7,505,076	7,177,336
Fund Equity:		
Fund balances:		
Reserved or designated for specific purposes	8,422,600	13,054,701
Unreserved	24,494,200	24,491,851
Revenues	122,554,071	124,376,819
Expenditures	(147,614,791)	(148,143,605)
Total fund equity	7,856,080	13,779,766
Total liabilities and fund equity	\$ 15,361,156	\$ 20,957,102

Balance Sheet Comments

- The County's receivable balances are consistent with prior year amounts as of March 31.
- Cash balances are higher, primarily due to reimbursements received on completed referendum projects during 2010.
- Additional information on the County's debt and Debt Policy compliance is shown below.

Policy Compliance

General obligation debt - principal outstanding at June 30, 2011

\$157,458,770

Debt Policy Compliance (after March GO Bond Sale)	Policy Limit	Estimate at 4/22/11
Debt to assessed value	< 2.5%	1.0%
Debt per capita	<\$2,017	\$1,670
Debt service to General Gov't'l Exp	<10%	6.8%
Debt per per-capita income	\$5,000	\$3,895
Debt payoff in 5 years	>25%	38%
Debt payoff in 10 years	>50%	72%

The County's Fund Balance Policy requires that the fund balance of the General Fund shall be at least equal to 10% of the General Fund's total revenues as measured during the budget process as total revenues net any uses of fund balance and as measured at year-end actual revenues recognized over the preceding fiscal year. The County is in compliance with this Policy. The General Fund's undesignated fund balance is projected to be 12.5% of revenues as of June 30, 2011.

Hanover County's Economic Development Authority issued \$2.4 million in revenue bonds and \$16.1 million in refunding bonds in March, 2011, under a Support Agreement with the County. The chart at left shows that the County remains in compliance with all debt policies after issuance of the EDA bonds.

UTILITY FUND - Statement of Revenues, Expenditures, and Projections

Nine Months Ended March 31, 2011

	Last Fiscal Year - FY10			This Fiscal Year - FY 11			FY 2011 Projection	Budget Variance	% of Budget
	Nine months ended March 31, 2010	Actual	% Budget	Nine months ended March 31, 2011	Actual	% Budget			
OPERATING:									
Operating revenues:									
Water	9,742,000	6,145,351	63%	9,276,000	6,651,658	72%	10,500,000	1,224,000	113%
Sewer	10,673,721	6,751,246	63%	10,578,155	6,643,761	63%	10,540,675	(37,480)	100%
Review and inspection fees	285,000	109,112	38%	244,000	142,795	59%	155,000	(89,000)	64%
Penalties	225,000	201,323	89%	240,000	226,786	94%	225,000	(15,000)	94%
Miscellaneous revenue	100,000	69,752	70%	138,000	149,153	108%	150,000	12,000	109%
Total operating revenues	21,025,721	13,276,784	63%	20,476,155	13,814,153	67%	21,570,675	1,094,520	105%
Operating expenses:									
Administration and customer service	\$1,968,954	\$1,271,242	65%	\$1,850,556	\$1,207,017	65%	1,800,000	50,556	97%
Purchase of services	6,250,582	4,368,591	70%	6,114,802	3,655,418	60%	5,600,000	514,802	92%
Operations	6,263,450	3,987,849	64%	6,290,045	4,046,411	64%	5,937,252	352,793	94%
Engineering	1,198,758	815,206	68%	1,119,986	757,500	68%	1,026,429	93,557	92%
Maintenance	2,781,175	1,795,730	65%	2,805,445	1,804,917	64%	2,600,000	205,445	93%
Total operating expenditures	18,462,919	12,238,617	66%	18,180,834	11,471,263	63%	16,963,681	1,217,153	93%
Operating revenues over (under) expenses	2,562,802	1,038,167		2,295,321	2,342,890		4,606,994	2,311,673	
NON OPERATING:									
Non operating revenues:									
Revenue from use of money and property	\$500,000	278,232	56%	\$400,000	65,347	16%	120,000	(280,000)	30%
Intergovernmental revenue	375,700	69	0%	587,800	330,810	56%	562,427	(25,373)	96%
Recovered cost	195,000	124,906	64%	180,000	126,059	70%	180,000	0	100%
Capacity fees - water	1,700,000	771,575	45%	890,900	1,122,527	126%	1,378,000	487,100	155%
Capacity fees - sewer	2,100,000	1,072,737	51%	1,210,100	1,657,710	137%	2,030,007	819,907	168%
Long term debt - revenue bonds	25,346,281	-	-	12,880,595	-	-	11,480,595	(1,400,000)	89%
Prior year's balance	8,429,802	-	-	15,598,855	-	-	10,598,855	(5,000,000)	68%
Total non operating revenues	38,646,783	2,247,519	6%	31,748,250	3,302,453	10%	26,349,884	(5,398,366)	83%
Non operating expenses:									
Capital expenses	36,230,720	13,680,728	38%	29,302,003	17,514,773	60%	24,302,003	5,000,000	83%
Debt service	4,663,865	2,458,550	53%	4,526,568	2,930,194	65%	3,700,000	826,568	82%
Nondepartmental-other	315,000	-	-	215,000	69,674	-	215,000	-	100%
Total non operating expenses	41,209,585	16,139,078	39%	34,043,571	20,514,642	60%	28,217,003	5,826,568	83%
Non operating revenues over (under) expenses	(2,562,802)	(13,891,559)		(2,295,321)	(17,212,189)		(1,867,119)	428,202	
Total revenues over (under) expenses	-	(12,853,392)		-	(14,869,299)		2,739,875	2,739,875	

See the Utility Balance Sheet and Utility Comments on the next page.

Utility Fund Balance Sheet

		March 31,	
		2010	2011
		(FY 2010)	(FY 2011)
Assets			
Cash and cash equivalents - unrestricted		\$ 24,493,910	\$ 17,721,891
Cash and cash equivalents - restricted		3,432,646	3,488,079
		27,926,556	21,209,971
Accounts receivable - net		1,151,030	825,005
Property, plant and equipment		188,639,627	196,288,722
	Total assets	<u>\$ 217,717,213</u>	<u>\$ 218,323,698</u>
Liabilities and Fund Equity			
Liabilities:			
Accounts payable and accrued liabilities		337,899	339,707
Developer capacity fee credits		262,905	1,235,411
Escrow		343,453	379,830
Long-term contractual obligations		487,075	326,059
Revenue bonds payable - net		33,278,057	30,879,625
Compensated absences payable		540,492	553,213
	Total liabilities	<u>\$ 35,249,880</u>	<u>\$ 33,713,845</u>
Fund Equity:			
Net Assets			
	Invested in capital assets, net of related debt	152,501,784	160,853,067
	Restricted for other purposes	3,432,646	3,488,079
	Unrestricted	30,102,758	22,818,142
Projected change in net assets		(3,569,855)	(2,549,435)
	Total net assets	<u>182,467,333</u>	<u>184,609,853</u>
	Total liabilities and net assets	<u>\$ 217,717,213</u>	<u>\$ 218,323,698</u>

Utility Comments

- **Operating Revenues** — Water revenue FY11 budget was lower than previous years in anticipation of less growth and irrigation (20 -25% of revenue). Water revenues will exceed budget by \$1.2 million dollars due to the unusually warm and dry weather during the summer and fall.
- **Purchase of Services** — available water and sewer cost of Service adjustments from the City of Richmond and Henrico County will result in significant reductions (\$515,000) for purchased services.
- **Capacity Fees – Water**—Capacity fee revenues will exceed budget by \$487,000 due to completion of existing projects and new construction.
- **Capacity Fees – Sewer**—Capacity fee revenues will exceed budget by \$820,000 due to completion of existing projects and new construction.
- **Long Term Debt – Revenue Bonds**:-Fewer revenue bonds are projected based on an improved forecast for capacity fees.
- **Capital Expenses** — Appropriations in the approximate amount of \$5 million dollars will be released this year due to the completion of capital projects and firm bids for route 33 improvements which are significantly lower than consulting engineer’s estimates.
- **Debt service** — Debt service will be \$800,000 below budget based on lower capital spending and adequate cash balances.