

In the opinion of Bond Counsel, assuming compliance with the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), as described herein, and subject to the conditions described in "TAX MATTERS" herein, interest on the Subordinate 2011 Bonds will not be includable in the gross income of the owners thereof for federal income tax purposes under existing law. Interest on the Subordinate 2011 Bonds is not a specific preference item for purposes of calculating the federal alternative minimum taxable income of individuals or corporations, but it is included in the calculation of a corporation's federal alternative minimum tax liability. The District's Enabling Act provides that the Subordinate 2011 Bonds, their transfer and the income therefrom, including any profit made on the sale thereof, shall be exempt from taxation by the Commonwealth of Virginia and by any political subdivision thereof. See "TAX MATTERS" herein for certain provisions regarding the Code that may affect the tax treatment of interest on the Subordinate 2011 Bonds for certain bondholders.



\$25,000,000
Hampton Roads Sanitation District, Virginia
Subordinate Wastewater Revenue Bonds, Series 2011

Dated: Date of Issue

Price: 100%

CUSIP No. 409327DV2[†]

Due: November 1, 2041

The Subordinate 2011 Bonds are being issued under a Trust Agreement, dated as of October 1, 2011, as the same may be amended and supplemented (the "Trust Agreement"), between the Hampton Roads Sanitation District (the "District") and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), for the purpose of financing a portion of the cost of the District's 2012-2021 Capital Improvement Program.

The Subordinate 2011 Bonds may bear interest in either a Weekly Period or a Long-Term Period. The Subordinate 2011 Bonds will be initially issued in a Weekly Interest Rate Period to bear interest at the Weekly Interest Rate and will remain in the Weekly Period until converted to the Long-Term Period as described under "THE SUBORDINATE 2011 BONDS – Form and Terms of Subordinate 2011 Bonds" and "– Conversion" herein. While the Subordinate 2011 Bonds bear interest at the Weekly Interest Rate, interest on the Subordinate 2011 Bonds will be paid on the first Business Day of each month, commencing November 1, 2011. Information regarding the initial interest rate on the Subordinate 2011 Bonds, subsequent interest rates, and Interest Rate Periods may be obtained from J. P. Morgan Securities LLC, as Remarketing Agent for the Subordinate 2011 Bonds.

The Subordinate 2011 Bonds are issuable as registered bonds without coupons and will be initially registered only in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), serving as securities depository for the Subordinate 2011 Bonds. While bearing interest at the Weekly Interest Rate, the Subordinate 2011 Bonds will be available to purchasers in denominations of \$100,000, and any whole multiple of \$5,000 in excess of \$100,000, only under the book-entry system maintained by DTC through brokers and dealers that are, or that act through, DTC Participants. Principal and interest will be paid by the Trustee as bond registrar to DTC or its nominee which will remit the payments to the DTC Participants for subsequent disbursement. See "THE SUBORDINATE 2011 BONDS—Book-Entry Only System" herein.

Liquidity to pay the purchase price of the Subordinate 2011 Bonds that are tendered and not remarketed will be provided by the District. It is not anticipated that a Credit Facility will be provided by any other party. Prospective purchasers of the Subordinate 2011 Bonds should rely solely on the ability of the District to provide for the purchase of the Subordinate 2011 Bonds that are tendered and not remarketed. The failure of the District to pay the purchase price of any Subordinate 2011 Bond tendered by the holder thereof and not remarketed would constitute an Event of Default under the Trust Agreement.

The Subordinate 2011 Bonds are subject to optional redemption prior to maturity as described herein.

THE SUBORDINATE 2011 BONDS ARE SPECIAL OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM THE NET REVENUES AVAILABLE FOR DEBT SERVICE AND OTHER FUNDS PLEDGED TO SECURE THE SUBORDINATE 2011 BONDS UNDER THE TRUST AGREEMENT. THE SUBORDINATE 2011 BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT, OR A PLEDGE OF THE FAITH AND CREDIT, OF THE COMMONWEALTH OF VIRGINIA OR OF ANY COUNTY, CITY, TOWN OR POLITICAL SUBDIVISION THEREOF. THE ISSUANCE OF THE SUBORDINATE 2011 BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE COMMONWEALTH OF VIRGINIA OR ANY COUNTY, CITY, TOWN OR POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Subordinate 2011 Bonds are offered when, as and if issued, subject to the approving opinion of Sidley Austin LLP, Washington, D.C., Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the District by Kellam, Pickrell, Cox & Tayloe, a Professional Corporation, Norfolk, Virginia, and for the Underwriter by Hunton & Williams LLP, Richmond, Virginia. It is expected that the Subordinate 2011 Bonds will be available for delivery to The Depository Trust Company in New York, New York, on or about October 20, 2011.

J.P.Morgan

October 13, 2011

[†] CUSIP® is a registered trademark of the American Bankers Association. The CUSIP number listed above is being provided solely for the convenience of bondholders only, and the District does not make any representation with respect to such number or undertake any responsibility for its accuracy. The CUSIP number is subject to being changed after the issuance of the Subordinate 2011 Bonds as a result of various subsequent actions including, but not limited to, a change in mode or defeasance as a whole or in part of the Subordinate 2011 Bonds.

HAMPTON ROADS SANITATION DISTRICT

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Director of Operations

JENNIFER L. HEILMAN
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COUNSEL, ADVISOR, TRUSTEE

KELLAM, PICKRELL, COX & TAYLOE, A PROFESSIONAL CORPORATION
General Counsel

JONES, BLECHMAN, WOLTZ & KELLY, P.C.
Associate Counsel

PUBLIC FINANCIAL MANAGEMENT, INC.
Financial Advisor

SIDLEY AUSTIN LLP
Bond Counsel

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.
Trustee and Bond Registrar

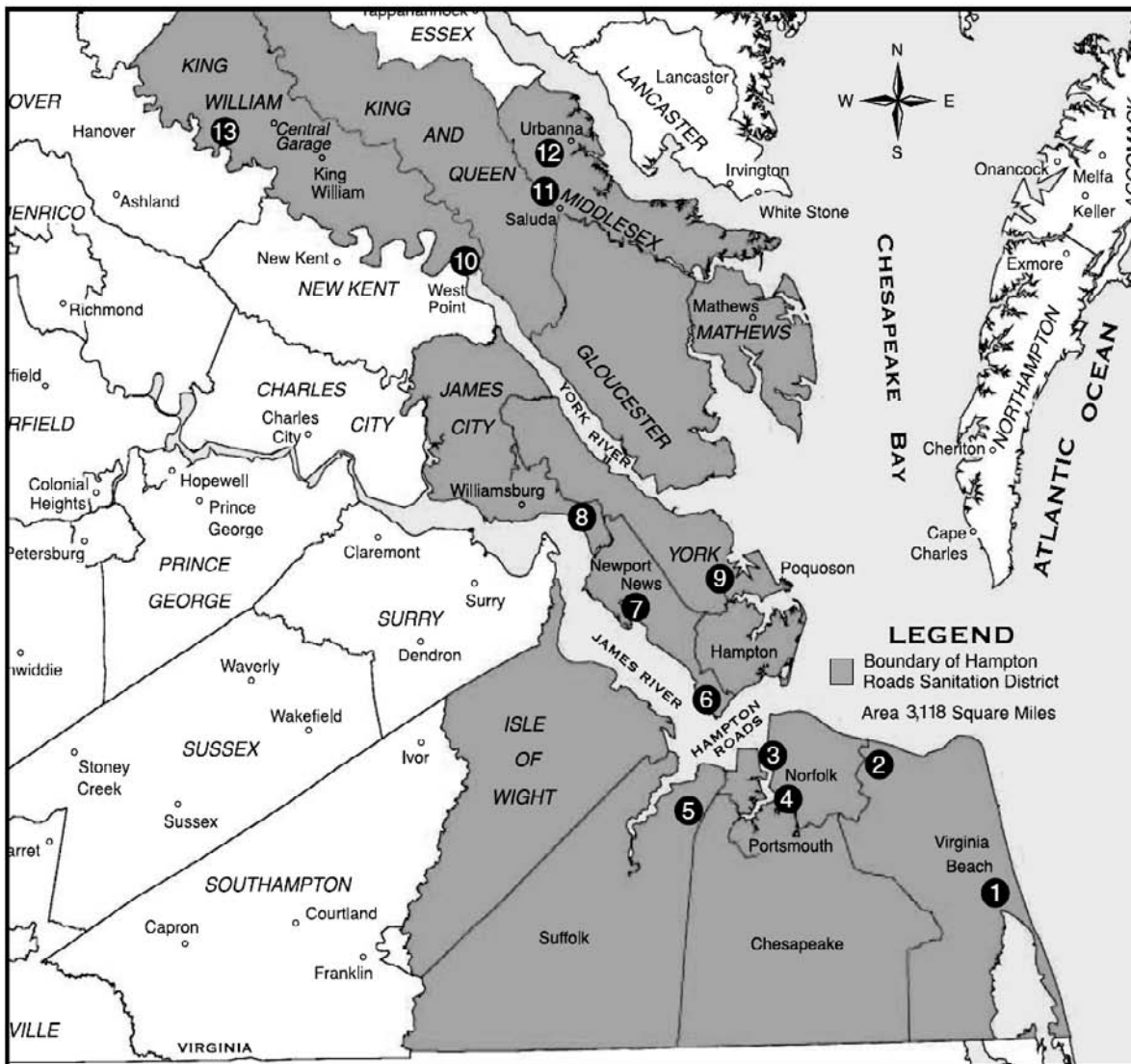
HRSD

A Political Subdivision of the Commonwealth of Virginia

Major facilities include the following treatment plants:

- | | |
|------------------------------------|---|
| 1. Atlantic, Virginia Beach | 8. Williamsburg, James City County |
| 2. Chesapeake-Elizabeth, Va. Beach | 9. York River, York County |
| 3. Army Base, Norfolk | 10. West Point, King William County |
| 4. Virginia Initiative, Norfolk | 11. Central Middlesex, Middlesex County |
| 5. Nansemond, Suffolk | 12. Urbanna, Middlesex County |
| 6. Boat Harbor, Newport News | 13. King William, King William County |

Serving the Cities of
Chesapeake, Hampton,
Newport News, Norfolk,
Poquoson, Portsmouth,
Suffolk, Virginia Beach,
Williamsburg, and the
Counties of Gloucester,
Isle of Wight, James City
King and Queen,
King William, Mathews,
Middlesex and York



2011

CERTAIN STATEMENTS INCLUDED IN THIS OFFICIAL STATEMENT CONSTITUTE “FORWARD-LOOKING STATEMENTS” WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS ARE GENERALLY IDENTIFIABLE BY TERMS SUCH AS “PLAN,” “PROJECT,” “EXPECT,” “ANTICIPATE,” “INTEND,” “BELIEVE,” “ESTIMATE,” “BUDGET” OR OTHER SIMILAR WORDS. THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVES KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS THAT MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY RESULTS, PERFORMANCES OR ACHIEVEMENTS EXPRESS OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. EXCEPT AS SPECIFICALLY SET FORTH HEREIN, THE DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS DUE TO CHANGES IN ITS EXPECTATIONS OR SUBSEQUENT EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED.

This Official Statement speaks as of its date except where specifically noted otherwise and is subject to change without notice. Neither the delivery of this Official Statement, any sale made hereunder, nor any filing of this Official Statement shall under any circumstances create an implication that there has been no change in the affairs of the District since the date of this Official Statement or imply that any information herein is accurate or complete as of any later date.

The Subordinate 2011 Bonds are exempt from registration under the Securities Act of 1933, as amended. As obligations of a political subdivision of the Commonwealth of Virginia, the Subordinate 2011 Bonds are also exempt from registration under the securities laws of Virginia.

No dealer, salesman or any other person who has been authorized to give any information or to make any representation, other than the information and representations contained herein, in connection with the offering of the Subordinate 2011 Bonds, and, if given or made, such information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy any of the Subordinate 2011 Bonds in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibility to investors under the federal securities laws as applied to the facts and circumstances of the transactions contemplated by this Official Statement, but the Underwriter does not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SUBORDINATE 2011 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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Official Statement

Hampton Roads Sanitation District, Virginia

Relating to its

\$25,000,000

Subordinate Wastewater Revenue Bonds, Series 2011

INTRODUCTION

The purpose of this Official Statement, which includes the cover page hereof, the map and the appendices hereto, is to set forth information concerning the Hampton Roads Sanitation District (the “District” or “HRSD”) and the District’s \$25,000,000 aggregate principal amount Subordinate Wastewater Revenue Bonds, Series 2011 (the “Subordinate 2011 Bonds”).

The Subordinate 2011 Bonds are being issued in accordance with the provisions of Chapter 66 of the Acts of Assembly of Virginia of 1960, as amended (the “Enabling Act”). On August 23, 2011, the Hampton Roads Sanitation District Commission (the “Commission”), the governing body of the District, authorized by resolution the issuance of the Subordinate 2011 Bonds. The Commission is issuing the Subordinate 2011 Bonds for the purpose of providing funds, together with other available funds, to finance a portion of the costs of the District’s 2012-2021 Capital Improvement Program (as amended from time to time, the “Capital Improvement Program” or “CIP”) and pay certain expenses incurred in connection with the issuance of the Subordinate 2011 Bonds by the District.

The Subordinate 2011 Bonds are special obligations of the District payable solely from the Net Revenues Available for Debt Service (hereinafter defined) derived by the District from the operation of its Wastewater System (hereinafter defined) and other funds pledged to secure the Subordinate 2011 Bonds under the Trust Agreement (hereinafter defined). See “SECURITY AND SOURCES OF PAYMENT” and “THE SYSTEM” herein. The Commission has determined to provide for the issuance of the Subordinate 2011 Bonds under the Trust Agreement, as supplemented by the First Supplemental Trust Agreement (the “First Supplemental Trust Agreement” and the Trust Agreement, as so supplemented and as the same may be amended and further supplemented, the “Trust Agreement”), each dated as of October 1, 2011 and by and between the District and The Bank of New York Mellon Trust Company, N.A., as trustee (in such capacity, the “Trustee”).

The District expects to issue \$45,705,000 Wastewater Revenue Bonds, Series 2011 (the “Senior 2011 Bonds”) on or about October 20, 2011. The Senior 2011 Bonds will constitute “Senior Obligations” under a trust agreement, dated as of March 1, 2008 (the “Senior Trust Agreement”), by and between the District and The Bank of New York Mellon Trust Company, N.A., as successor Trustee (in such capacity, the “Senior Trustee”). Proceeds of the Senior 2011 Bonds will provide additional funds for the costs of the District’s Capital Improvement Program and pay certain expenses incurred in connection with the issuance thereof. The issuance of the Subordinate 2011 Bonds is not contingent upon the issuance of the Senior 2011 Bonds. The Senior 2011 Bonds are offered by means of a separate official statement. See “PLAN OF FINANCING – Senior 2011 Bonds.”

This Official Statement contains a brief description of the Subordinate 2011 Bonds and the District, including its service area, governance and information regarding its operations and finances.

Appendix A contains the District's Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2011, and includes additional information regarding the District's operations and financial condition. Appendix B contains the definitions of certain terms used in this Official Statement. Capitalized terms used but not defined herein shall have the meanings given to such terms in the Trust Agreement. Brief descriptions and summaries of certain provisions of the Subordinate 2011 Bonds, the Trust Agreement and the First Supplemental Trust Agreement are included in Appendix C.

PLAN OF FINANCING

Subordinate 2011 Bonds

The proceeds of the Subordinate 2011 Bonds will be applied to finance a portion of the costs of the District's Capital Improvement Program and pay the costs of issuing the Subordinate 2011 Bonds. See "THE SYSTEM—Capital Improvement Program."

Senior 2011 Bonds

The proceeds of the Senior 2011 Bonds will be applied to finance a portion of the costs of the Capital Improvement Program and pay the costs of issuing the Senior 2011 Bonds. The District anticipates that the Senior 2011 Bonds will be issued as fixed-rate serial and term bonds with a final maturity of November 1, 2034. The Senior 2011 Bonds are not offered by means of this Official Statement.

The issuance of the Subordinate 2011 Bonds is not contingent on the issuance of the Senior 2011 Bonds, and the issuance of the Senior 2011 Bonds is not contingent upon the issuance of the Subordinate 2011 Bonds.

Future Financing

Subject to the following paragraphs, the District currently has no plans to issue additional Senior Obligations or Additional Bonds for Capital Improvement Program Costs prior to the Fall of 2012. Any acceleration of the Capital Improvement Plan could result in an acceleration of the date when the District would issue additional debt.

The District expects to continue to avail itself of financing for specific projects included in its Capital Improvement Program through the Virginia Resources Authority (hereinafter sometimes, "VRA") where the District finds it cost effective or otherwise advantageous to do so.

As of the date hereof, the District intends to borrow from VRA an additional \$6,318,000 for specific projects within its Capital Improvement Program. See "SECURITY AND SOURCES OF PAYMENT – Outstanding Senior Obligations," "- Additional Senior Obligations," and "- Parity Obligations."

SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the issuance of the Subordinate 2011 Bonds are as follows:

Sources

Principal Amount of Subordinate 2011 Bonds	<u>\$25,000,000.00</u>
Total Sources of Funds	<u>\$25,000,000.00</u>

Uses

Deposit to Construction Fund	\$24,747,756.64
Issuance Expenses ⁽¹⁾	<u>252,243.36</u>
Total Uses of Funds	<u>\$25,000,000.00</u>

(1) Includes underwriting discount and legal, rating agency, financial advisor and Trustee fees, printing and similar expenses.

THE SUBORDINATE 2011 BONDS

Description

The Subordinate 2011 Bonds will be dated, bear interest and mature as set forth on the cover page of this Official Statement. The principal of and the interest on the Subordinate 2011 Bonds will be payable as described below under “Book-Entry Only System.”

Form and Terms of Subordinate 2011 Bonds

Form. Pursuant to the First Supplemental Trust Agreement, the Subordinate 2011 Bonds will be initially issued in the Weekly Period as fully registered bonds without coupons. For so long as the Subordinate 2011 Bonds are in the Weekly Period, such Subordinate 2011 Bonds will be in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof. Upon conversion to the Long-Term Period, the Subordinate 2011 Bonds will be in the minimum denominations of \$5,000 and integral multiples thereof. The Subordinate 2011 Bonds will mature on November 1, 2041. The Subordinate 2011 Bonds will be dated the date of delivery of the Subordinate 2011 Bonds.

Liquidity. The Subordinate 2011 Bonds are subject to optional and mandatory redemption and optional and mandatory tender for purchase under certain circumstances as summarized in this Official Statement under “- Redemption” and “- Optional and Mandatory Tender.” Payment of the principal amount of Subordinate 2011 Bonds tendered or required to be tendered for purchase, together with accrued interest thereon (the “Purchase Price”), will not initially be supported by a Credit Facility. **The District has decided not to support the payment of the Purchase Price for Subordinate 2011 Bonds with any Credit Facility from a financial institution, but has chosen instead to be responsible itself for the payment of the Purchase Price for Subordinate 2011 Bonds that are tendered or required to be tendered for purchase and are not remarketed or for which remarketing proceeds are insufficient.** See “INVESTMENT POLICY AND SOURCES OF LIQUIDITY” herein. The District may also decide, but is not required, to deliver to The Bank of New York Trust Company, N.A., as tender agent (in such capacity, the “Tender Agent”), a Credit Facility from a Credit Facility Provider, and under certain circumstances, the District may replace the Credit Facility with an Alternate Credit Facility issued by a different financial institution. In the event the District determines to deliver a Credit Facility, the Subordinate 2011 Bonds will be subject to mandatory tender on the delivery date of the Credit Facility and, in connection therewith, the District will deliver a Reoffering Circular describing the Credit Facility and provisions relating thereto.

If any of the Subordinate 2011 Bonds are tendered or are required to be tendered for purchase and are not remarketed, or if sufficient money has not been delivered to pay the Purchase Price for Subordinate 2011 Bonds so tendered or required to be tendered for purchase, the Tender Agent will (i) if a Credit Facility is not then in effect, notify the District that it must deposit money with the Tender Agent in an amount sufficient to pay the Purchase Price of such Subordinate 2011 Bonds or (ii) if a Credit Facility is then in effect, draw upon or otherwise cause money to be made available pursuant to such Credit Facility then in effect for those Subordinate 2011 Bonds in an amount sufficient to pay such Purchase Price of such Subordinate 2011 Bonds. If the situation described in clause (i) above occurs, the District expects to pay the Purchase Price of such Subordinate 2011 Bonds from the District's Net Revenues Available for Debt Service. Failure to pay the Purchase Price of any Subordinate 2011 Bond tendered for purchase by the holder thereof and not remarketed would constitute an Event of Default under the Trust Agreement.

Interest Rates and Interest Periods. The Subordinate 2011 Bonds will bear interest, payable in lawful money of the United States of America, in one of two Interest Rate Modes: the Weekly Period and the Long-Term Period. The interest rate on the Subordinate Bonds may not exceed the lesser of 12% per annum and the maximum rate permitted by law.

Initially, all of the Subordinate 2011 Bonds will bear interest at the Weekly Interest Rate during a Weekly Interest Rate Period. For any Weekly Period, interest will be payable on the first Business Day of each month (each, an "Interest Payment Date"), commencing November 1, 2011, for the period commencing on the immediately preceding Interest Payment Date and ending on the day (whether or not a Business Day) next preceding the Interest Payment Date. While the Subordinate 2011 Bonds are in the Weekly Period, interest on the Subordinate 2011 Bonds will be payable for the final Weekly Interest Rate Period to the date on which the Subordinate 2011 Bonds will have been paid in full. Interest on 2011 Bonds while they accrue interest at the Weekly Interest Rate will be computed on the basis of a 365- or 366-day year, as applicable, for the actual number of days elapsed.

If available funds are insufficient on any Interest Payment Date to pay the interest then due on the Subordinate 2011 Bonds, interest will continue to accrue thereon but will cease to be payable to the Holder as of the related Record Date. If sufficient funds for the payment of such overdue interest thereafter become available, the Trustee is to (A) establish a "special interest payment date" for the payment of the overdue interest and a Special Record Date (which will be a Business Day) for determining the Holders entitled to such payment and (B) mail notices by first class mail of such dates as soon as practicable. Notice of each such date so established is to be mailed to each Holder at least ten (10) days prior to the Special Record Date but not more than thirty (30) days prior to the special interest payment date. The overdue interest will be paid on the special interest payment date to the Holders, as shown on the registration books of the Trustee as of the close of business on the Special Record Date. The form of such notice will be provided to the Trustee by the District.

Rates Binding. The initial interest rates for the Subordinate 2011 Bonds and the determination for the Subordinate 2011 Bonds of the Weekly Interest Rate or of the interest rate in a subsequent Interest Rate Period by either the Remarketing Agent or the Trustee, as applicable, for the Subordinate 2011 Bonds will be conclusive and binding upon the Trustee, the Remarketing Agent, as applicable, the District and the Holders of such Subordinate 2011 Bonds.

Determination of Weekly Interest Rates. During each Weekly Interest Rate Period for the Subordinate 2011 Bonds, the Subordinate 2011 Bonds will bear interest at the Weekly Interest Rate, which will be determined by the Remarketing Agent by no later than 5:00 p.m., New York City time, on Wednesday of each week during such Weekly Interest Rate Period, or if such day is not a Business Day, then on the next succeeding Business Day. The first Weekly Interest Rate for each Weekly Interest Rate Period will be determined on or prior to the first day of such Weekly Interest Rate Period and will apply

to the period commencing on the first day of such Weekly Interest Rate Period and ending on the next succeeding Wednesday (whether or not a Business Day). Thereafter, each Weekly Interest Rate will apply to the period commencing on the first Thursday on or after the date of determination thereof (whether or not a Business Day) and ending on the next succeeding Wednesday (whether or not a Business Day), unless such Weekly Interest Rate Period ends on a day other than Wednesday, in which event the last Weekly Interest Rate for such Weekly Interest Rate Period will apply to the period commencing on the Thursday (whether or not a Business Day) preceding the last day of such Weekly Interest Rate Period and ending on the last day of such Weekly Interest Rate Period. The Weekly Interest Rate will be the rate of interest per annum determined by the Remarketing Agent to be the minimum interest rate which, if borne by the Subordinate 2011 Bonds, would enable the Remarketing Agent to sell the Subordinate 2011 Bonds on the effective date and at the time of such determination at a price (without regarding accrued interest) equal to the principal amount thereof. If the Remarketing Agent fails to establish a Weekly Interest Rate for any week, then the Weekly Interest Rate for such week will be the same as the Weekly Interest Rate for the immediately preceding week if the Weekly Interest Rate for such preceding week was determined by the Remarketing Agent. Subject to the provisions of the First Supplemental Trust Agreement, if the Weekly Interest Rate for the immediately preceding week was not determined by the Remarketing Agent, or if the Weekly Interest Rate determined by the Remarketing Agent is held to be invalid or unenforceable by a court of law, then the interest rate for such week will be equal to 110% of the SIFMA Swap Index on the day such Weekly Interest Rate would otherwise be determined as provided in the First Supplemental Trust Agreement for such Weekly Interest Rate Period.

Conversion

Conversion Between Interest Rates and Interest Rate Periods. The District may elect to convert the Subordinate 2011 Bonds from its existing Interest Rate Mode to the Weekly Period or the Long-Term Period. The provisions governing such conversions are contained in the First Supplemental Trust Agreement and are summarized below.

Notice of Conversion; Conditions. If the District elects to adjust the interest rate on the Subordinate 2011 Bonds to a Weekly Interest Rate or a Long-Term Interest Rate, then the required written direction furnished by the District is to be made by registered or certified mail, or by Electronic Means, confirmed by registered or certified mail. The Trustee will also provide written notice to S&P and Fitch of any Conversion under the First Supplemental Trust Agreement. Upon any conversion, the Subordinate 2011 Bonds will be in Authorized Denominations.

In connection with any Conversion of the Interest Rate Period for the Subordinate 2011 Bonds, the District will have the right to deliver to the Trustee, the Remarketing Agent (if any) and the Credit Facility Provider (if any) on or prior to 10:00 a.m., New York City time, on the second Business Day preceding the effective date of any such Conversion, a notice to the effect that the District elects to rescind its election to make such Conversion. If the District rescinds its election to make such Conversion, then the Interest Rate Period will not be converted and the Subordinate 2011 Bonds will continue to bear interest at the interest rate in effect immediately prior to such proposed Conversion. In any event, if notice of a Conversion has been mailed to the Holders of the Subordinate 2011 Bonds as provided the First Supplemental Trust Agreement and the District rescinds its election to make such Conversion, then the Subordinate 2011 Bonds will continue to be subject to mandatory tender for purchase on the date that would have been the effective date of the Conversion as provided in the First Supplemental Trust Agreement.

No Conversion from one Interest Rate Period to another will take effect under the First Supplemental Trust Agreement unless each of the following conditions, to the extent applicable, has been satisfied:

(1) The Trustee, the Remarketing Agent (if any), and the District have received a Favorable Opinion of Bond Counsel with respect to such Conversion.

(2) In the case of any Conversion with respect to which there will be no Credit Facility in effect to provide funds for the purchase of Subordinate 2011 Bonds on the Conversion Date, the remarketing proceeds available on the Conversion Date are not less than the amount required to purchase all of the Subordinate 2011 Bonds at the Purchase Price (unless the District, in its sole discretion, elects to transfer to the Trustee the amount of such deficiency on or before the Conversion Date).

If either condition to the Conversion of the Subordinate 2011 Bonds has not been satisfied, then the Interest Rate Period will not be converted and the Subordinate 2011 Bonds will continue to bear interest at the interest rate in effect immediately prior to such proposed Conversion, and the Subordinate 2011 Bonds will continue to be subject to mandatory tender for purchase on the date which would have been the effective date of the Conversion as provided in the First Supplemental Trust Agreement.

Redemption

Optional Redemption. While the Weekly Interest Rate is in effect with respect to the Subordinate 2011 Bonds, the Subordinate 2011 Bonds are subject to redemption prior to their stated maturity, at the option of the District by written notice to the Trustee (unless waived by the Trustee) at least twenty-five (25) days prior to the date fixed for redemption, in whole or in part (in such amounts as may be specified by the District), on any date at a Redemption Price equal to the principal amount of Subordinate 2011 Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

Selection of Subordinate 2011 Bonds for Redemption. Whenever provision is made in the First Supplemental Trust Agreement for the redemption of less than all of the Subordinate 2011 Bonds or any portion thereof, the Trustee will select the Subordinate 2011 Bonds to be redeemed, from all Subordinate 2011 Bonds subject to redemption or such given portion thereof not previously called for redemption, by lot in any manner which the Trustee in its sole discretion deems appropriate and fair; provided, however, that such Subordinate 2011 Bonds will be redeemed in the following order of priority (and by lot within each priority):

FIRST: Any Subordinate 2011 Bonds that are Credit Facility Bonds; and

SECOND: Any other Subordinate 2011 Bonds.

Notice of Redemption. During any Weekly Interest Rate Period for the Subordinate 2011 Bonds, a notice of redemption shall be mailed by the Trustee, not less than twenty (20) days nor more than forty-five (45) days prior to the redemption date, to the Holders of Subordinate 2011 Bonds called for redemption at their addresses appearing on the bond registration books of the Trustee. The Trustee shall also give notice of redemption by overnight mail or courier service to the District and the Remarketing Agent, and such securities depositories or securities information services as shall be designated in a certificate of the District. Each notice of redemption is to state the date of such notice, the Series designation and date of issue of the Subordinate 2011 Bonds, the redemption date, the redemption price, the place or places of redemption (including the name and appropriate address or addresses of the Trustee), the maturity, the CUSIP numbers, if any, and, in the case of Subordinate 2011 Bonds to be redeemed in part only, the portion of the principal amount thereof to be redeemed. Each such notice will also state that, subject to prior rescission as described in the next paragraph, on the redemption date specified therein, the Subordinate 2011 Bonds will become due and payable, if the redemption is in part, the principal amount of the Subordinate 2011 Bonds to be redeemed, the redemption price thereof, that from and after such redemption date interest thereon will cease to accrue, and that the Subordinate 2011 Bonds will be deemed surrendered against payment therefor. Each such notice may also state that

redemption is conditioned on there being on deposit with the Trustee sufficient money to pay the redemption price, plus accrued interest, on the Subordinate 2011 Bonds called for redemption and if such money is not on deposit, the call for redemption will be deemed cancelled, void and of no effect and all Subordinate 2011 Bonds called for redemption will remain Outstanding and if presented for payment, such Subordinate 2011 Bonds will be returned to their registered owners.

Any notice of optional redemption given pursuant to this section may be rescinded by written notice given to the Trustee by the District no later than five (5) Business Days prior to the date specified for redemption. The Trustee shall give notice of such rescission as soon thereafter as practicable in the same manner, and to the same Persons, as notice of such redemption was given.

Failure by the Trustee to give such notice to any one or more of the securities information services or depositories designated by the District or the Remarketing Agent or the insufficiency of any such notice will not affect the sufficiency of the proceedings for redemption. Failure by the Trustee to mail notice of redemption in accordance with this section to any one or more of the Holders of any Subordinate 2011 Bonds designated for redemption will not affect the sufficiency of the proceedings for redemption with respect to the Holders to whom such notice was mailed.

Notice of redemption of Subordinate 2011 Bonds will be given by the Trustee for and on behalf of the District.

Optional and Mandatory Tender

Optional Tender During Weekly Interest Rate Period. During any Weekly Period, any Subordinate 2011 Bond will be purchased (in whole or in part in Authorized Denominations) from its Holder at the option of the Holder on any Business Day at a Purchase Price equal to the principal amount thereof plus accrued interest, if any, from and including the Interest Accrual Date immediately preceding the date of purchase through and including the day immediately preceding the date of purchase, unless the date of purchase is an Interest Accrual Date, in which case at a Purchase Price equal to the principal amount thereof, payable in immediately available funds, upon delivery to the Trustee at its Designated Office and to the Remarketing Agent of an irrevocable written notice which states the name and Series designation of the Subordinate 2011 Bond, the principal amount and the date on which the same shall be purchased, which date shall be a Business Day not prior to the seventh day next succeeding the date of the delivery of such notice to the Trustee. Any notice delivered to the Trustee and to the Remarketing Agent after 4:00 p.m., New York City time, shall be deemed to have been received on the next succeeding Business Day. For payment of such Purchase Price on the date specified in such notice, such Subordinate 2011 Bond must be delivered, at or prior to 10:00 a.m., New York City time, on the date specified in such notice, to the Trustee at its Designated Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Trustee, executed in blank by the Holder thereof or by the Holder's duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange.

Mandatory Tender for Purchase on Conversion to New Interest Rate Mode. The Subordinate 2011 Bonds will be subject to mandatory tender for purchase on the effective date of a Conversion to a different Interest Rate Mode for such Subordinate 2011 Bonds, or on the day which would have been the effective date of such a Conversion to a new Interest Rate Mode had certain events described in the First Supplemental Trust Agreement not occurred which resulted in the Interest Rate Mode for such Subordinate 2011 Bonds not being converted, at the Purchase Price, payable in immediately available funds. Except as described in Appendix F hereof, the Purchase Price of any Subordinate 2011 Bonds so purchased will be payable only upon surrender of such Subordinate 2011 Bonds to the Trustee at its Designated Office, accompanied by an instrument of transfer thereof, in form satisfactory to such Trustee, executed in blank by the Holder thereof or by the Holder's duly-authorized attorney, with such signature guaranteed by a member of a Medallion Signature Guarantee Program at or prior to 10:00 a.m., New

York City time, on the date specified for such in the notice provided pursuant to the First Supplemental Trust Agreement.

Mandatory Tender upon the Delivery, Termination, Substitution, or Expiration of Credit Facility or Delivery of an Alternate Credit Facility. **The District has decided that, on date of issuance of the Subordinate 2011 Bonds, a Credit Facility will not be delivered to pay the Purchase Price of any Subordinate 2011 Bonds tendered for purchase by the holders thereof and not remarketed.** The Subordinate 2011 Bonds will be subject to mandatory tender at the Purchase Price upon the delivery of a Credit Facility on the date of delivery of such Credit Facility. In addition, if the District will have provided a Credit Facility, then the Subordinate 2011 Bonds will be subject to mandatory tender for purchase on or prior to the Noticed Termination Date, the Expiration Date and Substitution Date for any Credit Facility applicable to such Series and upon delivery of an Alternate Credit Facility (on the dates and upon notice to Holders which notice is to include the other information set out in the First Supplemental Trust Agreement), at the Purchase Price, which will be payable in immediately available funds. The Purchase Price of any Subordinate 2011 Bond so purchased will be payable only upon surrender of such Subordinate 2011 Bond to the Trustee at its Designated Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Trustee, executed in blank by the Holder thereof or by the Holder's duly-authorized attorney, with such signature guaranteed by a member of a Medallion Signature Guarantee Program at or prior to 10:00 a.m., New York City time, on the date specified for such delivery in a notice provided to the Holders by the Trustee. Upon the Noticed Termination Date or Expiration Date for any Credit Facility or upon delivery of an alternate Credit Facility, the Trustee will deliver written notice thereof to the Rating Agency.

If the District determines, in its sole discretion, to deliver a Credit Facility to the Trustee to support the Purchase Price of 2011 Bonds tendered for purchase, it will give not less than forty-five (45) days notice of such delivery to the Remarketing Agent and the Trustee. The Trustee will give the Holders notice of such delivery not less than twenty (20) days prior to the date of delivery of the Credit Facility specifying the date of delivery and notifying the Holders that the 2011 Bonds will be subject to mandatory tender for purchase at the Purchase Price, payable in immediately available funds, on such date.

Mandatory Tender at the Option of the District. Prior to the delivery by the District to the Trustee of a Credit Facility, or at any time thereafter when the Subordinate 2011 Bonds do not have the benefit of a Credit Facility, the Subordinate 2011 Bonds will be subject to mandatory tender at the option of the District on any date on which the Subordinate 2011 Bonds are subject to optional redemption while bearing interest at a Weekly Interest Rate (see “– Redemption – Optional Redemption” above) at the Purchase Price, which will be payable in immediately available funds from money credited to the District Purchase Account (as hereinafter defined). The Purchase Price of any Subordinate 2011 Bond so purchased will be payable only upon surrender of such Subordinate 2011 Bond to the Trustee at its Designated Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Trustee, executed in blank by the Holder thereof or by the Holder's duly authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange, at or prior to 10:00 a.m., New York City time, on the date specified for such delivery in a notice provided to the Holders by the Trustee pursuant to the First Supplemental Trust Agreement.

General Provisions Relating to Tenders

Creation of Purchase Fund. There will be created and established with the Trustee a fund to be designated the “Purchase Fund” to be held in trust only for the benefit of the Holders of tendered Subordinate 2011 Bonds who will thereafter be restricted exclusively to the money held in such fund for the satisfaction of any claim for the Purchase Price of such tendered Subordinate 2011 Bonds. The District will not have any right, title or interest in any of the funds held on deposit in the Remarketing Proceeds Account or the Credit Facility Account, or in any remarketing proceeds held for any period of time by the Remarketing Agent.

There will be created and designated the following accounts within the Purchase Fund: the “Remarketing Proceeds Account,” the “Credit Facility Account,” and the “District Purchase Account.” Money paid to the Trustee for the purchase of tendered or deemed tendered Subordinate 2011 Bonds that are received (i) from the Remarketing Agent will be deposited in the Remarketing Proceeds Account in accordance with the provisions of a Supplemental Trust Agreement, (ii) pursuant to a Credit Facility, if any, will be deposited in the Credit Facility Account in accordance with the provisions of the First Supplemental Trust Agreement, and (iii) from the District will be deposited in the District Purchase Account in accordance with the provisions of the First Supplemental Trust Agreement. Money provided from payments made under a Credit Facility (if any) not required to be used in connection with the purchase of tendered Subordinate 2011 Bonds will be returned to the Credit Facility Provider in accordance with the First Supplemental Trust Agreement. Money provided by the District not required to be used in connection with the purchase of tendered Subordinate 2011 Bonds will be returned to the District in accordance with the provisions of the First Supplemental Trust Agreement.

Money in the Credit Facility Account, District Purchase Account and the Remarketing Proceeds Account are not to be commingled with other funds held by the Trustee and are to remain uninvested.

Deposit of Subordinate 2011 Bonds. The Trustee agrees to hold all Subordinate 2011 Bonds delivered to it pursuant to the Trust Agreement and the First Supplemental Trust Agreement in trust for the benefit of the respective Holders that have so delivered the Subordinate 2011 Bonds until money representing the Purchase Price of the Subordinate 2011 Bonds has been delivered to such Holder in accordance with the provisions of the Trust Agreement and until the Subordinate 2011 Bonds have been delivered by the Trustee in accordance with the First Supplemental Trust Agreement.

Remarketing of Subordinate 2011 Bonds; Funds for Payment of Purchase Price. Immediately upon its receipt, but not later than 12:00 noon, New York City time, the following Business Day in the case of a Subordinate 2011 Bond bearing interest at a Weekly Interest Rate, from a Holder of a notice pursuant to the First Supplemental Trust Agreement, the Trustee is to notify the Remarketing Agent, the Credit Facility Provider (if any), and the District by telephone, promptly confirmed in writing, or by telecopy, of such receipt, specifying the principal amount of Subordinate 2011 Bonds for which it has received a notice pursuant to the First Supplemental Trust Agreement, the names of the Holders thereof, and the date on which the Subordinate 2011 Bonds are to be purchased in accordance with the First Supplemental Trust Agreement.

The date on which Subordinate 2011 Bonds are to be purchased pursuant to the First Supplemental Trust Agreement is referred to as the “Purchase Date,” and the Subordinate 2011 Bonds to be purchased pursuant thereto are collectively referred to as the “Purchased Subordinate 2011 Bonds.”

As soon as practicable, but in no event later than 9:30 a.m., New York City time, on the Purchase Date in the case of Subordinate 2011 Bonds to be purchased at the option of the holders thereof (see “–Optional Tender During Weekly Interest Rate Period” above) and by no later than 4:00 p.m., New York City time, on the last Business Day prior to the Purchase Date in the case of Subordinate 2011 Bonds to be purchased subject to the mandatory tender for purchase (see “–Mandatory Tender for Purchase on

First Day of Each Interest Rate Period”, “-Mandatory Tender upon the Delivery of, Termination, Substitution, or Expiration of Credit Facility or Delivery of an Alternate Credit Facility” and “-Mandatory Tender at the Option of the District” above), the Remarketing Agent is to inform the Trustee by telephone, promptly confirmed in writing, of the principal amount of Purchased Subordinate 2011 Bonds for which the Remarketing Agent has identified prospective purchasers and of the name, address and taxpayer identification number of each such purchaser, the principal amount of Purchased Subordinate 2011 Bonds to be purchased and the Minimum Authorized Denominations in which such Purchased Subordinate 2011 Bonds are to be delivered. Upon receipt of such information from the Remarketing Agent, the Trustee is to prepare Purchased Subordinate 2011 Bonds in accordance with such information for the registration of transfer and redelivery to the Remarketing Agent.

By 9:45 a.m., New York City time, on the Purchase Date in the case of Subordinate 2011 Bonds to be purchased at the option of the holders thereof (see “-Optional Tender During Weekly Interest Rate Period” above) and by no later than 12:00 noon, New York City time, on the last Business Day prior to the Purchase Date in the case of Subordinate 2011 Bonds to be purchased subject to the mandatory tender for purchase (see “-Mandatory Tender for Purchase on First Day of Each Interest Rate Period”, “-Mandatory Tender upon the Delivery of, Termination, Substitution, or Expiration of Credit Facility or Delivery of an Alternate Credit Facility” and “Mandatory Tender at the Option of the District” above), New York City time, on the Purchase Date the Trustee will notify the Credit Facility Provider (if any) and the District by telephone, promptly confirmed in writing as to the aggregate Purchase Price of the Purchased Subordinate 2011 Bonds and as to the Funding Amount and, if a Credit Facility is in effect, will draw for payment of such Amount no later than 1:30 p.m, New York City time. The Trustee will deposit such amounts in the Credit Facility Account. If more than one Credit Facility is then in effect, the Trustee will establish a separate subaccount in the Credit Facility Account for each Credit Facility and apply the money in such subaccounts solely to pay the Purchase Price of Purchased Subordinate 2011 Bonds subject to such Credit Facility.

The term “Funding Amount” means an amount equal to the difference between (1) the total Purchase Price of the Purchased Subordinate 2011 Bonds to be purchased pursuant to certain provisions of the First Supplemental Trust Agreement on the Purchase Date, and (2) the Purchase Price of the Purchased Subordinate 2011 Bonds to be purchased pursuant to certain provisions of the First Supplemental Trust Agreement with respect to which the Remarketing Agent has transferred, or cause to be transferred, immediately available funds to the Trustee by 12:00 noon, New York City time, on the Purchase Date for deposit in the Remarketing Proceeds Account pursuant to the First Supplemental Trust Agreement. As used herein, the term “Purchase Price” of any Purchased Subordinate 2011 Bond means the principal amount thereof plus accrued interest to, but not including, the Purchase Date; provided, however, that when the Subordinate 2011 Bonds are in the Weekly Interest Rate Period and if the Purchase Date for any Purchased Subordinate 2011 Bond is an Interest Payment Date, the Purchase Price thereof will be the principal amount thereof, and interest on such Subordinate 2011 Bonds will be paid to the Holder of such Subordinate 2011 Bonds pursuant to the First Supplemental Trust Agreement.

Any Purchased Subordinate 2011 Bonds that are subject to mandatory tender for purchase in accordance with certain provisions of the First Supplemental Trust Agreement that are not presented to the Trustee on the Purchase Date and any Purchased Subordinate 2011 Bonds that are the subject of a notice pursuant to the First Supplemental Trust Agreement that are not presented to the Trustee on the Purchase Date, will, in accordance with the provisions of the First Supplemental Trust Agreement, be deemed to have been purchased upon the deposit of money equal to the Purchase Price thereof into any or all of the accounts of the Purchase Fund.

Deposits of Funds. The Remarketing Agent will transfer, or cause to be transferred, to the Trustee the proceeds derived by the Remarketing Agent from remarketing of Purchased Subordinate 2011 Bonds pursuant to the First Supplemental Trust Agreement in immediately available funds by 12:15 p.m.,

New York City time, on the Purchase Date for deposit in the Remarketing Proceeds Account. The Trustee will deposit into the Remarketing Proceeds Account any amounts received by it from the Remarketing Agent against receipt of Purchased Subordinate 2011 Bonds by the Remarketing Agent pursuant to the First Supplemental Trust Agreement and on account of Purchased Subordinate 2011 Bonds remarketed pursuant to the terms of the Remarketing Agreement.

By 12:30 p.m., New York City time, on the Purchase Date, the Trustee is to notify the District by telephone, immediately confirmed in writing, of the amount of funds, if any, required to be transferred to the Trustee (the "Additional Funding Amount") which will be the amount, if any, by which the total Purchase Price of the Purchased Subordinate 2011 Bonds exceeds the sum of the amounts then on deposit in the Remarketing Proceeds Account and the Credit Facility Account. The Additional Funding Amount may be different from the Funding Amount to the extent that the Remarketing Agent or Credit Facility Provider (if any) deposits money associated with Subordinate 2011 Bonds remarketed in the interim period or, in the case of the Credit Facility Provider, fully honors a draw or request for payment under the Credit Facility.

The District has agreed in the First Supplemental Trust Agreement to pay to the Trustee in immediately available funds by 2:00 p.m., New York City time, any amounts required to purchase Purchased Subordinate 2011 Bonds on such Purchase Date. The Trustee is to deposit such amounts into the District Purchase Account.

The Trustee is to hold all proceeds received from the Remarketing Agent, the Credit Facility Provider or the District pursuant to this section in trust for the tendering Holders. In holding such proceeds, the Trustee will be acting on behalf of such Holders by facilitating purchase of the Purchased Subordinate 2011 Bonds and not on behalf of the District or any Credit Facility Provider and will not be subject to the control of any of them. Subject to the provisions of the First Supplemental Trust Agreement, following the discharge of the lien created by the First Supplemental Trust Agreement or after payment in full of the Purchased Subordinate 2011 Bonds, the Trustee is to pay any money remaining in any account of the Purchase Fund directly to the Persons for whom such money is held upon presentation of evidence reasonably satisfactory to the Trustee that such Person is rightfully entitled to such money, and the Trustee is not to pay such amounts to any other Person.

Disbursements; Payment of Purchase Price. Money delivered to the Trustee on a Purchase Date will be applied at or before 2:00 p.m., New York City time, on such Purchase Date to pay the Purchase Price of the Purchased Subordinate 2011 Bonds in immediately available funds as follows in the indicated order of application and, to the extent not so applied on such date, will be held in the separate and segregated accounts of the Purchase Fund for the benefit of the Holders of the Purchased Subordinate 2011 Bonds that were to have been purchased:

For Subordinate 2011 Bonds the purchase of which is not provided for by a Credit Facility, either because the District has not provided for a Credit Facility for the Subordinate 2011 Bonds or because under the terms of the Credit Facility the Credit Facility Provider is not obligated to provide funds for such purchase, money will be disbursed in the following order:

FIRST: Money deposited in the Remarketing Proceeds Account.

SECOND: Money deposited in the District Purchase Account.

For Subordinate 2011 Bonds the purchase of which is provided for by a Credit Facility and under the terms of such Credit Facility the Credit Facility Provider is obligated to provide funds for such purchase, money will be disbursed in the following order:

FIRST: Money deposited in the Remarketing Proceeds Account.

SECOND: Money deposited in the Credit Facility Account.

THIRD: Money deposited in the District Purchase Account.

Any money held by the Trustee in the District Purchase Account remaining unclaimed by the Holders of the Purchased Subordinate 2011 Bonds that were to have been purchased for two (2) years after the respective Purchase Date for the Purchased Subordinate 2011 Bonds will be paid, upon the written request of the District to or upon the order of the District, against written receipt therefor. The Holders of Purchased Subordinate 2011 Bonds who have not yet claimed money in respect of the Subordinate 2011 Bonds will thereafter be entitled to look only to the Trustee, to the extent it holds money on deposit in the Purchase Fund or the District to the extent money have been transferred in accordance with the First Supplemental Trust Agreement.

Delivery of Purchased Subordinate 2011 Bonds. The Remarketing Agent is to give telephonic or telegraphic notice, promptly confirmed by a written notice, to the Trustee on each date on which Purchased Subordinate 2011 Bonds have been purchased pursuant to certain provisions of the First Supplemental Trust Agreement, specifying the principal amount of the Subordinate 2011 Bonds, if any, sold by it pursuant to the First Supplemental Trust Agreement along with a list of such purchasers showing the names and Authorized Minimum Denominations in which the Subordinate 2011 Bonds are to be registered, and the addresses and social security or taxpayer identification numbers of such purchasers. By 1:30 p.m., New York City time, on the Purchase Date, a principal amount of Subordinate 2011 Bonds equal to the amount of Purchased Subordinate 2011 Bonds purchased with money from the Remarketing Proceeds Account is to be made available by the Trustee to the Remarketing Agent against payment therefor in immediately available funds. The Trustee is to prepare each Subordinate 2011 Bond to be so delivered in such names as directed by the Remarketing Agent pursuant to the First Supplemental Trust Agreement.

A principal amount of Subordinate 2011 Bonds equal to the amount of Purchased Subordinate 2011 Bonds purchased from money on deposit in the Credit Facility Account will be delivered on the day of purchase by the Trustee to or as directed by the Credit Facility Provider. The Trustee will register the Subordinate 2011 Bonds in the name of the Credit Facility Provider or as otherwise provided in the Credit Facility.

A principal amount of Subordinate 2011 Bonds equal to the amount of Purchased Subordinate 2011 Bonds purchased from money on deposit in the District Purchase Account is to be delivered on the day of such purchase by the Trustee to the District, in the proportionate amounts of their respective contributions to such purchase of Purchased Subordinate 2011 Bonds. The Trustee will register the Subordinate 2011 Bonds in the name of such contributing parties in such proportions.

Notice of Mandatory Tender for Purchase. In connection with any mandatory tender for purchase of Subordinate 2011 Bonds in accordance with the First Supplemental Trust Agreement, the Trustee will give the notice provided as a part of the notice given pursuant to the applicable provisions of the First Supplemental Trust Agreement. Such notice will state: (1) that the Purchase Price of any Subordinate 2011 Bond so subject to mandatory tender for purchase will be payable only upon surrender of such Subordinate 2011 Bond to the Trustee at its Designated Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Trustee, executed in blank by the Holder thereof or by the Holder's duly authorized attorney, with such signature guaranteed by a member of a Medallion Signature Guarantee Program; (2) that all Subordinate 2011 Bonds so subject to mandatory tender for purchase will be purchased on the mandatory purchase date which will be explicitly stated; and (3) that If any Holder of a Subordinate 2011 Bond so subject to mandatory tender for purchase does not surrender such

Subordinate 2011 Bond to the Trustee for purchase on such mandatory purchase date, then such Subordinate 2011 Bond will be deemed to be an Undelivered Subordinate 2011 Bond, and that no interest will accrue thereon on and after such mandatory purchase date and that the Holder thereof will have no rights under the First Supplemental Trust Agreement other than to receive payment of the Purchase Price thereof.

Irrevocable Notice Deemed to be Tender of Subordinate 2011 Bonds; Undelivered Subordinate 2011 Bonds. The giving of notice by a Holder of a Subordinate 2011 Bond as provided in the First Supplemental Trust Agreement will constitute the irrevocable tender for purchase of each such Subordinate 2011 Bond with respect to which such notice will have been given, regardless of whether such Subordinate 2011 Bond is delivered to the Trustee for purchase on the relevant Purchase Date as provided in the First Supplemental Trust Agreement.

The Trustee may refuse to accept delivery of any Subordinate 2011 Bond for which a proper instrument of transfer has not been provided; such refusal, however, will not affect the validity of the purchase of such Subordinate 2011 Bond as described in the First Supplemental Trust Agreement. For purposes of the First Supplemental Trust Agreement, the Trustee for the Subordinate 2011 Bonds is to determine timely and proper delivery of the Subordinate 2011 Bonds and the proper endorsement of the Subordinate 2011 Bonds. Such determination will be binding on the Holders of the Subordinate 2011 Bonds, the District and the Remarketing Agent, absent manifest error. If any Holder of a Subordinate 2011 Bond who will have given notice of tender of purchase pursuant to the First Supplemental Trust Agreement or any Holder of a Subordinate 2011 Bond subject to mandatory tender for purchase pursuant to certain provisions of the First Supplemental Trust Agreement fails to deliver such Subordinate 2011 Bond to the Trustee at the place and on the applicable date and at the time specified, or fails to deliver such Subordinate 2011 Bond properly endorsed, such Subordinate 2011 Bond will constitute an “Undelivered Subordinate 2011 Bond.” If funds in the amount of the Purchase Price of the Undelivered Subordinate 2011 Bond are available for payment to the Holder thereof on the date and at the time specified, from and after the date and time of that required delivery, (1) the Undelivered Subordinate 2011 Bond will be deemed to be purchased and will no longer be deemed to be Outstanding under the First Supplemental Trust Agreement; (2) interest will no longer accrue thereon; and (3) funds in the amount of the Purchase Price of the Undelivered Subordinate 2011 Bond will be held by the Trustee for such Subordinate 2011 Bond for the benefit of the Holder thereof, to be paid on delivery (and proper endorsement) of the Undelivered Subordinate 2011 Bond to the Trustee at its Designated Office. Any funds held by the Trustee as described in clause (3) of the preceding sentence are to be held uninvested.

Remarketing of Subordinate 2011 Bonds; Notice of Interest Rates. Upon a mandatory tender or notice of the tender for purchase of Subordinate 2011 Bonds, the Remarketing Agent is to offer for sale and use its best efforts (as more fully set forth in the Remarketing Agreement) to sell the Subordinate 2011 Bonds, any such sale to be made on the date of such purchase in accordance with the First Supplemental Trust Agreement at a price equal to the principal amount thereof plus accrued interest, if any, thereon to the Purchase Date. The Remarketing Agent agrees that it will not sell any Subordinate 2011 Bonds purchased pursuant to the First Supplemental Trust Agreement to the District or to any Person who controls, is controlled by, or is under common control with the District.

The Remarketing Agent is to offer for sale and use its best efforts to sell Credit Facility Bonds (if any) at a price equal to the principal amount thereof plus accrued interest to the date of purchase at the lowest rate at which such Credit Facility Bonds can be remarketed to facilitate payment procedures at the Securities Depository, but in no event higher than the Credit Facility Rate. Credit Facility Bonds will not be delivered upon remarketing unless the Trustee is to have received a written confirmation from the Credit Facility Provider that the Credit Facility is reinstated in accordance with its terms to the full amount of the then Required Stated Amount, if any.

The Remarketing Agent is to determine the rate of interest to be borne by the Subordinate 2011 Bonds during each Interest Rate Period for the Subordinate 2011 Bonds as provided in the First Supplemental Trust Agreement and will furnish to the Trustee and to the District upon request, in a timely fashion each rate of interest so determined by telephone, telecopy, electronic mail or readily accessible electronic means, promptly confirmed in writing.

Special Considerations Relating to the Remarketing Agent and the Subordinate 2011 Bonds

The Remarketing Agent is Paid by the District. The Remarketing Agent's responsibilities include determining the interest rate on the Subordinate 2011 Bonds, from time to time, and remarketing Subordinate 2011 Bonds that are optionally or mandatorily tendered by the Holders thereof (subject, in each case, to the terms of the Remarketing Agreement), all as further described in this Official Statement. The Remarketing Agent is appointed by the District and is paid by the District for its services. As a result, the interests of the Remarketing Agent may differ from those of Holders and potential purchasers of Subordinate 2011 Bonds.

The Remarketing Agent Routinely Purchases Subordinate 2011 Bonds for Its Own Account. The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account in order to achieve a successful remarketing of the obligations (e.g., because there are otherwise not enough buyers to purchase the obligations) or for other reasons. The Remarketing Agent is permitted, but not obligated, to purchase tendered Subordinate 2011 Bonds for its own account, and, if it does so, it may cease doing so at any time without notice. The Remarketing Agent may also make a market in the Subordinate 2011 Bonds by routinely purchasing and selling Subordinate 2011 Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Subordinate 2011 Bonds. The Remarketing Agent may also sell any Subordinate 2011 Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Subordinate 2011 Bonds. The purchase of Subordinate 2011 Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the Subordinate 2011 Bonds in the market than is actually the case. The practices described above also may result in fewer Subordinate 2011 Bonds being tendered in a remarketing.

Subordinate 2011 Bonds May be Offered at Different Prices on Any Date, Including an Interest Rate Determination Date. Pursuant to the Remarketing Agreement, the Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the Subordinate 2011 Bonds bearing interest at the applicable interest rate at par plus accrued interest, if any, on and as of the applicable interest rate determination date. The interest rate will reflect, among other factors, the level of market demand for the Subordinate 2011 Bonds (including whether the Remarketing Agent is willing to purchase Subordinate 2011 Bonds for its own account). There may or may not be Subordinate 2011 Bonds tendered and remarketed on an interest rate determination date and the Remarketing Agent may or may not be able to remarket any Subordinate 2011 Bonds tendered for purchase on such date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Subordinate 2011 Bonds at the remarketing price. In the event a Remarketing Agent owns any Subordinate 2011 Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Subordinate 2011 Bonds on any date, including an interest rate determination date, at a discount to par to some investors.

The Ability to Sell the Subordinate 2011 Bonds other than through Tender Process May Be Limited. The Remarketing Agent may buy and sell Subordinate 2011 Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice,

and it may require Holders that wish to tender their Subordinate 2011 Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the Subordinate 2011 Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Subordinate 2011 Bonds other than by tendering the Subordinate 2011 Bonds in accordance with the tender process described in this Official Statement.

Under Certain Circumstances, the Remarketing Agent May, Without a Successor Being Named, Resign, Be Removed, or Cease Remarketing the Subordinate 2011 Bonds. Under certain circumstances, the Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, with thirty (30) days' notice to the District or the Remarketing Agent, as the case may be, and the Trustee, without a successor having been named, subject to the terms of the Remarketing Agreement.

Book-Entry Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Subordinate 2011 Bonds. The Subordinate 2011 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Subordinate 2011 Bonds and will be deposited with DTC. Additional information respecting DTC and its book entry system is contained in Appendix F.

The information in this section and in Appendix F concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

DTC may discontinue providing its services as depository with respect to the Subordinate 2011 Bonds at any time by giving reasonable notice to the District. Under such circumstances, if a successor depository is not obtained, certificates for the Subordinate 2011 Bonds are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates for the Subordinate 2011 Bonds will be printed and delivered.

SECURITY AND SOURCES OF PAYMENT

THE SUBORDINATE 2011 BONDS ARE SPECIAL OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM THE NET REVENUES AVAILABLE FOR DEBT SERVICE AND OTHER FUNDS PLEDGED TO SECURE THE SUBORDINATE 2011 BONDS UNDER THE TRUST AGREEMENT. THE SUBORDINATE 2011 BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT, OR A PLEDGE OF THE FAITH AND CREDIT, OF THE COMMONWEALTH OF VIRGINIA OR OF ANY COUNTY, CITY, TOWN OR POLITICAL SUBDIVISION THEREOF. THE ISSUANCE OF THE SUBORDINATE 2011 BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE COMMONWEALTH OF VIRGINIA OR ANY COUNTY, CITY, TOWN OR POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR.

General

Principal of and interest on the Subordinate 2011 Bonds will be payable from "Net Revenues Available for Debt Service" of the District pledged to the payment thereof and money held in certain funds and accounts under the Trust Agreement.

“Net Revenues Available for Debt Service” means all revenues derived by the District from its Wastewater System except such part thereof as may be required to pay (i) the cost of maintaining, repairing and operating such Wastewater System and (ii) its Senior Obligations.

The realization of amounts to be derived upon the enforcement of the Subordinate 2011 Bonds will depend upon the exercise of various remedies specified in the Trust Agreement. These and other remedies may, in many respects, require judicial action of a nature that is often subject to discretion and delay. Under existing laws, the remedies specified in the Trust Agreement may not be readily available or may be limited. A court may decide not to order the specific performance of the covenants contained in the Trust Agreement. The various legal opinions to be delivered concurrently with the delivery of the Subordinate 2011 Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by state and federal laws, rulings and decisions affecting remedies and by bankruptcy, fraudulent conveyance, reorganization and other laws affecting the enforcement of creditors’ rights generally.

Under the Trust Agreement, the District is subject to covenants relating to maintenance of a specified Long-Term Debt Service Coverage Ratio and restricting, among other things, incurrence of Indebtedness and the existence of liens on Property. See “Limitation on Creation of Liens” and “Limitations on Indebtedness” in Appendix B hereto.

Rate Covenant

In the Trust Agreement, the District covenants to set and revise its rates and charges for facilities, services and products such that the Net Revenues Available for Debt Service, calculated at the end of each Fiscal Year, will equal at least 100% of the amount required during the Fiscal Year to satisfy the Principal and Interest Requirements and all other Indebtedness payable from Net Revenues Available for Debt Service (the “Rate Covenant”). If, for any reason, the Net Revenues Available for Debt Service are insufficient to satisfy the foregoing covenant, the District shall within one hundred and twenty (120) days adjust and increase its rates, fees and other charges or reduce its current expenses so as to provide sufficient Net Revenues to satisfy the Rate Covenant.

If all Senior Obligations are defeased in accordance with the provisions of the Senior Trust Agreement or, if at any time, the aggregate outstanding principal amount of such Senior Obligations is less than 30% of the sum of all outstanding Senior Obligations and Outstanding Parity Obligations, the 100% provision of the Rate Covenant will rise to 115%.

On or before the last day of each Fiscal Year, the District will review the adequacy of its rates, fees and other charges for the next Fiscal Year, and, if such review indicates the District’s rates, fees and other charges are insufficient to satisfy the Rate Covenant, the District will promptly take appropriate action to increase its rates, fees and other charges or reduce its current expenses to cure any deficiency. See “Rate Covenant” in Appendix B hereto.

Outstanding Senior Obligations

The District has outstanding three series of Bonds constituting Senior Obligations under the Senior Trust Agreement, including its Wastewater Refunding Revenue Bonds, Series 2003 (the “Series 2003 Bonds”), of which \$21,560,000 is outstanding, its Wastewater Revenue Bonds, Series 2008 (the “Series 2008 Bonds”), of which \$217,170,000 is outstanding, and its Wastewater Revenue Bonds, Series 2009 (the “Series 2009 Bonds”), of which \$147,650,000 is outstanding. The District expects to issue its \$45,705,000 Senior 2011 Bonds (the “Series 2011 Bonds” and, as, if and when issued, together with the Series 2003 Bonds, the Series 2008 Bonds and the Series 2009 Bonds, the “Senior Bonds”) on or about the same date as the District issues its Subordinate 2011 Bonds.

Since May 2009, the District has obtained six loans from the Virginia Resources Authority Revolving Fund and issued in evidence of its obligations to repay such loans its bonds constituting Senior Obligations under the Trust Agreement (the “VRA Senior Bonds” and, together with the Senior Bonds, “Senior Obligations”). Such VRA Senior Bonds are secured under the Senior Trust Agreement on a parity with all other Senior Obligations, including the Series 2003 Bonds, the Series 2008 Bonds, the Series 2009 Bonds and the Series 2011 Bonds. As of October 1, 2011, the District had drawn \$69,392,405 of such VRA Senior Bonds, with an additional undrawn authorized amount of \$38,663,350. See also “–Parity Obligations.”

Additional Senior Obligations

Under the Senior Trust Agreement, the District may issue and incur additional Senior Obligations for the District’s Capital Improvement Program or to refund outstanding Senior Obligations subject to the District’s demonstrating its compliance with the conditions for the incurrence thereof under the Senior Trust Agreement or the new Senior Obligations qualifying for an exception thereto. The District anticipates that it will finance a portion of its Capital Improvement Program with future borrowings from the Virginia Resources Authority, which such borrowings may be evidenced with additional VRA Senior Bonds.

Parity Obligations

In addition to the VRA Senior Bonds described under “Outstanding Senior Obligations” above, since 1993, the District has borrowed over \$121.2 million from the Virginia Resources Authority Revolving Loan Fund and issued in evidence of its obligations to repay such loans 16 issues of bonds that are outstanding Parity Indebtedness and recognized as such under the Trust Agreement (the “VRA Subordinate Obligations” and collectively, with the Subordinate 2011 Bonds, when, as and if issued, and other Bonds or additional VRA Subordinate Obligations issued from time to time under the provisions of the Trust Agreement, the “Parity Obligations”). As of October 1, 2011, the outstanding drawn amount of the VRA Subordinate Obligations was \$111,653,095, with an additional undrawn authorized amount of \$1,041,562. The terms of the VRA Subordinate Obligations generally state that the lien thereof on the Net Revenues of the District is in all respects subordinate and inferior to the lien thereon of Senior Obligations outstanding under the Senior Trust Agreement. Generally, after an initial period where no interest accrues on such VRA Subordinate Obligations, interest accrues on the disbursed principal of the outstanding Parity Bonds at interest rates ranging from 2.5% to 4.75% per annum, and principal and interest are payable in installments over the 20-year terms of the VRA Subordinate Obligations. The VRA Subordinate Obligations have been issued for various improvements and upgrades at several of the District’s treatment plants. See the table “DEBT SERVICE REQUIREMENTS FOR SENIOR OBLIGATIONS AND PARITY OBLIGATIONS” and “Limitation on Creation of Liens” in Appendix C. The Subordinate 2011 Bonds are on parity under the Trust Agreement with the Outstanding VRA Subordinate Obligations as to their subordinate lien on the Net Revenues of the District.

Additional Parity Obligations

Under the Trust Agreement, the District may issue Additional Parity Obligations, including Additional Bonds and VRA Subordinate Obligations, for the District’s Capital Improvement Program or to refund outstanding Senior Indebtedness or Parity Obligations subject to the District’s demonstrating its compliance with the conditions for the incurrence thereof under the Trust Agreement or qualifying for an exception thereto. The District anticipates that it will finance a portion of its Capital Improvement Program with future issues of additional Senior Indebtedness, Additional Parity Obligations and borrowings from the Virginia Resources Authority, which such borrowings may be evidenced by additional VRA Senior Indebtedness. See “Limitations on Indebtedness” in Appendix C. At this time, given certain limitations contained in the Enabling Act, the District considers it unlikely that the Subordinate 2011 Bonds would be refunded in advance of their maturity absent changes to the Enabling Act.

DEBT SERVICE REQUIREMENTS FOR PARITY OBLIGATIONS¹

[In Thousands of Dollars]

Fiscal Year Ending June 30,	Subordinate 2011 Bonds			Outstanding Parity Obligations Debt Service ³	Total Parity Obligations Debt Service
	Principal	Interest ²	Debt Service		
2012	-	\$ 40	\$ 40	\$13,674	\$13,714
2013	-	65	65	12,840	12,905
2014	-	390	390	12,840	13,231
2015	-	625	625	12,840	13,465
2016	-	626	626	11,578	12,204
2017	-	624	624	9,453	10,077
2018	-	625	625	6,904	7,529
2019	-	625	625	6,904	7,529
2020	-	626	626	6,905	7,531
2021	-	624	624	6,423	7,047
2022	-	625	625	6,036	6,661
2023	-	625	625	5,806	6,431
2024	-	626	626	5,591	6,217
2025	-	624	624	5,591	6,215
2026	-	625	625	5,591	6,216
2027	-	625	625	5,507	6,132
2028	-	626	626	2,200	2,826
2029	-	624	624	2,145	2,769
2030	-	625	625	2,145	2,770
2031	-	625	625	2,145	2,770
2032	-	626	626	-	626
2033	-	624	624	-	624
2034	-	625	625	-	625
2035	-	625	625	-	625
2036	-	572	626	-	626
2037	-	624	624	-	624
2038	-	625	625	-	625
2039	-	625	625	-	625
2040	-	626	626	-	626
2041	-	624	624	-	624
2042	<u>25,000</u>	<u>262</u>	<u>25,262</u>	<u>-</u>	<u>25,262</u>
TOTAL	<u>\$25,000</u>	<u>\$17,632</u>	<u>\$42,632</u>	<u>\$143,119</u>	<u>\$185,751</u>

¹ Numbers may not add to totals due to rounding.

² Assumes, for purposes of presenting the debt service payable on the Subordinate 2011 Bonds, an interest rate of 0.26% per annum for the first two years and 2.50% per annum thereafter, but the actual interest rate will vary.

³ Debt Service on the District's 16 series of Parity Bonds held by VRA. See "SECURITY AND SOURCES OF PAYMENT—Parity Obligations" herein.

**DEBT SERVICE REQUIREMENTS
FOR SENIOR OBLIGATIONS AND
PARITY OBLIGATIONS¹**

[In Thousands of Dollars]

Fiscal Year Ending June 30,	Total Senior Obligations Debt Service²	Total Parity Obligations Debt Service	Total Debt Service
2012	\$33,043	\$13,714	\$46,757
2013	38,016	12,905	50,922
2014	38,845	13,231	52,076
2015	38,551	13,465	52,016
2016	38,463	12,204	50,667
2017	34,609	10,077	44,686
2018	36,901	7,529	44,430
2019	37,194	7,529	44,723
2020	37,133	7,531	44,663
2021	37,066	7,047	44,113
2022	36,997	6,661	43,658
2023	36,922	6,431	43,353
2024	36,841	6,217	43,058
2025	36,753	6,215	42,967
2026	36,654	6,216	42,870
2027	36,558	6,132	42,689
2028	36,452	2,826	39,278
2029	36,352	2,769	39,121
2030	36,234	2,770	39,003
2031	36,120	2,770	38,890
2032	32,506	626	33,132
2033	30,231	624	30,854
2034	28,405	625	29,030
2035	28,018	625	28,643
2036	24,909	626	25,535
2037	24,759	624	25,382
2038	24,608	625	25,233
2039	8,520	625	9,145
2040	8,353	626	8,979
2041	-	624	624
2042	<u>-</u>	<u>25,262</u>	<u>25,262</u>
TOTAL	<u>\$946,010</u>	<u>\$185,751</u>	<u>\$1,131,761</u>

¹ Numbers may not add to totals due to rounding.

² See “SECURITY AND SOURCE OF PAYMENT – Outstanding Senior Obligations.” Assumes that the District issues \$45,705,000 Senior 2011 Bonds on October 20, 2011. See “PLAN OF FINANCING—Senior 2011 Bonds” herein.

HAMPTON ROADS SANITATION DISTRICT

Authorization and Purpose

The District was created in 1940 by the Virginia General Assembly as a political subdivision of the Commonwealth of Virginia and was established as a governmental instrumentality to provide for the public health and welfare. Chapter 66, Acts of the Assembly of 1960, validated and confirmed prior legislation creating the District and repealed earlier acts of the Virginia General Assembly enacted with respect to the District.

The District was created for the specific purpose of abating pollution in the Hampton Roads area of Virginia through the interception of existing wastewater outfalls, the construction of wastewater treatment facilities and the installation of interceptors throughout the service area. The District does not provide water, solid waste disposal or storm water mitigation. The cities, counties and military establishments the District serves provide those services. With the exception of the Counties of King William, King and Queen, Middlesex, Matthews and Gloucester, the collection systems, consisting of lateral sewers and subtrunk facilities which carry wastewater from industries, homes, apartments and businesses to the District's interceptor system, are the responsibility of the various cities, counties and military establishments within the District.

The District is a separate legal entity from the various cities, counties and military establishments within the District. See "—The Commission" below.

History

The District traces its origins to 1925 when the Virginia Department of Health condemned a large oyster producing area in Hampton Roads. The closure resulted in the Virginia General Assembly creating in 1927 a "Commission to Investigate and Survey the Seafood Industry of Virginia." Subsequent studies recommended a public body to construct and operate a sewage system in the area.

In 1934, the Virginia General Assembly created the Hampton Roads Sanitation Disposal Commission with instructions to plan the elimination of pollution in Hampton Roads. Recommendations were made to the General Assembly which resulted in the Sanitary Districts Law of 1938, along with "An Act to provide for and create the Hampton Roads Sanitation District." In a referendum held on November 5, 1940, a majority of the voters approved the creation of the District.

The District's first construction project, the Warwick County Trunk Sewer, began on June 26, 1946. The District commenced operations on July 1, 1946, using facilities acquired from the United States Government. The District's first treatment plant, the Army Base Plant, commenced operations on October 14, 1947. Since that time, the facilities of the District have been expanded to provide wastewater treatment service to all major population centers within its boundaries.

The Commission

The District operates under the direction of its governing body, the Hampton Roads Sanitation District Commission (the "Commission"), comprised of eight members appointed by the Governor for staggered terms of four years. Members of the Commission may be reappointed without limitation and may be suspended or removed by the Governor at his pleasure. The Commission annually elects one of its members as Chairman and another as Vice Chairman. Under the Enabling Act, the eight members of the Commission must be residents of the cities and counties of the District as follows: one member from each of the cities of Chesapeake, Hampton, Newport News, Norfolk, Portsmouth and Virginia Beach; one member from the City of Suffolk or Isle of Wight County; and one member from the City of

Williamsburg or Poquoson, or Gloucester, James City, King William, King and Queen, Mathews, Middlesex, or York County or the Town of Urbanna.

The Commission is empowered, among other things, to (1) construct and to improve, extend, enlarge, reconstruct, maintain, equip, repair and operate a wastewater system or systems, either within or without or partly within and partly without the corporate limits of the District, and to construct wastewater improvements within the corporate limits of the District, (2) issue the District's bonds, payable solely from revenues, to pay all or part of the cost of a wastewater system, (3) fix, revise, charge and collect rates, fees and charges for the use of and for the services of any system operated by the District, (4) enter into contracts with any unit, including counties, cities and other authorities, relating to the furnishing of services of the District, and (5) acquire real or personal property necessary in connection with wastewater systems or wastewater improvements.

The current members of the Commission and their resumes are set forth below.

<u>Commissioners</u>	<u>Residence</u>	<u>Occupation</u>	<u>Term Expires June 7,</u>
Vishnu K. Lakdawala, Ph.D., <i>Chairman</i>	Virginia Beach	Associate Professor, Electrical and Computer Engineering, Old Dominion University	2014
B. Anne Davis, <i>Vice Chairman</i>	Portsmouth	Former President, Diesel Tech, Inc.	2011 ¹
I. Vincent Behm, Jr.	Hampton	Owner, Goodman Glass Company	2012
Arthur C. Bredemeyer	Suffolk	Attorney, Eure & Bredemeyer, PLLC	2013
Frederick N. Elofson, CPA	Newport News	Retired Certified Public Accountant and Personal Financial Specialist, Goodman & Company, LLP	2014
Michael E. Glenn	Norfolk	President, Luna Development Services, LLC	2011 ¹
Gerald S. Johnson	Chesapeake	Retired, Norfolk Naval Shipyard	2012
Maurice P. Lynch, Ph.D.	Gloucester Point	Professor Emeritus, Virginia Institute of Marine Science, College of William and Mary	2013

¹ Members serve until successors are appointed and qualified.

Vishnu K. Lakdawala, Ph.D., Chairman. Dr. Lakdawala, a member of the Commission since June 8, 2002, obtained his undergraduate degree in electrical engineering from Bangalore University in

India in 1972 and his Master of Engineering Degree in High Voltage Engineering from Indian Institute of Science in 1974. He worked as Research and Development Engineer in Jyoti Limited for three years in the high voltage instrument transformers division. He received his Ph.D. in electrical engineering from the University of Liverpool in 1980. After serving as senior research associate in the Department of Electrical Engineering and Electronics in the University of Liverpool for a year, he joined Oak Ridge National Laboratory, Oak Ridge, Tennessee, where he conducted research for a year. He joined the faculty of Old Dominion University in 1983 as Assistant Professor in the Department of Electrical and Computer Engineering. He is currently the Chief Departmental Advisor and Associate Professor of Electrical and Computer Engineering. Dr. Lakdawala currently serves as the president of the Hindu Temple of Hampton Roads. Dr. Lakdawala resides in the City of Virginia Beach.

B. Anne Davis, Vice Chairman. Ms. Davis, a member of the Commission since June 8, 2003, is the former President and CEO of Diesel Tech, Inc., a certified woman-owned firm specializing in diesel engine repair. The company had national and international experience in the public and private sectors before it closed in December 2002. Prior to founding Diesel Tech Inc., Ms. Davis held senior positions in health care. She also has extensive management experience in banking. She is a former commissioner and past chairman of both the Portsmouth Industrial Development Authority and the Portsmouth Port and Industrial Commission. Ms. Davis currently serves as a senior leader on numerous associations, boards and civic organizations. Ms. Davis resides in the City of Portsmouth.

I. Vincent Behm, Jr., Commissioner. Mr. Behm, a member of the Commission since December 15, 2009, is the owner of Goodman Glass Company. A member of the Virginia House of Delegates from 1994 until 2000, he has served his community over the years as a member of the Hampton School Board, president of the Fox Hill Civic League and member of the Hampton Industrial Development Authority. He also has served on the Virginia Small Business Financing Authority, the Virginia Small Business Environmental Compliance Authority and New Horizons Technology Center. A graduate of the University of Wisconsin, Mr. Behm resides in Hampton.

Arthur C. Bredemeyer, Commissioner. Mr. Bredemeyer, a member of the Commission since August 18, 2009, is an attorney with the law firm of Eure & Bredemeyer, PLLC. After retiring from the United States Air Force with 20 years of service, he entered private practice, specializing in estate planning, taxation and elder law. During his last military posting, he was assigned to the Air Combat Command Headquarters at Langley Air Force Base, where he was chief of the International and Operations Law Division for the Air Force's largest command. Mr. Bredemeyer holds a bachelor's degree in accounting, history and political science from Illinois College, a J.D. from Washburn University, a master's in public administration from the University of Oklahoma, and a Master of Law Degree in Taxation from The College of William and Mary. Mr. Bredemeyer's civic activities include serving as president of Suffolk Tomorrow, chair of the Suffolk Airport Commission and as a member of the board of Riddick's Folly Museum. Mr. Bredemeyer resides in the City of Suffolk.

Frederick N. Elofson, CPA, Commissioner. Mr. Elofson, a member of the Commission since July 1, 2006, is a Certified Public Accountant and recently retired senior partner in Goodman & Company, LLP, in Newport News. He earned a bachelor's degree in accounting from West Virginia University and has more than 30 years of accounting experience. A former chairman of the board and treasurer of the Peninsula Chamber of Commerce, Mr. Elofson remains active in numerous professional and civic organizations. He is a past treasurer and board member of the Schooner Virginia Project, a past president of the Peninsula Estate Planning Council, and has been honored as the Chamber's Volunteer of the Year. Mr. Elofson resides in the City of Newport News.

Michael E. Glenn, Commissioner. Mr. Glenn, a member of the Commission since May 13, 2008, is president of Luna Development Services, LLC. The firm, which offers full-service general contracting and real estate development services, is a Certified Virginia Minority Business Enterprise. Before founding his firm in 2004, Mr. Glenn was Director of Operations, Real Estate Services and

Contracts for Troutman Sanders, LLP. He also has served as a development executive for Armada Hoffer Development and as a Wachovia Bank vice president. Mr. Glenn received a bachelor's degree in psychology, with a minor in biology, from Old Dominion University. Mr. Glenn resides in the City of Norfolk.

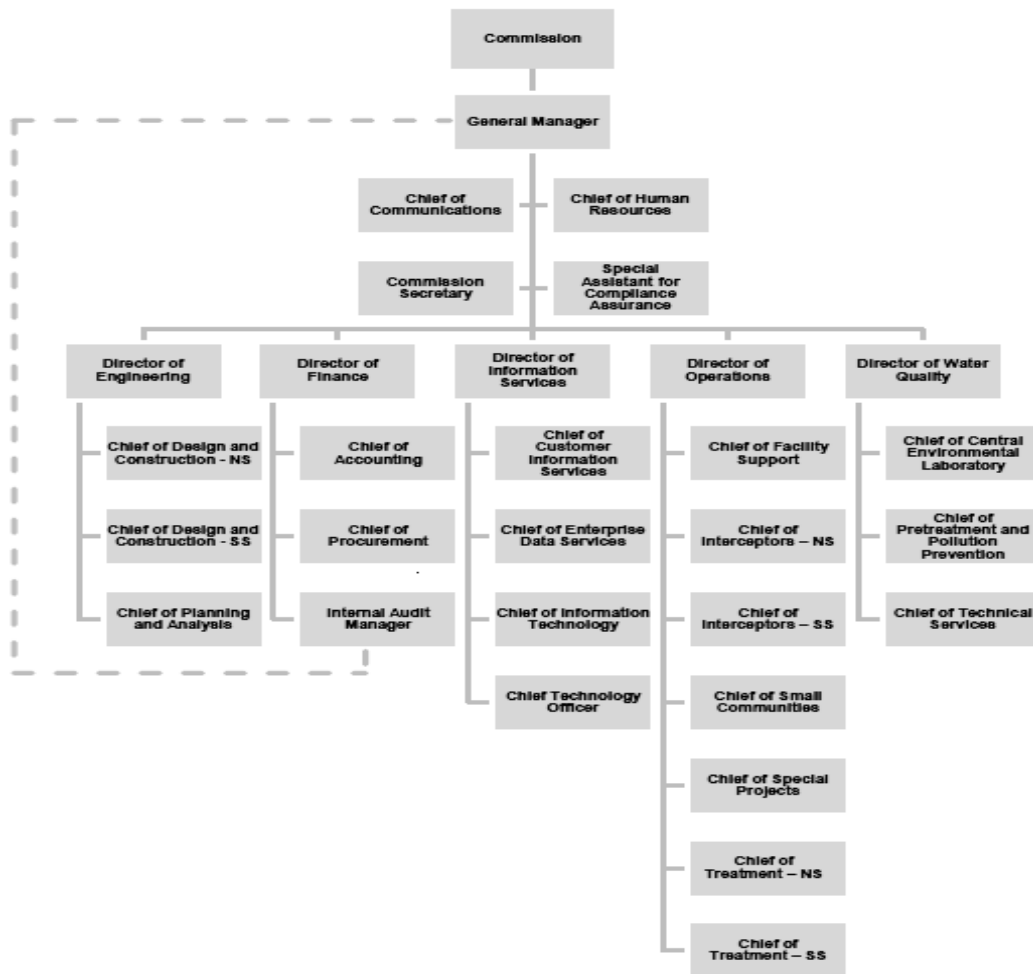
Gerald S. Johnson, Commissioner. Mr. Johnson, a member of the Commission since April 18, 2007, retired from Norfolk Naval Shipyard with more than 38 years of service. His work as a Nuclear Engineering Technician included planning and scheduling nuclear overhauls and refueling. He has extensive experience in developing project management control systems and providing program support. Mr. Johnson is a graduate of Oscar Smith High School and the Norfolk Naval Shipyard Apprenticeship Program. He has served his community through participation in the Chesapeake Council of Civic Organizations, South Norfolk Leadership Council, South Norfolk Civic League, Chesapeake Restoration Council and Chesapeake Planning Advisory Team. Mr. Johnson resides in the City of Chesapeake.

Maurice P. Lynch, Ph.D., Commissioner. Dr. Lynch, a member of the Commission since August 24, 2009, is professor emeritus of The College of William and Mary's Virginia Institute of Marine Science. Upon earning his bachelor's degree from Harvard, Dr. Lynch was commissioned an ensign in the U.S. Navy Reserve and remained on active duty with the Underwater Demolition Team until July 1962. After filling numerous reserve billets, he retired in 1988 with the rank of Captain U.S. Naval Reserve. Dr. Lynch earned his master's and doctoral degrees from William and Mary, where he has been a member of the faculty since 1972. He has been a liaison to numerous universities as well as state and federal agencies. He has served as the Virginia Sea Grant director, director of the Chesapeake Bay Research Consortium and director of the Chesapeake Bay National Research Estuarine Research Reserve in Virginia. He has been an officer of several professional organizations, including the Virginia Academy of Science, the Coastal Society and the National Estuarine Research Reserve Association. Dr. Lynch also has served two terms on the Chesapeake Bay Foundation ("CBF") board of trustees and been a leader of CBF's York chapter. He was appointed to the Middle Peninsula Planning District Commission in 1997 and has served as its chair. Dr. Lynch resides in Gloucester Point.

Management and Staff

The District is managed through five departments which are organized into functional divisions with their principal responsibilities summarized after the District's organizational chart set out below.

Organizational Chart



Engineering

- Design & Construction:
- Planning & Analysis:

Manages projects to ensure that contracted work is performed according to HRSD's quality standards, fiscal policies and environmental commitment. Evaluates the service area's needs and determines the new facilities necessary to expand services. Projects future demand flows, service area expansion, and potential HRSD opportunities. Responsible for the Geographical Information System (GIS).

Finance

- Finance & Accounting:
- Procurement:

Performs accounting operations, treasury functions, and debt and risk management functions. Acquires goods and services.

Information Services

- Customer Information Services: Responsible for billings, collections, maintenance of customer accounts and liaison with HRSD customers.
- Information Technology: Provides data processing services, system support and management.

Operations

- Facility Support: Coordinates preventive and major corrective maintenance programs including Automotive Maintenance, Carpenter, Electrical and Machine Shop operations and Physical Plant Maintenance.
- Interceptor Operations North Shore: Operates and maintains the interceptor system in the Cities of Hampton, Newport News, Poquoson and Williamsburg, and the Counties of Gloucester, James City and York.
- Interceptor Operations South Shore: Operates and maintains the interceptor system in the Cities of Chesapeake, Norfolk, Portsmouth, Suffolk and Virginia Beach and the County of Isle of Wight.
- Safety: Coordinates the safety program for HRSD.
- Small Communities: Operates and maintains the collections systems and treatment plants that serve the Middle Peninsula.
- Treatment – North Shore: Operates and maintains the Boat Harbor, James River, Nansemond, Williamsburg and York River treatment plants.
- Treatment – South Shore: Operates and maintains the Army Base, Atlantic, Chesapeake-Elizabeth and VIP treatment plants.

Water Quality

- Central Environmental Laboratory: Performs all HRSD analytical testing.
- Pretreatment & Pollution Prevention: Controls all non-domestic waste discharged into the HRSD system.
- Technical Services: Provides scientific/technical support of all HRSD departments and administration of all HRSD permits.
- Water Reuse: Works with local industries, government facilities and jurisdictions to provide reclaimed water.

The District's administration is overseen by a General Manager, supported by five directors and their staffs. For Fiscal Year 2012, the District budgeted for 769 full-time employees. Current staffing is sufficient to operate all existing facilities. None of its employees is currently represented by a union.

The following individuals are responsible for the daily management and affairs of the District:

Edward G. Henifin, P.E., General Manager

Ted Henifin, a registered professional engineer, has served as HRSD's General Manager since 2006. The recipient of a bachelor's of science in civil engineering from the University of Virginia, Mr. Henifin also has completed the Water and Wastewater Leadership Program at the Kenan-Flagler Business

School of the University of North Carolina at Chapel Hill. Mr. Henifin began his career in 1982 as a civil engineer in the facilities planning division of the Navy Public Works Center in Norfolk. He has served as a senior engineer with the Norfolk Redevelopment and Housing Authority and deputy site manager of the Navy Public Works Center at Little Creek. He worked for nine years as Director of Public Works for the City of Hampton before joining HRSD. Active in numerous professional and civic organizations, Mr. Henifin is vice-president of the Virginia Association of Municipal Wastewater Agencies (“VAMWA”). He also has served on the board of the Virginia, District of Columbia and Maryland Chapter of the American Public Works Association. He is president of the George Wythe Recreation Association and a member of the boards of the Downtown Hampton Child Development Center, the American Red Cross, Hampton Roads Chapter and the Hampton Neighborhood Development Partnership. Mr. Henifin’s honors include the Julian F. Hirst Award for Distinguished Service, presented by the American Society for Public Administration. He also was among a select number of proven leaders chosen for the 2009 class of LEAD Virginia.

Donald C. Corrado, Director of Information Services

Prior to his appointment in 2008, Don Corrado served as HRSD’s Chief of Information Technology for nine years. In that capacity he was responsible for the implementation of a scalable, fully-licensed, standards-based wide area network capable of supporting the various enterprise-class applications required to meet HRSD’s business needs. Mr. Corrado’s 20-year career includes public and private sector experience as an IT manager, enterprise solutions architect, information systems security officer, project leader and contract specialist. He earned a bachelor’s degree from Old Dominion University and is a Master Certified NetWare Engineer, Microsoft Certified Systems Engineer and Nortel Certified Enterprise Solutions Provider. Mr. Corrado is also a U.S. Department of Defense Certified Acquisition Professional and Checkpoint Firewall One Certified. He is a member of the Gartner Executive Panel, American Water Works Association and Water Environment Federation (“WEF”) and has completed the Kenan-Flagler Water and Wastewater Leadership Program.

Steven G. de Mik, MBA, CPA, Director of Finance

Before joining HRSD in 2008, Steve de Mik, a certified public accountant, served for seven years as the Director of Finance and Business Services for the City of Norfolk. His duties and accomplishments in that post included managing a debt portfolio of approximately \$1 billion using three different credit structures, restructuring and refinancing debt obligations to generate \$16 million in savings, securing credit rating increases and implementing a new accounting and financial reporting system. Mr. de Mik’s 20 years of progressively responsible public and private sector finance experience includes positions with Knox County, TN; Knoxville, TN; Chipman and McMurray, CPA’s of Hendersonville, TN; and the Comptroller of the Treasury, Division of State Audit, Nashville, TN. He received a bachelor’s degree in accounting and business administration from Southwest Baptist University in Bolivar, Missouri, and an MBA from The College of William and Mary. Mr. de Mik also has completed the Kenan-Flagler Water and Wastewater Leadership Program.

Phillip L. Hubbard, P.E., Special Assistant for Compliance Assurance

Phil Hubbard was the Sanitary Sewer Overflow Reduction Manager for the City of Virginia Beach prior to joining HRSD in 2007. In that capacity he ensured full compliance with regulatory orders, represented the City with the Virginia Department of Environmental Quality and the United States Environmental Protection Agency, served as Team Leader for the Regional Capacity Team, and managed contracts with consulting engineers. His extensive experience also includes more than 20 years as an operations manager in the city’s public utilities department. A registered professional engineer, Mr. Hubbard holds a bachelor’s degree in civil engineering from the Virginia Military Institute and has completed the Kenan-Flagler Water and Wastewater Leadership Program. He is a member of the American Society of Professional Engineers and WEF. He twice received the Virginia Beach City

Manager's Creativity, Innovation and Public Service Award, and was named the Hampton Roads ASCE Government Engineer of the Year in 2010.

Bruce W. Husselbee, P.E., Director of Engineering

Bruce Husselbee became Director of Engineering in July 2005. Before his promotion to this senior leadership position, he was a Project Manager in the Design and Construction Division for nine years. In that capacity he managed a number of large capital improvement projects. These included interceptor, treatment plant and water reclamation facilities. Mr. Husselbee previously worked in the consulting engineering field for 12 years. He holds a bachelor's degree in civil engineering and a master's degree in environmental engineering from George Washington University. He also has completed the Kenan-Flagler Water and Wastewater Leadership Program. He is currently pursuing a doctorate in coastal engineering at Old Dominion University.

Norman E. LeBlanc, Director of Water Quality

Norm LeBlanc was promoted to Director of Water Quality in March 2006. Previously, he was the Chief of Technical Services for 29 years. In that capacity, he managed the environmental monitoring and permitting program. He also served as Water Quality Specialist for five years, providing technical reviews and conducting planning for water quality studies. Mr. LeBlanc has a bachelor's degree in physical oceanography from New York University and did graduate work in physical oceanography at Old Dominion University. He has authored or co-authored numerous technical papers on chlorination, biosolids and aquatic toxicology as well as a book on environmental permitting. He is a graduate of the Kenan-Flagler Water and Wastewater Leadership Program. Mr. LeBlanc is a member of the National Association of Clean Water Agencies ("NACWA") board of directors. He has served on the VAMWA board of directors, the WEF Research Council and the EPA Science Advisory Board Panel for the EPA Report on the Environment. His honors include the NACWA President's Award, which was presented in recognition of his outstanding service.

G. David Waltrip, P.E., Director of Operations

Dave Waltrip, who was named Director of Operations when the position was established in 2007, had served as Director of Treatment since 1987. Formerly, he was the Assistant Director of Treatment for seven years, Williamsburg Plant Manager for three years and a Project Engineer for two years. Mr. Waltrip has a bachelor's degree in mechanical engineering and a master's degree in environmental engineering from Virginia Tech. He is a graduate of the Kenan-Flagler Water and Wastewater Leadership Program, a past president of the Virginia Water Environment Association ("VWEA") and has served in various appointed capacities with WEF. Mr. Waltrip has authored or co-authored numerous articles in the *Water Pollution Control Federation Journal* on odor control and biological nutrient removal. He has received WEF's Arthur Sidney Bedell Award and VWEA's Enslow-Hedgepeth Award.

Awards

The District, a recipient of NACWA's Excellence in Management Award, also has received numerous awards for excellence in plant operations and maintenance, environmental engineering and design, and financial reporting. The District's facilities have earned 239 national awards for outstanding compliance with National Pollutant Discharge Elimination System ("NPDES") permits since 1986, when the program was established. All of the District's treatment plants qualified for an award for outstanding permit compliance for calendar year 2010. The Army Base Treatment Plant this year was recognized for 24 consecutive years of perfect permit compliance, a record unmatched in the nation. Other awards received in 2011 include a Governor's Environmental Excellence Award and the National Council of Public-Private Partnerships Innovation Award for the Nansemond Treatment Plant Struvite Recovery Facility.

THE SERVICE AREA

The District provides service to 672 square miles of the 3,118 square miles within the boundaries of its corporate limits. The geographical limits are shown on the map behind the inside front cover and include the following localities:

City of Chesapeake	Gloucester County
City of Hampton	Isle of Wight County
City of Newport News	James City County
City of Norfolk	King and Queen County
City of Poquoson	King William County
City of Portsmouth	Mathews County
City of Suffolk	Middlesex County
City of Virginia Beach	York County
City of Williamsburg	

The District and the Commission are independent of the localities served by the District. See “HAMPTON ROADS SANITATION DISTRICT—Authorization and Purpose” and “—The Commission.”

Population Growth

The area within the District has experienced substantial urban and suburban development and consequent population growth, resulting in increased quantities of wastewater being treated at the District’s treatment plants. The historical population and projections of future population within the District are presented below. Presently, the District contains approximately 21% of the population of the Commonwealth of Virginia.

<u>Year</u>	<u>Source</u>	<u>Population</u>	<u>Population Increase (%)</u> ⁽¹⁾
1960	U.S. Census	660,338	--
1970	U.S. Census	973,247	47
1980	U.S. Census	1,085,332	12
1990	U.S. Census	1,431,000	32
2000	U.S. Census	1,551,000	8
2010	U.S. Census	1,674,917	8

(1) Increase in population includes both increase in population within the District’s original service area, as well as the expansion of the District’s service area.

The District’s top ten ratepayers represented 11.1% of the District’s total rate base, as measured by wastewater treatment charges, in Fiscal Year 2011. The following table lists the top ten ratepayers in Fiscal Year 2011 relative to the ten largest ratepayers in Fiscal Year 2002.

Wastewater Treatment Charges

Ten Largest Customers

<u>Customer</u>	<u>Type</u>	<u>Fiscal Year 2011</u>		<u>Fiscal Year 2002</u>	
		Amount ⁽¹⁾	% of Total	Amount ⁽¹⁾	% of Total
Anheuser-Busch, Inc.	Brewery	\$5,160	2.8%	\$5,629	6.0%
U.S. Navy – Norfolk Naval Base	Military Facility	4,730	2.6	1,663	1.8
Smithfield Foods	Meat Processor	2,973	1.6	2,172	2.3
City of Norfolk	Municipality	1,561	0.9	834	0.9
Huntington Ingalls Industries	Shipbuilding	1,291	0.7	782	0.8
Norfolk Redevelopment and Housing Authority	Housing Authority	1,202	0.7	699	0.7
Joint Expeditionary Base Little Creek – Fort Story	Military Facility	925	0.5	625	0.7
Fort Eustis	Military Facility	911	0.5	-	-
U.S. Air Force – Langley Air Force Base	Military Facility	869	0.5	538	0.6
City of Virginia Beach	Municipality	603	0.3	344	0.4
Norfolk Naval Shipyard	Military Ship Repair	-	-	526	0.6
Totals		\$20,225	11.1%	\$13,812	14.8%

⁽¹⁾ Dollar amount in thousands.

Wastewater Flow

As the following chart indicates, during the last five years, the District has experienced irregular growth in average daily wastewater flow. During the five-year period, there has been population growth in the service area while the number of service connections has remained stable. Billed water consumption has declined modestly during such period because of conservation efforts on the part of utility customers fostered by increasing water rates, improved construction materials and the installation of low flow plumbing fixtures.

Wastewater Flows and Service Connections

<u>Fiscal Year</u> <u>Ended June 30,</u>	<u>Average Daily</u> <u>Wastewater Flow</u> ⁽¹⁾	<u>Total Billed</u> <u>Wastewater Flow</u> ^(1,2)	<u>Service Connections</u> ⁽³⁾
2007	163	124	461
2008 ⁽⁴⁾	146	120	442
2009	151	128	452
2010	171	123	455
2011	144	119	457

⁽¹⁾ Millions of Gallons Per Day.

⁽²⁾ Water meters are read for billing purposes by the participating jurisdictions.

⁽³⁾ Number of service connections in thousands.

⁽⁴⁾ During the Fiscal Year Ended June 30, 2008, the District installed a new customer billing system. As part of the implementation of the system, certain accounts were combined to more closely align billing location and service delivery.

Expansion of Service Area

In most instances, the routine expansion of the service area results from the extension of the interceptor system which is performed at the request of a local government. When the interceptor system is expanded, the District requires the local government to enter into an Interest Participation Agreement

with the District. An Interest Participation Agreement requires the local government to guarantee the payment of interest expense of the proposed extension. The interest payment is calculated by multiplying the total cost of construction by the current rate of interest on twenty-year AA-rated tax-exempt revenue bonds. The local government agrees to pay the District at the end of each quarter one-fourth of the annual interest payment as of the date of the completion of the interceptor. When the District begins the treatment of flows, the District agrees to credit against the local government's quarterly interest payment 70% of the revenue received from treatment service charges associated with the extension. When the revenue credit exceeds the interest payment for four consecutive quarters, the Interest Participation Agreement is terminated.

THE SYSTEM

The Wastewater System consists of nine major treatment plants (above 248.5 million gallons per day (MGD) capacity), four smaller plants and its interceptor system consisting of 81 major pumping stations and approximately 512 miles of interceptors ranging in diameter from 12 to 60 inches. The interceptors, which are gravity and force mains, convey wastewater from the point of delivery by municipalities, industry and other users of the Wastewater System to the District's treatment plants.

The following table identifies the location of the District's major treatment plants, their design capacities and, for the fiscal year ended June 30, 2011, their average daily flows.

**Hampton Roads Sanitation District
Treatment System Capacity & Flows
(Million Gallons Per Day)**

<u>Major Treatment Facilities</u>	<u>Average Design Capacity</u>	<u>FY 2011 Annual Average Daily Flow</u>
Atlantic Virginia Beach	54.0	29.7
Army Base Norfolk	18.0	10.0
Boat Harbor Newport News	25.0	12.6
Chesapeake-Elizabeth Virginia Beach	24.0	16.3
James River Newport News	20.0	12.2
Nansemond Suffolk	30.0	15.9
Virginia Initiative Norfolk	40.0	28.5
Williamsburg James City County	22.5	8.6
York River York County	<u>15.0</u>	<u>10.8</u>
TOTALS	<u>248.5</u>	<u>144.6</u>

In addition to the major facilities described above, the District operates four additional small wastewater treatment plants: two in Middlesex County with a combined capacity of 0.13 MGD, one in West Point (King William County) with a capacity of 0.60 MGD, and one in King William (King William County) with a capacity of 0.10 MGD.

System Improvements and Innovations

HRSD has completed significant renewals and improvements to its treatment plants, pump stations, interceptor sewers, operational and administrative facilities in recent years. The recently completed Atlantic Treatment Plant expansion project, the largest capital project in HRSD history, will provide the capacity needed to support HRSD's service area beyond 2030. Electrical equipment upgrades throughout all HRSD facilities have been made to replace aging system components as well as meet new arc flash safety requirements. The on-going infrastructure renewal program has replaced a number of major interceptors over the past few years including the Kiln Creek, Big Bethel and Eastern Branch Trunk projects. Improvements have been made to various pressure reducing stations as well as rehabilitations of several pump stations including the Claremont and Wellington stations.

Significant effort has been directed at meeting new mass discharge limits on nitrogen and phosphorus as a result of the six state effort to restore the Chesapeake Bay. As a result of the capital projects at the York River, Nansemond and James River Treatment Plants, HRSD is projected to meet these new stringent limits in calendar year 2011, the first compliance period. Through the use of creative design and phased construction, cost effective adaptive technologies were deployed taking advantage of the unique existing facilities and treatment processes at each plant.

HRSD's first high pressure transmission force main was completed in early 2011. This small diameter, high pressure, seventeen mile long force main was selected as the most cost effective solution to meeting new water quality standards at the aging Mathews Treatment Plant. As a result of the construction of the new pipeline, the Mathews Treatment Plant has been taken off line and is scheduled for demolition.

HRSD accepted ownership of an existing small treatment plant in Middlesex County in 2010. This small plant currently serves the regional correctional facility but has the potential to become an integral part of the HRSD small community system should Middlesex County desire to expand sewer service to existing developed sections of the Saluda area in central Middlesex.

A comprehensive metering network has been installed throughout the HRSD system to aid in optimizing system operations as well as to provide flow data to HRSD's new dynamic hydraulic model for calibration and validation purposes. The hydraulic model is one of the most sophisticated sewer modeling efforts in the country and will be used to guide placement and sizing of future system improvements to cost effectively address wet weather peak flows.

HRSD recently completed the second Ostara nutrient recovery facility in the United States. The patented Ostara process recovers phosphorus from the wastewater treatment process and converts it to a slow release, high phosphorus content, commercial fertilizer.

Capital Improvement Program

The District's Capital Improvement Program is designed to meet regulatory requirements, including both nutrient reduction and sanitary sewer overflow reduction, aging infrastructure renewals and replacements, biosolids management and increased capacity. In Fiscal Year 2010, the District increased the planning horizon for the CIP from five to ten years. This change allows the District to better plan for long-range projects and to anticipate future capital financing needs. The CIP is updated each year and modified as circumstances dictate. The Commission approves the overall program and the first year of the plan and appropriates funds on an individual project basis. In 2008, the District implemented a new CIP project prioritization program using a decision analysis based process. This process allows for each proposed project to be considered objectively against the merits of other proposed projects. Individual projects are scored using performance measures based on ten criteria and ranked. After the CIP review team considers each project score for consistency, the CIP leadership team makes final decisions on

project acceptability and develops a prioritized project schedule based on projected capital funding availability.

The 2012-2021 CIP includes approximately \$1.2 billion in interceptor system, treatment plant and other facility improvements over the ten fiscal years ending June 30, 2021. Of that total, \$511 million is identified for the rehabilitation and upgrade of wastewater treatment plants. This includes adding additional nutrient removal capability at the Army Base, Chesapeake-Elizabeth, James River, Virginia Initiative, Williamsburg and York River Treatment Plants to meet the EPA Chesapeake Bay Total Maximum Daily Load (“TMDL”) requirements finalized on December 29, 2010. A number of interceptor sewer projects, totaling approximately \$322 million are in the planning, design or construction phase. These planned projects are proposed to address aging infrastructure issues within the extensive District interceptor sewer piping system. Upgrades to aging sewer pump stations and new pump stations to serve Hampton Roads are an important part of the CIP with over \$174 million of such improvements planned in the next ten years. The District is in the process of developing a Biosolids Resource Recovery Master Plan which will outline a strategy to manage biosolids for the next twenty years. The CIP includes \$58 million in anticipated biosolids management improvements.

The District will play a critical role in assisting the localities it serves to address the region’s sanitary sewer overflow reduction program as mandated by the Consent Agreement and Consent Decree (each as hereinafter defined). As part of this effort, the District has implemented a significant regional interceptor sewer metering program, a hydraulic sanitary sewer computer model and a sanitary sewer evaluation study to develop a Regional Wet Weather Management Plan. The CIP includes over \$27 million to be spent in the next five years to develop the Regional Wet Weather Management Plan, which will identify the required improvements to the System. In 2011, the District worked with the localities to develop a private property inflow and infiltration program as required by the Federal Consent Decree. This \$46 million program will be to reduce inflow and infiltration coming from private house laterals as well as commercial property.

The District continues to look for alternative energy projects such as the Atlantic Treatment Plant Digester Gas Combined Heat and Power project which will be designed to power up to 40% of the plant. In addition, the District is studying an evolving wastewater process using a relatively new bacteria called Annamox which has the potential to make wastewater plants net energy positive. The District will be using this bacteria in a side-stream DEMON process at York River and will be piloting the potential for full-scale deployment at the Chesapeake-Elizabeth plant. The District is also investigating other projects to reduce energy usage and limit the discharge of contaminants to the environment.

The following table sets forth the District’s anticipated sources of funds for its Capital Improvement Plan in Fiscal Years 2012 through 2016.

**CIP, Fiscal Years 2012 to 2016
(dollar amounts in thousands)
(as of Fiscal Years ended June 30)**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	Total <u>(2012-16)</u>
Cash	23,757	17,550	15,000	19,985	41,739	118,031
Series 2009 Bonds	44,500	-	-	-	-	44,500
Senior Obligations and Bonds	<u>90,124</u>	<u>99,450</u>	<u>85,000</u>	<u>80,015</u>	<u>80,261</u>	<u>434,850</u>
Total Sources	158,381	117,000	100,000	100,000	122,000	597,381

The District plans to fund the Capital Improvement Program through a combination of cash and debt financing as shown in the above table. Although the District also plans to pursue federal and Commonwealth grants and subsidy funds to the extent available, the above table assumes, however, that

no funds will be received as the Virginia Water Quality Improvement Fund is currently exhausted and is unable to meet current obligations.

The CIP also includes \$610 million in funding in Fiscal Years 2017 through 2021, of which \$367 million is planned to be funded with bond proceeds and \$243 million with operating cash.

Regulation and Permits

The Virginia State Water Control Law (Chapter 3.1, Title 62.1, Code of Virginia, 1950, as amended) provides that the plans and specifications for wastewater facilities to be constructed be approved by the Virginia Department of Health and the Virginia Department of Environmental Quality. The District operates all of its plants and interceptor systems under permits issued by the Virginia Department of Environmental Quality.

Except as described under “Consent Agreement and EPA Order” below, the District is not aware of any pending federal or state regulatory requirements that would require significant expenditures for additional capital improvements; however, the District cannot predict the scope or effect of future federal or Commonwealth regulatory actions that could require significant expenditures for capital improvements.

Consent Agreement and EPA Order

In September 2007, the Commonwealth of Virginia entered into a regional consent agreement (the “Consent Agreement”) with the District and 13 of the localities that it serves. The Consent Agreement requires agreed upon short and long-term operational and infrastructure improvements to the sewer systems of the District and such localities. The long-term improvements are to be based upon a regional wet weather management plan that must be developed and submitted to the Commonwealth in 2013. The substance of the Consent Agreement was developed, in large part, by the District and such localities. No penalty was imposed upon either the District or such localities for past sewer overflows.

As of the date hereof, the District is in full compliance with its obligations under the Consent Agreement. The District continues to work with such localities to comply with the District’s obligations under the Consent Agreement and to support such localities with their obligations under the Consent Agreement.

Separately, EPA and the Commonwealth of Virginia have negotiated to embody the District’s obligations under the Consent Agreement in a federally enforceable consent decree (the “Consent Decree”). The Consent Decree was entered by the federal district court for the Eastern District of Virginia (the “District Court”) on February 23, 2010. The Consent Decree has three major aspects. First, it incorporates the requirement of the Consent Agreement to develop a regional wet weather management plan to control sewer overflows. Second, it includes a requirement for the District to implement a portion of its current ten year Capital Improvement Plan. Specifically, the District must implement \$140 million worth of projects identified out of a larger group of projects included in the current CIP. These projects will be implemented over a manageable eight-year period. Finally, the Consent Decree imposed a \$900,000 penalty for all allegations of non-compliance prior to the date of the Consent Decree. The Consent Decree generally adopts the approach taken in the Consent Agreement but is inconsistent with other consent decrees negotiated by EPA for sanitary sewer overflows in that the Consent Decree contains no fixed end date for implementation of the regional wet weather management plan. The lack of a fixed end date is critical as it permits the District to avoid agreeing to a fixed implementation schedule for a yet to be defined list of potentially significant capital projects. The Consent Decree requires an implementation schedule be developed once the detailed plan is developed based on a selected level of service. Selection of the appropriate level of service will be based on a number of factors including costs.

Consulting Engineering Services

HRSD has a knowledgeable and experienced staff of professional engineers and architects in its Engineering Department. Due to the current workload generated as a result of the expanding CIP, the Engineering Department staff manages the overall program with the assistance of numerous consultants and contractors. For large CIP projects, individual consultants are selected to assist with these efforts. For smaller projects or specialized studies, HRSD uses a number of consultants through annual services contracts to assist with these efforts. Both CH2M Hill and HDR Engineering Inc. assist HRSD with many of the highly technical issues, studies and specialized projects through the General Engineering Services contract. In addition, MMM Design Group provides specialized architectural, mechanical and electrical support, Collins Engineers assists with structural issues, and URS Corporation provides assistance with the relocation of existing interceptor sewers affected by state and local roadway projects.

FINANCIAL MANAGEMENT

General

Through its annual budget process, management ensures that operating revenues are sufficient to meet operating expenditures and sufficient reserves are available in the event actual billings do not meet budget estimates. The construction of new plants and extension of the interceptor system are financed by a combination of operating revenues and debt financing. The following table sets out the District's operating results and debt service coverage for the Fiscal Years ended June 30, 2007, through June 30, 2011.

Summary of Operating Expenses and Debt Service Coverage (dollar amounts in thousands) (as of Fiscal Years ended June 30)					
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Operating Revenues					
Wastewater Treatment Charges	\$118,423	\$129,583	\$156,642	\$167,807	\$183,526
Miscellaneous	<u>3,558</u>	<u>2,623</u>	<u>3,088</u>	<u>3,645</u>	<u>3,890</u>
Total Operating Revenues	<u>\$121,981</u>	<u>\$132,206</u>	<u>\$159,730</u>	<u>\$171,452</u>	<u>\$187,416</u>
Non-Operating Revenues, excluding capital grants received					
Wastewater Facility Charges	\$ 9,645	\$ 8,339	\$5,086	\$5,754	\$ 5,083
Investment Earnings	3,363	3,999	3,998	1,541	1,699
Bond Interest Subsidy ⁽¹⁾	-	-	-	1,655	2,602
Change in Fair Value of Investments	<u>994</u>	<u>656</u>	<u>162</u>	<u>40</u>	<u>(19)</u>
Total Non-Operating Revenues	<u>14,002</u>	<u>12,994</u>	<u>\$9,246</u>	<u>\$8,990</u>	<u>\$9,365</u>
Total Revenues	<u>\$135,983</u>	<u>\$145,200</u>	<u>\$168,976</u>	<u>\$180,442</u>	<u>\$196,781</u>
Operating Expenses, Excluding Depreciation	<u>95,000</u>	<u>103,790</u>	<u>115,703</u>	<u>127,457</u>	<u>131,847</u>
Net Revenues	<u>\$40,983</u>	<u>\$41,410</u>	<u>\$53,273</u>	<u>\$52,985</u>	<u>\$64,933</u>
Total Senior Obligations Debt Service	\$8,609	\$4,699	\$17,453	\$21,081	\$28,257
Coverage on Senior Obligations	4.76	8.81	3.05	2.51	2.30
Total Senior Obligations and Parity Obligations Debt Service	\$16,609	\$16,691	\$28,147	\$31,776	\$38,897
Coverage on Senior Obligations and Parity Obligations	2.47	2.48	1.89	1.67	1.67

⁽¹⁾ Build America Bonds subsidy equal to 35% of interest expense on Series 2009B Bonds.

For purposes of the Trust Agreement, the Liquidity Ratio is the resulting dividend of unrestricted cash divided by the Maximum Annual Debt Service on Senior Obligations. Unrestricted cash includes "... cash, cash equivalents and marketable securities that do not constitute Restricted Funds held by the

District for its various purposes, but not including cash, cash equivalents and securities which constitute proceeds of Indebtedness issued to finance capital improvements or funds held in the Bond Fund (or any similar sinking fund held by a trustee for the payment of Indebtedness) or the Debt Service Reserve Fund.” The Senior Trust Agreement requires that the District maintain a minimum Liquidity Ratio of 1.35 or fund the debt service reserve fund established thereunder at the debt service reserve requirement, which is equal to the least of (i) 100% of maximum annual debt service on the Senior Obligations, (ii) 125% of average annual debt service and (iii) 10% of the stated principal amount of the Senior Obligations; provided, however, that if the Senior Obligations have original issue discount or premium that exceeds 2% of the stated redemption price at maturity, the initial offering prices to the public will be used in lieu of the stated principal amount for purposes of the ten percent (10%) limitation.

The following table reflects the Liquidity Ratio for Fiscal Years 2007 to 2011.

Historical Liquidity Ratio
(dollar amounts in thousands)
(as of Fiscal Years ended June 30)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Cash and Cash Equivalents	\$19,241	\$34,506	\$79,003	\$42,229	\$37,130
Investments - Current	19,914	8,039	4,100	9,253	15,527
Investments - Non-Current	30,193	38,119	16,313	50,827	72,727
Total Cash, Cash Equivalents and Investments - Unrestricted	<u>\$69,348</u>	<u>\$80,664</u>	<u>\$99,416</u>	<u>\$102,309</u>	<u>\$125,384</u>
Cash and Cash Equivalents - Restricted	6,247	129,227	32,444	141,401	76,625
Total Cash, Cash Equivalents and Investments	<u>\$75,595</u>	<u>\$209,891</u>	<u>\$131,860</u>	<u>\$243,710</u>	<u>\$202,009</u>
Maximum Annual Debt Service ⁽¹⁾	\$16,691	\$28,143	\$30,971	\$48,331	\$48,331
Liquidity Ratio	4.15	2.87	3.21	2.12	2.59
Required Liquidity Ratio	1.35	1.35	1.35	1.35	1.35

⁽¹⁾ Excludes debt service on the Series 2011 Bonds.

Pension Fund and Other Post-Retirement Benefits. For a description of the District’s participation in the Virginia Retirement System, a defined benefit plan offered by the Commonwealth of Virginia, and of the post-retirement health benefits for qualifying employees of the District see the District’s Comprehensive Annual Financial Report attached as Appendix A hereto.

Debt Management. The Commission has adopted a comprehensive financial policy designed to promote sound financial management. The policy addresses, but is not limited to the following areas: reserves, budgetary principles, debt affordability, debt management, risk management, derivatives and investments. The Commission has the right to change the financial policy from time to time.

The policy requires minimum debt service coverage requirements in excess of its obligations under the Trust Agreement. It also requires cash contributions to its capital program of not less than 15% of each year’s capital improvement program. Additionally, the policy establishes parameters for the investment of idle cash.

Projected Operating Results. The next table shows projected Revenues and Current Expenses for the Fiscal Years ending June 30, 2012 through June 30, 2016, inclusive.

Summary of Projected Revenues and Current Expenses
(dollar amounts in thousands)
(as of Fiscal Years ended June 30)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Operating Revenues	\$199,584	\$215,551	\$232,795	\$249,091	\$264,036
Non-Operating Revenues	11,066	11,719	12,875	13,913	15,348
Operating Expenses Excluding Depreciation	<u>(133,808)</u>	<u>(141,141)</u>	<u>(147,236)</u>	<u>(169,392)</u>	<u>(177,480)</u>
Net Revenues	<u>\$76,842</u>	<u>\$86,129</u>	<u>\$98,434</u>	<u>\$93,612</u>	<u>\$101,905</u>
Senior Obligation Debt Service	\$33,165	\$39,485	\$46,687	\$51,251	\$55,718
Senior Debt Service Coverage Ratio	2.32	2.18	2.11	1.83	1.83
Total Debt Service	\$47,155	\$52,969	\$60,160	\$64,723	\$67,929
Total Debt Service Coverage Ratio	1.63	1.63	1.64	1.45	1.50
Liquidity Ratio	2.02	2.10	2.34	2.33	2.32
Key Assumptions⁽¹⁾					
Rate Increases	8%	8%	8%	7%	6%
Growth in Service Connections/Consumption		0%	0%	0%	0%
Key Inflation Trends					
Average Inflation ⁽²⁾	-	5%	4%	15%	5%
Personal Services and Employment Benefits	-	10%	5%	6%	5%
Utilities/Chemicals/Contractual Services	-	5%	5%	5%	5%

⁽¹⁾ While the District believes the assumptions set forth above are reasonable, actual results may vary.

⁽²⁾ Average inflation includes a projection of capital improvement projects that will be considered operating expenses for financial reporting purposes. For instance, in Fiscal Year 2015, the District anticipates commencement of its private property inflow and infiltration (I/I) program.

Budgeting and Accounting

Budgetary Controls. The District adopts an annual operating budget and a 10-year Capital Improvement Plan. The budget is approved on or before June 15 of each year. The District maintains budgetary controls on a departmental basis. With the exception of capital projects, unused fund appropriations lapse at year end. As part of the budget process, the District adopts a long-range financial forecast.

Financial Statements. In accordance with accounting principles generally accepted in the United States, the District's audited general purpose financial statements are prepared on an accrual basis of accounting. The District's audited basic financial statements and the report thereon by KPMG LLP, from the fiscal year ended June 30, 2011, are included in Appendix A. The District's independent auditor, KPMG LLP, has not been engaged to perform and has not performed, since the date of its report included in Appendix A, any procedures on the financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this Official Statement.

The Government Finance Officers Association of the United States and Canada has awarded a Certificate of Achievement for excellence in Financial Reporting to the District for its comprehensive annual financial reports for 27 consecutive fiscal years. The District will submit its report for the fiscal year ended June 30, 2011, and expects to receive another Certificate of Excellence. In order to be awarded a Certificate of Excellence, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

Rates

The District periodically reviews its rate structure and revises its charges as necessary to generate the revenues required to meet its current financial obligations. The most recent general increase in rates became effective July 1, 2011. The District's full rate schedule, as of July 1, 2011, can be found in the District's Comprehensive Annual Financial Report attached as Appendix A hereto.

The District's typical residential customer pays less than \$25 per month for sewage interception and treatment services provided by the District. The District's sewage interception and treatment charge generally is the smallest public service utility bill its customers receive. Generally, the District bills and collects directly from its customers on a monthly, bimonthly, or quarterly basis depending upon the community. The jurisdictions provide the first point of customer contact and appropriate meter readings, which are the basis of the District's billing operation.

The District provides billing and cashing services to several of the jurisdictions it serves, including Chesapeake, James City County, Norfolk, Smithfield and Suffolk. The combined bill can include jurisdictional charges for water, solid waste disposal, sewage collection, storm water mitigation and District charges for sewage interception and treatment. To date these services have been provided at minimum cost to assist the jurisdictions and customers the District serves to minimize the number of bills the customers receive and number of payments they need to make. The combined billing provides efficient and cost effective public service.

Rate Making Process

The Enabling Act provides that the Commission is to fix and revise rates, fees and charges to provide funds, which with other funds available for such purposes, will be sufficient at all times (a) to pay the cost of maintaining, repairing and operating the Wastewater System and all improvements thereto, including reserves for such purpose and for renewals and replacements and necessary extensions and additions to the Wastewater System, (b) to pay the principal of and the interest on such revenue bonds as the same shall become due and to provide reserves therefor and (c) to provide a margin of safety for making such payments.

The Enabling Act provides that before any revision of rates, fees and charges shall become effective the Commission shall publish a copy thereof for four consecutive weeks in a newspaper of general circulation within the District. If, on or before the last publication, the governing body of any city or county constituting a part of the District or five hundred or more qualified voters residing within the District file a petition with the Virginia State Corporation Commission complaining of the proposed revision, the State Corporation Commission may by order suspend the placing in effect of such revision for a period not exceeding sixty days from the filing of any such petition during which time it shall investigate whether such revision is just and equitable and in accordance with the provisions of the Enabling Act. If the State Corporation Commission does not enter an order suspending, approving or disapproving such revision within sixty days from the filing of any such petition, such revision will be deemed to be in effect. The District or the party or parties filing a petition may appeal to the Virginia Supreme Court from any such order as may be entered by the State Corporation Commission.

Collection of Unpaid Wastewater Treatment Charges

The Enabling Act provides that if any bill for wastewater treatment charges is not paid in full when the same becomes due, the owner, tenant or occupant of such lot or parcel of land shall, until wastewater treatment charges are paid, cease to dispose of wastewater or industrial wastes originating from or on such property by discharge thereof directly or indirectly into the Wastewater System, and if such owner, tenant or occupant does not cease such discharge within two months thereafter, it shall be the duty of each public or private agency supplying water to such property, within five days after receipt of

notice of such facts from the District, to cease supplying water to such property. If the water supply is not stopped, the District has the power to enter into any public or private property to shut off the property's water supply.

If any wastewater treatment charges are not paid within 30 days after the same become due, the District may at the expiration of such 30 day period proceed to recover the amount of any such delinquent sewage treatment charges by any action, suit or proceeding permitted by law or in equity.

The District participates in the Virginia Set-Off Debt Collection Program administered by the Virginia Department of Taxation. This program provides a means for government units and courts to collect delinquent debts by attaching individual income tax refunds and certain state lottery winnings. Jurisdictions participating in the Hampton Roads Utility Billing Service (which is managed by the District) may have the District submit their balances along with the District's. This benefits the jurisdictions since, under the Debt Set-Off Collection Program, the District has a higher payoff priority than counties and cities. The following table shows the District's treatment charge collection rate for the last ten fiscal years.

Hampton Roads Sanitation District Collection Rate	
<u>Fiscal Year Ended June 30,</u>	<u>Percentage of Wastewater Treatment Charges Collected</u>
2002	98.9%
2003	100.3
2004	99.3
2005	99.4
2006	98.6
2007	97.2
2008 ⁽¹⁾	93.2
2009	96.5
2010	99.2
2011	98.8

⁽¹⁾ During Fiscal Year 2008, HRSD installed a new customer billing system which resulted in the removal of certain duplicative and dormant accounts. This resulted in a one-time decline in the collection rate.

INVESTMENT POLICY AND SOURCES OF LIQUIDITY

In May 2009, the District adopted a comprehensive financial policy (as amended from time to time, the “Financial Policy”), including as a part thereof an investment policy (as amended from time to time, the “Investment Policy”). The Investment Policy applies to all funds held by, or for the account of the District, except those maintained in trust to provide for healthcare and retirement benefits for employees and retirees. *Set forth below is a summary of certain components of the Financial Policy and the Investment Policy. Such summary only describes the Financial Policy and the Investment Policy as of the date of this Official Statement, and the District has the right to revise the policy at any time.*

General

The District’s cash and investments are managed to accomplish the following fundamental goals, in declining order of importance, (1) preservation of principal, (2) maintenance of liquidity and (3) maximizing return. In order to meet the District’s general objectives, its cash and investments are divided into three major investment pools, each of which has certain specific investment objectives tailored to the projected use of the assets in such pool. The individual pools are not legally segregated investment vehicles, but merely cash and investments invested utilizing a common strategy. A description of the three investment pools is set forth below:

The Operating Liquidity Pool. The Operating Liquidity Pool is the major funding source for the District’s day-to-day operational needs, which requires that additional emphasis be placed on liquidity. This pool is maintained at a level intended to be sufficient to meet all known operating needs. Money invested as part of the Operating Liquidity Pool is almost exclusively used to purchase short-term investments maturing in less than one year, with at least 25% of the Pool continuously invested in highly liquid money market funds and overnight repurchase agreements.

The Total Return Pool. The Total Return Pool consists of operating funds that are not expected to be used by the District to fund short-term operational needs. As a result, money invested as part of the Total Return Pool is used to purchase short to medium-term investments expected to generate a slightly greater investment return than that of the Operating Liquidity Pool. Generally speaking, investments comprising the Total Return Pool will have a stated maturity of less than five years, although the District’s Director of Finance may, from time to time, select a shorter maturity horizon for the Total Return Pool to manage volatility.

The Capital Investment Pool. The Capital Investment Pool consists of funds ultimately intended to pay for capital improvements. The pool consists of the unspent proceeds of Senior Indebtedness and Parity Indebtedness and unspent, but appropriated, equity contributions of the District to its Capital Improvement Plan. Money held in the Capital Investment Pool is invested in compliance with the applicable requirements of the Senior Trust Agreement and Trust Agreement. In no event, however, are the proceeds of Senior Indebtedness or Parity Indebtedness invested in securities with a final maturity exceeding the expected disbursement date of such proceeds.

The District anticipates that investments constituting the Total Return Pool will serve as the principal source of liquidity used to purchase Subordinate 2011 Bonds tendered for purchase by the holders thereof that are not successfully remarketed. Nonetheless, while the District maintains the three separate investment pools to better match the investment objectives of the District with its cash requirements, investments held to the credit of the Operating Liquidity Pool and the Capital Investment Pool, except that portion constituting the unspent proceeds of Senior Obligations or Parity Obligations, are available for any purpose, including the purchase of Subordinate 2011 Bonds tendered by the holders thereof that are not successfully remarketed.

Permitted Investments

The District's money must be invested in accordance with the provisions of the Investment of Public Funds Act (Va. Code § 2.2-4500 *et seq.*) and the Enabling Act. In addition, the Investment Policy sets forth additional limitations on the asset classes in which the District may invest and, with minor exceptions, places issuer limits within such asset classes to avoid concentration and enhance portfolio diversification. The two exceptions to the asset class limitations are direct obligations of the United States Treasury and federal agency obligations (excluding collateralized mortgage obligations), although the latter are subject to a 35% issuer limit.

Each asset class of permitted investment requires that the obligation, or in the case of banker's acceptances, the issuer, be rated at the time of purchase at least "AA" (or its equivalent), in the case of long-term securities or obligations, or at least "A-1" (or its equivalent), in the case of short term obligations, by at least two of the Nationally Recognized Statistical Rating Organizations ("NRSRO"), one of which must be Moody's or Standard & Poor's. The District may also enter into collateralized repurchase agreements, subject to strict limitations, including requirements that such agreements be collateralized with direct obligations of the United States Treasury or federal agency obligations and that all counterparties be rated at least "AA" (or its equivalent) by at least one NRSRO. In addition, If any security purchased by or on behalf of the District is downgraded below "AA" (or its equivalent) by any NRSRO, the security must be sold within 180 days of such downgrade.

Under the Investment of Public Funds Act and the Enabling Act, the District may purchase its own securities, including the Subordinate 2011 Bonds.

Historical Pool Balance

The segmentation of the District's cash and investments into three separate investment pools commenced shortly after the adoption of the Investment Policy. In general, as the District has been able to more effectively forecast its day-to-day cashflow requirements, it has sought to rebalance the Operating Liquidity Pool and the Total Return Pool, reducing the former to a level more commensurate with an amount necessary to service its short-term operational needs. The balance of the Capital Improvement Pool necessarily fluctuates with the implementation of the CIP, which reduces the balance, and the issuance of Senior Obligations and Parity Obligations, which increases the balance. The table below shows a two-year monthly history of the market value of each of the District's three investment pools:

Historical Summary of the Operating Liquidity Pool, Total Return Pool, and Capital Investment Pool
(Market Value as of Last Business Day of Month)

	<i>A</i>	<i>B</i>	<i>A + B</i>	<i>C</i>	<i>A + B + C</i>
	<u>Operating Liquidity Pool</u>	<u>Total Return Pool</u>	<u>Total (Operating Liquidity Pool and Total Return Pool)</u>	<u>Capital Investment Pool</u>	<u>Total (All Funds)</u>
September 2009	\$40,314,986	\$40,457,092	\$80,772,078	\$ 23,859,860	\$104,631,938
October 2009	42,330,551	40,453,854	82,784,405	20,831,525	103,615,930
November 2009	30,020,100	59,617,984	89,638,084	157,878,231	247,516,315
December 2009	18,843,477	59,434,534	78,278,011	159,662,683	237,940,694
January 2010	20,636,606	59,829,904	80,466,511	159,249,576	239,716,087
February 2010	23,357,500	59,924,601	83,282,101	169,085,304	252,367,405
March 2010	28,115,076	59,854,743	87,969,819	175,269,398	263,239,216
April 2010	20,369,022	61,089,664	81,458,687	162,778,945	244,237,632
May 2010	21,458,218	60,201,171	81,659,389	158,800,694	240,460,083
June 2010	25,486,582	60,511,122	85,997,704	154,599,736	240,597,440
July 2010	25,643,744	60,672,604	86,316,349	158,297,984	244,614,333
August 2010	30,732,800	60,771,910	91,504,710	150,121,644	241,626,354
September 2010	22,174,076	78,574,354	100,748,430	141,648,392	242,396,822
October 2010	24,357,788	69,116,820	93,474,608	139,017,809	232,492,417
November 2010	17,485,678	70,976,289	88,461,968	134,315,527	222,777,494
December 2010	19,307,833	70,833,315	90,141,148	129,632,986	219,774,134
January 2011	20,955,640	72,944,132	93,899,772	125,826,692	219,726,464
February 2011	23,834,674	73,894,612	97,729,286	116,603,225	214,332,511
March 2011	32,426,213	74,887,355	107,313,568	110,756,483	218,070,051
April 2011	12,983,787	86,247,797	99,231,584	107,535,257	206,766,841
May 2011	6,837,302	87,293,228	94,130,530	102,164,218	196,294,749
June 2011	7,195,095	91,653,137	98,848,232	100,763,562	199,611,794
July 2011	7,687,846	90,862,560	98,550,406	95,796,755	194,347,161
August 2011	10,380,068	91,414,281	101,794,349	92,204,968	193,999,317
September 2011	12,699,645	92,546,818	105,246,463	89,437,903	194,684,346

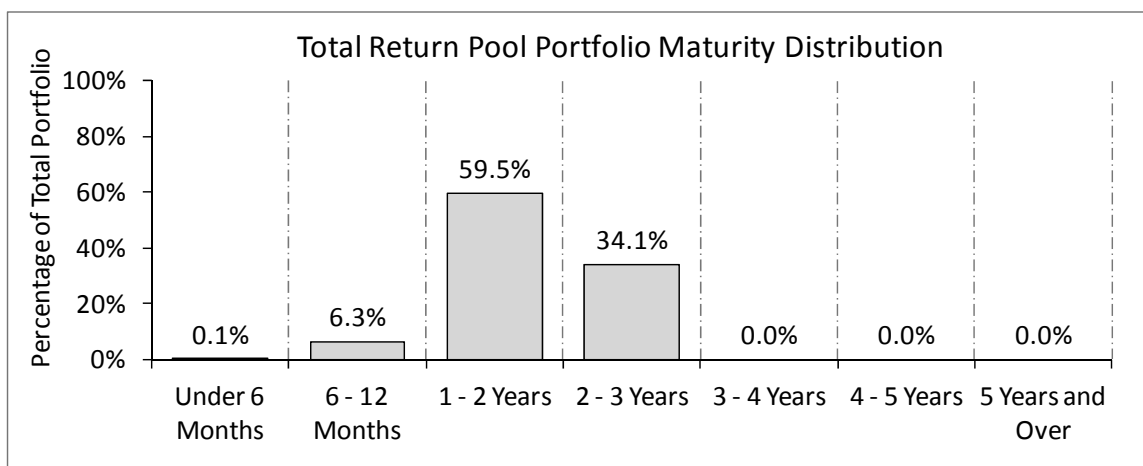
As noted previously, the District anticipates the Total Return Pool to be the principal source of assets that may be reduced to cash to provide liquidity to purchase Subordinate 2011 Bonds tendered by the holders thereof and not remarketed.

The tables set forth below describe the assets in the District's Total Return Pool as of September 30, 2011.

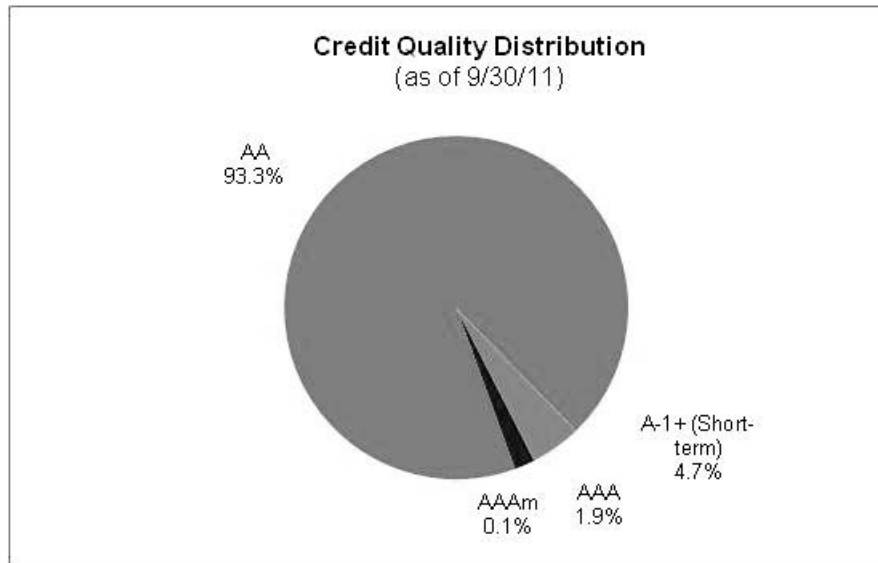
Total Return Pool Portfolio Composition and Credit Quality

Security Type	Portfolio Composition			% of	
	September 30, 2011	% of Portfolio	August 31, 2011	% of Portfolio	Permitted by Policy
U.S. Treasuries	\$14,334,202.48	15.5%	\$16,542,020.35	18.1%	100%
Federal Agencies	61,735,109.60	66.7%	56,599,368.89	61.9%	100%
FDIC-Guaranteed Obligations	0.00	0.0%	0.00	0.0%	100%
Commercial Paper	0.00	0.0%	0.00	0.0%	25%
Bankers Acceptances	0.00	0.0%	0.00	0.0%	25%
Corporate Notes/Bonds	8,753,391.73	9.5%	8,787,504.51	9.6%	10%
Certificates of Deposit	6,096,434.96	6.6%	7,597,592.91	8.3%	10%
Repurchase Agreements	0.00	0.0%	0.00	0.0%	35%
Municipal Obligations	1,573,703.33	1.7%	1,570,329.42	1.7%	15%
Money Market Fund	53,975.93	0.1%	317,464.86	0.3%	100%
Totals	\$92,546,818.03	100.0%	\$91,414,280.94	100.0%	

Maturity Distribution



Effective Duration	September 30, 2011	August 31, 2011
Total Return Pool	1.77 years	1.73 years



As previously noted, with the exception of proceeds of Senior Obligations and Parity Obligations invested as part of the Capital Improvement Pool, the assets invested to the credit of the Operating Liquidity Pool and the Capital Improvement Pool are available to pay the Purchase Price of Subordinate 2011 Bonds, if necessary.

Updated Information

The District intends to provide information comparable to the information contained under the subheading “– Historical Pool Balance” above on a monthly basis via the Electronic Municipal Market Access (“EMMA”) system administered by the Municipal Securities Rulemaking Board. In addition, the District intends to provide certain data relating to the District’s financial performance relative to the budget adopted for the then-current fiscal year. This provision of such information will be provided for the convenience of the holders of the Subordinate 2011 Bonds and will not constitute part of the Continuing Disclosure Agreement, provided that the Remarketing Agent may, pursuant to the terms of the Remarketing Agreement, require the District to make such filings.

LITIGATION

There is no litigation pending in any court (either state or federal) or, to the knowledge of the District, threatened against the District that in any way questions or affects the validity of or the security for the Subordinate 2011 Bonds, or that would have a material adverse effect on the District’s condition, financial or otherwise.

APPROVAL OF LEGAL PROCEEDINGS

The Subordinate 2011 Bonds are offered subject to the approving opinion of Sidley Austin LLP, Washington, D.C., Bond Counsel. Certain legal matters will be passed upon for the District by its General Counsel, Kellam, Pickrell, Cox & Tayloe, A Professional Corporation, Norfolk, Virginia, and for the Underwriter by Hunton & Williams LLP, Richmond, Virginia.

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Sidley Austin LLP, Bond Counsel, assuming compliance by the District with its covenant to comply with the requirements of the Internal Revenue Code of 1986, as amended (the “Code”) with respect to the Subordinate 2011 Bonds, and except as provided in the following sentence,

interest on the Subordinate 2011 Bonds will not be includable in the gross income of the owners of the Subordinate 2011 Bonds for purposes of federal income taxation under existing law. Interest on the Subordinate 2011 Bonds will be includable in the gross income of the owners thereof retroactive to the date of issue of the Subordinate 2011 Bonds in the event of a failure by the District to comply with applicable requirements of the Code and its covenants regarding use, expenditure and investment of the proceeds of the Subordinate 2011 Bonds and timely payment of certain investment earnings to the United States Treasury. Bond Counsel renders no opinion as to the exclusion from gross income of the interest on the Subordinate 2011 Bonds for federal income tax purposes on or after the date on which any action taken affecting such covenants upon the approval of counsel other than Bond Counsel.

Interest on the Subordinate 2011 Bonds will not be a specific preference item for purposes of the federal individual or corporate alternative minimum tax. The Code contains other provisions that could result in tax consequences, upon which Bond Counsel renders no opinion, as a result of ownership of the Subordinate 2011 Bonds or the inclusion in certain computations (including, without limitation, those related to the corporate alternative minimum tax) of interest that is excluded from gross income. Interest on the Subordinate 2011 Bonds owned by a corporation will be included in the calculation of the corporation's federal alternative minimum tax liability.

Backup Withholding

Interest paid on the Subordinate 2011 Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. While this reporting requirement does not, by itself, affect the excludability of interest from gross income for federal income tax purposes, the reporting requirement causes the payment of interest on the Subordinate 2011 Bonds to be subject to backup withholding if such interest is paid to beneficial owners that (a) are not "exempt recipients," and (b) either fail to provide certain identifying information (such as the beneficial owner's taxpayer identification number) in the required manner or have been identified by the IRS as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner are allowed as a refund or credit against such beneficial owner's federal income tax liability so long as the required information is furnished to the IRS.

Collateral Tax Consequences

Prospective purchasers of the Subordinate 2011 Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Prospective purchasers of the Subordinate 2011 Bonds should consult their tax advisors as to the applicability and impact of these consequences.

Virginia Taxes

The Enabling Act provides that the Subordinate 2011 Bonds, their transfer and the income therefrom, including any profit made on the sale thereof, shall be free and exempt from taxation by the Commonwealth of Virginia and by any political subdivision thereof.

Future Developments

Future legislative proposals, if enacted, regulations, rulings or court decisions may cause interest on the Subordinate 2011 Bonds to be subject, directly or indirectly, to federal income taxation or to Commonwealth of Virginia or local income taxation, or may otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. Legislation or regulatory actions and proposals may also affect the economic value of the federal or Commonwealth of Virginia tax exemption or the market value of the Subordinate 2011 Bonds. Prospective purchasers of the Subordinate 2011 Bonds should consult their tax advisors regarding any pending or proposed federal or Commonwealth of Virginia tax legislation, regulations, rulings or litigation as to which Bond Counsel expresses no opinion.

Based on a proposal by the President, the Senate Majority Leader introduced a bill, S. 1549 (the “Proposed Legislation”), which, if enacted, would subject interest on bonds that is otherwise excludable from gross income for federal income tax purposes, including interest on the Subordinate 2011 Bonds, to a tax payable by certain bondholders that are individuals, estates or trusts with adjusted gross income in excess of thresholds specified in the Proposed Legislation in tax years beginning after December 31, 2012. The Proposed Legislation would also provide special rules for such bondholders that are also subject to the alternative minimum tax. It is unclear if the Proposed Legislation will be enacted, whether in its current or an amended form, or if other legislation that would subject interest on the Subordinate 2011 Bonds to a tax or cause interest on the Subordinate 2011 Bonds to be included in the computation of a tax, will be introduced or enacted. Prospective purchasers should consult their tax advisors as to the effect of the Proposed Legislation, if enacted, in its current form or as it may be amended, or such other legislation on their individual situations.

UNDERWRITING

Pursuant and subject to the terms and conditions set forth in a Bond Purchase Agreement (the “Purchase Agreement”) to be dated October 19, 2011, between the Underwriter, J. P. Morgan Securities LLC (“JPMS”), and the District, the Underwriter will agree to purchase from the District, and the District will agree to sell to the Underwriter, all, but not less than all, of the Subordinate 2011 Bonds at a purchase price that results in an Underwriter’s discount of \$68,695.81 from the initial reoffering price shown on the cover page. The Underwriter has supplied the information as to the initial reoffering price shown on the cover page.

FINANCIAL ADVISOR

The District has retained Public Financial Management, Inc., Arlington, Virginia, as financial advisor (the “Financial Advisor”) in connection with the issuance of the Subordinate 2011 Bonds. Although the Financial Advisor assisted in the review of this Official Statement, the Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. The Financial Advisor is a financial advisory, investment management and consulting organization and is not engaged in the business of underwriting municipal securities.

RATINGS

The Subordinate 2011 Bonds have been assigned long-term ratings of “AA+” and “AA” and short-term ratings of “A-1+” and “F1+” by Standard & Poor’s Ratings Services, a division of the McGraw-Hill Companies, Inc., and Fitch Ratings, respectively. Such ratings reflect only the view of such organizations and a fuller explanation of the significance of such ratings may be obtained from the rating agencies. A rating is not a recommendation to buy, sell or hold the Bonds. The District furnished to such rating agencies certain information regarding its policies, practices and finances, including information that is not included in this Official Statement. There is no assurance that such policies, practices and

finances or such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by such rating agencies. Any such downward revision or withdrawal could have an adverse effect on the market price of the Subordinate 2011 Bonds.

CONTINUING DISCLOSURE

The Securities and Exchange Commission has adopted Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the “Rule”). In general, the Rule prohibits an underwriter from purchasing or selling municipal securities, such as the Subordinate 2011 Bonds, unless it has determined that the issuer of such securities and/or other persons deemed to be material “obligated persons” have committed to provide EMMA (i) on an annual basis, certain financial information and operating data (“Annual Reports”), and audited financial statements, if available, or such unaudited financial statements as may be required by the Rule, and (ii) notice of various events described in the Rule (“Event Notices”).

The District will covenant in the Continuing Disclosure Agreement (the form of which appears in Appendix E) for the benefit of the holders of the Subordinate 2011 Bonds to provide to EMMA annually, not later than December 31 of each year, commencing December 31, 2011, Annual Reports with respect to itself, as issuer. Similarly, the District will promptly provide Event Notices with respect to the Subordinate 2011 Bonds to EMMA. As of the date of this Official Statement, the District has complied with its other undertakings regarding the Rule.

The Continuing Disclosure Agreement requires the District to provide only that information which is subject to the terms of the Continuing Disclosure Agreement and only at specific times. The District may, from time to time, provide certain information and data in addition to that required by the Continuing Disclosure Agreement. If the District chooses to provide such information and data, it has no obligation to update such information or data or to include it in a future disclosure.

The sole remedy for a default under the Continuing Disclosure Agreement is to bring an action for specific performance of the District’s covenants hereunder, and no assurance can be provided as to the outcome of any such proceeding.

MISCELLANEOUS

All of the foregoing summaries or descriptions of the provisions of the Enabling Act, the Subordinate 2011 Bonds and the Trust Agreement are made subject to all of the detailed provisions thereof to which reference is made for further information. The foregoing summaries do not purport to be complete statements of any or all of the provisions thereof. Copies of the Trust Agreement are available upon request to the District at the following address: 1436 Air Rail Avenue, Virginia Beach, Virginia 23455, Phone (757) 460-2261.

Any statement in this Official Statement involving matters of opinion whether or not expressly so stated is intended as such and not as a representations of fact. The execution and delivery of this Official Statement have been duly authorized by the Commission.

/s/ Vishnu K. Lakdawala
Chairman
Hampton Roads Sanitation District Commission

/s/ Edward G. Henifin
General Manager
Hampton Roads Sanitation District

/s/ Steven G. de Mik
Director of Finance
Hampton Roads Sanitation District

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APPENDIX A

Basic Financial Statements and Related Auditor's Report for the fiscal year ended June 30, 2011, as rendered by KPMG LLP¹

¹ This Appendix comprises the District's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011. In order to preserve cross-references within such pages, this Appendix has not been repaginated and, accordingly, retains the original pagination.

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED
JUNE 30, 2011

HAMPTON ROADS
SANITATION DISTRICT

*(A COMPONENT UNIT OF THE
COMMONWEALTH OF VIRGINIA)*



Celebrating
HRSD
70 years



HAMPTON ROADS SANITATION DISTRICT
(A Component Unit of the Commonwealth of Virginia)

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For fiscal year ended June 30, 2011

**Prepared by:
Finance Department**

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HAMPTON ROADS SANITATION DISTRICT

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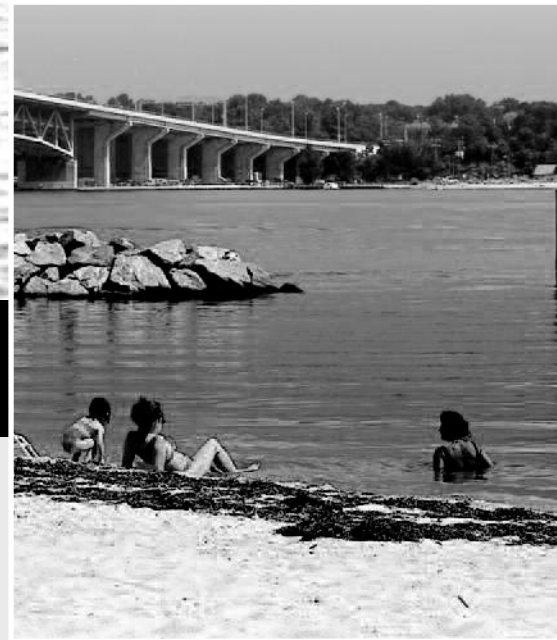
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INTRODUCTORY SECTION

Then: HRSD owes its creation to oysters, a robust seafood industry in the early 1900s. The Virginia Department of Health condemned a large oyster producing area in 1925, bringing the question of sewage pollution to light. (Photo courtesy of the Library of Virginia)



Now: Families find fun and relaxation at Yorktown Beach, just a few miles from HRSD's York River Treatment Plant. (Photo by Mark Rhodes)

September 20, 2011

HRSD Commission
Virginia Beach, Virginia

Dear Commissioners:

Political subdivisions of the Commonwealth of Virginia are required to publish a complete set of audited financial statements. This report fulfills that requirement for the fiscal year ended June 30, 2011.

Hampton Roads Sanitation District's (HRSD) management assumes full responsibility for the completeness and reliability of information contained in this report, based on a comprehensive framework of internal control it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

KPMG LLP, Certified Public Accountants, has issued an unqualified ("clean") opinion on HRSD's financial statements for the year ended June 30, 2011. The independent auditor's report is located at the front of the financial section of this report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview and analysis of the basic financial statements. The MD&A, which complements this letter of transmittal, should be read in conjunction with it.

PROFILE OF HRSD

HRSD is an independent political subdivision of the Commonwealth of Virginia (the Commonwealth) created by referendum on November 5, 1940. HRSD was established to abate water pollution in Hampton Roads by providing a system of interceptor mains and wastewater treatment plants.

More than 1.7 million individuals, nearly one-fourth of Virginia's population, reside in HRSD's service area, which is located in the southeastern corner of the Commonwealth. HRSD's territory of approximately 3,100 square miles encompasses nine cities, eight counties and several large military facilities. A brief history of HRSD is provided on page 8. HRSD is required by its enabling act to meet its obligations by charging user fees for its wastewater treatment services; no taxing authority is authorized by the enabling act. Currently, HRSD provides service and bills to approximately 457,000 service connections.

A board of eight commissioners (the Commission), appointed by the Governor of Virginia, governs HRSD. Commission members, who serve four-year staggered terms, can be reappointed without limitation and may be suspended or removed by the Governor at his pleasure. The Commission appoints a General Manager, who appoints the senior staff.

PO Box 5911, Virginia Beach, VA 23471-0911 • 757.460.7056 • Fax 757.460.2372

Commissioners: Vishnu K. Lakdawala, PhD, Chairman; B. Anne Davis, Vice-Chairman; Frederick N. Eloffson, CPA; Gerald S. Johnson; Michael E. Glenn; Arthur C. Bredemeyer; Maurice P. Lynch, PhD; I. Vincent Behm, Jr.
www.hrsd.com

HRSD owns and operates 13 treatment plants. The nine major plants in Hampton Roads have design capacities ranging in size from 15 to 54 million gallons per day (MGD). Five of the major plants are located south of the James River and four are north of the James River (see map on page 7). The combined capacity of these nine plants is approximately 249 MGD. HRSD's four small rural treatment plants, which are located on the Middle Peninsula, have a combined capacity of almost one MGD.

HRSD maintains 528 miles of pipelines ranging in size from six inches to 66 inches. Interceptor pipelines, along with 82 pump stations in Hampton Roads, interconnect into two independent systems, one south of the James River and one north of the James River. The system allows flow diversions to provide for maintenance or emergency work. HRSD owns and maintains 29 pump stations on the Middle Peninsula.

LOCAL ECONOMY

HRSD's service area includes nearly all of the Virginia Beach-Norfolk-Newport News Metropolitan Statistical Area (MSA). It is the largest MSA between Washington, D.C. and Atlanta, the fifth largest in the southeastern United States and the thirty-third largest in the nation. Unlike many metropolitan areas, Hampton Roads' population nucleus is not confined to one central city. Instead, the approximately 1.6 million residents are spread among several cities and counties, including the City of Virginia Beach, which has the largest in population, and the City of Suffolk, which has the largest in land area in Virginia. Unemployment rates remain below national averages in the region, which has a civilian labor force of more than 830,000.

The regional economy is supported by one of the highest military concentrations in the nation, diverse manufacturing and service sectors, shipbuilding and repair work, international port activities and tourism. This region has fared better in the current recession than most others due to the strong, stable military presence. Several state and private colleges and a large healthcare infrastructure also lend stability to the region.

A diverse customer base allows HRSD to maintain stable revenues. The ten largest customers account for only 11.1 percent of wastewater revenues for fiscal year 2011. In addition, HRSD's 2011 revenues contained only limited reliance (2.6 percent) on new customer connections.

LONG-TERM FINANCIAL PLANNING

HRSD's Financial Policy helps it maintain its solid fiscal health. Budgetary principles include using ongoing revenues to pay for ongoing expenses, and establishing annual cash contribution goals of at least 15 percent of budgeted capital costs. Under the Financial Policy, senior revenue and total revenue bonded debt service coverage ratios should not be less than 1.5 and 1.25 times annual debt service, respectively. Operating and ten-year capital improvement budgets are adopted annually. Included in the operating budget is a long-range financial forecast, which is guided by projections of operating and capital needs and the aforementioned Financial Policy requirements.

MAJOR INITIATIVES

HRSD continues its ambitious \$1.1 billion, ten-year Capital Improvement Program. Regulatory requirements to reduce nutrient discharges, initiatives to ensure appropriate wet weather capacity exists within the regional sanitary sewer system, major plant upgrades and replacements of interceptor pipelines drive the capital program. Five major projects at the Army Base, Atlantic, James River, Nansemond and York River treatment plants are currently under design or construction.

In order to minimize the impacts of its capital investments on ratepayers, HRSD continues to actively pursue grant opportunities when available. In 2011, HRSD received approximately \$16 million in grant reimbursements for improvements to several of its treatment plants.

AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to HRSD for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2009. This was the 28th consecutive year that HRSD has received this prestigious award. In order to be awarded a Certificate of Achievement, HRSD must publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

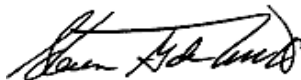
A Certificate of Achievement is valid for a period of one year only. We believe our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this CAFR was made possible by the dedicated service of the entire Department of Finance staff. All members of the department have our sincere appreciation for their contributions to the preparation of this report. Credit must also be given to the Commission for their support for maintaining the highest standard of professionalism in the management of HRSD's finances.

Respectfully submitted,



Edward Henifin, P.E.
General Manager



Steven G. de Mik, CPA
Director of Finance



Carroll L. Acors, CPA
Chief of Accounting

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Hampton Roads Sanitation
District, Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

Principal Officials

June 30, 2011

COMMISSIONERS

Vishnu K. Lakdawala, PhD, Chair

B. Anne Davis, Vice-Chair

Frederick N. Elofson, CPA

Gerald S. Johnson

Michael E. Glenn

Arthur C. Bredemeyer

Maurice P. Lynch, PhD

I. Vincent Behm, Jr.

COMMISSION SECRETARY

Jennifer L. Heilman

SENIOR STAFF

Edward G. Henifin, PE
General Manager

Bruce W. Husselbee, PE
Director of Engineering

Steven G. de Mik, CPA
Director of Finance
and Treasurer

Donald C. Corrado
Director of Information
Services

G. David Waltrip
Director of Operations

Norman E. LeBlanc
Director of Water Quality

Phillip L. Hubbard, PE
Special Assistant for
Compliance Assurance

COUNSEL

Kellam, Pickrell, Cox & Tayloe
General Counsel

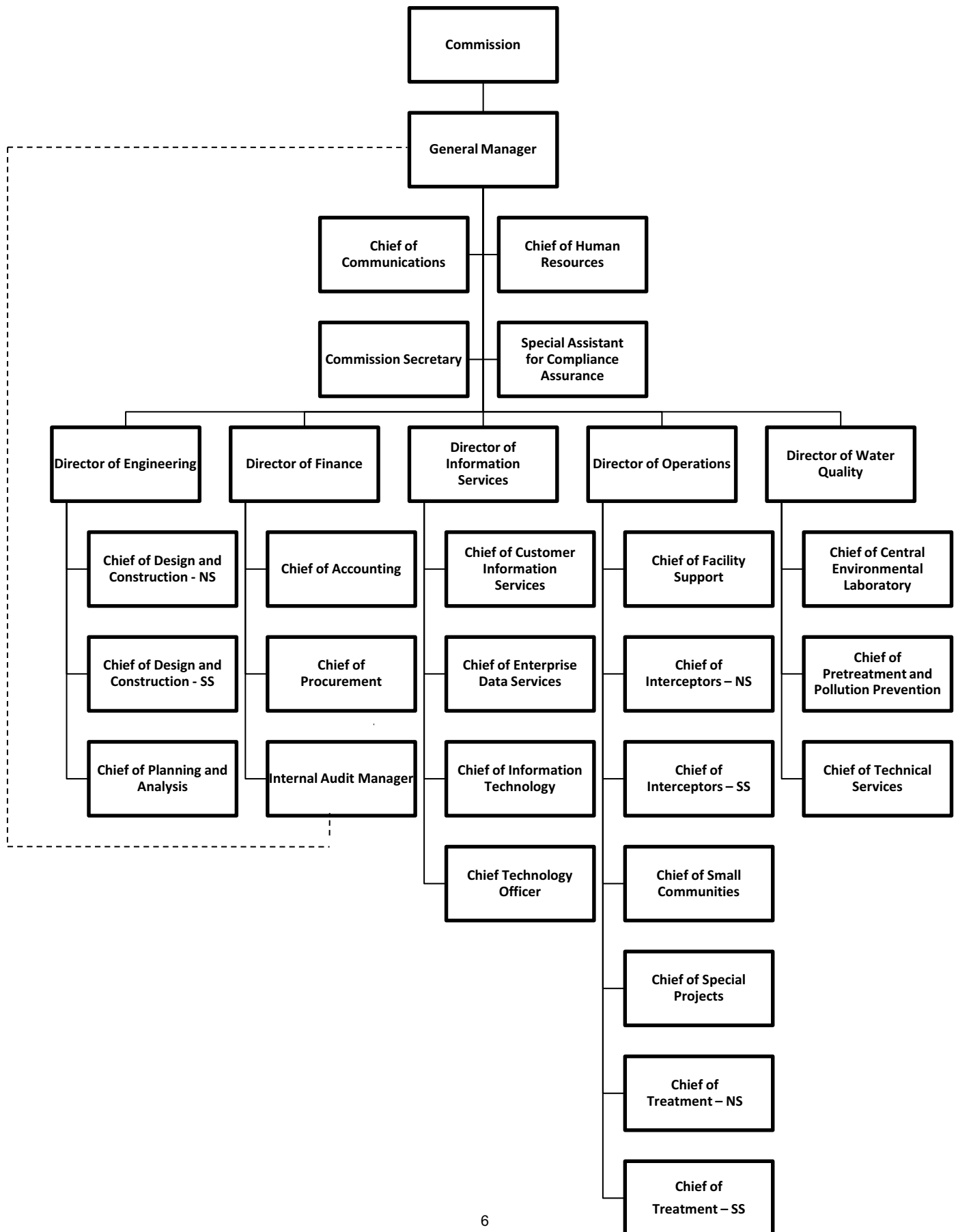
AquaLaw, PLC
Special Counsel

Jones, Blechman, Woltz & Kelly, PC
Associate Counsel

Sidley Austin, LLP
Bond Counsel

Organization Chart

June 30, 2011



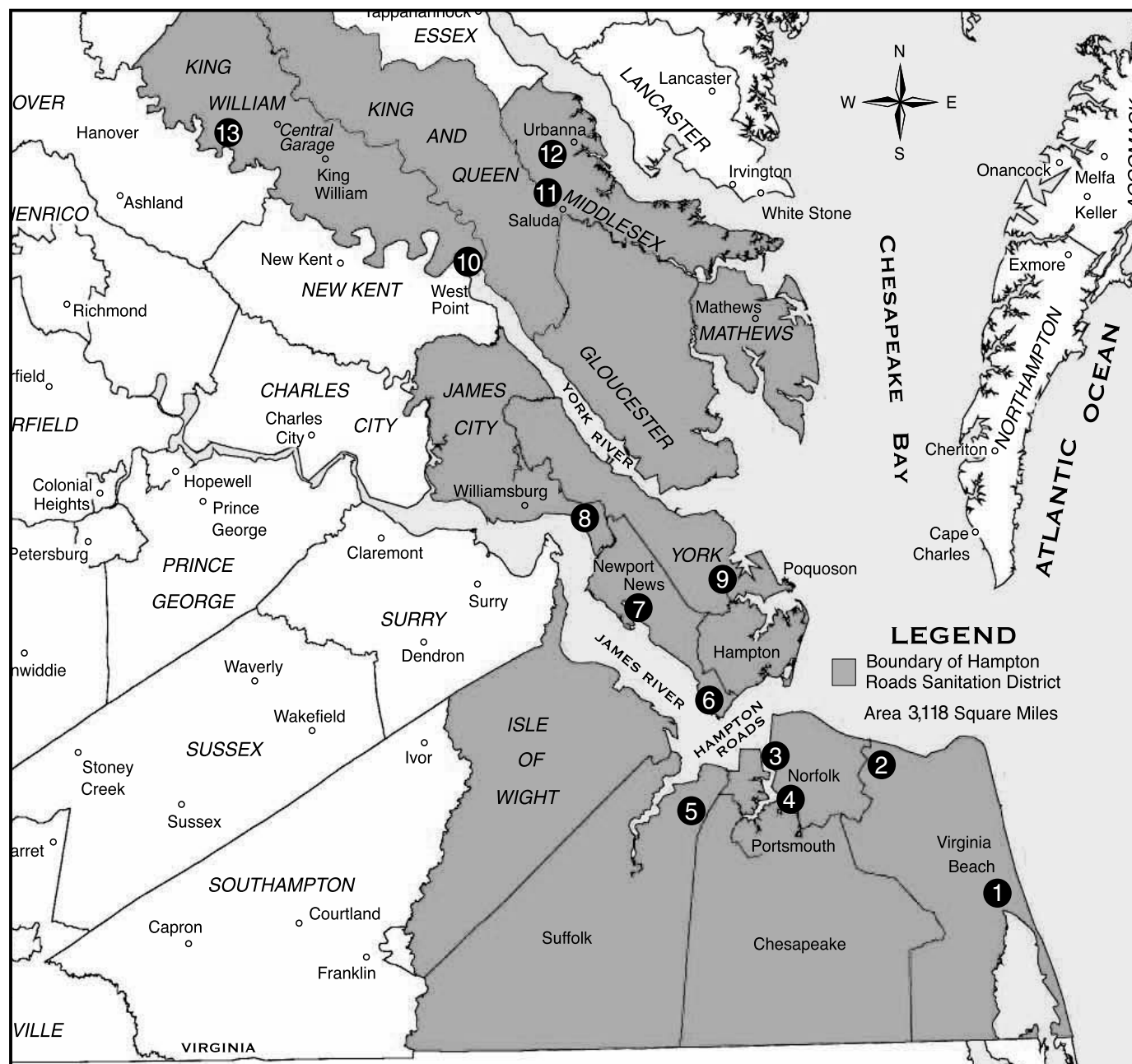
HRSD

A Political Subdivision of the Commonwealth of Virginia

Major facilities include the following treatment plants:

- | | |
|------------------------------------|---|
| 1. Atlantic, Virginia Beach | 8. Williamsburg, James City County |
| 2. Chesapeake-Elizabeth, Va. Beach | 9. York River, York County |
| 3. Army Base, Norfolk | 10. West Point, King William County |
| 4. Virginia Initiative, Norfolk | 11. Central Middlesex, Middlesex County |
| 5. Nansemond, Suffolk | 12. Urbanna, Middlesex County |
| 6. Boat Harbor, Newport News | 13. King William, King William County |
| 7. James River, Newport News | |

Serving the Cities of
Chesapeake, Hampton,
Newport News, Norfolk,
Poquoson, Portsmouth,
Suffolk, Virginia Beach,
Williamsburg, and the
Counties of Gloucester,
Isle of Wight, James City
King and Queen,
King William, Mathews,
Middlesex and York



2011

History of HRSD

HRSD can trace its beginnings to 1925 when the Virginia Department of Health condemned a large oyster producing area in Hampton Roads. The closure resulted in the Virginia General Assembly creating in 1927 a "Commission to Investigate and Survey the Seafood Industry of Virginia." Other studies recommended a public body to construct and operate a sewage system in the area. HRSD was named after Hampton Roads, a ship anchorage used for four centuries located near the convergence of the James, Elizabeth and Nansemond Rivers, before they flow into the Chesapeake Bay in southeastern Virginia.

In 1934, the Virginia General Assembly created the Hampton Roads Sanitation Disposal Commission with instructions to plan the elimination of pollution in Hampton Roads. Recommendations were made to the General Assembly, which resulted in the Sanitary Districts Law of 1938, along with "an Act to provide for and create the Hampton Roads Sanitation District." This Act required the qualified voters within HRSD to decide in a general election on November 8, 1938, if they favored creation of such a District. This referendum failed to gain a majority by about 500 votes out of nearly 20,000 votes cast. This led to a revision of the Act and another referendum was held on November 5, 1940, which resulted in a majority vote for the creation of the Hampton Roads Sanitation District.

The Enabling Act provides for HRSD to operate as a political subdivision of the Commonwealth of Virginia for the specific purpose of water pollution abatement in Hampton Roads by providing a system of interceptor mains and wastewater treatment plants. Its affairs are controlled by a Commission of eight members appointed by the Governor for four-year terms. Administration is under the direction of a General Manager, supported by five directors and their staffs.

HRSD began operations on July 1, 1946, using facilities acquired from the United States Government. The Warwick County Trunk Sewer, HRSD's first construction project, began on June 26, 1946, and was funded by HRSD's \$6.5 million Primary Pledge Sewer Revenue Bonds, dated March 1, 1946. The first treatment plant, the Army Base Plant, began operation on October 14, 1947. Since that time, the facilities of HRSD have grown to provide sanitary sewer service to all major population centers in southeastern Virginia. The population served has increased from nearly 288,000 in 1940 to more than 1.6 million in 2011.

Throughout its rich history, HRSD has earned many of its industry's most prestigious awards. This tradition continued in 2010. The National Association of Clean Water Agencies (NACWA) presented Peak Performance Awards to all HRSD treatment plants for outstanding compliance with their National Pollutant Discharge Elimination System (NPDES) permits during calendar year 2010. The Army Base Treatment Plant was honored for 23 consecutive years of perfect permit compliance, an achievement unsurpassed in the nation. The major treatment plants received the following awards in recognition of their excellent permit compliance: Army Base – Platinum (24 consecutive years of perfect compliance); Atlantic Plant – Gold; Boat Harbor – Platinum (9 consecutive years of perfect compliance); Chesapeake-Elizabeth – Gold; James River – Gold; Nansemond – Platinum (9 consecutive years of perfect compliance); Virginia Initiative Plant – Platinum (15 consecutive years of perfect compliance); Williamsburg – Platinum (16 consecutive years of perfect compliance); and York River – Gold Award. Treatment plants in the Small Communities Division also were honored. Mathews and Urbanna received Gold Awards. King William and West Point earned Silver Awards.

HRSD's Fiscal Year 2011 awards for environmental excellence, innovation and engineering included a Governor's Environmental Excellence Award and the National Council of Public-Private Partnerships Innovation Award for the Nansemond Treatment Plant Struvite Recovery Facility. HRSD's team won the overall first place award in Division 2 of the 2010 International Operations Challenge, a competition that tests wastewater workers' skills in a variety of categories.



FINANCIAL SECTION

Then: Raw sewage ran in open ditches as children played in the Simonsdale neighborhood in 1944, documenting the need for construction of a sanitary sewer system. (HRSD Archives)



Now: A valve assembly awaits installation at the Big Bethel pressure reducing station, which is part of the HRSD interceptor system that in 2010 included more than 100 pump stations and about 500 miles of pipelines. (Photo by Ann Copeland, P.E.)



KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report

The Commissioners
Hampton Roads Sanitation District:

We have audited the accompanying balance sheets of Hampton Roads Sanitation District (HRSD) as of June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in fund equity, and cash flows for the years then ended. These financial statements are the responsibility of HRSD's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 HRSD'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 audits provide 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 HRSD as of June 30, 2011 and 2010, and the results of its operations, changes in fund equity, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The accompanying Management's Discussion and Analysis on pages 11 through 15 and Schedules of Funding Progress on page 33 are not a required part of the basic financial statements, but are supplementary information required by U.S. generally accepted accounting principles. 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.



Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The introductory, statistical and other supplemental sections, as listed in the accompanying table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements. The introductory, statistical and other supplemental sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

September 20, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

This narrative overview and analysis of the financial activities of the Hampton Roads Sanitation District (HRSD) for the fiscal year ended June 30, 2011 is provided by HRSD's management. Readers of the accompanying financial statements are encouraged to consider this information in conjunction with that furnished in the letter of transmittal, which can be found on pages 1 through 3 of this report.

FINANCIAL HIGHLIGHTS

- Net assets increased \$24.3 million, or 5.4 percent, as a result of this year's operations.
- Total revenues increased \$16.3 million, or 9.1 percent, in 2011. This increase is primarily attributable to wastewater revenue rate increases. Operating expenses increased \$10.1 million or 6.4 percent.
- HRSD received \$16.1 million in capital grants from the Commonwealth of Virginia to help finance its capital improvement program.
- Cash and Cash Equivalents and investments decreased \$41.7 million, or 17.1 percent, reflecting expenditures of cash and bond proceeds to finance capital projects. Unrestricted cash and cash equivalents and investments, however, increased \$23.1 million, or 22.6 percent.
- Investments in capital assets increased \$84.1 million, or 11.0 percent, primarily due to expansion of treatment plant capacity.

OVERVIEW OF FINANCIAL STATEMENTS

HRSD's Basic Financial Statements are comprised of the financial statements and the notes to the financial statements. This report also contains other supplementary information in addition to the Basic Financial Statements.

The Basic Financial Statements, found on pages 16 through 19 of this report, are designed to provide readers with a broad overview of HRSD's finances in a manner similar to a private sector business.

The Balance Sheets, found on pages 16 and 17 of this report, present information on all of HRSD's assets and liabilities; the difference between the two are reported as net assets. Over time, changes in net assets may serve as a useful indicator of whether the financial position of HRSD is improving or deteriorating.

The Statements of Revenues, Expenses and Changes in Net Assets, found on page 18 of this report, present all of HRSD's revenues and expenses, showing how HRSD's net assets changed during the year. All changes in net assets are reported as soon as the underlying event takes place, thus giving rise to the changes, regardless of the timing of the cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods.

The Notes to Financial Statements, found on pages 20 through 31 of this report, provide additional information that is essential to a full understanding of the data provided in the financial statements.

In addition to the basic financial statements and the notes, this report also presents certain required supplementary information concerning HRSD's progress in funding its obligations to provide pension and other post employment benefits to its employees.

Required Supplementary Information can be found on page 33 of this report.

FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of HRSD's financial position. Assets exceeded liabilities by \$477.2 million at June 30, 2011 and by \$452.9 million at June 30, 2010.

By far, the largest portion of HRSD's net assets (73.7 percent and 77.0 percent at June 30, 2011 and 2010, respectively) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment) less any related debt used to acquire those assets still outstanding, net of unspent bond proceeds. HRSD uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although HRSD's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, because the capital assets themselves cannot be used to liquidate these liabilities.

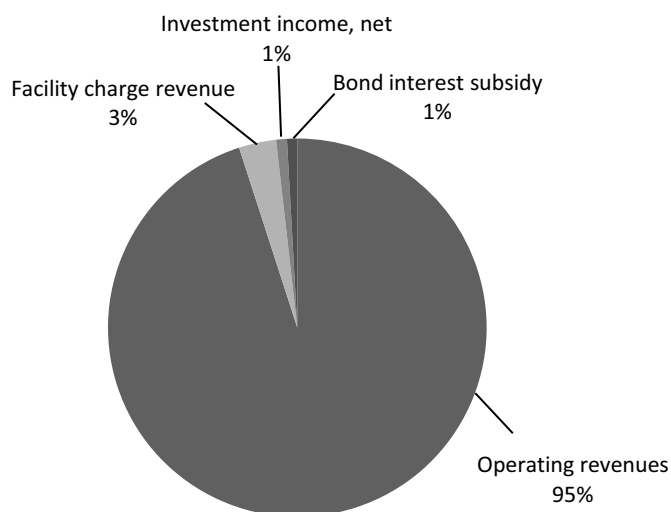
HRSD's Net Assets					
(in thousands)	2011	2010	2009	2011 vs. 2010	
				Dollars	Percent
Capital assets	\$ 850,885	\$ 766,742	\$ 654,828	\$ 84,143	11.0%
Current assets and noncurrent investments	239,693	284,240	165,247	(44,547)	-15.7%
Total assets	\$ 1,090,578	\$ 1,050,982	\$ 820,075	\$ 39,596	3.8%
Long-term liabilities	\$ 548,229	\$ 536,037	\$ 352,291	\$ 12,192	2.3%
Current liabilities	65,147	62,067	59,083	3,080	5.0%
Total liabilities	\$ 613,376	\$ 598,104	\$ 411,374	\$ 15,272	2.6%
Investment in capital assets, net of related debt	\$ 351,618	\$ 348,572	\$ 319,594	\$ 3,046	0.9%
Restricted for debt service	14,896	12,253	7,542	2,643	21.6%
Unrestricted	110,688	92,053	81,565	18,635	20.2%
Total net assets	\$ 477,202	\$ 452,878	\$ 408,701	\$ 24,324	5.4%

At June 30, 2011 and 2010, HRSD retained \$61.7 million and \$129.1 million of unspent bond proceeds, respectively. The increase in capital assets and the corresponding changes in current assets and noncurrent investments from 2009 through 2011 are the result of issuing bonds in 2008 and 2010 and using these funds during the fiscal years to fund capital improvements.

The changes in HRSD's net assets can be determined by reviewing the following condensed Statements of Operations and Changes in Net Assets.

HRSD's Changes in Net Assets					
(in thousands)	2011	2010	2009	2011 vs. 2010	
				Dollars	Percent
Operating revenues	\$ 187,416	\$ 171,452	\$ 159,730	\$ 15,964	9.3%
Facility charge revenue	5,083	5,754	5,086	(671)	-11.7%
Investment income, net	1,680	1,581	4,160	99	6.3%
Bond interest subsidy	2,602	1,655	-	947	100.0%
Total revenues	196,781	180,442	168,976	16,339	9.1%
Operating expenses:					
Wastewater treatment	103,225	98,022	86,850	5,203	5.3%
General and administrative	28,622	29,435	28,853	(813)	-2.8%
Depreciation	36,191	30,441	28,414	5,750	18.9%
Total operating expenses	168,038	157,898	144,117	10,140	6.4%
Interest expense	20,516	19,973	15,263	543	2.7%
Total expenses	188,554	177,871	159,380	10,683	6.0%
Income before capital contributions	8,227	2,571	9,596	5,656	220.0%
Capital contributions:					
State capital grants	16,097	41,606	16,678	(25,509)	-61.3%
Change in net assets	24,324	44,177	26,274	(19,853)	-44.9%
Beginning net assets	452,878	408,701	382,427	44,177	10.8%
Ending net assets	\$ 477,202	\$ 452,878	\$ 408,701	\$ 24,324	5.4%

Revenues By Source



Operating revenues increased 9.3 percent in 2011 and 7.3 percent in 2010. The majority of these increases are attributable to various rate increases in metered public wastewater services. Facility charge revenues decreased 11.7 percent in 2011, due to decreased construction activities in the service area, after increasing 13.1 percent in 2010.

Operating expenses increased 6.4 percent in 2011 and 9.6 percent in 2010. Increases in 2011 were primarily due to a \$4.2 million increase in personnel services and fringe benefits, for merit increases and increases in the cost of employee retirement and healthcare costs; a \$0.8 million increase in contractual services, primarily for operations; a \$2.1 million increase in materials and supplies for operations and net hardware acquisition; and a \$0.8 million increase in utilities and chemical costs. These increases were offset by a decrease of \$2.2 million in repairs and maintenance costs. The \$0.8 million reduction of general and administrative expenses was primarily a result of a reallocation of post-retirement health care costs to affected departments in 2011. Increases in 2010 were primarily due to a \$4.5 million increase in personnel services and fringe benefits, for additional positions and merit increases; a \$1.7 million increase in contractual services, primarily for customer services and operations; and a \$9.3 million increase in construction and improvements expenses. These increases were offset by decreases of \$3.6 million in utility and chemical costs. Depreciation expenses increased \$5.8 million in 2011 and \$1.1 million in 2010.

In 2011 and 2010, HRSD received \$16.1 million and \$41.6 million, respectively, in capital grants to help finance its capital improvement program.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2011 and 2010, HRSD had \$850.9 million and \$766.7 million, respectively, invested in a broad range of capital assets, including wastewater treatment plants, interceptor mains, pump stations, automotive, administrative and maintenance buildings, and office and computer equipment. This amount represents a net increase of \$84.1 million, or 11.0 percent, in 2011 and \$111.9 million, or 17.1 percent, in 2010.

The following summarizes HRSD's capital assets, net of accumulated depreciation, as of June 30.

HRSD's Capital Assets

(in thousands)	2011	2010	2009
Land	\$ 5,637	\$ 5,479	\$ 4,967
Treatment plants	452,386	337,054	177,336
Interceptor systems	181,361	183,435	184,397
Small community facilities	8,162	3,846	4,201
Buildings	8,709	9,322	9,626
Office equipment	12,287	14,404	14,633
Automotive	3,737	3,644	2,353
Other equipment	17,346	4,321	4,220
	689,625	561,505	401,733
Construction in progress	161,260	205,237	253,095
Net property, plant and equipment	\$ 850,885	\$ 766,742	\$ 654,828

The following summarizes the changes in capital assets.

(in thousands)	2011	2010	2009
Balance at beginning of year	\$ 766,742	\$ 654,828	\$ 541,102
Additions	164,311	190,213	14,017
Retirements	(838)	(402)	(430)
Depreciation	(36,191)	(30,441)	(28,414)
Accumulated depreciation retired	838	402	430
Increase (decrease) in construction in progress	(43,977)	(47,858)	128,123
Balance at end of year	\$ 850,885	\$ 766,742	\$ 654,828

By far, the largest increase in capital assets is in treatment plant construction. During 2011 HRSD invested significant funds in improvements to the James River and Nansemond plants, which were recorded in construction in progress in 2010 and included in the treatment plant capital assets in 2011. During 2010 HRSD invested significant funds in improvements to the Atlantic treatment plant and the Boat Harbor and Atlantic wastewater interceptor pipelines, which were recorded in construction in progress in 2009 and included in the treatment plant and interceptor systems capital assets in 2010.

Long-Term Debt

At year-end, HRSD had a total of \$561.0 million in revenue bonds outstanding versus \$547.3 million in 2010, an increase of 2.5 percent. This increase is related to new debt payable to the Virginia Resources Authority in the amount of \$30.2 million, reduced by payments of \$16.5 million in 2011 on existing senior and subordinate debt.

HRSD's Debt Outstanding

(in thousands)	2011	2010	2009
Senior revenue bonds	\$ 450,335	\$ 431,524	\$ 252,879
Subordinate revenue bonds	110,661	115,794	107,257
Total outstanding debt	\$ 560,996	\$ 547,318	\$ 360,136

HRSD's financial strengths are reflected in its high credit ratings:

Moody's Investors Service	Aa2
Standard & Poor's	AAA
Fitch Ratings	AA+

The development of HRSD's Capital Improvement Program and its related debt programs are governed by revenue bond indentures, which require senior and subordinate debt service coverage ratios of 1.2 and 1.0 times annual debt service, respectively. HRSD's indentures require a debt service reserve fund (DSRF); but funding the DSRF is not required if senior coverage is at least 1.35 times annual debt service and a liquidity ratio of 1.35 is also met. To date, HRSD has not been required to fund its DSRF. HRSD's Financial Policy and operating and capital improvement plans were developed with the intent to maintain coverage ratios in excess of these requirements.

More detailed information regarding HRSD's capital assets and long-term debt are presented in Notes 5 and 8, respectively.

ECONOMIC FACTORS AND RATES

Billed consumption's five-year moving average has decreased over the last three fiscal years from approximately 125 million gallons per day (MGD) to approximately 123 MGD. HRSD's experience, primarily resulting from water conservation efforts throughout the region, is consistent with national trends.

In 2011, wastewater revenues increased as a result of planned rate increases needed to fund the capital improvement program. Facility charge revenues, which are generally dependent on new growth and economic expansion, were impacted during the recession and decreased \$0.7 million, or 11.7 percent in 2011 after increasing \$0.7 million, or 13.1 percent, in 2010. Facility charge revenues comprised approximately 3 percent of HRSD's total revenues in both 2011 and 2010.

Wastewater treatment rates for the 2012 fiscal year were increased by approximately 8.2 percent for the vast majority of its customers. The increases are necessary to meet growing capital improvement needs and the increased cost of treatment operations. Facility charges which provide funding for increased capacity resulting from new growth were also increased.

It is anticipated that the average residential customer bill will rise by only \$1.45 per month in fiscal year 2012.

CONTACTING HRSD'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of HRSD's finances for all those with an interest. Questions concerning the information provided in this report or any requests for additional information should be addressed to the Director of Finance, 5701 Thurston Avenue, Suite 100, Virginia Beach, Virginia 23455.

**HAMPTON ROADS SANITATION DISTRICT
BALANCE SHEETS
AS OF JUNE 30, 2011 AND 2010**

ASSETS

(in thousands)

	2011	2010
CURRENT ASSETS		
Cash and cash equivalents	\$ 37,130	\$ 42,229
Cash and cash equivalents - Restricted	32,009	28,906
Investments	15,527	9,253
Accounts receivable, net	31,132	30,395
Accrued interest	271	267
Other current assets	6,281	9,868
TOTAL CURRENT ASSETS	122,350	120,918
NONCURRENT ASSETS		
Cash and cash equivalents - Restricted	44,616	112,495
Investments	72,727	50,827
	117,343	163,322
NET PROPERTY, PLANT AND EQUIPMENT		
Land	5,637	5,479
Treatment plants	945,884	807,176
Interceptor systems	290,270	286,832
Buildings	21,603	21,603
Small community facilities	12,459	7,826
Office equipment	36,335	34,868
Automotive	15,004	14,484
Other equipment	28,221	13,672
	1,355,413	1,191,940
Less: Accumulated depreciation	665,788	630,435
	689,625	561,505
Construction in progress	161,260	205,237
NET PROPERTY, PLANT AND EQUIPMENT	850,885	766,742
TOTAL NONCURRENT ASSETS	968,228	930,064
TOTAL ASSETS	\$ 1,090,578	\$ 1,050,982

See Accompanying Notes to Financial Statements

LIABILITIES AND NET ASSETS

(in thousands)

	2011	2010
CURRENT LIABILITIES		
Trade and contracts payable	\$ 24,678	\$ 21,710
Contract retention	5,160	9,395
Accrued salaries and wages	1,992	2,304
Current portion bonds payable	18,229	16,699
Current portion compensated absences	2,072	1,920
Debt interest payable	8,402	5,853
Other liabilities	4,614	4,186
TOTAL CURRENT LIABILITIES	65,147	62,067
 LONG-TERM LIABILITIES		
Compensated absences	5,462	5,418
Bonds payable	542,767	530,619
TOTAL LONG-TERM LIABILITIES	548,229	536,037
 TOTAL LIABILITIES	613,376	598,104
 NET ASSETS		
Investment in capital assets, net of related debt	351,618	348,572
Restricted for debt service	14,896	12,253
Unrestricted	110,688	92,053
 TOTAL NET ASSETS	477,202	452,878
 TOTAL LIABILITIES AND NET ASSETS	\$ 1,090,578	\$ 1,050,982

See Accompanying Notes to Financial Statements

HAMPTON ROADS SANITATION DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEARS ENDED JUNE 30, 2011 and 2010

(in thousands)		
	2011	2010
OPERATING REVENUES		
Wastewater treatment charges	\$ 183,526	\$ 167,807
Miscellaneous	3,890	3,645
TOTAL OPERATING REVENUES	187,416	171,452
 OPERATING EXPENSES		
Wastewater treatment	103,225	98,022
General and administrative	28,622	29,435
Depreciation	36,191	30,441
TOTAL OPERATING EXPENSES	168,038	157,898
 OPERATING INCOME	19,378	13,554
 NONOPERATING REVENUES (EXPENSES)		
Wastewater facility charges	5,083	5,754
Investment income	1,699	1,541
Bond interest subsidy	2,602	1,655
Change in fair value of investments	(19)	40
Interest expense	(20,516)	(19,973)
NET NONOPERATING (EXPENSES)	(11,151)	(10,983)
 INCOME BEFORE CAPITAL CONTRIBUTIONS	8,227	2,571
 CAPITAL CONTRIBUTIONS		
State capital grants	16,097	41,606
 CHANGE IN NET ASSETS	24,324	44,177
 TOTAL NET ASSETS - Beginning	452,878	408,701
 TOTAL NET ASSETS - Ending	\$ 477,202	\$ 452,878

See Accompanying Notes to Financial Statements

**HAMPTON ROADS SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2011 and 2010**

Increase (Decrease) in Cash and Cash Equivalents

(in thousands)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 180,686	\$ 166,442
Other operating revenues	3,890	3,645
Cash payments to suppliers for goods and services	(77,492)	(86,807)
Cash payments to employees for services	(44,400)	(41,398)
Net cash provided by operating activities	<u>62,684</u>	<u>41,882</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Wastewater facility charges	5,083	5,754
Acquisition and construction of property, plant and equipment	(124,129)	(144,911)
Proceeds from capital debt	30,168	200,152
Bond interest subsidy	2,602	1,655
Principal paid on capital debt	(16,490)	(12,970)
Contributions of capital from State government	14,672	36,328
Interest paid on capital debt	(17,967)	(17,644)
Net cash provided by (used in) capital and related financing activities	<u>(106,061)</u>	<u>68,364</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(94,639)	(103,653)
Sales and maturities of investments	66,446	64,026
Interest and dividends on investments	1,695	1,564
Net cash used in investing activities	<u>(26,498)</u>	<u>(38,063)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(69,875)	72,183
CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR	183,630	111,447
CASH AND CASH EQUIVALENTS, AT END OF YEAR	<u><u>\$ 113,755</u></u>	<u><u>\$ 183,630</u></u>

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

(in thousands)

Operating income	\$ 19,378	\$ 13,554
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	36,191	30,441
(Increase) decrease in operating assets		
Accounts receivable	(737)	982
Net change in other current assets	5,012	(2,870)
Increase (decrease) in operating liabilities		
Trade and contracts payable	2,528	(1,775)
Accrued salaries and wages	(312)	873
Compensated absences	196	258
Net change in other liabilities	428	419
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 62,684</u></u>	<u><u>\$ 41,882</u></u>

See Accompanying Notes to Financial Statements

**HAMPTON ROADS SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010**

NOTE 1 - GENERAL INFORMATION

Organization and Administration

The Hampton Roads Sanitation District (HRSD) was created by the Virginia General Assembly in 1940, as a political subdivision of the Commonwealth of Virginia (the Commonwealth), to construct, maintain, and operate a wastewater treatment system in the Hampton Roads area. The Hampton Roads Sanitation District Commission (the Commission) is HRSD's governing body and consists of eight members, appointed by the Governor. The Commission's functions were updated by Chapter 66 of the Acts of the Assembly of Virginia of 1960, as amended. The administration of HRSD is under the direction of a General Manager, supported by five departmental directors.

Regulatory Oversight

HRSD's operations are subject to regulations established by the United States Environmental Protection Agency and the Virginia Department of Environmental Quality. HRSD currently meets all of its permit requirements. Changes in these regulations could require HRSD to modify its treatment processes and require additional capital investment.

Purpose of HRSD

HRSD was created for the specific purpose of abating pollution in the Hampton Roads area through the interception of wastewater outfalls, installation of interception service into new areas as necessary and providing treatment facilities. HRSD provides points of interception throughout the region. The responsibility of providing lateral sewers and subtrunk facilities to carry sewage from industries, residences and businesses is generally the responsibility of the local municipal governments.

Corporate Limits of HRSD

The geographical limits of HRSD include:

City of Chesapeake	City of Suffolk	King and Queen County
City of Hampton	City of Virginia Beach	King William County
City of Newport News	City of Williamsburg	Mathews County
City of Norfolk	Gloucester County	Middlesex County
City of Poquoson	Isle of Wight County	York County
City of Portsmouth	James City County	

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

HRSD is a political subdivision of the Commonwealth and a government instrumentality. The Commission is granted corporate powers by the *Code of Virginia*. The Governor appoints the Commission members, who serve at his pleasure. HRSD is reported in the Commonwealth's Comprehensive Annual Financial Report as a discretely presented component unit. The Commonwealth is not obligated to repay HRSD's debt. HRSD derives its revenues primarily from charges for wastewater treatment services. HRSD has no taxing authority.

Basis of Accounting

The accompanying financial statements report the financial position and results of operations of HRSD in accordance with accounting principles generally accepted in the United States of America. Because HRSD is a political subdivision of the Commonwealth, the preparation of HRSD's financial statements are governed by the pronouncements of the Governmental Accounting Standards Board (GASB). These statements are prepared on an enterprise fund basis and present HRSD's operating revenues and expenses in a manner similar to a private

business, where the costs, including depreciation, of providing services to the general public on a continuing basis are financed or recovered primarily through user charges.

An enterprise fund, a proprietary fund type, is accounted for on an economic resources measurement focus. All assets and liabilities, whether current or noncurrent, associated with its activities are included on its balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in fund equity. The financial statements are presented using the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred.

Budgets

HRSD operates in accordance with annual operating and capital budgets prepared on a basis of accounting that is different from generally accepted accounting principles. The operating budget is adopted by department, with budgetary controls exercised administratively at the department level. The General Manager is authorized to transfer funds among departments without further approval by the Commission. Appropriations lapse at the end of the fiscal year.

The capital budget is adopted on a project basis. Transfers among projects require approval by the Commission. Appropriations for these budgets continue until the purpose of the appropriation has been fulfilled.

Cash Equivalents

All short-term investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to cash, and at the day of purchase, have a maturity date of no longer than three months. Noncurrent restricted cash and cash equivalents are revenue bond proceeds held for the construction of noncurrent assets (see Note 3).

Investments

Investments, which consist primarily of U.S. government obligations including agencies, FDIC-guaranteed corporate notes and other corporate notes and bonds, are reported at fair value when the original maturity is greater than a year. Investments with an original maturity of one year or less are stated at cost, net of any unamortized premium or discount. HRSD has a formal investment policy.

Allowance for Uncollectible Accounts

HRSD provides an allowance for estimated uncollectible accounts receivable based on its bad debt experience. The balance in the allowance for uncollectible accounts is considered to be sufficient to cover anticipated losses on reported receivable balances.

Property, Plant and Equipment

HRSD funds its capital improvement program through the issuance of debt and its own resources. The proceeds of debt are reported as restricted assets. Generally, for projects funded with both debt proceeds and other resources, it is HRSD's policy to use available debt proceeds to pay project expenditures prior to using its own resources.

Property, plant and equipment purchased or constructed are reported at cost, including interest cost on funds borrowed to finance the construction of major capital additions. The capitalization threshold is \$5,000. Donated assets are reported at market value at the date of donation. Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Treatment plants and buildings	30 years
Interceptor systems	50 years
Office furniture and equipment	5-10 years
Automotive	5 years
Other equipment	5 years

Depreciation recognized on property, plant and equipment is an operating expense.

Revenue Recognition

Wastewater treatment charges are computed based on a user's water consumption. These charges are recognized as revenue when billed. Unbilled revenues through June 30 of each fiscal year are accrued at year-end.

Wastewater facility charges are computed based on a new connection's water meter size and are recognized as revenue prior to the issuance of a building permit.

Operating and Nonoperating Revenues and Expenses Recognition

HRSD distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with HRSD's principal service of providing wastewater treatment. The majority of operating revenues are from wastewater treatment, but other associated miscellaneous income from services and charges are also included. Revenues and expenses not meeting the operating definition are reported as nonoperating. These consist mainly of wastewater facility charges, investment income, capital grants and interest expense.

Compensated Absences

All permanent employees earn annual leave upon starting a full-time position. The amount of leave earned is based upon the employee's years of service and is expensed as employees earn the right to these benefits. The maximum annual leave an employee may accumulate at year-end varies by the years of service, with the maximum being 54 days. An employee has a vested right to their annual leave when earned.

All permanent employees earn eight hours per month of sick leave regardless of the years of service. The amount of sick leave that may be accumulated is unlimited. After five years of service with HRSD, an employee has vested rights to 35 percent of accumulated sick leave to a maximum of \$10,000.

Use of Estimates

The preparation of these financial statements requires management to make estimates and assumptions. These estimates 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 period. Actual results may differ from management's estimates.

Proprietary Activity Accounting and Financial Reporting

In accordance with GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting, HRSD applies all applicable GASB pronouncements, and has elected to apply only those FASB Statements and Interpretations, APB Opinions and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with or contradict GASB Pronouncements.

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk. This risk is associated with the inability of a governmental entity to recover deposits from a financial institution in the event of a failure. At June 30, 2011 and 2010, the carrying values of HRSD's deposits were \$47,583,000 and \$22,765,000, respectively, and the bank balances were \$50,632,000 and \$30,496,000, respectively. All of the bank balances at June 30, 2011 were covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (the Act).

In accordance with the Act, the depository institution pledged collateral in the form of federal agency obligations with a fair value equal to 110 percent of HRSD's deposits with a third party trustee in the name of the Treasurer of the Commonwealth of Virginia. In the event that the banking institution fails, the Treasurer will take possession of the collateral, liquidate it and reimburse HRSD up to the value of its deposits.

The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks. In addition, HRSD had petty cash of \$6,000 at June 30, 2011.

Credit Risk. HRSD invests overnight in money market accounts that are invested in government securities and the Commonwealth of Virginia Local Government Investment Pool (LGIP). As of June 30, 2011 and 2010, HRSD had deposits in Merrill Lynch's FFI Government Fund and Fidelity's Government Money Market Fund that were rated AAAM by Standard & Poor's. The Treasury Board of Virginia provides LGIP oversight. HRSD's investment in the Commonwealth of Virginia Local Government Investment Pool (LGIP) was rated AAAM by Standard & Poor's. FDIC-guaranteed corporate notes are rated AAA by Standard & Poor's.

Concentration of Credit Risk. As of June 30, 2011 and 2010, HRSD invested \$216,000 and \$17,712,000, respectively, in the LGIP, \$1,087,000 and \$13,831,000, respectively, in Merrill Lynch's Government Fund, and \$3,134,000 and \$169,000, respectively in Fidelity's Government Money Market Fund. As of June 30, 2011 and 2010, HRSD invested \$61,729,000 and \$129,148,000 in the State Non-Arbitrage Program (SNAP). Merrill Lynch's FFI Government Fund and the Fidelity Fund (both SEC registered), LGIP and SNAP are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry form. The LGIP and SNAP each maintain a policy to operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Both funds' share price valuations use a constant \$1.00 net asset value. HRSD's investment policy allows up to 100 percent in deposits in money market funds and up to 100 percent in deposits in LGIP.

Investments

As of June 30, HRSD had the following investments and maturities:

(in thousands)		<u>Investment Maturities (in years)</u>			
<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-3</u>	<u>4-6</u>	
2011					
Certificates of Deposit	\$ 3,200	\$ 1,500	\$ 1,700	\$ -	
U.S. Treasury Securities	29,223	13,023	16,200	-	
Federal Agency Notes/Bonds	46,177	1,004	45,173	-	
Corporate Notes/Bonds	8,097	-	8,097	-	
Municipal Securities	1,557	-	1,557	-	
Total	<u>\$ 88,254</u>	<u>\$ 15,527</u>	<u>\$ 72,727</u>	<u>\$ -</u>	
<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-3</u>	<u>4-6</u>	
2010					
U.S. Treasury Securities	\$ 18,998	\$ 6,742	\$ 12,256	\$ -	
Federal Agency Notes/Bonds	31,299	2,511	27,772	1,016	
Corporate Notes/Bonds	3,870	-	3,870	-	
FDIC-Guaranteed Corporate Notes	5,913	-	5,913	-	
Total	<u>\$ 60,080</u>	<u>\$ 9,253</u>	<u>\$ 49,811</u>	<u>\$ 1,016</u>	

Interest Rate Risk. In accordance with its investment policy, HRSD manages its exposure to declines in fair values by limiting the weighted average maturity of various portfolios in a manner that meets HRSD's liquidity needs.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, HRSD will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. HRSD's policy is to utilize its Trustee for its operating funds, The Bank of New York Trust Department, as recipient of all investment transactions on a delivery versus pay basis. The Trustee may not be a counterparty to the investment transaction. All investments were collateralized in accordance with the Virginia

Security for Public Deposits Act. At June 30, 2011 and 2010, the Trust Department of the Bank of New York held \$88,254,000 and \$60,080,000 in investments in the Trustee's name for HRSD.

Credit Risk. HRSD's Trust Agreement permits HRSD to invest in investment instruments that are authorized by the Commonwealth. HRSD's investment in U.S. Agency securities were rated AAA by Standard & Poor's and Aaa by Moody's Investors Service.

Concentration of Credit Risk. Generally, HRSD's investment policy includes a five percent maximum exposure for each individual issuer for its investments. U.S. Treasury obligations are not subject to issuer limits. Federal agency obligations and repurchase agreements are limited to 35 percent per issuer. Corporate notes and negotiable certificates of deposit are limited to 3 percent per issuer. Money market funds and local government investment pools are each limited to 50 percent per issuer. Collateralized bank deposits are limited to 25 percent per issuer.

The change in fair value for the year ended June 30 is calculated as follows:

(in thousands)	2011	2010
Fair value of investments, end of year	\$ 88,254	\$ 60,080
Add: Proceeds of investments sold or maturing during the year	66,446	64,026
Less: Cost of investments purchased during the year	(94,639)	(103,653)
Less: Fair value of investments, beginning of year	(60,080)	(20,413)
Change in fair value of investments	<u>\$ (19)</u>	<u>\$ 40</u>

The components of restricted cash and cash equivalents at June 30 are as follows:

(in thousands)	2011	2010
Debt service	\$ 14,896	\$ 12,253
Revenue bond construction funds - current	17,113	16,653
Revenue bond construction funds - noncurrent	44,616	112,495
Cash and cash equivalents - Restricted	<u>\$ 76,625</u>	<u>\$ 141,401</u>

NOTE 4 - ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

An analysis of the allowance for uncollectible accounts at June 30 is as follows:

(in thousands)	2011	2010
Balance, beginning of year	\$ 2,165	\$ 1,750
Add: Current provision for uncollectible accounts	2,103	2,363
Less: Charge-off of uncollectible accounts	(2,042)	(1,948)
Balance, end of year	<u>\$ 2,226</u>	<u>\$ 2,165</u>

HRSD's collection ratio for the years ended June 30, 2011 and 2010 was 98.8 percent each year.

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment activity for the years ended June 30 was as follows:

(in thousands)	Balance 6/30/09	Additions	Retirements	Balance 6/30/10	Additions	Retirements	Balance 6/30/11
Non-Depreciable Capital Assets							
Land	\$ 4,967	\$ 512	\$ -	\$ 5,479	\$ 158	\$ -	\$ 5,637
Construction in progress	253,095	109,396	(157,254)	205,237	84,690	(128,667)	161,260
Depreciable Capital Assets							
Treatment plants	628,643	178,533	-	807,176	138,708	-	945,884
Interceptor systems	282,357	4,475	-	286,832	3,438	-	290,270
Small community facilities	7,826	-	-	7,826	4,633	-	12,459
Buildings	21,273	330	-	21,603	-	-	21,603
Office equipment	31,815	3,053	-	34,868	1,467	-	36,335
Automotive	12,474	2,412	(402)	14,484	1,358	(838)	15,004
Other equipment	12,774	898	-	13,672	14,549	-	28,221
Total	\$ 1,255,224	\$ 299,609	\$ (157,656)	\$ 1,397,177	\$ 249,001	\$ (129,505)	\$ 1,516,673
Less accumulated depreciation:							
Treatment plants	(451,306)	(18,816)	-	(470,122)	(23,376)	-	(493,498)
Interceptor systems	(97,960)	(5,437)	-	(103,397)	(5,512)	-	(108,909)
Small community facilities	(3,625)	(355)	-	(3,980)	(317)	-	(4,297)
Buildings	(11,647)	(634)	-	(12,281)	(613)	-	(12,894)
Office equipment	(17,182)	(3,282)	-	(20,464)	(3,584)	-	(24,048)
Automotive	(10,121)	(1,121)	402	(10,840)	(1,265)	838	(11,267)
Other equipment	(8,555)	(796)	-	(9,351)	(1,524)	-	(10,875)
Total	(600,396)	(30,441)	402	(630,435)	(36,191)	838	(665,788)
Net property, plant and equipment	\$ 654,828	\$ 269,168	\$ (157,254)	\$ 766,742	\$ 212,810	\$ (128,667)	\$ 850,885

NOTE 6 - COMPENSATED ABSENCES

The liability for vested annual, sick and compensatory leave at June 30 is as follows:

(in thousands)	Balance 6/30/09	Earned	Taken	Balance 6/30/10	Earned	Taken	Balance 6/30/11
Annual leave	\$ 4,130	\$ 1,349	\$ (1,052)	\$ 4,427	\$ 1,451	\$ (1,192)	\$ 4,686
Sick leave	2,760	686	(706)	2,740	783	(769)	2,754
Compensatory leave	190	141	(160)	171	35	(112)	94
Total	7,080	\$ 2,176	\$ (1,918)	7,338	\$ 2,269	\$ (2,073)	7,534
Less: Current liability	1,958			1,920			2,072
Long-term liability	\$ 5,122			\$ 5,418			\$ 5,462

NOTE 7 - DEFINED BENEFITS PLANS

Post-Retirement Health Benefit Plan

HRSD provides other post employment benefits (OPEB) for its employees through a single employer defined benefit plan. The plan was established and may be amended by the Commission.

Plan Description. HRSD's plan provides two different health and dental benefit plans for eligible retired employees and their beneficiaries (members). Plan benefits vest after 15 years of service and when a member qualifies for

unreduced retirement benefits from the Virginia Retirement System. Participating beneficiaries may continue coverage under the plan after the death of the retiree. Medicare-eligible members may participate in a Medicare supplement plan. Members not eligible for Medicare may participate in a high deductible health plan.

Funding Policy. Contribution requirements are actuarially determined. Funding is subject to approval by the Commission. Medicare-eligible members contribute \$45 per month for retiree-only coverage and from \$442 to \$460 per month for retiree and dependent coverage. Members not eligible for Medicare contribute \$120 per month for retiree-only coverage and from \$517 to \$535 per month for retiree and dependent coverage. HRSD shares the cost of coverage under the plan with participating retirees by paying the difference between the contributions it requires retirees to make and the annual required contribution (ARC). The current contribution rate is 6.0 percent of annual covered payroll.

Annual OPEB Cost. HRSD's annual OPEB cost is calculated based on an actuarially determined ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. Information related to the HRSD's annual OPEB cost, ARC, actual contributions, and changes to the net OPEB obligation is as follows:

(in thousands)

Fiscal Year Ended	ARC	Actuarial Adjustment	Annual OPEB Cost	Percentage of Annual ARC Contributed	Net OPEB Obligation
2011	\$ 2,196	\$ -	\$ 2,196	100%	\$ -
2010	\$ 2,356	\$ -	\$ 2,356	100%	\$ -
2009	\$ 1,862	\$ 991	\$ 2,853	100%	\$ 991

Funded Status and Funding Progress. The funded status of the plan as of June 30, 2011 was as follows:

(in thousands)

Actuarial accrued liability (AAL)	\$ 32,076
Actuarial value of plan assets	22,560
Unfunded actuarial accrued liability (UAAL)	<u>\$ 9,516</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>70.3%</u>
Annual covered payroll (active plan members)	\$ 40,553
UAAL as a percentage of covered payroll	23.5%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the possibility of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by HRSD and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The information presented in the required supplemental schedules was determined as part of the actuarial valuations at the dates indicated. The actuarial value of plan assets is equal to market value.

Additional information at June 30, 2011, the date of the most recent valuation, follows:

Actuarial valuation method	Projected unit credit method
Amortization cost method	Level Percent of Pay, Closed
Remaining amortization period	13 Years
Asset valuation method	Market Value
Actuarial assumptions:	
Discount rate	6.0%
Annual healthcare cost trend	7.5% initially, reducing to 5.7% after 3 years and 4.2% after 69 years
Assumed rate of inflation	3.2%

Defined Benefit Pension Plan

Plan Description. HRSD contributes to the Virginia Retirement System (VRS), a mixed agent and cost-sharing multiple-employer defined benefit pension plan, which acts as a common investment and administrative agent for political subdivisions in the Commonwealth of Virginia. All full-time permanent employees of HRSD are covered by VRS. Benefits vest after 5 years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service and at age 55 with 30 years of service. Employees who retire with an unreduced benefit are entitled to an annual retirement benefit payable monthly for life in an amount equal to 1.7 percent of their average final compensation (AFC) for each year of credited service. AFC is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living adjustments (COLA) beginning in their second year of retirement. The COLA is limited to 5 percent per year. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplemental information for VRS. A copy of that report is available on their website at <http://www.varetire.org/Pdf/Publications/2010-annual-report.pdf> or may be obtained by writing to VRS at P.O. Box 2500, Richmond, Virginia, 23218-2500.

At June 30, 2010, the date of the most recent valuation, the plan contained 718 active, 273 inactive and 257 retired employees from HRSD. The information presented in the required supplemental schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Actuarial cost method	Entry Age Normal
Amortization cost method	Level Percent of Pay, Open
Payroll growth rate	3.0%
Remaining amortization period	20 Years
Asset valuation method	Five-Year Smoothed Market Value
Actuarial assumptions:	
Investment rate of return ¹	7.0%
Projected salary increases ¹	3.75% to 5.60%
Cost-of-living adjustments	2.5%

¹ includes inflation at 2.5%

Funding Policy. Employees are required by Title 51.1 of the Code of Virginia to contribute 5 percent of their annual salary to the VRS. This 5 percent member contribution has been assumed by HRSD. In addition, HRSD is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The HRSD contribution rate (including the 5 percent member contribution assumed by HRSD) for the fiscal year ended June 30, 2011 was 11.00 percent of

annual covered payroll. Actual contributions by HRSD totaled \$4,438,000, \$3,900,000 and \$3,699,000, which were 100 percent of the Annual Required Contribution (ARC) for 2011, 2010 and 2009 respectively. HRSD has no Net Pension Obligation at June 30, 2011, 2010 or 2009.

Funded Status and Funding Progress. The funded status of the plan as of June 30, 2010 was as follows:

(in thousands)

Actuarial accrued liability (AAL)	\$ 164,574
Actuarial value of plan assets	129,207
Unfunded actuarial accrued liability (UAAL)	<u>\$ 35,367</u>
Funded ratio (actuarial value of plan assets/AAL)	78.5%
Annual covered payroll (active plan members)	\$ 39,407
UAAL as a percentage of covered payroll	89.7%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE 8 - Long-term Debt

HRSD issues revenue bonds for various capital improvements including but not limited to wastewater treatment plants and interceptor system improvements. In addition to HRSD's publicly issued revenue bonds, HRSD is indebted for bond issues payable to the Virginia Resources Authority (VRA) as administrator of the Virginia Water Facilities Fund. All bonds are secured by the revenues of HRSD and are payable over the duration of that issue. A summary of activity for the years ended June 30 is as follows:

(in thousands)	Balance at 6/30/09	Additions	Deductions	Balance at 6/30/10	Additions	Deductions	Balance at 6/30/11
Series-2009A	\$ -	\$ 15,915	\$ -	\$ 15,915	\$ -	\$ (2,990)	\$ 12,925
Series-2009B	-	134,725	-	134,725	-	-	134,725
Series-2008	221,170	-	(2,000)	219,170	-	(2,000)	217,170
Series-2003	28,995	-	(3,590)	25,405	-	(3,845)	21,560
Virginia Resources Authority							
Senior bonds	2,714	33,595	-	36,309	27,646	-	63,955
Subordinate bonds	107,257	15,917	(7,380)	115,794	2,522	(7,655)	110,661
Total Bonds Outstanding	<u>\$ 360,136</u>	<u>\$ 200,152</u>	<u>\$ (12,970)</u>	<u>\$ 547,318</u>	<u>\$ 30,168</u>	<u>\$ (16,490)</u>	<u>\$ 560,996</u>

A summary of the senior bonds outstanding at June 30, 2011 is as follows:

(in thousands)	Issue Amount	Principal Outstanding			Interest to Maturity	Interest Rates	Duration of Issue	Final Maturity
		Total	Current	Long-Term				
Series - 2003	\$ 55,890	\$ 21,560	\$ 4,010	\$ 17,550	\$ 2,122	3.34 - 5.00%	12 years	October 1, 2015
Series - 2008	223,170	217,170	2,000	215,170	192,335	3.00 - 5.00%	30 years	July 1, 2038
Series - 2009A	15,915	12,925	3,080	9,845	940	2.38 - 4.00%	5 years	November 1, 2014
Series - 2009B	134,725	134,725	-	134,725	141,226	3.38 - 5.86%	30 years	November 1, 2039
VRA - NTP	-	18,540	341	18,199	8,174	3.35%	20 years	September 1, 2031
VRA - JRTP	-	11,079	204	10,875	5,519	3.35%	20 years	March 1, 2031
VRA - Metering	-	9,330	171	9,159	4,689	3.35%	20 years	March 1, 2030
VRA - ABTP	-	16,510	-	16,510	18,073	2.93%	20 years	September 1, 2032
VRA - WTP	-	4,050	-	4,050	2,082	2.93%	20 years	September 1, 2031
VRA - BHTP	-	4,446	-	4,446	2,632	2.93%	20 years	September 1, 2031
Total		<u>\$ 450,335</u>	<u>\$ 9,806</u>	<u>\$ 440,529</u>	<u>\$ 377,792</u>			

The VRA bonds had not closed as of June 30, 2011, so the amounts reflected represent draws through that date. The total amount available on the senior VRA bonds is \$108,056,000 of which \$63,955,000 was outstanding at June 30, 2011.

Maturities of senior bond principal and interest as of June 30, 2011 are as follows:

(in thousands)		
June 30,	Principal	Interest
2012	\$ 9,806	\$ 22,146
2013	11,116	22,737
2014	12,064	21,714
2015	12,434	21,233
2016	12,807	20,718
2017-2021	61,159	96,202
2022-2026	77,914	79,126
2027-2031	95,884	56,857
2032-2036	96,836	31,134
2037-2041	60,315	5,925
	<u>\$ 450,335</u>	<u>\$ 377,792</u>

A summary of the subordinate revenue bonds outstanding at June 30, 2011 is as follows:

(in thousands)	Issue Amount	Principal Outstanding			Interest to Maturity	True Interest Cost	Duration of Issue	Final Maturity
		Total	Current	Long-term				
Smithfield	\$ 16,620	\$ 4,624	\$ 1,088	\$ 3,536	\$ 426	4.00%	20 years	June 1, 2015
Nansemond I	40,628	14,933	2,479	12,454	1,851	4.00%	20 years	December 1, 2016
Nansemond II	15,772	5,825	967	4,858	722	4.00%	20 years	December 1, 2016
CE/AB	5,450	2,230	330	1,900	359	4.75%	20 years	June 1, 2017
Disinfection	6,490	3,541	341	3,200	618	3.50%	20 years	March 1, 2020
Middle Peninsula	700	248	21	227	63	4.75%	20 years	December 1, 2020
Gen & Odor Control	3,843	2,345	194	2,151	537	4.10%	20 years	June 1, 2021
BH Odor	2,380	1,458	117	1,341	297	3.50%	20 years	September 1, 2021
York River Reuse	2,476	1,602	122	1,480	251	2.50%	20 years	September 1, 2022
AB Aeration	1,759	1,187	84	1,103	285	3.75%	20 years	October 1, 2022
Ches-Eliz Off Gas	1,070	710	48	662	178	3.75%	20 years	March 1, 2023
AB Generator	1,235	1,009	54	955	252	3.00%	20 years	April 1, 2026
Atlantic Expansion	7,340	6,325	311	6,014	1,745	3.10%	20 years	February 1, 2027
Ches-Eliz Expansion	40,330	34,705	1,719	32,986	9,247	3.00%	20 years	June 1, 2027
Williamsburg PS	1,605	1,385	34	1,351	382	3.10%	20 years	July 1, 2027
York River Expansion		28,534	514	28,020	13,734	3.55%	20 years	September 1, 2031
Total		<u>\$ 110,661</u>	<u>\$ 8,423</u>	<u>\$ 102,238</u>	<u>\$ 30,947</u>			

Maturities of subordinate bond principal and interest as of June 30, 2011 are as follows:

(in thousands)		
June 30,	Principal	Interest
2012	\$ 8,423	\$ 5,171
2013	9,295	3,493
2014	9,642	3,143
2015	10,000	2,781
2016	9,100	2,418
2017-2021	27,752	8,504
2022-2026	23,835	4,383
2027-2031	12,614	1,054
	<u>\$ 110,661</u>	<u>\$ 30,947</u>

The VRA York River Expansion bond had not closed as of June 30, 2011, so the amount reflected represents draws through that date. The total amount available on the bond is \$30,000,000 of which \$28,534,000 was outstanding at June 30, 2011.

NOTE 9 - FUND EQUITY

Restricted Equity

Restricted equity represents funds set aside in accordance with HRSD's Trust Agreement for its revenue bond debt service.

Unrestricted Equity

Reserved for Improvement. HRSD's Master Trust Agreement requires a reserve for improvements. There is no specific funding mechanism established by the Trust Agreement. At June 30, 2011 and 2010, \$6,286,000 and \$12,663,000, respectively, was contained in the Fund equity - unrestricted. HRSD was in compliance with all funding requirements of this reserve during the fiscal years ended June 30, 2011 and 2010.

Reserved for Construction. A reserve for the construction program is based on funds designated by HRSD's Commission for such purposes. At June 30, 2011 and 2010, \$39,034,000 and \$25,452,000, respectively, was contained in the Fund Equity Unrestricted.

NOTE 10 - RISK MANAGEMENT

HRSD is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; employee dishonesty; injuries to employees; and natural disasters. HRSD purchases commercial insurance for specific types of coverage including property, liability, auto, crime, public officials and worker's compensation. There were no significant reductions in insurance coverage from the prior year. Claim settlements and judgments not covered by commercial insurance are covered by operating resources. The amount of settlements did not exceed insurance coverage for each of the past three years. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

HRSD has a self-insured health care benefits program for all employees. Certain claims expenses paid on behalf of each employee during a single policy year are covered by excess loss insurance with a specific stop-loss limit of \$75,000. Claims processing and payments for all health care claims are made through third-party administrators. HRSD uses the information provided by the third-party administrators and a health care benefits consultant to aid in the determination of self-insurance reserves.

Changes in HRSD's claims liability for fiscal years 2009 through 2011 are as follows:

(in thousands)	Beginning of Fiscal Year	Estimated Claims Incurred	Claims Paid	End of Fiscal Year
2009	\$ 1,120	\$ 6,451	\$ (6,712)	\$ 859
2010	\$ 859	\$ 9,279	\$ (8,816)	\$ 1,322
2011	\$ 1,322	\$ 8,257	\$ (8,321)	\$ 1,258

NOTE 11 – COMMITMENTS AND CONTINGENCIES

In September 2007, the Commonwealth of Virginia entered into a regional consent agreement (the "State Consent Agreement") with HRSD and 13 of the localities that it serves. The State Consent Agreement requires agreed upon short and long-term operational and infrastructure improvements to the sewer systems of the HRSD and such localities. The long-term improvements are to be based upon a regional wet weather management plan that must be developed and submitted to the Commonwealth in 2013. The substance of the State Consent Agreement was developed, in large part, by HRSD and such localities. Management believes HRSD is in full compliance with its obligations under the State Consent Agreement.

The Environmental Protection Agency (EPA) and the Commonwealth have negotiated to embody HRSD's obligations under the State Consent Agreement in a federally enforceable consent decree (the "Federal Consent Decree"). The Federal Consent Decree incorporates the requirement of the State Consent Agreement to develop a regional wet weather management plan to control sewer overflows. It also includes a requirement for HRSD to implement \$140 million worth of projects identified out of a larger group of projects included in the current Capital Improvement Program over an eight-year period.

HRSD has a major capital improvement and expansion program funded through the issuance of debt and its own resources. At June 30, 2011 HRSD has outstanding commitments for contracts in progress of approximately \$186,016,000.

NOTE 12 - SUBSEQUENT EVENTS

On August 23, 2011 the Commission authorized the issuance and award of up to \$80 million of fixed rate senior revenue bonds and \$25 million of subordinate revenue variable rate demand bonds. Both series of bonds have a final maturity date of not more than 32 years from the date of issuance. HRSD anticipates that it will only issue approximately \$50 million of the fixed rate senior revenue bonds and \$25 million in subordinate revenue variable rate demand bonds in October 2011.

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REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Then: This 1947 Dodge truck was an early HRSD purchase. (HRSD Archives—Restoration by Al Spradlin Photographic Services courtesy of Tommy Pennell)



Now: This powerful sewer cleaning machine is a part of the fleet of vehicles needed to serve 17 cities and counties. (Photo by Mark Rhodes)

**HAMPTON ROADS SANITATION DISTRICT
SCHEDULES OF FUNDING PROGRESS**

The table below provides detail on the funding progress for the Virginia Retirement System
Defined Benefit Pension Plan for HRSD

Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (2) - (1)	Funded Ratio Assets as % of AAL (1) / (2)	Annual Covered Payroll	UAAL as a % of Covered Payroll (3) / (5)
(in thousands)	(1)	(2)	(3)	(4)	(5)	(6)
6/30/2010	\$129,207	\$164,574	\$35,367	78.5%	\$39,407	89.7%
6/30/2009	\$128,228	\$147,465	\$19,237	87.0%	\$37,608	51.2%
6/30/2008	\$125,771	\$134,460	\$8,689	93.5%	\$34,050	25.5%
6/30/2007	\$113,053	\$123,574	\$10,521	91.5%	\$33,308	31.6%
6/30/2006	\$97,644	\$110,484	\$12,840	88.4%	\$29,820	43.1%

The table below provides detail on the funding progress for the Post-Retirement Health
Benefit Plan for HRSD

Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (2) - (1)	Funded Ratio Assets as % of AAL (1) / (2)	Annual Covered Payroll	UAAL as a % of Covered Payroll (3) / (5)
(in thousands)	(1)	(2)	(3)	(4)	(5)	(6)
6/30/2011	\$22,560	\$32,076	\$9,516	70.3%	\$40,553	23.5%
6/30/2010	\$17,205	\$28,210	\$11,005	61.0%	\$39,183	28.1%
6/30/2009	\$14,922	\$36,550	\$21,628	40.8%	\$37,431	57.8%
6/30/2008	\$13,002	\$27,865	\$14,863	46.7%	\$34,458	43.1%

Unaudited – See accompanying independent auditors' report

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STATISTICAL SECTION (UNAUDITED)

Then: The Lambert's Point Plant, one of HRSD's first facilities, was placed in operation in 1948. (HRSD Archives)



Now: The Atlantic Treatment Plant became HRSD's largest when the project to expand its capacity to 54 million gallons per day was completed in 2010. (Photo by Backus Aerial Photography)

Statistical Section

This section of Hampton Roads Sanitation District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about HRSD's overall financial health.

Contents	Page(s)
Demographic and Economic Information	
This schedule offers demographic and economic indicators to help the reader understand the environment within which HRSD's financial activities take place and to help make comparisons over time and with other governments.	37
Financial Trends	
These schedules contain trend information to help the reader understand how HRSD's financial performance and well-being have changed over time.	38-40
Debt Capacity	
This schedule presents information to help the reader assess the affordability of HRSD's current levels of outstanding debt and HRSD's ability to issue additional debt in the future.	41
Revenue Capacity	
These schedules contain information to help the reader assess the factors affecting HRSD's ability to generate revenue from rate payers.	42-43 46-47
Operating Information	
These schedules contain information about the HRSD's operations and resources to help the reader understand how the HRSD's financial information relates to the services HRSD provides and the activities it performs.	44-45 48

Unaudited – See accompanying independent auditors' report

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports and accounting records for the relevant year.

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**HAMPTON ROADS SANITATION DISTRICT
DEMOGRAPHIC AND OTHER MISCELLANEOUS STATISTICS
JUNE 30, 2011**

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Date of Incorporation - 1940										
Area in Square Miles	3,118	3,118	3,118	3,118	3,118	3,118	3,118	3,118	3,118	3,118
Present Service Area in Square Miles	672	672	672	672	672	672	672	672	733	733
Treatment Plants (Major)	9	9	9	9	9	9	9	9	9	9
Plant Capacity (Millions of Gallons per Day)										
Army Base Plant, Norfolk	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0
Atlantic Plant, Virginia Beach	54.0	54.0	36.0	36.0	36.0	36.0	36.0	36.0	36.0	36.0
Boat Harbor Plant, Newport News	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
Chesapeake-Elizabeth Plant, Virginia Beach	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0
James River Plant, Newport News	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Nansemond Plant, Suffolk	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0
Virginia Initiative Plant, Norfolk	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
Williamsburg Plant, James City County	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5
York River Plant, York County	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Total Treatment Plants (Major) Capacity	248.5	248.5	230.5	230.5	230.5	230.5	230.5	230.5	230.5	230.5
Small Communities Treatment Plants	5	4	4	4	3	3	3	3	3	3
Central Middlesex, Middlesex County	0.03	-	-	-	-	-	-	-	-	-
King William Plant, King William County	0.10	0.10	0.10	0.10	-	-	-	-	-	-
Mathews Plant, Mathews County	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Urbanna Plant, Middlesex County	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
West Point Plant, King William County	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
Total Small Communities Treatment Plants Capacity	0.93	0.90	0.90	0.90	0.80	0.80	0.80	0.80	0.80	0.80
Miles of Interceptor Systems (note 1)	528	483	483	514	512	512	512	512	478	475
Interceptor Pump Stations	82	81	82	82	81	79	78	78	79	79
Small Communities Pump Stations (note 2)	29	25	20	20	20	20	20	20	20	20
Maintenance Facilities	2	2	2	2	2	2	2	2	2	2
Number of Service Connections (in thousands; note 3)	457	455	452	442	461	457	451	448	440	427
Daily Average Treatment in Millions of Gallons	144	171	151	146	163	158	173	173	172	147
Bond Ratings										
Moody's Investors Service	Aa2	Aa2	Aa3	Aa3	Aa3	Aa3	Aa3	Aa3	Aa3	Aa3
Standard & Poor's	AAA	AAA	AA+	AA+	AA	AA	AA	AA	AA	AA
Fitch	AA+	AA+	AA	AA	-	-	-	-	-	-

Note 1 - During the year ended June 30, 2009, HRSD conducted an evaluation of the system and revised the miles of pipes.

Note 2 - During the year ended June 30, 2011, HRSD conducted an evaluation of the system and revised the number of small community pump stations.

Note 3 - During the year ended June 30, 2008, HRSD installed a new customer billing system. As part of the implementation, certain accounts were combined to more closely align billing locations and service delivery, resulting in fewer total accounts.

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**HAMPTON ROADS SANITATION DISTRICT
SCHEDULE OF OPERATING EXPENSES,
NET ASSETS BY COMPONENT, AND
DEBT SERVICE EXPENDITURES
LAST TEN FISCAL YEARS**

(in thousands)	2011	2010	2009	2008
OPERATING REVENUES				
Wastewater treatment charges	\$ 183,526	\$ 167,807	\$ 156,642	\$ 129,583
Miscellaneous	3,890	3,645	3,088	2,623
TOTAL OPERATING REVENUES	187,416	171,452	159,730	132,206
OPERATING EXPENSES				
Wastewater treatment	103,225	98,022	86,850	72,034
General and administrative	28,622	29,435	28,853	31,756
Depreciation	36,191	30,441	28,414	27,282
TOTAL OPERATING EXPENSES	168,038	157,898	144,117	131,072
OPERATING INCOME (LOSS)	19,378	13,554	15,613	1,134
NONOPERATING REVENUES (EXPENSES)				
Wastewater facility charges	5,083	5,754	5,086	8,339
Investment income	1,699	1,541	3,998	3,999
Bond interest subsidy	2,602	1,655	-	-
Sale of land	-	-	-	-
Change in fair value of investments	(19)	40	162	656
Interest expense	(20,516)	(19,973)	(15,263)	(5,867)
NET NONOPERATING REVENUES (EXPENSES)	(11,151)	(10,983)	(6,017)	7,127
INCOME BEFORE CONTRIBUTIONS AND SPECIAL ITEM	8,227	2,571	9,596	8,261
CAPITAL CONTRIBUTIONS				
Contributions from other governments	16,097	41,606	16,678	-
SPECIAL ITEM				
Prior service cost for post retirement health program	-	-	-	-
CHANGE IN NET ASSETS	\$ 24,324	\$ 44,177	\$ 26,274	\$ 8,261
NET ASSETS				
Investment in capital assets, net of related debt	\$ 351,618	\$ 348,572	\$ 319,594	\$ 301,760
Restricted for debt service	14,896	12,253	7,542	7,377
Unrestricted	110,688	92,053	81,565	73,290
TOTAL NET ASSETS	\$ 477,202	\$ 452,878	\$ 408,701	\$ 382,427
DEBT SERVICE EXPENDITURES				
Senior debt	\$ 28,257	\$ 21,081	\$ 17,453	\$ 4,699
Subordinate debt	\$ 10,640	\$ 10,695	\$ 10,694	\$ 11,992
 Senior Debt Coverage	 2.30	 2.51	 3.05	 8.81
Total Debt Coverage	1.67	1.67	1.89	2.48

Note - Certain amounts have been adjusted to conform to the presentation adopted for the 2011 statistical section.

<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
\$ 118,423	\$ 106,208	\$ 98,308	\$ 96,894	\$ 93,841	\$ 93,819
3,558	3,419	3,354	4,453	3,483	3,949
<u>121,981</u>	<u>109,627</u>	<u>101,662</u>	<u>101,347</u>	<u>97,324</u>	<u>97,768</u>
68,930	67,496	59,041	55,106	55,448	52,324
26,070	21,820	20,509	19,522	18,118	17,659
24,958	24,509	24,912	26,230	27,475	26,926
<u>119,958</u>	<u>113,825</u>	<u>104,462</u>	<u>100,858</u>	<u>101,041</u>	<u>96,909</u>
2,023	(4,198)	(2,800)	489	(3,717)	859
9,645	10,526	10,579	10,554	8,677	7,727
3,363	2,896	2,349	2,151	3,488	4,572
-	-	-	-	-	-
-	-	-	-	4,517	-
994	(868)	343	(1,622)	(155)	(79)
<u>(4,630)</u>	<u>(4,518)</u>	<u>(4,682)</u>	<u>(5,497)</u>	<u>(6,755)</u>	<u>(7,360)</u>
9,372	8,036	8,589	5,586	9,772	4,860
11,395	3,838	5,789	6,075	6,055	5,719
-	-	-	-	-	2,114
-	-	-	-	(6,944)	-
<u>\$ 11,395</u>	<u>\$ 3,838</u>	<u>\$ 5,789</u>	<u>\$ 6,075</u>	<u>\$ (889)</u>	<u>\$ 7,833</u>
\$ 314,708	\$ 282,177	\$ 271,907	\$ 260,808	\$ 250,043	\$ 242,427
6,247	7,817	6,871	5,772	7,062	10,243
53,211	72,777	80,155	86,564	89,964	95,288
<u>\$ 374,166</u>	<u>\$ 362,771</u>	<u>\$ 358,933</u>	<u>\$ 353,144</u>	<u>\$ 347,069</u>	<u>\$ 347,958</u>
\$ 8,609	\$ 8,720	\$ 8,545	\$ 8,744	\$ 11,577	\$ 15,092
\$ 8,000	\$ 7,500	\$ 7,249	\$ 7,250	\$ 7,330	\$ 7,005
4.76	3.77	4.14	4.32	3.48	2.65
2.47	2.03	2.24	2.36	2.13	1.81

**HAMPTON ROADS SANITATION DISTRICT
OBJECTIVE CLASSIFICATION OF DEPARTMENTAL EXPENDITURES
FOR OPERATIONS - LAST TEN FISCAL YEARS**

(in thousands)	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Personal Services	\$ 44,284	\$ 42,529	\$ 40,840	\$ 37,333	\$ 36,228	\$ 32,045	\$ 30,908	\$ 30,664	\$ 29,535	\$ 29,375
Fringe Benefits	17,692	15,217	12,410	12,573	11,106	8,430	7,790	7,228	6,515	5,945
Repairs and Maintenance	21,234	23,445	14,176	10,704	11,101	13,036	9,523	6,912	8,761	6,951
Materials and Supplies	8,381	6,284	5,715	5,965	5,224	5,153	5,236	4,893	5,198	5,096
Transportation	1,196	1,009	972	965	802	855	716	652	647	609
Utilities	11,026	10,755	13,218	11,601	10,457	10,782	9,185	8,531	8,423	7,461
Chemicals	8,084	7,571	8,342	8,032	7,077	6,721	4,715	4,659	4,190	4,469
Contractual Services	11,118	10,333	8,642	9,064	7,828	7,108	6,733	6,617	6,321	6,136
Miscellaneous	1,148	1,049	1,028	897	720	642	736	655	607	589
General (1)	7,684	9,265	10,360	6,656	4,457	4,544	4,008	3,817	3,369	3,352
Subtotal, Expense before Depreciation	131,847	127,457	115,703	103,790	95,000	89,316	79,550	74,628	73,566	69,983
Depreciation	36,191	30,441	28,414	27,282	24,958	24,509	24,912	26,230	27,475	26,926
Total Operating Expenses	<u>\$ 168,038</u>	<u>\$ 157,898</u>	<u>\$ 144,117</u>	<u>\$ 131,072</u>	<u>\$ 119,958</u>	<u>\$ 113,825</u>	<u>\$ 104,462</u>	<u>\$ 100,858</u>	<u>\$ 101,041</u>	<u>\$ 96,909</u>

(1) Includes bad debt expense

**HAMPTON ROADS SANITATION DISTRICT
RATIOS OF OUTSTANDING DEBT BY TYPE
JUNE 30, 2011**

As of June 30,	No. Of Service Connections	(in thousands)			Debt Per Service Connection
		Senior Revenue Bonds	Subordinate Revenue Bonds	Total Outstanding Debt	
2011	457,000	\$ 450,335	\$ 110,661	\$ 560,996	\$ 1,228
2010	455,000	395,215	152,103	547,318	1,203
2009	452,000	250,165	109,971	360,136	797
2008	442,000 *	255,635	104,269	359,904	814
2007	461,000	35,855	107,803	143,658	312
2006	457,000	43,015	101,435	144,450	316
2005	451,000	49,965	88,544	138,509	307
2004	448,000	55,890	77,677	133,567	298
2003	440,000	64,445	77,601	142,046	323
2002	427,000	75,850	77,128	152,978	358

* Note: During the year ended June 30, 2008, HRSD installed a new customer billing system. As part of the implementation certain accounts were combined to more closely align billing locations and service delivery, resulting in fewer total accounts.

**HAMPTON ROADS SANITATION DISTRICT
RATE SCHEDULE
WASTEWATER TREATMENT CHARGES
LAST TEN FISCAL YEARS**

	2011	2010	2009	2008	2007	2006	2005	2004	2002 - 2003
<u>Residential - Metered</u>									
Per CCF * (single step)	\$ 2.82	\$ 2.52	-	-	-	-	-	-	-
First 30 CCF* per 30-day period	-	-	\$ 2.28	\$ 1.98	\$ 1.72	\$ 1.52	\$ 1.43	\$ 1.39	\$ 1.36
In excess of 30 CCF* per 30-day period	-	-	2.06	1.79	1.55	1.37	1.29	1.24	1.22
Minimum Charges									
Per day	0.25	0.25	-	-	-	-	-	-	-
2 CCF* or less per 30-day period	-	-	6.50	5.65	4.91	4.34	4.08	3.96	-
Less than 200 cubic feet, billed monthly	-	-	-	-	-	-	-	-	3.86
Less than 500 cubic feet, billed bimonthly	-	-	-	-	-	-	-	-	7.72
Less than 800 cubic feet, billed quarterly	-	-	-	-	-	-	-	-	11.58
<u>Residential - Unmetered</u>									
	<u>Per 30-Day Period</u>								
Flat rate accounts per 30-day period	22.56	20.16	-	-	-	-	-	-	-
First toilet	-	-	10.25	8.91	7.74	6.84	6.45	6.27	-
Billed Bimonthly	-	-	-	-	-	-	-	-	12.24
Billed Quarterly	-	-	-	-	-	-	-	-	18.36
Second toilet	-	-	6.83	5.94	5.16	4.56	4.30	4.18	-
Billed Bimonthly	-	-	-	-	-	-	-	-	8.16
Billed Quarterly	-	-	-	-	-	-	-	-	12.24
Additional, each	-	-	3.42	2.97	2.58	2.28	2.15	2.09	-
Billed Bimonthly	-	-	-	-	-	-	-	-	4.08
Billed Quarterly	-	-	-	-	-	-	-	-	6.12
<u>Non-Residential - Special Category</u>									
	<u>Per Hundred Pounds</u>								
Biochemical Oxygen Demand (BOD)									
Excess over 250 mg/liter	39.71	35.39	31.95	27.71	24.05	22.50	22.23	22.22	22.67
Suspended solids									
Excess over 250 mg/liter	34.73	30.25	28.54	24.82	22.51	20.30	19.96	19.13	18.88
Phosphorus									
Excess over 6 mg/liter	300.57	293.41	283.10	252.52	239.83	210.59	188.76	167.00	147.11
Total Kjeldahl Nitrogen									
Excess over 35 mg/liter	63.39	61.88	59.73	53.96	28.54	24.37	23.99	22.90	22.50
Unusual wastes not covered by this schedule may be assigned a special rate.									
<u>Septic Tank Waste</u>									
Per each 500 gallons or part thereof	44.46	38.51	35.84	31.21	28.05	25.45	24.82	24.14	23.64

*CCF = 100 Cubic Feet (Approx. 748 gallons)

Note: Rates can be adjusted by the Commission.

**HAMPTON ROADS SANITATION DISTRICT
RATE SCHEDULE
WASTEWATER FACILITY CHARGES
LAST TEN FISCAL YEARS**

		<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Residential		\$ 1,715	\$ 1,715	\$ 1,655	\$ 1,607	\$ 1,540	\$ 1,465	\$ 1,355	\$ 1,300	\$ 1,240	\$ 1,205
Commercial/Industrial											
5/8"	Meter	\$ 1,715	\$ 1,715	\$ 1,655	\$ 1,607	\$ 1,540	\$ 1,465	\$ 1,355	\$ 1,300	\$ 1,240	\$ 1,205
3/4"	Meter	2,605	2,605	2,515	2,443	2,340	2,230	2,060	1,975	1,880	1,860
1"	Meter	4,850	4,850	4,685	4,548	4,350	4,150	3,835	3,680	3,500	3,415
1 1/2"	Meter	11,780	11,780	11,365	11,040	10,565	10,065	9,310	8,935	8,495	8,285
2"	Meter	22,065	22,065	21,290	20,681	19,785	18,855	17,435	16,735	15,915	15,515
3"	Meter	53,440	53,440	51,565	50,088	47,920	45,670	42,225	40,525	38,545	37,575
4"	Meter	100,175	100,175	96,660	93,892	89,830	85,605	79,155	75,970	72,255	70,410
6"	Meter	242,780	242,780	234,260	227,556	217,710	207,470	191,840	184,120	175,110	170,640
8"	Meter	454,835	454,835	438,875	426,315	407,870	388,685	359,405	344,940	328,065	319,810
10"	Meter	740,340	740,340	714,355	693,915	663,890	632,665	585,000	561,460	533,990	520,360

Note: One charge per connection.

**HAMPTON ROADS SANITATION DISTRICT
TREATMENT PLANT OPERATING SUMMARY
LAST TEN FISCAL YEARS
(Average Quantity per Day)**

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
District Total										
Flow (MGD)	144.4	170.9	151.4	146.3	163.3	157.5	172.7	173.0	172.0	146.6
Influent										
BOD (1,000 lbs.)	273.1	275.2	300.9	332.1	346.3	357.3	358.6	385.0	357.8	358.8
TSS (1,000 lbs.)	205.9	210.7	203.6	211.3	224.0	225.0	230.4	281.4	217.9	206.1
TP (1,000 lbs.)	7.0	7.4	7.8	6.7	7.2	6.7	8.3	7.1	6.7	6.7
TKN (1,000 lbs.)	49.8	48.2	49.0	51.4	-	-	-	-	-	-
Effluent										
BOD (1,000 lbs.)	9.3	11.5	8.7	9.2	10.9	9.6	12.7	14.0	14.9	10.8
TSS (1,000 lbs.)	9.2	13.1	10.5	10.8	11.5	11.0	14.7	15.5	13.4	10.3
TP (1,000 lbs.)	1.0	1.0	1.0	1.1	1.1	1.2	1.3	1.5	1.4	1.4
TKN (1,000 lbs.)	12.3	14.9	13.3	11.2	-	-	-	-	-	-
Army Base Plant										
Flow (MGD)	10.0	12.6	10.4	9.7	11.3	11.3	12.5	13.1	13.1	10.9
Influent										
BOD (1,000 lbs.)	16.9	17.0	18.1	18.9	19.5	21.7	21.0	21.5	20.8	22.1
TSS (1,000 lbs.)	12.9	13.5	12.9	13.0	13.8	14.4	14.5	14.5	14.3	15.7
TP (1,000 lbs.)	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.4	0.5
TKN (1,000 lbs.)	3.2	3.2	3.1	3.4	-	-	-	-	-	-
Effluent										
BOD (1,000 lbs.)	0.8	1.0	0.8	1.0	0.9	0.8	0.8	1.1	0.9	0.7
TSS (1,000 lbs.)	1.0	1.1	0.8	1.1	0.9	0.9	1.0	1.3	1.0	0.6
TP (1,000 lbs.)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2
TKN (1,000 lbs.)	2.3	2.3	2.3	2.4	-	-	-	-	-	-
Atlantic Plant										
Flow (MGD)	29.7	30.4	26.6	26.3	29.4	30.2	31.1	30.0	30.0	27.0
Influent										
BOD (1,000 lbs.)	58.6	55.1	52.0	55.7	58.2	61.6	63.6	77.2	63.3	63.4
TSS (1,000 lbs.)	46.9	43.3	40.2	41.7	46.3	47.1	47.4	92.6	40.6	38.5
TP (1,000 lbs.)	1.8	1.8	1.9	-	-	-	-	-	-	-
TKN (1,000 lbs.)	12.3	11.3	10.5	10.7	-	-	-	-	-	-
Effluent										
BOD (1,000 lbs.)	3.0	2.3	1.8	1.9	2.0	2.2	3.2	3.9	3.9	2.4
TSS (1,000 lbs.)	2.0	2.9	2.2	2.0	2.1	2.7	4.2	3.8	3.0	1.7
Boat Harbor Plant										
Flow (MGD)	12.6	16.7	13.0	11.6	14.6	13.7	15.3	16.4	15.6	11.3
Influent										
BOD (1,000 lbs.)	19.4	19.9	19.9	19.6	21.4	23.6	22.7	25.2	22.0	22.0
TSS (1,000 lbs.)	15.6	17.5	15.2	14.6	17.3	17.4	17.2	20.2	17.4	15.2
TP (1,000 lbs.)	0.5	0.5	0.5	0.5	0.6	0.6	2.0	0.7	0.5	0.5
TKN (1,000 lbs.)	3.8	3.7	3.6	3.6	-	-	-	-	-	-
Effluent										
BOD (1,000 lbs.)	0.6	1.1	0.6	0.9	1.5	1.3	1.3	1.8	2.2	1.4
TSS (1,000 lbs.)	0.7	1.3	0.7	0.7	1.2	0.8	1.3	1.5	1.8	1.0
TP (1,000 lbs.)	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.1
TKN (1,000 lbs.)	2.8	2.8	2.6	2.3	-	-	-	-	-	-
Chesapeake-Elizabeth Plant										
Flow (MGD)	16.3	20.1	19.5	18.7	15.6	16.8	21.0	21.1	18.2	18.5
Influent										
BOD (1,000 lbs.)	30.1	32.7	36.0	38.3	30.8	35.0	41.8	42.8	35.4	42.3
TSS (1,000 lbs.)	22.6	26.9	27.1	27.5	21.5	23.4	28.2	27.3	21.6	25.8
TP (1,000 lbs.)	0.7	0.8	0.9	1.0	0.7	0.9	1.1	1.1	0.9	1.0
TKN (1,000 lbs.)	6.1	6.2	6.9	7.2	-	-	-	-	-	-
Effluent										
BOD (1,000 lbs.)	1.8	2.2	2.1	2.0	1.9	1.7	2.1	2.5	1.9	2.4
TSS (1,000 lbs.)	1.9	2.2	2.2	2.1	1.7	2.1	2.8	3.4	2.0	2.7
TP (1,000 lbs.)	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.2	0.3
TKN (1,000 lbs.)	3.9	3.9	4.2	3.8	-	-	-	-	-	-

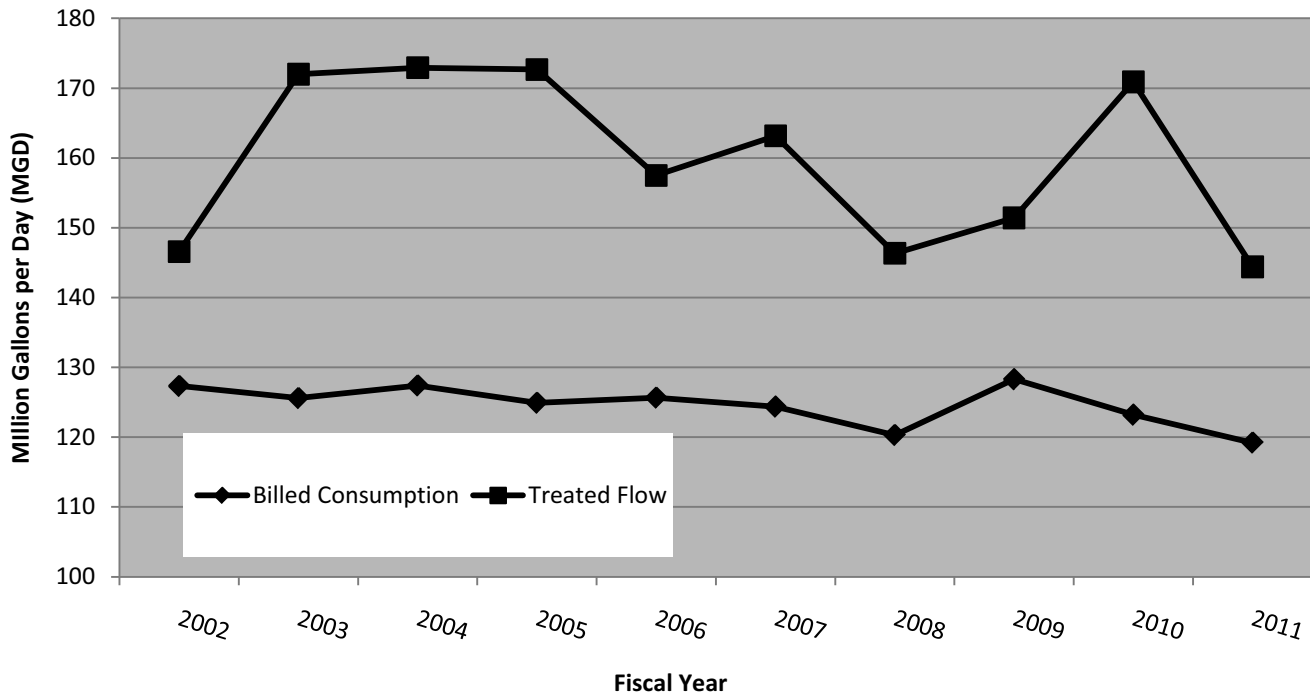
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
James River Plant										
Flow (MGD)	12.2	14.9	12.3	12.7	15.1	12.5	15.3	15.2	14.7	12.8
Influent										
BOD (1,000 lbs.)	26.2	24.7	23.0	25.4	30.8	28.7	30.1	29.6	30.0	31.0
TSS (1,000 lbs.)	19.8	19.9	17.6	19.6	21.1	19.0	21.2	21.5	20.2	18.5
TP (1,000 lbs.)	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7
TKN (1,000 lbs.)	4.4	4.3	4.2	4.2	-	-	-	-	-	-
Effluent										
BOD (1,000 lbs.)	0.9	1.2	0.8	1.1	1.2	0.7	1.4	0.9	1.0	1.2
TSS (1,000 lbs.)	0.9	1.8	1.4	1.5	1.4	0.9	1.3	1.1	1.1	1.1
TP (1,000 lbs.)	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
TKN (1,000 lbs.)	2.3	2.6	1.2	1.0	-	-	-	-	-	-
Nansemond Plant										
Flow (MGD)	15.9	18.0	17.1	17.2	18.7	17.9	20.8	20.5	19.6	16.6
Influent										
BOD (1,000 lbs.)	27.9	30.2	31.6	32.3	36.7	38.0	41.3	40.3	38.2	35.4
TSS (1,000 lbs.)	22.6	24.5	23.1	24.5	27.1	25.5	28.6	26.7	26.9	23.2
TP (1,000 lbs.)	1.0	1.1	1.1	1.3	1.7	1.3	1.5	1.6	1.5	1.4
TKN (1,000 lbs.)	6.1	6.0	6.2	6.4	-	-	-	-	-	-
Effluent										
BOD (1,000 lbs.)	0.8	1.2	0.7	0.6	0.8	0.7	1.3	1.0	1.1	0.8
TSS (1,000 lbs.)	1.1	1.3	1.0	1.4	1.5	1.2	1.6	1.7	1.3	1.2
TP (1,000 lbs.)	0.2	0.1	0.2	0.2	0.2	0.2	0.1	0.2	0.2	0.2
TKN (1,000 lbs.)	0.5	2.3	1.3	0.3	-	-	-	-	-	-
Virginia Initiative Plant										
Flow (MGD)	28.5	35.7	29.9	25.4	31.2	29.2	29.0	29.7	33.4	26.4
Influent										
BOD (1,000 lbs.)	42.8	43.0	46.9	47.2	50.3	48.5	43.5	45.8	50.4	49.9
TSS (1,000 lbs.)	31.8	31.7	31.1	27.3	31.6	32.0	29.6	32.1	33.7	31.1
TP (1,000 lbs.)	1.1	1.2	1.3	1.4	1.5	1.3	1.1	1.1	1.3	1.3
TKN (1,000 lbs.)	7.3	7.2	7.5	7.1	-	-	-	-	-	-
Effluent										
BOD (1,000 lbs.)	0.7	1.7	1.3	1.2	1.8	1.2	1.1	1.2	2.4	1.1
TSS (1,000 lbs.)	1.1	1.7	1.5	1.2	1.7	1.1	0.9	1.0	1.5	1.1
TP (1,000 lbs.)	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.2	0.2
TKN (1,000 lbs.)	0.4	0.8	1.5	1.1	-	-	-	-	-	-
Williamsburg Plant										
Flow (MGD)	8.6	10.0	12.0	14.4	15.1	14.5	15.0	14.6	15.3	13.6
Influent										
BOD (1,000 lbs.)	37.5	37.9	59.9	79.0	80.8	80.1	75.5	82.2	77.3	75.1
TSS (1,000 lbs.)	19.0	19.6	23.4	30.6	28.8	28.3	27.3	29.0	26.7	24.4
TP (1,000 lbs.)	0.6	0.6	0.8	1.0	1.0	0.9	0.9	0.9	0.9	0.8
TKN (1,000 lbs.)	3.5	3.5	4.3	5.2	-	-	-	-	-	-
Effluent										
BOD (1,000 lbs.)	0.3	0.4	0.3	0.4	0.4	0.3	0.6	0.6	0.8	0.3
TSS (1,000 lbs.)	0.3	0.4	0.3	0.5	0.5	0.6	0.7	0.8	1.0	0.3
TP (1,000 lbs.)	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.1
TKN (1,000 lbs.)	0.2	0.2	0.3	0.2	-	-	-	-	-	-
York River Plant										
Flow (MGD)	10.8	12.5	10.7	10.2	12.3	11.4	12.7	12.4	12.1	9.5
Influent										
BOD (1,000 lbs.)	15.5	16.3	15.5	15.8	17.8	20.1	19.1	20.4	20.4	17.6
TSS (1,000 lbs.)	14.3	14.0	12.6	12.4	16.5	17.9	16.4	17.5	16.5	13.7
TP (1,000 lbs.)	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5
TKN (1,000 lbs.)	3.6	3.3	3.3	3.7	-	-	-	-	-	-
Effluent										
BOD (1,000 lbs.)	0.5	0.4	0.4	0.3	0.4	0.7	0.9	1.0	0.7	0.5
TSS (1,000 lbs.)	0.3	0.5	0.5	0.4	0.5	0.7	0.9	0.9	0.7	0.6
TP (1,000 lbs.)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
TKN (1,000 lbs.)	0.1	0.2	0.3	0.1	-	-	-	-	-	-

Note - HRSD implemented a surcharge for Total Kjeldahl Nitrogen (TKN) on July 1, 2007.

**HAMPTON ROADS SANITATION DISTRICT
WASTEWATER TREATMENT CHARGES
TEN LARGEST CUSTOMERS
CURRENT YEAR AND NINE YEARS AGO**
(in thousands)

<u>Customer</u>	<u>Type</u>	<u>2011</u>		<u>2002</u>	
		<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Anheuser - Busch, Inc.	Brewery	\$ 5,160	2.8%	\$ 5,629	6.0%
U.S. Navy - Norfolk Naval Base	Military Facility	4,730	2.6%	1,663	1.8%
Smithfield Foods	Meat Processor	2,973	1.6%	2,172	2.3%
City of Norfolk	Municipality	1,561	0.9%	834	0.9%
Huntington Ingalls Industries (formerly Northrop Grumman Newport News)	Shipbuilding	1,291	0.7%	782	0.8%
Norfolk Redevelopment & Housing Authority	Housing Authority	1,202	0.7%	699	0.7%
Joint Expeditionary Base Little Creek-Fort Story	Military Facility	925	0.5%	625	0.7%
Fort Eustis	Military Facility	911	0.5%	-	-
U.S. Air Force - Langley Air Force Base	Military Facility	869	0.5%	538	0.6%
City of Virginia Beach	Municipality	603	0.3%	344	0.4%
Norfolk Naval Shipyard	Military Ship Repair	-	-	526	0.6%
Total		<u>\$ 20,225</u>	<u>11.1%</u>	<u>\$ 13,812</u>	<u>14.8%</u>

**HAMPTON ROADS SANITATION DISTRICT
COMPARISON OF TREATED FLOW TO BILLED FLOW
LAST TEN FISCAL YEARS**



Year ended June 30,	Treated Flow (MGD)	Billed Consumption (MGD)
2002	147	127
2003	172	126
2004	173	127
2005	173	125
2006	158	126
2007	163	124
2008	146	120
2009	151	128
2010	171	123
2011	144	119

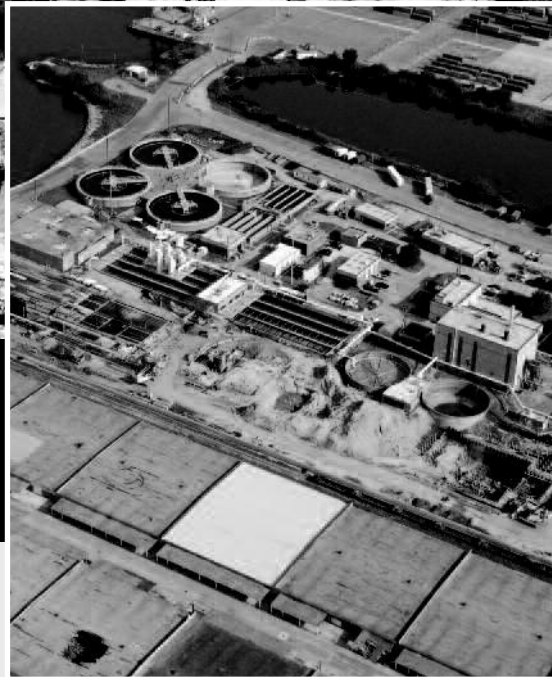
**HAMPTON ROADS SANITATION DISTRICT
NUMBER OF EMPLOYEES BY IDENTIFIABLE ACTIVITY
LAST TEN FISCAL YEARS**

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<u>General Management</u>										
General Manager	5	5	5	5	5	5	5	5	6	6
Human Resources	11	11	10	7	7	6	6	6	5	5
	<u>16</u>	<u>16</u>	<u>15</u>	<u>12</u>	<u>12</u>	<u>11</u>	<u>11</u>	<u>11</u>	<u>11</u>	<u>11</u>
<u>Finance & Administration</u>										
Accounting & Finance	10	10	10	10	10	10	10	10	10	10
Procurement	7	8	8	8	7	7	7	7	7	7
Support Staff	3	3	3	2	3	3	2	2	2	2
Total Finance & Administration	<u>20</u>	<u>21</u>	<u>21</u>	<u>20</u>	<u>20</u>	<u>20</u>	<u>19</u>	<u>19</u>	<u>19</u>	<u>19</u>
<u>Information Services</u>										
Customer Information Service	69	69	63	61	58	59	59	59	60	59
Information Technology	33	33	21	21	21	16	15	15	16	16
Support Staff	2	2	3	3	3	2	2	2	2	2
Total Information Services	<u>104</u>	<u>104</u>	<u>87</u>	<u>85</u>	<u>82</u>	<u>77</u>	<u>76</u>	<u>76</u>	<u>78</u>	<u>77</u>
<u>Operations</u>										
Army Base Treatment Plant	32	32	32	32	32	33	33	32	32	32
Atlantic Base Treatment Plant	32	32	33	33	33	33	33	33	33	35
Boat Harbor Treatment Plant	33	34	34	34	34	34	34	34	34	34
Ches.-Eliz. Treatment Plant	32	32	32	32	32	32	32	32	32	32
Interceptor System Maintenance	122	122	106	93	89	89	89	89	89	92
James River Treatment Plant	21	21	21	21	21	21	21	21	21	21
Maintenance Shops	86	86	81	78	78	76	74	70	66	66
Nansemond Treatment Plant	30	30	30	30	30	30	30	29	29	29
Virginia Initiative Plant	31	31	31	31	31	31	31	31	31	33
Williamsburg Treatment Plant	31	31	31	34	34	34	34	34	34	39
York River Treatment Plant	23	23	23	23	23	23	23	23	23	23
Middle Peninsula Division	17	15	15	15	13	12	12	13	13	13
Support Staff	24	24	24	30	30	37	36	33	34	31
Total - Operations	<u>514</u>	<u>513</u>	<u>493</u>	<u>486</u>	<u>480</u>	<u>485</u>	<u>482</u>	<u>474</u>	<u>471</u>	<u>480</u>
<u>Engineering</u>										
Design and Construction	15	15	15	14	14	14	14	14	14	14
Support Staff	14	14	14	13	13	3	4	4	4	4
Total - Engineering	<u>29</u>	<u>29</u>	<u>29</u>	<u>27</u>	<u>27</u>	<u>17</u>	<u>18</u>	<u>18</u>	<u>18</u>	<u>18</u>
<u>Water Quality</u>										
Industrial Waste	24	24	24	24	24	24	25	25	25	25
Technical Services	21	20	20	20	20	20	18	18	17	18
Laboratory	38	38	38	38	38	37	38	38	37	40
Support Staff	3	3	3	3	3	3	3	2	2	1
Total - Water Quality	<u>86</u>	<u>85</u>	<u>85</u>	<u>85</u>	<u>85</u>	<u>84</u>	<u>84</u>	<u>83</u>	<u>81</u>	<u>84</u>
<u>Total Employees</u>	<u>769</u>	<u>768</u>	<u>730</u>	<u>715</u>	<u>706</u>	<u>694</u>	<u>690</u>	<u>681</u>	<u>678</u>	<u>689</u>



OTHER SUPPLEMENTAL SECTION (UNAUDITED)

Then: Progress on the first major rehabilitation of the Army Base Pollution Control Plant, HRSD's oldest facility, was documented in June 1975. (HRSD Archives)



Now: A \$109 million upgrade to enhance nutrient removal at the Army Base Treatment Plant began in 2010. (Aerial Services, Inc.)

**HAMPTON ROADS SANITATION DISTRICT
SUMMARY OF PRIMARY BONDED DEBT SERVICE
JUNE 30, 2011**

(in thousands)

As of June 30,	Senior Bonds			Subordinate Bonds	Total Debt
	Principal	Interest	Debt Service	Debt Service	Service
2012	\$ 9,806	\$ 22,146	\$ 31,952	\$ 13,594	\$ 45,546
2013	11,116	22,737	33,853	12,788	46,641
2014	12,064	21,714	33,778	12,785	46,563
2015	12,434	21,233	33,667	12,781	46,448
2016	12,807	20,718	33,525	11,518	45,043
2017	9,331	20,285	29,616	9,391	39,007
2018	11,985	19,865	31,850	6,840	38,690
2019	12,761	19,327	32,088	6,837	38,925
2020	13,275	18,692	31,967	6,836	38,803
2021	13,807	18,033	31,840	6,352	38,192
2022	14,362	17,346	31,708	5,963	37,671
2023	14,945	16,619	31,564	5,730	37,294
2024	15,541	15,875	31,416	5,511	36,927
2025	16,186	15,073	31,259	5,508	36,767
2026	16,880	14,213	31,093	5,506	36,599
2027	17,603	13,316	30,919	5,417	36,336
2028	18,353	12,388	30,741	2,109	32,850
2029	19,143	11,415	30,558	2,051	32,609
2030	19,962	10,399	30,361	2,047	32,408
2031	20,823	9,339	30,162	2,044	32,206
2032	18,675	8,258	26,933	-	26,933
2033	18,661	7,231	25,892	-	25,892
2034	18,945	6,241	25,186	-	25,186
2035	19,820	5,230	25,050	-	25,050
2036	20,735	4,174	24,909	-	24,909
2037	21,690	3,069	24,759	-	24,759
2038	22,695	1,913	24,608	-	24,608
2039	7,815	705	8,520	-	8,520
2040	8,115	238	8,353	-	8,353
Totals	<u>\$ 450,335</u>	<u>\$ 377,792</u>	<u>\$ 828,127</u>	<u>\$ 141,608</u>	<u>\$ 969,735</u>

**HAMPTON ROADS SANITATION DISTRICT
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2011**

(in thousands)	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>	
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>with final</u> <u>Budget</u> <u>(over) under</u>	<u>Percent</u> <u>Variance</u>
OPERATING BUDGET EXPENSES					
General Management	\$ 2,190	\$ 2,190	\$ 1,939	\$ 251	11.5%
Finance & Administration	2,292	2,292	2,193	99	4.3%
Information Services	16,083	16,083	13,673	2,410	15.0%
Operations	74,923	74,787	72,685	2,102	2.8%
Engineering	3,332	3,332	3,133	199	6.0%
Water Quality	9,684	9,684	9,306	378	3.9%
General	6,002	5,812	5,581	231	4.0%
Debt Service	39,583	39,583	37,006	2,577	6.5%
TOTAL	<u>154,089</u>	<u>153,763</u>	<u>145,516</u>	<u>8,247</u>	5.4%
IMPROVEMENT BUDGET EXPENSES					
Major Repairs and Replacements	7,866	8,223	6,066	2,157	26.2%
Improvements	<u>2,376</u>	<u>2,506</u>	<u>1,485</u>	<u>1,021</u>	40.7%
	<u>10,242</u>	<u>10,729</u>	<u>7,551</u>	<u>3,178</u>	29.6%
TOTAL	<u>\$ 164,331</u>	<u>\$ 164,492</u>	153,067	<u>\$ 11,425</u>	6.9%
Add:					
Prior Year Major Repairs and Replacements carried over to current year			953		
Prior Year Improvements carried over to current year			1,440		
Unbudgeted Depreciation			36,191		
Unbudgeted Bad Debt Expense			2,103		
Capital Improvement Program items expensed			14,894		
Less:					
Capitalized items Major Repairs and Replacements			1,936		
Capitalized items Improvements			1,668		
Debt Service			37,006		
TOTAL OPERATING EXPENSES			<u>\$ 168,038</u>		

**HAMPTON ROADS SANITATION DISTRICT
NOTES TO BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2011**

BUDGETARY HIGHLIGHTS

HRSD's Commission adopts an Annual Budget consisting of an Operating Budget and an Improvement Budget. The Operating Budget as adopted for FY-11 was \$154,089,265 and contains all day-to-day operating expenses including personnel costs, fringe benefits, material and supplies, electricity, chemicals, insurance, contractual services and other miscellaneous expenses. There were several modifications to the Operating Budget during the year to reflect changes in spending patterns. The Improvement Budget as adopted for FY-11 was \$10,241,654 and contains all major purchases of new equipment, replacement vehicles and major repairs and replacements. The Improvement Budget was modified several times during the year. Transfers totaling \$486,800 for a boat, vehicles, pumps and other equipment resulted in a final budget of \$10,728,454. All adjustments to the Annual Budget were approved from surplus fund balances or from transfers within or among departments. None of the adjustments will have any lasting impact on the liquidity or financial condition of HRSD.

NOTE 1 – BUDGETARY ACCOUNTING AND CONTROL

Budget preparation

HRSD prepares its Annual Budget under the provisions of its enabling legislation used to establish rates, fees and other charges and Section 3.12 of the Master Trust Indenture dated December 1, 1993. In accordance with those provisions, the following process is used to adopt the Annual Budget:

The process begins in late December with the issuance of the Annual Budget Instructions by the General Manager.

Each department completes its Operating and Improvement Budgets by March 1. All budgets are forwarded to the Quality Steering Team (QST) for review.

The HRSD Commission appoints a Finance Committee consisting of two Commissioners. The two Commissioners and the QST meet in early April to review the Budgets, which are presented by staff at the April Commission meeting. HRSD's Commission reviews these budgets at that meeting.

The final Annual Budget, which incorporates the Operating, Improvement, and Capital Budgets, is presented at the May Commission meeting for adoption. The Commission simultaneously adopts the budget and any resulting wastewater rate schedule. All rate adjustments must be advertised four consecutive weeks before they can take effect.

The HRSD Commission approves any budget amendments during the ensuing year.

The 2008 Trust Agreement requires Primary Debt Coverage of 1.20, and 1.00 for any secondary debt. The HRSD Commission has a policy of providing senior revenue and total revenue bonded debt service coverage ratios of not less than 1.5 and 1.25 times annual debt service, respectively.

Revenues are forecasted using a five-year projection. Adjustments are made on an annual basis when required. The HRSD Commission does not adopt a formal revenue budget.

Budget Accounting

The Annual Budget is prepared on a basis of accounting consistent with accounting principles generally accepted in the United States of America. No provision is provided for non-cash items such as depreciation and bad debt expense. The Annual Budget consists of three parts: an operating budget that covers day-to-day operations; an improvement budget that is project oriented for major repairs and includes all replacement of equipment above \$5,000; and a capital budget that identifies all major capital project requirements over the next five years. All operating budget amounts lapse at year-end. Specific improvement budget items may be carried over to subsequent years with the approval of the General Manager. The Commission annually adopts only the first year of the capital budget. HRSD's Commission separately approves all contracts that are awarded under the capital budget.

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**HAMPTON ROADS SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND
DEBT SERVICE FOR OPERATIONS - ACTUAL TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2011**

(In thousands)	Actual	Budget	Variance Favorable/ (Unfavorable)	Budget Variance Percentage
OPERATING REVENUE				
Wastewater treatment charges	\$ 183,526	\$ 189,400	\$ (5,874)	(3%)
Miscellaneous	3,890	3,330	560	17%
TOTAL REVENUES	<u>187,416</u>	<u>192,730</u>	<u>(5,314)</u>	<u>(3%)</u>
CURRENT EXPENDITURES				
General Management	1,939	2,190	251	11%
Finance & Administration	2,193	2,292	99	4%
Information Services	13,673	16,083	2,410	15%
Operations	72,685	74,787	2,102	3%
Engineering	3,133	3,332	199	6%
Water Quality	9,306	9,684	378	4%
Major Repairs & Replacements	6,340	10,729	4,389	41%
General	5,581	5,812	231	4%
TOTAL CURRENT EXPENDITURES	<u>114,850</u>	<u>124,909</u>	<u>10,059</u>	<u>8%</u>
EXCESS OF OPERATING REVENUES OVER EXPENDITURES	<u>72,566</u>	<u>67,821</u>	<u>4,745</u>	<u>7%</u>
NONOPERATING REVENUE				
Wastewater facility charges	5,083	4,000	1,083	27%
Bond interest subsidy	2,602	2,600	2	0%
Investment income	1,699	1,200	499	42%
TOTAL NONOPERATING REVENUE	<u>9,384</u>	<u>7,800</u>	<u>1,584</u>	<u>20%</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	81,950	75,621	6,329	8%
CAPITAL CONTRIBUTIONS				
State capital grants	16,097	-	16,097	100%
AMOUNT AVAILABLE FOR DEBT	98,047	75,621	22,426	30%
DEBT EXPENDITURES				
Principal & Interest	37,006	39,583	2,577	7%
TOTAL DEBT EXPENDITURES	<u>37,006</u>	<u>39,583</u>	<u>2,577</u>	<u>7%</u>
AMOUNT AVAILABLE TO REINVEST	<u>\$ 61,041</u>	<u>\$ 36,038</u>	<u>\$ 25,003</u>	<u>69%</u>

**HAMPTON ROADS SANITATION DISTRICT
OBJECTIVE CLASSIFICATION OF DEPARTMENTAL EXPENDITURES
FOR OPERATIONS - ACTUAL TO BUDGET
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

(in thousands)	General Management	Finance & Administration	Information Services	Operations
Personal Services	\$ 1,222	\$ 1,356	\$ 5,345	\$ 28,707
Fringe Benefits	438	509	2,117	11,833
Materials and Supplies	26	27	2,263	5,185
Transportation	28	5	119	874
Utilities	-	-	1,365	9,660
Chemicals	-	-	-	8,084
Contractual Services	85	188	2,336	7,835
Miscellaneous	140	108	128	507
General	-	-	-	-
	<u>\$ 1,939</u>	<u>\$ 2,193</u>	<u>\$ 13,673</u>	<u>\$ 72,685</u>

Debt Expenditures

Total Departmental and Debt Expenditures

Engineering	Water Quality	General	Totals	Percent of Total	FY-2011 Budget	Variance Favorable/ (Unfavorable)
\$ 2,161	\$ 5,493	\$ -	\$ 44,284	29	\$ 46,012	\$ 1,728
764	2,031	-	17,692	12	20,453	2,761
14	866	-	8,381	6	6,306	(2,075)
30	140	-	1,196	1	1,200	4
1	-	-	11,026	8	11,470	444
-	-	-	8,084	5	9,423	1,339
84	590	-	11,118	8	12,109	991
79	186	-	1,148	1	1,395	247
-	-	5,581	5,581	4	5,812	231
<u>\$ 3,133</u>	<u>\$ 9,306</u>	<u>\$ 5,581</u>	<u>108,510</u>	<u>74</u>	<u>114,180</u>	<u>5,670</u>
			37,006	25	39,583	2,577
			<u>\$ 145,516</u>	<u>100</u>	<u>\$ 153,763</u>	<u>\$ 8,247</u>

**HAMPTON ROADS SANITATION DISTRICT
DEPARTMENTAL SUMMARY OF EXPENDITURES
ACTUAL TO BUDGET
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

(In thousands)	Actual	Budget	Variance Favorable/ (Unfavorable)
GENERAL MANAGEMENT			
Personal Services	\$ 1,222	\$ 1,258	\$ 36
Fringe Benefits	438	497	59
Materials and Supplies	26	29	3
Transportation	28	41	13
Utilities	-	1	1
Contractual Services	85	119	34
Miscellaneous	140	245	105
	<u>1,939</u>	<u>2,190</u>	<u>251</u>
FINANCE & ADMINISTRATION			
Personal Services	1,356	1,314	(42)
Fringe Benefits	509	557	48
Materials and Supplies	27	37	10
Transportation	5	5	-
Contractual Services	188	248	60
Miscellaneous	108	131	23
	<u>2,193</u>	<u>2,292</u>	<u>99</u>
INFORMATION SERVICES			
Personal Services	5,345	6,183	838
Fringe Benefits	2,117	2,662	545
Materials and Supplies	2,263	2,436	173
Transportation	119	133	14
Utilities	1,365	1,335	(30)
Contractual Services	2,336	3,135	799
Miscellaneous	128	199	71
	<u>13,673</u>	<u>16,083</u>	<u>2,410</u>
OPERATIONS			
Personal Services	28,707	29,421	714
Fringe Benefits	11,833	13,573	1,740
Materials and Supplies	5,185	2,930	(2,255)
Transportation	874	828	(46)
Utilities	9,660	10,132	472
Chemicals	8,084	9,423	1,339
Contractual Services	7,835	7,960	125
Miscellaneous	507	520	13
	<u>72,685</u>	<u>74,787</u>	<u>2,102</u>

	Actual	Budget	Variance Favorable/ (Unfavorable)
ENGINEERING			
Personal Services	2,161	2,236	75
Fringe Benefits	764	882	118
Materials and Supplies	14	23	9
Transportation	30	42	12
Utilities	1	1	-
Contractual Services	84	66	(18)
Miscellaneous	79	82	3
	<u>3,133</u>	<u>3,332</u>	<u>199</u>
WATER QUALITY			
Personal Services	5,493	5,600	107
Fringe Benefits	2,031	2,282	251
Materials and Supplies	866	851	(15)
Transportation	140	151	11
Utilities	-	1	1
Contractual Services	590	581	(9)
Miscellaneous	186	218	32
	<u>9,306</u>	<u>9,684</u>	<u>378</u>
GENERAL			
Personal Services	217	100	(117)
Fringe Benefits	37	76	39
Materials and Supplies	191	180	(11)
Utilities	396	445	49
Contractual Services	2,174	1,690	(484)
Apprentice Program	132	139	7
Insurance	1,840	2,471	631
District Memberships	341	350	9
Miscellaneous	253	361	108
	<u>5,581</u>	<u>5,812</u>	<u>231</u>
TOTAL DEPARTMENTAL EXPENDITURES	<u>\$ 108,510</u>	<u>\$ 114,180</u>	<u>\$ 5,670</u>

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POLLUTION IS POISON

AN EMPHATIC DENIAL

to untrue and misleading statements made in some quarters by persons opposed to the creation of the Hampton Roads Sanitation District... as THE FIRST STEP in the development of a sewage disposal system.

The politicians of Portsmouth and Norfolk County are again fighting the move of the State and the other Hampton Roads communities to make an end of pollution in this area. Their charges now, as in 1938, are untrue and misleading; and we trust that no attention will be paid to them. They maintain that sewage disposal plants would be futile. In this they are contradicted by authorities of the United States and the Virginia Public Health Service, as well as by private engineering firms. They also charge that the moving force in the anti-pollution campaign is the avidity of bond brokers for fat commissions. In this they are contradicted by the record of many years standing. Pollution has been fought in Norfolk, Newport News and Hampton for many years and those who have been lead-

Over Thirty Million Gallons of raw sewage is being dumped into Hampton Roads area every day. The result—a definite POLLUTION of our local waters.

VOTE YES

In the General Election, Tuesday, November 5, 1940, for the creation of the Hampton Roads Sanitation District.

The only question before the voters will be the creation of the Sanitation District. The question of financing sewage disposal will come later—and the voters will have to approve any financing plan before it can go into effect. If the creation of this district is approved, a permanent commission will be

created to consider plans for the actual sewage disposal development—plans for financing as well as for construction. Then the sources of any outside financial assistance can be fully explored. This community will be ill-advised if it fails to support this movement!

Shall we ACT NOW, or wait for a possible
cost, and deal us an accor

The United States Health Service, the Department of Health for the State of Virginia, the Norfolk County Medical Society, including physicians from Norfolk, Portsmouth, Norfolk County and vicinity, the Warwick County Medical Society and health officials of the Cities of Norfolk, Newport News

FRONT COVER

Then: The HRSD building on Plume Street in Norfolk, completed in 1958, housed administrative functions and a pump station until 1976, when the offices were moved to the current Virginia Beach complex. (HRSD Archives)

Now: Robert F. Kennedy, Jr. dedicated HRSD's Nansemond Treatment Plant Struvite Recovery Facility in 2010. This was the second site in the nation to feature Ostara's innovative Pearl® technology, which recovers nutrients from a side stream process and transforms them into an environmentally-friendly fertilizer. (Photo by Cathy Dixon)

HAMPTON ROADS SANITATION DISTRICT

In 1940 more than 30 million gallons of untreated sewage was dumped into the waters of the Hampton Roads each day. Concerned citizens responded by voting to create the Hampton Roads Sanitation District to prevent the pollution of area waterways. Seventy years later HRSD has grown into one of the nation's premiere wastewater treatment agencies with 13 treatment plants capable of treating up to 249 million gallons of wastewater every day.

Photographs on the covers and dividers of this document depict HRSD's progress. While the facilities have grown and technology has evolved, there has been one constant—dedicated commissioners and employees whose efforts have ensured that residents can enjoy our waterways today. It will take our continued innovation, investment and foresight to ensure future generations will inherit clean waterways and be able to keep them clean.

HRSD
Cleaning wastewater every day for a better Bay.

P.O. Box 5911
Virginia Beach, VA 23471-0911
www.hrsd.com

Then: Proponents of HRSD's creation placed advertisements such as this one appearing October 31, 1940, in The Norfolk Ledger-Dispatch. (HRSD Archives)

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APPENDIX B

CERTAIN DEFINITIONS

The following is a brief summary of certain definitions of certain terms contained in the Trust Agreement and the First Supplemental Trust Agreement and used in this Official Statement. This summary does not purport to be complete or definitive and qualified in its entirety by reference to the Trust Agreement and the First Supplemental Trust Agreement, copies of which are available for examination at the offices of the Trustee.

“Additional Bonds” means Bonds, if any, issued by the District, subsequent to the issuance of the Subordinate 2011 Bonds, pursuant to the Trust Agreement, including Additional Bonds issued in exchange for other such Additional Bonds or in replacement for mutilated, destroyed, stolen or lost Additional Bonds.

“Alternate Credit Facility” means a Credit Facility issued in accordance with First Supplemental Trust Agreement which replaces a Credit Facility then in effect with respect to the Subordinate 2011 Bonds.

“Audited Financial Statements” means the annual financial statements of the District as audited and reported on by a firm of independent public accountants, such financial statements to include at a minimum balance sheets, statements of revenues, expenses and changes in fund equity and statement of cash flows for the Fiscal Year then ended and the prior Fiscal Year.

“Authorized Denominations” means with respect to any (i) Long-Term Period, \$5,000 and any integral multiple thereof and (ii) Weekly Period, \$100,000 and any integral multiple of \$5,000 in excess of \$100,000.

“Average Annual Debt Service” means, at any given time of determination, average annual Principal and Interest Requirements for the Parity Obligations until their final maturity.

“Balloon Long-Term Indebtedness” means Long-Term Indebtedness 25% or more of the principal payments of which is due in a single year, which portion of the principal is not required by the documents pursuant to which such Indebtedness is issued to be amortized by redemption prior to such date.

“Bond Registrar” means the Bond Registrar at the time serving as such under the Trust Agreement whether the original or a successor bond registrar.

“Bonds” means the Subordinate 2011 Bonds, and any Additional Bonds under the Trust Agreement, including such Bonds issued in exchange for other such Bonds and Bonds issued in replacement for and upon the cancellation of mutilated Bonds or in lieu of and in substitution for destroyed, stolen or lost Bonds.

“Business Day” means, with respect to the Subordinate 2011 Bonds, any day other than (i) a Saturday or Sunday or legal holiday or a day on which banking institutions located in the Commonwealth of Virginia or the City of New York, the Designated Offices of the Trustee, the Tender Agent or the Paying Agent or the Principal Office of the Credit Facility Provider (or, in the case of a foreign bank, the licensed branch thereof which has issued, or will honor draws upon, any such Credit Facility), if any, are located are authorized or required by law or executive order to close or (ii) a day on which the New York Stock Exchange or the principal office of the Remarketing Agent is closed.

“Capital Appreciation Bonds” means Bonds the interest on which is compounded at the rates and on the dates set forth in the Series Agreement authorizing the issuance of such Bonds and is payable upon redemption or on the maturity date of such Bonds. Nothing in the Trust Agreement prohibits the District from designating in such Series Agreement any such Bonds by a name other than Capital Appreciation Bonds.

“Commission” means the Hampton Roads Sanitation District Commission, which is the governing body of the District.

“Contracted Services” means services rendered or facilities provided to the District for the performance for or on behalf of the District of functions similar to those performed by the District from a specific project, projects or systems, pursuant to a contract, whether a financing lease, a service agreement or another arrangement.

“Conversion” means a conversion of all or a portion of the Subordinate 2011 Bonds from one Interest Rate Mode to another Interest Rate Mode, including from one Long-Term Interest Rate Period to another Long-Term Interest Rate Period, in accordance with the terms and provisions of the First Supplemental Trust Agreement.

“Conversion Date” means the date on which any Conversion becomes effective.

“Credit Facility” means any liquidity support or credit enhancement provided by any letter of credit delivered pursuant to the First Supplemental Trust Agreement or any other means of credit enhancement delivered by the District to the Trustee.

“Credit Facility Bonds” means Subordinate 2011 Bonds purchased with money provided under (or otherwise obtained pursuant to the terms of) a Credit Facility, but excluding Subordinate 2011 Bonds no longer considered to be Credit Facility Bonds in accordance with the terms of the applicable Credit Facility.

“Credit Facility Provider” means the issuer of any Credit Facility or any Alternate Credit Facility.

“Corporate Trust Office” means the office of the Trustee at which its principal corporate trust business is conducted, which at the date hereof is located at 919 East Main Street, Suite 1602, Richmond, Virginia 23219, Attention: Corporate Trust Department.

“Credit Facility” means a line of credit, letter of credit, standby bond purchase agreement or similar credit enhancement or liquidity facility established to provide credit or liquidity support for Indebtedness.

“Cross-over Date” means, with respect to Cross-over Refunding Indebtedness, the date on which the principal portion of the related Cross-over Refunded Indebtedness is to be paid or redeemed from the proceeds of such Cross-over Refunding Indebtedness.

“Cross-over Refunded Indebtedness” means Indebtedness refunded by Cross-over Refunding Indebtedness.

“Cross-over Refunding Indebtedness” means Indebtedness issued for the purpose of refunding other Indebtedness if the proceeds of such refunding Indebtedness are irrevocably deposited in escrow to secure the payment on the applicable redemption date or maturity date of the refunded Indebtedness, and the earnings on such escrow deposit (i) are required to be applied to pay interest on such Refunding

Indebtedness until the Cross-over Date and (ii) are not to be used directly or indirectly to pay interest on the Refunded Indebtedness.

“Current Interest Bonds” means Bonds the interest on which is payable on the Interest Payment Dates provided therefor in the Series Agreement authorizing the issuance of such Bonds.

“Debt Service Component of Contracted Services” means that part of the payment for Contracted Services for which the District is obligated to pay that the chief financial officer of the District shall have determined in writing in an Officer’s Certificate at the time the District commits to receive such Contracted Services to be for the purpose of paying a fixed charge or the principal of and interest on obligations, directly or indirectly associated with rendering the Contracted Services, of the person providing the Contracted Services.

“Debt Service Reserve Fund” means the Hampton Roads Sanitation District (Virginia) Subordinate Wastewater Revenue Bonds 2011 Trust Agreement Debt Service Reserve Fund created and so designated by the Trust Agreement.

“Debt Service Reserve Fund Requirement” means (i) on the date of issuance of the Subordinate 2011 Bonds, zero (0) and (ii) if, and to the extent, the District in its sole discretion determines to fund the Debt Service Reserve Fund, the Debt Service Reserve Fund Requirement specified in a Series Agreement.

“Defaulted Interest” means any interest on any Bond which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date.

“Defeasance Obligations” means noncallable (i) Government Obligations, (ii) Obligations issued or guaranteed by any of the following: (1) Federal Home Loan Bank System, (2) Export-Import Bank of the United States, (3) Federal Financing Bank, (4) Government National Mortgage Association, (5) Federal Home Loan Mortgage Company, (6) Federal Housing Administration, (7) Private Export Funding Corp, (8) Federal National Mortgage Association, (9) Federal Farm Credit Bank, (10) Resolution Funding Corporation, and (11) Rural Economic Community Development Administration (formerly, Farmers Home Administration), (iii) evidences of ownership of a proportionate interest in specified Government Obligations, which Government Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian, (iii) obligations issued pursuant to Section 21B(d)(3) of the Federal Home Loan Bank Act, as amended by Section 511(a) of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, and commonly known as “interest strips” of the Resolution Funding Corporation, (iv) Defeased Municipal Obligations, and (v) evidences of ownership of a proportionate interest in specified Defeased Municipal Obligations, which Defeased Municipal Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity as custodian.

“Defeased Municipal Obligations” means obligations of state or local government municipal bond issuers which are rated the highest rating by at least two of the three Rating Agencies, meeting the following conditions:

(i) (A) such obligations are not to be redeemed prior to maturity or the Trustee has been given irrevocable instructions concerning their call for redemption, and (B) the issuer of such obligations has covenanted not to redeem such obligations other than as set forth in such instructions;

(ii) such obligations are secured by Government Obligations that may be applied only to interest, principal, and premium payments on such obligations;

(iii) the principal of and interest on such Government Obligations (plus any cash in the escrow fund with respect to such pre-refunded obligations) are sufficient to meet the liabilities of the obligations;

(iv) the Government Obligations serving as security for the obligations are held by an escrow agent or trustee; and

(v) such Government Obligations are not available to satisfy any other claims, including those against the trustee or escrow agent.

“Derivative Agreement” means, without limitation, (i) any contract known as or referred to or which performs the function of an interest rate swap agreement, forward payment conversion agreement or futures contract; (ii) any contract providing for payments based on levels of, or changes or differences in, interest rates or other indices; (iii) any contract to exchange cash flows or payments or series of payments; (iv) any type of contract called, or designed to perform the function of, interest rate floors or caps, options, puts or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, rate or other financial risk; and (v) any other type of contract or arrangement that the District determines is to be used, or is intended to be used, to manage or reduce the cost of Indebtedness, to convert any element of Indebtedness from one form to another or to protect against any type of financial risk or uncertainty.

“Derivative Agreement Counterparty” means, with respect to a Derivative Agreement, the person that is identified in such agreement as the counterparty to, or contracting party with, the District.

“Derivative Indebtedness” means all or any portion of Indebtedness of the District, which bears interest at

(a) a variable rate for any future period of time meeting the following requirements: (i) the District has issued or entered into a Derivative Agreement in respect of all or such portion of such Indebtedness, and (ii) such Derivative Agreement provides that, during the entire period that such Indebtedness bears interest at a variable rate, the District will pay a fixed rate and the provider of the Derivative Agreement will pay (Y) the variable rate borne by such Indebtedness or (Z) a rate determined with reference to an index such as “LIBOR” or “SIFMA” and an Independent Consultant shall provide a letter addressed to the District and the Trustee to the effect that, in the judgment of the Independent Consultant, the rate determined with reference to such an index is an appropriate proxy for the variable rate of interest borne by such Indebtedness, then in either case such Indebtedness, taken together with the Derivative Agreement, is to be deemed to result in a net fixed rate payable by the District for such period of time (the “Hedged Fixed Rate”), for so long as the District and the party with whom the District has entered into the Derivative Agreement makes all payments required to be made by the terms of the Derivative Agreement, or

(b) a fixed rate for any future period of time meeting the following requirements: (i) the District has issued or entered into a Derivative Agreement in respect of all or such portion of such Indebtedness, and (ii) such Derivative Agreement provides that during the entire period that such Indebtedness bears interest at a fixed rate the District will pay a variable rate and the provider of the Derivative Agreement will pay the fixed rate borne by such Indebtedness, then such Indebtedness, taken together with the Derivative Agreement, is to be deemed to result in a net variable rate payable by the District for such period of time (the “Hedged Variable Rate”), assuming the District and the party with whom the District has entered into the Derivative Agreement make all payments required to be made by the terms of the Derivative Agreement.

“Designated Office” of the Trustee and the Tender Agent means the designated offices of the Trustee and the Tender Agent, respectively, which offices at the date of acceptance by the Trustee of the

duties and obligations imposed on the Trustee by the First Supplemental Trust Agreement is located at 919 East Main Street, Suite 1602, Richmond, Virginia 23219, and at the date of acceptance by the Tender Agent of the duties and obligations imposed on the Tender Agent by the First Supplemental Trust Agreement is 919 East Main Street, Suite 1602, Richmond, Virginia 23219.

“District” means the Hampton Roads Sanitation District, a political subdivision of the Commonwealth of Virginia.

“District Representative” means each of the persons at the time designated to act on behalf of the District in a written certificate furnished to the Trustee, which certificate is to contain the specimen signature(s) of such person(s) and is to signed on behalf of the Commission by its Chairman or Vice Chairman or the General Manager of the District.

“Immediate Termination Date” means the date on which a Credit Facility Provider’s obligation to advance funds or purchase Subordinate 2011 Bonds under a Credit Facility terminates immediately in accordance with its terms.

“Electronic Notice” means, subject to the provisions of the Trust Agreement, notice transmitted by facsimile transmission or any other electronic method acceptable to both the sending and receiving party and receipt of which by the receiving party is subject to confirmation by the sending party.

“Eligible Bonds” means any Subordinate 2011 Bonds other than Credit Facility Bonds or Subordinate 2011 Bonds owned by, for the account of, or on behalf of the District. The Trustee may assume that a Subordinate 2011 Bond which is not registered in the name of the District is not owned by, for the account of, or on behalf of the District in the absence of written notice from the District to the contrary.

“Favorable Opinion of Bond Counsel” means an opinion of Bond Counsel addressed to the District and the Trustee and stating, unless otherwise specified in the Trust Agreement, that the action proposed to be taken is authorized or permitted by the laws of the Commonwealth of Virginia, the Trust Agreement and the First Supplemental Trust Agreement and such action will not adversely affect the exclusion from gross income of interest on the Subordinate 2011 Bonds for federal income tax purposes.

“Financial Statements” means the unaudited financial statements of the District for the Fiscal Year or other period indicated, pro forma or otherwise, and containing the same financial information as the Audited Financial Statements.

“Fiscal Year” means the twelve-month period beginning on July 1 of one calendar year and ending on June 30 of the following calendar year or such other twelve-month period designated by the Commission.

“Fixed Rate Conversion Date” the date the Subordinate 2011 Bonds begin to bear interest for a Long-Term Period which extends to the Maturity Date of such Subordinate 2011 Bonds.

“Government Obligations” means direct obligations of, or obligations the timely payment of principal of and interest on which are fully and unconditionally guaranteed by, the United States of America.

“Hedged Fixed Rate” means Hedged Fixed Rate as defined in the definition of Derivative Indebtedness.

“Hedged Variable Rate” means Hedged Variable Rate as defined in the definition of Derivative Indebtedness.

“Holder” means an owner of any Obligation issued in other than bearer form.

“Income Available for Debt Service” means to any period of 12 consecutive calendar months, the excess of revenues over expenses (1) after amortization and interest expense on Senior Obligations but (2) before depreciation, amortization and interest expense on Long-Term Indebtedness, as determined in accordance with generally accepted accounting principles consistently applied; provided, however, that (x) no determination thereof will take into account any gain or loss resulting from either the extinguishment of Indebtedness or the sale, exchange or other disposition of capital assets not made in the ordinary course of business, (y) revenues will include all wastewater facility charges, and (z) revenues will not include income from the investment of Qualified Escrow Funds to the extent that such income is applied to the payment of principal or interest on Long-Term Indebtedness which is excluded from the determination of Long-Term Debt Service Requirement.

“Indebtedness” means (i) all indebtedness of the District for borrowed money, (ii) all installment sales, conditional sales and capital lease obligations incurred or assumed by the District, and (iii) the Debt Service Component of Contracted Services.

“Independent Consultant” means a firm or firms which are not, and no member, stockholder, director, officer, trustee or employee of which is, an officer, director, trustee or employee of the District, and which is a professional management or engineering consultant of national repute for having the skill and experience necessary to render the particular report required by the provision of the Trust Agreement in which such requirement appears.

“Independent Insurance Consultant” means a firm or person selected by the District, who is not an officer, director, trustee or employee of the District, and which or who is qualified to survey risks and to recommend insurance coverage for wastewater treatment systems and organizations engaged in such operations and is selected by the District.

“Interest Accrual Date” means (i) with respect to any Weekly Period, the first day thereof and, thereafter, each Interest Payment Date (whether or not a Business Day) in respect thereof, (ii) with respect to any Long-Term Period, the first day thereof and, thereafter, each Interest Payment Date (whether or not a Business Day) in respect thereof, other than the last such Interest Payment Date; provided, that the first Interest Accrual Date shall be Date of Issuance.

“Interest Payment Date” means (a)(i) if the Interest Rate Mode is the Weekly Period, the first Business Day of each month and (ii) if the Interest Rate Mode is the Long-Term Period, each May 1 and November 1, provided, however, that if any such May 1 or November 1 which is a Conversion Date for Conversion to the Weekly Rate, is not a Business Day, then the first Business Day immediately succeeding such May 1 or November 1, as applicable, and (b) the Conversion Date or the effective date of a change to a new Long-Term Rate Period for such Bond. In any case, the final Interest Payment Date shall be the maturity date.

“Interest Rate Mode” means the Long-Term Period and the Weekly Period.

“Interest Rate Period” means the Long-Term Interest Rate Period and the Weekly Interest Rate Period.

“Interest Requirements” for any Fiscal Year means the amount that is required to pay interest on all Outstanding Parity Obligations.

“Investment Obligations” means any and all investment obligations authorized by (A) the Investment of Public Funds Act, being Section 2.2-4500 et seq., Code of Virginia, 1950, as amended, (B) the Government Non-Arbitrage Investment Act, being Section 2.2-4700 et seq., Code of Virginia, 1950, as amended, and (C) successor statutes to those described in (A) and (B) above, as the same may be from time to time amended.

“Issuance Costs” means all issuance costs incurred in connection with the Bonds. Examples of such issuance costs include, but are not limited to, the following, if any: (a) counsel fees; (b) financial advisor fees incurred in connection with the issuance of the Bonds; (c) Rating Agency fees; (d) depository fees incurred in connection with the issuance of the Bonds; (e) trustee, paying agent and certifying and authenticating agent fees related to the issuance of the Bonds; (f) accountant fees related to the issuance of the Bonds; (g) printing costs; (h) costs incurred in connection with the required public approval process; and (i) costs of engineering and feasibility studies necessary to the issuance of the Bonds.

“Junior Obligations” means Indebtedness of the District the terms of which shall provide that it will be subordinate and junior in right of payment to the prior payment in full of the Senior Obligations and the Parity Obligations to the extent and in the manner set forth below:

In the event (a) of any insolvency or bankruptcy proceedings, and any receivership, liquidation, reorganization, arrangement or other similar proceedings in connection therewith, relative to the District or to its Property, or in the event of any proceedings for voluntary liquidation, dissolution or other winding-up of the District whether or not involving insolvency or bankruptcy, (b) any Junior Obligation is declared or otherwise becomes due and payable before its expressed maturity because of the occurrence of an event of default occurring under the documents pursuant to which such Junior Obligation is issued; and such declaration has not been rescinded and annulled, or (c) any “Event of Default” (as defined in the Senior Trust Agreement) under the Senior Trust Agreement shall occur and be continuing with respect to any Senior Obligation or any Event of Default under the Trust Agreement shall occur and be continuing with respect to any Parity Obligation and (1) written notice of such default shall have been given to the District and (2) judicial proceedings shall be commenced in respect of such Event of Default within 180 days in the case of a default in payment of principal or interest on Senior Obligations or Parity Obligations and within 90 days in the case of any other default after the giving of such notice, then, *first*, the Holders of Senior Obligations shall be entitled to receive payment in full of all principal, premium and interest on all Senior Obligations before the Holders of the Parity Obligation are entitled to receive any payment on account of principal or interest upon the Parity Obligations and, *second*, the Holders of Parity Obligations shall be entitled to receive payment in full of all principal, premium and interest on all Parity Obligations before the Holders of the Junior Obligations are entitled to receive any payment on account of principal, premium or interest upon the Junior Obligations.

“Lien” means any mortgage, deed of trust or pledge of, security interest in or encumbrance on any Property of the District which secures any Indebtedness or any other obligation of the District.

“Long-Term Bonds” means, on any date, all Subordinate 2011 Bonds that on such date bear interest at Long-Term Interest Rates as provided in the First Supplemental Trust Agreement.

“Long-Term Conversion Date” means the date on which the Subordinate 2011 Bonds begin to bear interest at a Long-Term Interest Rate pursuant to the provisions of the First Supplemental Trust Agreement and such term shall include the Fixed Rate Conversion Date.

“Long-Term Debt Service Coverage Ratio” means, for any period of time, the ratio determined by dividing the Net Income Available for Debt Service by Maximum Annual Debt Service on Parity Obligations.

“Long-Term Debt Service Requirement” means, for any period of 12 consecutive calendar months for which such determination is made, the aggregate of the payments to be made in respect of principal and interest (whether or not separately stated) on Outstanding Long-Term Indebtedness during such period, also taking into account:

(i) with respect to Balloon Long-Term Indebtedness that is not amortized by the terms thereof (a) the amount of principal that would be payable in such period if such principal were amortized from the date of incurrence thereof over a period of the lesser of 30 years and the remaining weighted average useful life of the assets financed or refinanced by such Indebtedness over such period on a level debt service basis at an interest rate equal to the current market rate for a fixed rate obligation set forth in an opinion of a banking institution or an investment banking institution knowledgeable in wastewater treatment system finance delivered to the Trustee as the interest rate at which the District could reasonably expect to borrow the same by issuing a Bond with the same term as the period assumed above; provided, however, that if the date of calculation is within 12 calendar months of the actual maturity of such Indebtedness, the full amount of principal payable at maturity is to be included in such calculation or (b) principal payments or deposits with respect to Indebtedness secured by an irrevocable letter of credit issued by, or an irrevocable line of credit with, a bank having a combined capital and surplus of at least \$75,000,000, or insured by an insurance policy issued by any insurance company rated at least “A” by A. M. Best Company or its successors in Best’s Insurance Reports or its successor publication, nominally due in the last Fiscal Year in which such Indebtedness matures may, at the option of the District, be treated as if such principal payments or deposits were due as specified in any credit agreement issued in connection with such letter of credit, line of credit or insurance policy or pursuant to the repayment provisions of such letter of credit, line of credit or insurance policy, and interest on such Indebtedness after such Fiscal Year is to be assumed to be payable pursuant to the terms of such credit agreement or repayment provisions;

(ii) with respect to Long-Term Indebtedness which is Variable Rate (but not Hedged Fixed Rate) Indebtedness, the interest on such Indebtedness is to be calculated at 120% of the rate which is equal to the average of the actual interest rates which were in effect (weighted according to the length of the period during which each such interest rate was in effect) for the most recent twelve-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a twelve-month period), except that with respect to new Variable Rate Indebtedness the interest rate for such Indebtedness for the initial interest rate period is 120% of the average of the SIFMA Swap Index for last 12 whole months for which such Index is available and thereafter will be calculated as set forth above;

(iii) with respect to any Credit Facility, (a) to the extent that such Credit Facility has not been used or drawn upon, the principal and interest relating to such Credit Facility will not be included in the Long-Term Debt Service Requirement and (b) to the extent such Credit Facility has been drawn upon, the payment provisions of such Credit Facility with respect to repayment of principal and interest thereon will be included in the Long-Term Debt Service Requirement;

(iv) with respect to Derivative Indebtedness, (i) for any historical computation, the interest on such Indebtedness is to be calculated by adding (A) the amount of interest payable by the District on such Derivative Indebtedness pursuant to its terms and (B) the amount of regularly scheduled payments made by the District pursuant to the Derivative Agreement and subtracting (C) the amount of regularly scheduled payments made by the Derivative Agreement Counterparty pursuant to the Derivative Agreement; (ii) for any historical pro forma or forecasted computation, if the Derivative Agreement Counterparty has a long-term credit rating of at least “A” (without regard to any rating refinement or gradation by numerical modifier or otherwise) assigned to it by at least one Rating Agency then rating the Indebtedness and does not have a long-term rating of less than “A” (without regard to any rating refinement or gradation by numerical modifier or otherwise) from any Rating Agency then rating the

Indebtedness and has not defaulted on its payment obligations thereunder as of the date of computation, the interest on such Derivative Indebtedness is to be calculated at the Hedged Fixed Rate or the Hedged Variable Rate, as the case may be; and (iii) in all other instances, the amount of interest payable by the District on such Derivative Indebtedness is to be calculated as if such Derivative Agreement had not been executed; and

(v) in the case of Indebtedness having the benefit of a Credit Facility that provides for a term loan facility that requires the payment of the principal in one year or more, the Indebtedness is to be considered Balloon Long-Term Indebtedness and is to be assumed to have the maturity schedule described in paragraph (i)(a) of this definition;

provided, however, that interest is to be excluded from the determination of Long-Term Debt Service Requirement to the extent the same is provided from the proceeds of the Long-Term Indebtedness and provided further, however, notwithstanding the foregoing, the aggregate of the payments to be made with respect to principal and interest on Outstanding Long-Term Indebtedness will not include principal and interest payable from Qualified Escrow Funds.

“Long-Term Indebtedness” means all obligations having a maturity of a term longer than one year for borrowed money incurred or assumed by the District, including (a) Short-Term Indebtedness if a commitment by an institutional lender exists to provide financing to retire such Short-Term Indebtedness and such commitment provides for the repayment of principal on terms which would, if such commitment were implemented, constitute Long-Term Indebtedness, and (b) the current portion of Long-Term Indebtedness, for any of the following:

(1) money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, longer than one year;

(2) leases which are required to be capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, longer than one year;

(3) installment sale or conditional sale contracts having an original term in excess of one year; and

(4) the Debt Service Component of Contracted Services in connection with Contracted Services rendered or provided pursuant to a contract having an original term of more than one year.

“Long-Term Interest Rate” means the non-variable interest rate per annum on Long-Term Bonds determined from time to time as provided in the First Supplemental Trust Agreement.

“Long-Term Interest Rate Period” means each period during the Long-Term Period for which a particular Long-Term Interest Rate is in effect.

“Long-Term Period” means the entire period during which Subordinate 2011 Bonds constitute Long-Term Bonds, which Long-Term Period shall be comprised of one or more Long-Term Interest Rate Periods, during which Long-Term Interest Rates are in effect.

“Maximum Annual Debt Service” means, at any given time of determination, the greatest Long-Term Debt Service Requirement for the then current or any succeeding Fiscal Year.

“Maximum Annual Debt Service on the Parity Obligations” means, at any given time of determination, the maximum coincidental Principal and Interest Requirements for the Parity Obligations for the then-current or any succeeding Fiscal Year.

“Maximum Interest Rate” means, for all Subordinate 2011 Bonds, the lesser of (i) 12% per annum and (ii) the maximum rate permitted by law.

“Net Book Value” when used in connection with Property, Plant and Equipment or other Property, means the value of such property, net of accumulated depreciation, as it is carried on the books of the District in conformity with generally accepted accounting principles.

“Net Revenues” means all revenues derived by the District from its Wastewater System except such part thereof as may be required to pay the cost of maintaining, repairing and operating such Wastewater System.

“Net Revenues Available for Debt Service” means all revenues derived by the District from its Wastewater System less such part thereof as may be required to pay (a) the cost of maintaining, repairing and operating such Wastewater System and (b) the Senior Obligations.

“Noticed Termination Date” means the date on which a Credit Facility Provider’s obligation to advance funds or purchase Subordinate 2011 Bonds under a Credit Facility terminates as stated in the Credit Facility Provider’s notice of termination delivered pursuant to the Credit Facility due to a default under specified sections of the Credit Facility, which date of termination shall be thirty (30) days (or such longer period as is specified in the Credit Facility) after the date of receipt by the Trustee of such notice; provided, however, that Noticed Termination Date shall not include an Immediate Termination Date or date of suspension of a Credit Facility.

“Officer’s Certificate” means a certificate signed by a District Representative. Each Officer’s Certificate presented pursuant to the Trust Agreement is to state that it is being delivered pursuant to (and is to identify the section or subsection of), and incorporate by reference and use in all appropriate instances all terms defined in, the Trust Agreement. Each Officer’s Certificate is to state (i) that the terms thereof are in compliance with the requirements of the section or subsection pursuant to which such Officer’s Certificate is delivered or to state in reasonable detail the nature of any non-compliance and the steps being taken to remedy such non-compliance and (ii) that it is being delivered together with any opinions, schedules, statements or other documents required in connection therewith.

“Opinion of Bond Counsel” means an opinion in writing signed by an attorney or firm of attorneys acceptable to the Trustee and experienced in the field of municipal bonds whose opinions are generally accepted by purchasers of municipal bonds.

“Opinion of Counsel” means an opinion in writing signed by an attorney or firm of attorneys who may be counsel for the District or other counsel selected by the District.

“Outstanding”, when used with reference to Bonds or other Parity Obligations, means, as of a particular date, all Bonds and Parity Obligations theretofore issued under the Trust Agreement, except:

(1) Bonds and Parity Obligations theretofore cancelled by the Bond Registrar or delivered to the Bond Registrar for cancellation;

(2) Bonds and Parity Obligations for the payment of which money, Defeasance Obligations, or a combination of both, sufficient to pay, on the date when such Bonds are to be paid, the principal amount of, and the interest accruing to such date on, the Bonds to be paid, has been deposited with the

Trustee or the Bond Registrar in trust for the Holders of such Bonds; Defeasance Obligations shall be deemed to be sufficient to pay Bonds on a specified date if the principal of and the interest on such Defeasance Obligations, when due, will be sufficient to pay on such date the principal of, and the interest accruing on, such Bonds to such date;

(3) Bonds and Parity Obligations in exchange for or in lieu of which other Bonds or Parity Obligations have been issued; and

(4) Bonds and Parity Obligations deemed to have been paid in accordance with the provisions for defeasance contained in such Bonds or Parity Obligations (See “Defeasance” in Appendix C);

provided, however, that Bonds and Parity Obligations owned or held by or for the account of the District or any affiliate or any subsidiary or controlled affiliate of the District shall not be deemed Outstanding Bonds or Outstanding Parity Obligations for the purpose of any consent or other action or any calculation of Outstanding Bonds Outstanding Parity Obligations provided for in the articles of the Trust Agreement relating to default and remedies, Supplemental Agreements and release of the Trust Agreement, and neither the District nor any affiliate, subsidiary or controlled affiliate of the District as registered owners of such Bonds or Parity Obligations shall be entitled to consent or take any other action provided for in default and remedies, Supplemental Agreements and release of the Trust Agreement. Notwithstanding the foregoing, Bonds or Parity Obligations owned or held for the account of the District or an or any affiliate or any subsidiary or controlled affiliate of the District shall not be deemed to be paid unless the District delivers, or causes such Bonds or Parity Obligations to be delivered, to the Trustee with the express written instructions of a District Representative directing the Trustee to cancel such Bonds in accordance with the procedures set forth in the Trust Agreement.

“Parity Obligations” means Bonds and VRA Subordinate Obligations.

“Principal and Interest Requirements” for any Fiscal Year means the sum of the Principal Requirements and Interest Requirements for such Fiscal Year.

“Principal Payment Date” means each date described as such in a Series Agreement. The Principal Payment Date for the Subordinate 2011 Bonds is November 1, 2041.

“Principal Requirements” for any Fiscal Year means the amount required to pay the principal of all Parity Obligations coming due in such Fiscal Year.

“Property” means any and all rights, titles and interests in and to any and all property whether real or personal, tangible or intangible and wherever situated.

“Property, Plant and Equipment” means all Property of the District which is property, plant and equipment under generally accepted accounting principles.

“Qualified Escrow Funds” means amounts deposited in a segregated escrow fund, or other similar fund or account, in connection with the issuance of Long-Term Indebtedness which fund is required by the documents establishing such fund to be applied toward the District’s payment obligations with respect to principal or interest on (a) the Long-Term Indebtedness secured thereby which is issued under the documents establishing such fund or (b) Long-Term Indebtedness secured thereby which was issued prior to the establishment of such fund.

“Qualified Reserve Fund Substitute” means (i) an irrevocable letter of credit, naming the Trustee as beneficiary, issued by any domestic or foreign bank, or any branch or agency thereof, whose

long-term debt obligations are rated in one of the two highest rating categories by at least two of the Rating Agencies that will rate such obligations, or (ii) a policy of reserve fund insurance naming the Trustee as beneficiary, issued by an insurance company or financial institution whose claims paying ability is rated in one of the two highest rating categories by at least two of the Rating Agencies that rate such obligations, in either case (A) in an amount not less than the Debt Service Reserve Fund Requirement, (B) the terms of which allow the Trustee to make the draws required to fund the Debt Service Reserve Fund if and as required (See “Debt Service Reserve Fund; Qualified Reserve Fund Substitute” in Appendix C) and (C) that provides that the issuer of which has not been given a lien on any portion of the property of the District unless such lien also secures the Bonds on a parity basis.

“Rating Agency” or **“Rating Agencies”** means one or more of Fitch, Moody’s or Standard & Poor’s for so long as it is a nationally recognized statistical rating organization and any new nationally recognized statistical rating organization.

“Regular Record Date” means (i) with respect to any Subordinate 2011 Bonds bearing interest at a Weekly Interest Rate, the Business Day immediately preceding the related Interest Payment Date, (ii) with respect to any Subordinate 2011 Bonds, the Purchase Date, (iii) with respect to any Subordinate 2011 Bonds bearing interest at a Long-Term Interest Rate, the fifteenth day of the month immediately preceding the month in which such Interest Payment Date falls.

“Remarketing Agent” means J.P. Morgan Securities, LLC, and its successor or successors as provided in the First Supplemental Trust Agreement. **“Principal Office”** of the Remarketing Agent means the office or offices designated in writing to the Trustee, the Tender Agent, the Paying Agent, the Credit Facility Provider, if any, and the District.

“Remarketing Agreement” means the Remarketing Agreement, dated as of October 1, 2011, between the District and the Remarketing Agent, as the same may be amended from time to time, and any remarketing agreement between the District and a successor Remarketing Agent.

“Senior Bonds” has the meaning given the term “Bonds” by the Senior Trust Agreement.

“Senior Debt Service Reserve Fund” means the Hampton Roads Sanitation District (Virginia) Wastewater Revenue Bonds Debt Service Reserve Fund created and so designated by the Senior Trust Agreement.

“Senior Indebtedness” means Indebtedness secured on a parity with the Senior Bonds under the terms of the Senior Trust Agreement.

“Senior Trust Agreement” means that certain trust agreement, dated as of March 1, 2008, as the same may be supplemented and amended from time to time, between the District and The Bank of New York Mellon Trust Company, N.A., as successor Trustee (in such capacity, the **“Senior Trustee”**).

“Senior Obligations” means, collectively, Senior Bonds and Senior Indebtedness, and, if the District is required to fund the Senior Debt Service Reserve Fund pursuant to the terms of the Senior Trust Agreement, the District’s funding obligations thereunder.

“Series Agreement” means a supplemental trust agreement entered into or the resolution adopted by the Commission providing for the issuance of Bonds or Parity Obligations pursuant to the Trust Agreement. A Series Agreement will include any Officer’s Certificate delivered by a District Representative or Representatives to whom authority has been delegated by the terms of the Series Agreement to provide the details of such Bonds and, for purposes of additional VRA Subordinate

Obligations, a Series Agreement will include such resolutions adopted by the Commission or financing agreements authorized thereby specifying the details of such additional VRA Subordinate Obligations.

“Short-Term Indebtedness” means all obligations for borrowed money, other than the current portion of Long-Term Indebtedness, incurred or assumed by the District for any of the following:

- (1) money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, of one year or less;
- (2) leases which are capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, of one year or less; and
- (3) installment purchase or conditional sale contracts having an original term of one year or less.

“SIFMA Swap Index” means The Securities Industry and Financial Market Association Municipal Swap Index as of the most recent date for which such index was published or such other weekly, high-grade index comprised of seven-day, tax-exempt variable rate demand notes produced by Municipal Market Data, Inc., or its successor, or otherwise designated by The Securities Industry and Financial Market Association; provided, however, that, if such index is no longer provided by Municipal Market Data, Inc. or its successor, the “SIFMA Swap Index” shall mean such other reasonably comparable index selected by the remarketing agent appointed by the District.

“Supplement” means an agreement, including a Series Agreement, supplemental to, and authorized and executed pursuant to the terms of, the Trust Agreement.

“Tax-exempt” with reference to Bonds or other Parity Obligations means any Bonds or Parity Obligations so designated in the related Series Agreement.

“Tax Certificate” means a certificate or comparable instrument of the District that contains undertakings of the District with reference to Tax-exempt Parity Obligations.

“Tender Agent” means The Bank of New York Mellon, N.A. “Designated Office” and “Delivery Office” of the Tender Agent means the office or offices thereof designated in writing to the Trustee, the District, the Credit Facility Provider, if any, and the Remarketing Agent, which initially is the Designated Office of the Trustee.

“Total Operating Revenues” means, with respect to the District, as to any period of time, as total operating revenues as determined in accordance with generally accepted accounting principles consistently applied.

“Trust Agreement” means the trust agreement entered into by and between Hampton Roads Sanitation District and The Bank of New York Mellon Trust Company, N.A., as Trustee, dated as of October 1, 2011, including any Series Agreement and any other trust agreement amendatory thereto or supplemental thereto.

“Variable Rate Indebtedness” means any portion of Indebtedness the interest rate on which is not established at the time of incurrence at a fixed or constant rate until maturity.

“VRA Subordinate Obligations” means the District’s VRA Subordinate Obligations or other evidences of indebtedness heretofore issued, and such additional Parity Obligations issued to VRA payable on a parity with Parity Obligations issued pursuant to the Trust Agreement.

“Wastewater System” means the wastewater treatment system of the District as it may exist at any time and includes all improvements and expansions thereof and additions thereto except as may otherwise be provided by resolution of the Commission.

“Weekly Bonds” means, on any date, Subordinate 2011 Bonds that bear interest at Weekly Interest Rates as provided in the First Supplemental Trust Agreement.

“Weekly Interest Rate” means the interest rate per annum on Weekly Bonds determined on a weekly basis as provided in the First Supplemental Trust Agreement.

“Weekly Interest Rate Period” means each weekly period during the Weekly Period for which a particular Weekly Interest Rate is in effect.

“Weekly Period” means the entire period during which Subordinate 2011 Bonds constitute Weekly Bonds, which Weekly Period shall generally be comprised of multiple Weekly Interest Rate Periods, during which Weekly Interest Rates are in effect.

SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT

The following is a brief summary of certain provisions of the Trust Agreement. This summary does not purport to be complete or definitive and qualified in its entirety by reference to the Trust Agreement, a copy of which is available for examination at the offices of the Trustee.

Establishment of Funds

The Trust Agreement provides for an Issuance Fund, a Construction Fund, a Bond Fund, and a Debt Service Reserve Fund. It requires that the money and securities in each Fund be held in trust by the Trustee and applied as provided in the Trust Agreement, and pending such application be subject to a lien and charge in favor of the Holders and for the further security of the Holders until paid or transferred pursuant to the Trust Agreement.

Issuance Fund and Construction Fund

The Trust Agreement also requires that money in the Issuance Fund be applied to the payment of Issuance Costs incurred in connection with the issuance of the Bonds, to be financed from Bonds proceeds. Money in the Construction Fund will be applied to Capital Improvement Program Costs. Unexpended fund balances in the Issuance Fund and the Construction Fund will be applied as provided in the applicable Series Agreement. The Series Agreement for the Subordinate 2011 Bonds provides any such unexpended fund balances are to be applied as directed by the District.

Bond Fund

The District will make payments directly to the Trustee for deposit in the Bond Fund in amounts sufficient to pay in full, when due, all Bonds issued under the Trust Agreement, together with the interest thereon. In the event the balance in the Bond Fund is insufficient for such purposes, upon notification by the Trustee, the District is to deliver to the Trustee an amount sufficient to cure the same. If such amount is insufficient, the Trustee is required to transfer to the Bond Fund the amount necessary to remedy the deficiency from the Debt Service Reserve Fund. Each such payment shall be made only in the event and to the extent that, as of the date of such payment, the District shall have paid to the Senior Trustee for the account of the Senior Bond Fund all amounts attributable to the principal of and interest on any outstanding Senior Obligations due and owing thereon, plus any amounts required to be deposited to the credit of the Senior Debt Service Reserve Fund in accordance with the terms of the Senior Trust Agreement, as of such date.

Debt Service Reserve Fund; Qualified Reserve Fund Substitute

No funds will be deposited to the credit of the Debt Service Reserve Fund upon the delivery of the Subordinate 2011 Bonds. If the District elects to fund the Debt Service Reserve Fund, then an amount equal to the Debt Service Reserve Fund Requirement, as the same shall be specified in a Supplemental Agreement, shall be deposited to the Debt Service Reserve Fund Requirement.

The Trustee will use amounts in the Debt Service Reserve Fund to make transfers to the Bond Fund to the extent necessary to pay interest on and principal of the Bonds, whenever and to the extent that the money on deposit in the Bond Fund is insufficient for such purposes and the District has failed to cure such deficiency.

The District may, at any time, deliver to the Trustee a Qualified Reserve Fund Substitute. In such event, if the District also delivers to the Trustee a written statement setting forth the use of the cash and Investment Obligations then on deposit to the credit of the Debt Service Reserve Fund, accompanied by an Opinion of Bond Counsel to the District, addressed to the Trustee, to the effect that such proposed use will not cause the interest on the Tax-exempt Bonds to be includable in the gross income of the owners thereof for purposes of federal income taxation, the Trustee is to transfer to the District all amounts on deposit to the credit of the Debt Service Reserve Fund. If any Qualified Reserve Fund Substitute is in effect, the Trustee is to give such notices and execute such documents as required to assure that funds (i) are available in such amounts and at such times to assure timely payment of principal of and interest on the Bonds and (ii) are drawn to fund the Debt Service Reserve Fund in an amount equal to the Debt Service Reserve Fund Requirement at least six months prior to the expiration date of the Qualified Reserve Fund Substitute unless (a) the Trustee has received a substitute Qualified Reserve Fund Substitute to replace such expiring Qualified Reserve Fund Substitute or (b) the expiration date of the expiring Qualified Reserve Fund Substitute is no earlier than the final stated maturity date of the Bonds.

Payment of Principal and Interest

The District will cause to be paid, when due, the principal of (whether at maturity, by acceleration or otherwise) and interest on the Bonds at the places, on the dates and in the manner provided in the Trust Agreement and in said Bonds; provided that it is understood that the Bonds are not general obligations of the District but are special obligations and are payable solely from Net Revenues Available for Debt Service derived by the District from its Wastewater System and the money attributable to proceeds of Bonds and the income from the investment thereof and not from any other fund or source. To secure the prompt payment of the principal of, redemption premium, if any, and the interest on the Senior Obligations and the performance by the District of its other obligations under the Trust Agreement, the District grants to the Trustee a security interest in its Net Revenues Available for Debt Service.

Investment of Money

Money held for the credit of all funds and accounts created under the Trust Agreement is to be continuously invested and reinvested by the Trustee in Investment Obligations, to the extent practicable in accordance with the instructions of a District Representative, subject to the yield restrictions set forth in the Tax Certificate. The Trust Agreement requires that any Investment Obligations mature not later than the respective dates when the money held for the credit of such funds or accounts will be required for the purposes intended; provided, however, that Investment Obligations deposited in the Debt Service Reserve Fund mature no later than the final maturity date of the Bonds secured by the Debt Service Reserve Fund.

Unless a Qualified Reserve Fund Substitute is in effect, the District is to reimburse the Debt Service Reserve Fund for any loss resulting from a decline in the value of Investment Obligations in which money held for the credit of the Debt Service Reserve Fund is invested if on any date of valuation the amount on deposit in the Debt Service Reserve Fund is less than the Debt Service Reserve Fund Requirement.

Investment Obligations acquired with money and credited to any fund or account established under the Trust Agreement are required to be held by or under the control of the Trustee and will be deemed at all times to be part of such fund or account in which such money was originally held. Interest accruing on such Investment Obligation and any profit or loss realized upon the disposition or maturity of such investment will be credited to or charged against such fund or account. The Trustee is required to sell at the best price attainable or reduce to cash a sufficient amount of such Investment Obligations whenever it is necessary to provide money to make any payment or transfer of money from any such fund or account. The Trustee will not be liable or responsible for any loss resulting from any such investment.

Valuation

For the purpose of determining the amount on deposit in any fund or account, Investment Obligations in which money in such fund or account is invested will be valued (a) at face value if such Investment Obligations mature within six months from the date of valuation thereof, and (b) if such Investment Obligations mature more than six months after the date of valuation thereof, at the price at which such Investment Obligations are redeemable by the holder at his option if so redeemable, or, if not so redeemable, at the lesser of (i) the cost of such Investment Obligations minus the amortization of any premium or plus the amortization of any discount thereon and (ii) the market value of such Investment Obligations.

The Trustee will value the Investment Obligations in the funds and accounts five Business Days prior to each Interest Payment Date. In addition, subject to prior notice, the Investment Obligations will be valued by the Trustee at any time requested by the District Representative, but not more than once in any calendar month other than as provided in the Trust Agreement.

Limitations on Indebtedness

Other than the 2011 Bonds, the District may issue Additional Bonds or incur other Parity Obligations, provided that, after giving effect to all other Indebtedness incurred by the District, such Additional Bonds or other Parity Obligations are incurred only in the manner and pursuant to the terms set forth below:

(a) Long-Term Indebtedness may be incurred if, prior to incurrence of the Long-Term Indebtedness, there is delivered to the Trustee:

(i) If the Long-Term Indebtedness is authorized for any purpose other than the refunding of the outstanding Senior Obligations or Outstanding Parity Obligations, a certificate of the General Manager of the District or the District Engineer to the effect, and to the extent applicable, that in his or her opinion (a) the improvements or property to which the proceeds from the issuance of the Long-Term Indebtedness are to be applied will be a part of the Wastewater System, (b) the proceeds of the Long-Term Indebtedness and other specified sources will be sufficient to pay the estimated cost of such improvements or property, (c) the period of time which will be required to complete such improvements or acquire such property, and (d)(1) the proceeds of the Long-Term Indebtedness are necessary to complete the project to be financed thereby, (2) the failure to make such improvements or acquire or construct such property will result in an interruption or reduction of Net Revenues, or (3) during the first two Fiscal Years following the completion of the improvements or the acquisition of the property, the projected Net Revenues Available for Debt Service will satisfy the Rate Covenant described below. In providing this certificate, the District Representative may take into consideration future Wastewater System rate increases, provided that such rate increases have been duly approved by the Commission and any other person and entity required to give approval for the rate increase to become effective. In addition, he or she may take into consideration additional future revenues of the Wastewater System to be derived under then existing contractual agreements entered into by the District and from reasonable estimates of growth in the customer base of the District;

(ii) If the Long-Term Indebtedness is authorized solely to refund outstanding Senior Obligations or Outstanding Parity Obligations, either (a) a certificate of an independent financial advisor to the effect that, the Long-Term Indebtedness issued to refund outstanding Senior Obligations or Outstanding Parity Obligations will have a lower Long-Term Debt Service Requirement than the Long-Term Debt Service Requirement on the Senior Obligations or

Outstanding Parity Obligations to be refunded with the proceeds thereof, or (b) an Officer's Certificate of a District Representative to the effect that during the first two complete Fiscal Years following the issuance of the refunding Long-Term Indebtedness, the projected Income Available for Debt Service will satisfy the rate covenant described under the heading "Rate Covenant" below. In providing the certificate described in clause (ii), the Officer's Certificate may take into account the factors described in the last two sentences of subsection (a)(i) of this Section. In addition, the Trustee shall receive an Opinion of Counsel stating that upon the incurrence of such proposed Long-Term Indebtedness and application of the proceeds thereof (on the Cross-over Date, in the case of Cross-over Refunding Indebtedness), the Outstanding Long-Term Indebtedness to be refunded thereby will no longer be Outstanding; or

(iii) Officer's Certificate of a District Representative certifying compliance with paragraph (i) of the rate covenant described below for the most recent period of twelve (12) full consecutive calendar months preceding the date of delivery of the certificate.

(b) Short-Term Indebtedness may be incurred as a Parity Obligation subject to the same tests that apply to the incurrence of Parity Obligations generally; provided, however, that notwithstanding such limitation, the District may incur as a Parity Obligation from time to time and have outstanding at any one time Short-Term Indebtedness in an amount up to 10% of its Total Operating Revenues as reflected in the Financial Statements of the District for the most recent period of twelve consecutive months for which Financial Statements are available. Short-Term Indebtedness may be incurred as Junior Obligations without compliance with the tests that apply to the incurrence of Parity Obligations.

(c) Additional VRA Subordinate Obligations may be incurred by the District subject to the delivery of an Officer's Certificate of a District Representative demonstrating compliance with the incurrence test for the issuance of Long-Term Indebtedness described above in paragraph (a) above and the Rate Covenant described below, *provided, however*, anything in this Trust Agreement notwithstanding, the District may make such additional covenants in a supplemental resolution, financing agreement or other agreement authorizing and securing a VRA Subordinate Obligations as may be required by VRA as a condition of selling such VRA Subordinate Obligations.

(d) Junior Obligations may be incurred without limitation.

(e) For purposes of demonstrating compliance with the incurrence test for the issuance of Long-Term Indebtedness described above in paragraph (a), the District may (but is not required to) elect in the applicable Series Agreement to treat all or any Parity Obligations authorized in a Credit Facility (including, for example and without limitation, a self-liquidity arrangement provided by the District, a line of credit or a liquidity facility supporting a commercial paper program), but not immediately issued or incurred under such Credit Facility, as subject to such incurrence test as of a single date, notwithstanding that none, or less than all, of the authorized principal amount of such Parity Obligations shall have been issued or incurred as of such date.

(f) Notwithstanding the foregoing provisions regarding limitations on Indebtedness described herein, nothing contained in the Trust Agreement shall preclude the District from incurring any obligation under a Credit Facility

Rate Covenant

(a) The District has covenanted and agreed in the Trust Agreement that it will fix and collect rates, fees and other charges for the use of and for services furnished or to be furnished by the Wastewater System, and will from time to time revise such rates, fees and other charges so that in each Fiscal Year the

Net Revenue Available for Debt Service will equal at least 100% of the Principal and Interest Requirements and all other Indebtedness payable from Net Revenues Available for Debt Service. If, for any reason, the Net Income Available for Debt Service is insufficient to satisfy the foregoing covenant, the District shall within one hundred twenty (120) days adjust and increase its rates, fees and other charges (to the extent permitted by the Enabling Act), or reduce its operating and maintenance expenses so as to provide sufficient Net Income Available for Debt Service to satisfy such requirement.

(b) If all Senior Obligations have been defeased in accordance with the Senior Trust Agreement or the aggregate outstanding principal amount of such Senior Obligations shall equal 30% or less than the aggregate outstanding principal amount of the Senior Obligations and Parity Obligations, the rate covenant contained in the first sentence of the preceding subsection is to be 115%.

(c) If at any time the District fails to comply with its rate covenant in described paragraph (a) above, the District is to immediately notify the Trustee, such notice also containing an Officer's Certificate of a District Representative as to (i) the amount of the deficiency in Income Available for Debt Service which existed for the applicable period and the rates, fees and other charges which must be established by the District to cure such deficiency, and (ii) during the Fiscal Year in which the certificate is delivered, the projected Income Available for Debt Service will satisfy the rate covenant made by the District and described in paragraph (a) above, or, if not, the rates, fees and other charges the District must establish to satisfy such rate covenant.

(d) On or before the last day of each Fiscal Year, the District will review the adequacy of its rates, fees and other charges for the next Fiscal Year, and, if such review indicates the District's rates, fees and other charges are insufficient to satisfy the rate covenant described in paragraph (a) above, the District is to promptly take appropriate action to increase its rates, fees and other charges or reduce its operating and maintenance expenses to cure any deficiency.

Limitation on Creation of Liens

The District agrees that it will not create or permit the existence of any Lien on its Property or upon its Net Revenues other than Permitted Liens.

"Permitted Liens" consist of the following:

(a) Liens arising by reason of good faith deposits with the District in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by the District to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(b) Any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable the District to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with any workers' compensation, unemployment insurance, pension or profit sharing plans or other social security, or to share in the privileges or benefits required for companies participating in such arrangements;

(c) Any judgment lien against the District so long as such judgment is being contested in good faith and execution thereon is stayed;

(d) (i) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property; (ii) any liens on any Property for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent or which, or the amount or validity of which, are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen, laborers, suppliers or vendors, have been due for less than 90 days; (iii) easements, rights-of-way, servitudes, restrictions, oil, gas or other mineral reservations and other minor defects, encumbrances, and irregularities in the title to any Property which do not materially impair the use of such Property or materially and adversely affect the value thereof; (iv) to the extent that it affects title to any Property, the Trust Agreement; and (v) landlord's liens;

(e) Any Lien that was existing on the date of authentication and delivery of the Subordinate 2011 Bonds issued under the Trust Agreement; provided that no such Lien may be increased, extended, renewed or modified to apply to any Property of the District not subject to such Lien on such date or to secure Indebtedness not Outstanding on the date of issuance of the Subordinate 2011 Bonds, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Lien under the Trust Agreement;

(f) Any lien on pledges, gifts or grants to be received in the future, including any income derived from the investment thereof;

(g) The Lien of the Senior Trust Agreement;

(h) Any Lien securing Parity Obligations on a parity basis;

(i) Any Liens on Property received by the District through gifts, grants or bequests, such liens being due to restrictions on such gifts, grants or bequests of Property or the income thereon;

(j) Any Lien on moveable equipment securing Indebtedness incurred to purchase such moveable equipment, provided that the total of such Indebtedness does not exceed 15% of the Net Book Value of the Property, Plant and Equipment of the District as shown on the Financial Statements for the prior Fiscal Year; and

(k) Any Lien on Net Revenues securing Junior Indebtedness; provided that such lien is expressly subordinate and junior to the Lien on Net Revenues Available for Debt Service granted to the Trustee for the payment of principal of, redemption premium, if any, and the interest on the Parity Obligations and to secure the prompt payment of the and the performance by the District of its other obligations under the Trust Agreement.

Designation of Funds

No later than the last Business Day of each month, the District will specifically earmark cash, cash equivalents or marketable securities or any combination thereof in an amount equal to the interest on and the principal of Bonds that will accrue in the next month, taking into account any scheduled maturities of interest or principal scheduled to become due and payable in such month and the funds theretofore earmarked for such purpose. The District may assume that both interest and principal accrue daily from the prior payment date or date of issuance but not more than 12 months prior to a payment date.

Covenants as of Maintenance of Properties

The District covenants in the Trust Agreement:

(a) to cause its Property to be maintained, preserved and kept in good repair, working order and condition and all needed and proper repairs, renewals and replacements thereof to be made; provided, however, that nothing described in this paragraph (a) will be construed to (i) prevent it from ceasing to operate any portion of its Property, if in its judgment (supported, in the case of such a cessation other than in the ordinary course of business by an opinion or certificate of an Independent Consultant) it is advisable not to operate the same, or if it intends to sell or otherwise dispose of the same and within a reasonable time endeavors to effect such sale or other disposition, or (ii) obligate it to retain, preserve, repair, renew or replace any Property, leases, rights, privileges or licenses no longer used or, in the judgment of the Commission, useful in the conduct of its business;

(b) To do all things reasonably necessary to conduct its affairs and carry on its business and operations in such manner as to comply with any and all applicable laws of the United States and the Commonwealth of Virginia and duly observe and conform to all valid orders, regulations or requirements of any governmental authority relative to the conduct of its business and the ownership of its Properties; provided, nevertheless, that nothing contained in the Trust Agreement requires it to comply with, observe and conform to any such law, order, regulation or requirement of any governmental authority so long as the validity thereof or the applicability thereof to it is contested in good faith;

(c) To pay promptly all lawful taxes, governmental charges and assessments at any time levied or assessed upon or against it or its Property; provided, however, that it will have the right to contest in good faith any such taxes, charges or assessments or the collection of any such sums and pending such contest may delay or defer payment thereof;

(d) To pay promptly or otherwise satisfy and discharge all of its Indebtedness and all demands and claims against it as and when the same become due and payable, other than any thereof (exclusive of the Indebtedness created and Outstanding under the Trust Agreement) whose validity, amount or collectability is being contested in good faith;

(e) At all times to comply with all terms, covenants and provisions of any Liens at such time existing upon its Property or any part thereof or securing any of its Indebtedness; and

(f) To procure and maintain all necessary licenses and permits for the operation of its Wastewater System;

provided, however, that it need not comply with the covenants described in this section if and to the extent that the Commission determines in good faith, evidenced by a resolution of the Commission, that such compliance is not in its best interests and that lack of such compliance would not materially impair its ability to pay its Indebtedness when due.

Insurance

(a) The District agrees that it will maintain, or cause to be maintained, the following types of insurance, subject to the provisions described in subsections (b) and (c) below, in such amounts as, in its judgment, are adequate to protect it and its Property and operations from material financial loss: (i) comprehensive general liability insurance, (ii) commercial automobile insurance including owned and hired automobiles, (iii) property coverage on an All Risk basis, and (iv) workers' compensation insurance.

(b) The District will engage an Independent Insurance Consultant to review the insurance requirements of the District (not less frequently than every five years) with the appropriate District personnel and provide a report of its findings to a District Representative. If the Independent Insurance Consultant makes recommendations for the increase, decrease or elimination of any coverage, the District will consider adjusting such coverage in accordance with such recommendations, subject to a good faith determination of the Commission that such recommendations are in the best interests of the District. Notwithstanding anything described in this section to the contrary, the District will have the right, without giving rise to an Event of Default solely on such account, (i) to maintain insurance coverage below that most recently recommended by the Independent Insurance Consultant, if the District furnishes to the Trustee a report of the Independent Insurance Consultant to the effect that the insurance so provided affords the greatest amount of coverage available for the risk being insured against at rates which in the judgment of the Independent Insurance Consultant are reasonable in connection with reasonable and appropriate risk management, or (ii) to adopt alternative risk management programs which the Independent Insurance Consultant determines to be reasonable, including, without limitation, to self-insure in whole or in part individually or in connection with other institutions (but subject to the provisions described in subsection (c) of this section), to participate in programs of captive insurance companies, to participate with other wastewater treatment systems in mutual or other cooperative insurance programs or to participate in state or federal insurance programs, all as may be approved by the Independent Insurance Consultant as reasonable and appropriate risk management by the District.

(c) If the District is self-insured (excluding deductibles) for any coverage, the report of the Independent Insurance Consultant mentioned above will state whether the anticipated funding of any self-insurance fund is actuarially sound, and if not, the required funding to obtain such result, and any such self-insurance coverage will be reviewed by the Independent Insurance Consultant not less frequently than annually. If the Independent Insurance Consultant determines in any such report that the anticipated funding of any self-insurance fund is not actuarially sound, the District covenants that it will undertake to fund such self-insurance fund in the manner recommended by the Independent Insurance Consultant.

Insurance and Condemnation Proceeds

(a) Amounts that do not exceed 20% of the Net Book Value of the Property, Plant and Equipment of the District received by the District as insurance proceeds with respect to any casualty loss or as condemnation awards may be used in such manner as the District may determine, including, without limitation, applying such money to the partial payment or prepayment of any Indebtedness in accordance with the terms thereof and of any pertinent Supplement.

(b) Amounts that exceed 20% of the Net Book Value of the Property, Plant and Equipment received by the District as insurance proceeds with respect to any casualty loss or as condemnation awards will be applied in such manner as the District may determine; provided, however, that the District is to notify the Trustee and within 12 months after the casualty loss or taking, deliver to the Trustee a report of an Independent Consultant stating the Independent Consultant's recommendations, including recommendations as to the use of such proceeds or awards, to cause the Long-Term Debt Service Coverage Ratio for each of the two periods of 12 full consecutive calendar months following the date on which such proceeds or awards are expected to have been fully applied to be not less than 120%, or, if in the opinion of the Independent Consultant the attainment of such level is impracticable, at the highest practicable level.

Annual Budget

The District covenants that on or before the first day of the last month preceding the beginning of each Fiscal Year the Commission will adopt a budget of operating and non-operating revenues and expenses for the ensuing Fiscal Year.

Senior Trust Agreement

The District covenants to observe the covenants of the Commission contained in the Senior Trust Agreement, which are expressly incorporated by reference by the Trust Agreement until there shall be no outstanding Senior Obligations. To the extent the covenants in the Trust Agreement and the covenants contained in the Senior Trust Agreement conflict, for so long as there shall be any outstanding Senior Obligations, the provisions of the covenants contained in the Senior Trust Agreement shall control.

Events of Default

Events of Default under the Trust Agreement are as follows: (a) payment of the purchase price of any Bond shall not be made by the District when the same shall become due and payable; or (b) payment of any installment of interest on any Bond is not made by the District when the same becomes due and payable; or (c) payment of the principal of any Bond is not made by the District when the same becomes due and payable, whether at maturity or by acceleration or otherwise; or (d) default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Trust Agreement or any Supplement to the Trust Agreement, including any covenant, condition, agreement or provision in the Trust Agreement applicable to the District and incorporated by reference in the Trust Agreement, and such default continues for 30 days after receipt by the District of a written notice from the Trustee specifying such default and requiring the same to be remedied; provided, however, if prior to the expiration of such 30 day period the District institutes action reasonably designed to cure such default, no Event of Default is to be deemed to have occurred upon the expiration of such 30-day period for so long as the District pursues such curative action with reasonable diligence and provided that such curative action can be completed within a reasonable time.

Remedies for Default

Upon the happening and continuance of an Event of Default, the Trustee may take whatever action at law or in equity is necessary or desirable (i) in the case of an Event of Default specified in (a), (b) or (c) in the immediately preceding paragraph, to collect the payments of interest installments or principal then due under the Trust Agreement or the Bonds, or (ii) in the case of an Event of Default specified in (d) in the immediately preceding paragraph, to enforce performance, observance or compliance by the District with any covenant, condition, agreement or provision under the Trust Agreement.

Upon the happening and continuance of an Event of Default, the Trustee may, and upon the written request of the Holders of not less than a majority in aggregate principal amount of Bonds then Outstanding is required to, by notice in writing to the District, declare the principal of all Bonds then Outstanding (if not then due and payable) to be due and payable immediately.

However, if at any time after the principal of Bonds has been declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Trust Agreement, (i) money has accumulated in or has been paid into the Bond Fund sufficient to pay the principal of all matured Bonds and all arrears of interest, if any, upon all Bonds then Outstanding (except the principal of

any Bond not then due and payable by its terms and the interest accrued on such Bond since the last Interest Payment Date), and the charges, compensations, expenses, disbursements, advances and liabilities of the Trustee and (ii) all amounts then payable by the District under the Trust Agreement have been paid or a sum sufficient to pay the same has been deposited with the Trustee, and (iii) every other default known to the Trustee in the observance or performance of any covenant, condition or agreement contained in the Bonds or in the Trust Agreement (other than a default in the payment of the principal of such Bonds then due only because of a declaration of acceleration of maturities) has been remedied to the satisfaction of the Trustee, then the Trustee may, and upon the written request of the Holders of not less than a majority in aggregate principal amount of Bonds not then due and payable by their terms (Bonds then due and payable only because of a declaration of acceleration will not be deemed to be due and payable by their terms) and then Outstanding is required to, by written notice to the District, rescind and annul such declaration and its consequences, but no such rescission or annulment will extend to or affect any subsequent Event of Default or impair any right consequent thereon.

Upon the happening and continuance of an Event of Default, the Trustee may, and upon the written request of the Holders of not less than a majority in aggregate principal amount of Bonds then Outstanding, and upon satisfactory indemnification, is required to, proceed either at equity or at law, or by proceedings in the office of any board or officer having jurisdiction to protect and enforce its rights and the rights of the Holders under the laws of the Commonwealth of Virginia or under the Trust Agreement as the Trustee, being advised by counsel chosen by the Trustee, deems most effectual to protect and enforce such rights. The Holders of not less than a majority in aggregate principal amount of Bonds then Outstanding, upon indemnification satisfactory to the Trustee, have the right to direct the method and place of all remedial proceedings to be taken by the Trustee, provided that such direction is in accordance with law and the provisions of the Trust Agreement.

Restrictions upon Actions by Individual Holders

Except for the right of any Holder to enforce the payment of the principal of and interest on such Holder's Bond, no Holder will have any right to institute any suit, action or proceeding in equity or at law on any Bond or for the execution of any trust under the Trust Agreement or for any other remedy under the Trust Agreement unless (a) such Holder previously has given to the Trustee written notice of the particular Event of Default, (b) also the Holders of not less than a majority in aggregate principal amount of Bonds then Outstanding have made a request of the Trustee after the right to exercise such powers or right of action has accrued, and such Holder has afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted in the Trust Agreement or to institute such action, suit or proceedings in its or their name, and (c) there has been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities (including attorney's fees, costs and expenses to be incurred therein or thereby, and the Trustee has refused or neglected to comply with such request within a reasonable time. Notwithstanding the foregoing provisions and without complying therewith, the Holders of not less than a majority in aggregate principal amount of Bonds then Outstanding may institute any such suit, action or proceeding in their own names for the benefits of all Holders of the Bonds.

Notice of Default to Holders

The Trustee is required to give written notice to all Holders of the occurrence of any Event of Default within 30 days after the Trustee has actual notice thereof, provided, however, except upon the occurrence of an Event of Default due to failure by the District to make payments of any installment of interest on or principal or purchase price of any Bond when the same become due and payable within 30 days after the Trustee received notice of the same, the Trustee may withhold such notice to the Holders if in its opinion such withholding is in the interest of the Holders.

Pro-Rata Application of Funds

Notwithstanding anything in the Trust Agreement to the contrary, if at any time the money in the Bond Fund is not sufficient to pay the interest on or the principal of Bonds as the same become due and payable (either by their terms or by acceleration of maturities under the provisions of the Trust Agreement), such money, together with any money then available or thereafter becoming available for such purpose, is to be applied, subject to the compensation and indemnification to the Trustee and Bond Registrar, as follows:

(a) if the principal of all Bonds has not become or has not been declared due and payable, all such money in the Bond Fund is to be applied:

first: to the payment to the persons entitled thereto of all installments of interest on Bonds then due and payable in the order in which such installments became due and payable and, if the amount available is not sufficient to pay in full any particular installment, then to the payment, ratably according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in such Bonds;

second: to the payment to the persons entitled thereto of the unpaid principal of any Bonds that have become due and payable (other than Bonds called for redemption for the payment of which money is held pursuant to the provisions of the Trust Agreement), in the order of their due dates, and, if the amount available is not sufficient to pay in full the principal of Bonds due and payable on any particular date, then to the payment ratably according to the amount of such principal due on such date, to the persons entitled thereto without any discrimination or preference; and

third: to the payment of the interest on and the principal of Bonds, to the purchase and retirement of Bonds due to the redemption of Bonds in accordance with the Trust Agreement and the applicable Series Agreement.

(b) If the principal of all Bonds has become or has been declared due and payable, all such money is to be applied to the payment of principal and interest then due upon the Bonds without preference to the persons entitled thereto, without preference or priority of principal over interest or interest over principal, or of any installment of interest over any other installment of interest or any Bond over any other Bond ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto, without any discrimination or preference.

(c) If the principal of all Bonds has been declared due and payable and if such declaration is thereafter rescinded and annulled due to the remediation of an Event of Default, then, subject to the provisions described in paragraph (b) of this section, in the event that the principal of all Bonds later becomes due and payable or is declared due and payable, the money then remaining in and thereafter accruing to the Bond Fund is to be applied in accordance with the provisions described in paragraph (a) above.

Subordination

Notwithstanding any other provision of the Trust Agreement to the contrary:

(a) In the event of any insolvency or bankruptcy proceedings, and any receivership, liquidation, reorganization or other similar proceedings in connection therewith, relative to the District, as

such, or to its property, and in the event of any proceedings for voluntary liquidation, dissolution or other winding up of the District, whether or not involving insolvency or bankruptcy, the holders of all Senior Obligations then outstanding shall be entitled to receive payment in full of all principal and interest due on all such Senior Obligations in accordance with the provisions of Senior Trust Agreement and the resolutions or other instruments authorizing their issuance before the Trustee and the Holders of the Parity Obligations are entitled to receive any payment from the Net Revenues Available for Debt Service or other money pledged to the Parity Obligations on account of principal (and premium, if any) or interest upon the Parity Obligations.

(b) In the event that the Parity Obligations are declared due and payable before their stated maturity because of the occurrence of an Event of Default (under circumstances when the provisions described in paragraph (a) above are not applicable), the holders of all Senior Obligations outstanding at the time the Parity Obligations become due and payable because of such occurrence of such an Event of Default shall be entitled to receive payment in full of all principal and interest on all such Senior Obligations before the Holders of the Parity Obligations are entitled to receive any accelerated payment from the Net Revenues Available for Debt Service and other money pledged to the Parity Obligations of principal (and premium, if any) or interest upon the Parity Obligations.

(c) If any event of default with respect to the Senior Obligations shall have occurred and be continuing (under circumstances when the provisions described in paragraph (a) above are not applicable), the holders of all such Senior Obligations then outstanding shall be entitled to receive payment in full of all principal and interest on all such Senior Obligations as the same become due and payable before the Holders of the Parity Obligations are entitled to receive, subject to the provisions of paragraph (e) below, any payment from the Net Revenues Available for Debt Service and other money pledged to the Parity Obligations under this Trust Agreement of principal (and premium, if any) or interest upon the Parity Obligations.

(d) No holder of Senior Obligations shall be prejudiced in his right to enforce subordination of the Parity Obligations by any act or failure to act on the part of the District.

(e) The provisions described in paragraphs (a), (b), (c) and (d) above are solely for the purpose of defining the relative rights of the holders of the Senior Obligations on the one hand, and the Holders of Parity Obligations on the other hand, and nothing in the Trust Agreement is to impair, as between the District and the Holders of the Parity Obligations, the obligation of the District, which shall be unconditional and absolute, to pay to the Holders of the Parity Obligations the principal thereof and premium, if any, and interest on the Parity Obligations, respectively, in accordance with their terms, nor shall anything in the Trust Agreement prevent the Holders of the Parity Obligations from exercising all remedies otherwise permitted by applicable law or thereunder upon default thereunder, subject to the rights described in paragraphs (a), (b), (c) and (d) above of the holders of the Senior Obligations to receive cash, property or securities from the Net Revenues and other money pledged to such Senior Obligations otherwise payable or deliverable to the Holders of the Parity Obligations; and insofar as the Bond Registrar, Depository or Trustee is concerned, the foregoing provisions shall not prevent the application of any moneys deposited with the Bond Registrar, Depository or Trustee for the purpose of the payment of or on account of the principal (and premium, if any) and interest on the Parity Obligations if it did not have written notice or actual knowledge at the time of such application that such payment was prohibited by the foregoing provisions.

Supplemental Trust Agreements without Consent of Holders

The District and the Trustee may without the consent of or notice to any of the Holders, enter into agreements supplemental to the Trust Agreement as are substantially consistent with the terms and provisions of the Trust Agreement:

(a) to cure any ambiguity or formal defect or omission, to correct or supplement any provision of the Trust Agreement that may be inconsistent with any other provision of the Trust Agreement, to make any other provisions with respect to matters or questions arising under the Trust Agreement, or to modify, alter, amend, add to or rescind, in any particular, any of the terms or provisions contained in the Trust Agreement, or

(b) to grant to or confer upon the Trustee for the benefit of the Holders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Holders or the Trustee, or

(c) to add to the provisions of the Trust Agreement other conditions, limitations and restrictions thereafter to be observed, or

(d) to add to the covenants and agreements of the District in the Trust Agreement other covenants and agreements thereafter to be observed by the District or to surrender any right or power reserved in the Trust Agreement to or conferred upon the District, or

(e) to permit the qualification of the Trust Agreement under any federal statute now or hereafter in effect or under any state Blue Sky law, and, in connection therewith, if the District so determines, to add to the Trust Agreement or any supplemental trust agreement such other terms, conditions and provisions as may be permitted or required by such federal statute or Blue Sky law, or

(f) to provide for the issuance of Bonds under a book-entry system, or

(g) to make any other change in the Trust Agreement that, in the judgment of the District, expressed in a resolution of the Commission, and the Trustee, each of which may rely upon a written Opinion of Counsel, will not materially and adversely affect the Holders of the Bonds of each series that will be affected by such supplement.

Modification of Trust Agreement with Consent of Holders

The Holders of not less than a majority of the aggregate principal amount of Bonds then Outstanding will have the right to consent to and approve the execution and delivery by the District and the acceptance by the Trustee of such trust agreement or trust agreements supplemental to the Trust Agreement as deemed necessary or desirable by the District for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, the Trust Agreement; provided, however, that nothing contained in the Trust Agreement will permit, or be construed as permitting (a) an extension of the maturity of the principal of or the interest on any Bonds issued under the Trust Agreement without the consent of the Holders of such Bonds, or (b) a reduction in the principal amount of any Bonds or the rate of interest thereon without the consent of the Holders of such Bonds, or (c) the creation of a pledge of receipts and revenues superior to the pledge created by the Trust Agreement without the consent of the Holders of all Bonds Outstanding, or (d) a preference or priority of any Bond over any other Bond without the consent of the Holders of all Bonds Outstanding, or (e) a reduction in the aggregate principal amount of Bonds required for consent to such supplemental trust agreement without the consent of the Holders of all Bonds Outstanding.

If the District requests the Trustee to enter into any supplemental trust agreement described in the immediately preceding paragraph, the Trustee will cause notice of the proposed supplemental trust agreement to be mailed to all Holders. If the Holders of not less than a majority in aggregate principal amount of Bonds Outstanding at the time of the execution of such supplemental trust agreement have consented to and approved the execution, no Holder will have any right to object to the adoption of such supplemental trust agreement.

Defeasance

(a) When the Bonds become due and payable and the whole amount of the principal and the interest so due and payable upon all Bonds is required to be paid, and (b) if the Bonds have not become due and payable, the Trustee or the Bond Registrar holds, sufficient money or Defeasance Obligations, or a combination of money and Defeasance Obligations, the principal of and the interest on which, when due and payable, will provide sufficient money to pay the principal of, and the interest on, all Bonds then Outstanding to the maturity date or dates of such Bonds and (c) sufficient funds also have been provided or provision has been made for paying all other obligations payable under the Trust Agreement by the District, then and in that case the right, title and interest of the Trustee in the funds and accounts mentioned in the Trust Agreement will thereupon cease, determine and become void and, on demand of the District and upon being furnished with an opinion, satisfactory to the Trustee, of counsel approved by the Trustee, to the effect that all conditions precedent to the release of the Trust Agreement have been satisfied, the Trustee will release the Trust Agreement and will execute such documents to evidence such release as may reasonably be required by the District and will turn over to the District any surplus in, and all balances remaining in, all funds and accounts.

Otherwise, the Trust Agreement will continue to be and remain in full force and effect; provided, that, in the event Defeasance Obligations are deposited with and held by the Trustee or the Bond Registrar as provided for above, (i) the Trustee will nevertheless retain such rights, powers and privileges under the Trust Agreement as may be necessary and convenient in respect of the Bonds for the payment of the principal and interest for which such Defeasance Obligations have been deposited, and (ii) the Bond Registrar will retain such rights, powers and privileges under the Trust Agreement as may be necessary and convenient for the registration, transfer and exchange of Bonds.

Release of First Supplemental Trust Agreement

When (a) the Subordinate 2011 Bonds shall have become due and payable in accordance with their terms or otherwise as provided in the First Supplemental Trust Agreement, the whole amount of the principal and the interest so due and payable upon all Subordinate 2011 Bonds shall be paid, (b) if the Subordinate 2011 Bonds shall not have become due and payable in accordance with their terms, the Trustee or the Bond Registrar shall hold, sufficient money or Defeasance Obligations, or a combination of money and Defeasance Obligations, the principal of and the interest on which, when due and payable, will provide sufficient money to pay the principal of, and the interest on, all Subordinate 2011 Bonds then Outstanding to the maturity date or dates of such Subordinate 2011 Bonds and (c) sufficient funds shall also have been provided or provision made for paying all other obligations payable under the First Supplemental Trust Agreement by the District, then and in that case the right, title and interest of the Trustee in the funds and accounts mentioned in the First Supplemental Trust Agreement shall thereupon cease, determine and become void and, on demand of the District and upon being furnished with an opinion, in form and substance satisfactory to the Trustee, of Bond Counsel, to the effect that all conditions precedent to the release of the First Supplemental Trust Agreement have been satisfied, the Trustee shall release the First Supplemental Trust Agreement and shall execute such documents to evidence such release as may reasonably be required by the District and, subject to the provisions of the Trust Agreement, shall turn over to the District any surplus in, and all balances remaining in, all funds

and accounts, *provided, that*, if the Subordinate 2011 Bonds bear interest at the Weekly Interest Rate, the escrow agreement or other instrument providing for the redemption or defeasance of such Subordinate 2011 Bonds shall provide that (a) for purposes of determining the interest payable on any Subordinate 2011 Bonds to be called for redemption, for any period during which the actual interest rate on the Subordinate 2011 Bonds is not known as of the effective date of such agreement or instrument (the “Escrow Period”), the assumed interest rate shall equal the Maximum Interest Rate, (b) such Subordinate 2011 Bonds to be called for redemption shall be called for redemption on earliest possible date permitted under the First Supplemental Trust Agreement and (c) that the Purchase Price of any Subordinate 2011 Bonds tendered at the option of the holders thereof during the Escrow Period shall be payable from the money or Defeasance Obligations (which Defeasance Obligations shall consist of Demand Deposit State and Local Government Series securities (“Demand Deposit SLGs”), if Demand Deposit SLGs are available from the United States Treasury as of the date the escrow portfolio is structured and the date such escrow is funded) deposited with the Trustee or 2011 Bond Registrar under the escrow agreement or other instrument or, if the District shall have delivered to the Trustee a Credit Facility or Alternate Credit Facility, from the Credit Facility or Alternate Credit Facility, as the case may be, *provided, further*, that if the 2011 Bonds bear interest in a Long-Term Interest Rate Period and are to be redeemed more than ninety (90) days after the date the escrow therefor is established, the Trustee will be entitled to a verification report prepared by an independent firm of certified public accountants or other qualified financial consultants stating that the money and Defeasance Obligations, together with investment earnings thereon, delivered to or held by the Trustee or Bond Registrar, will be sufficient to pay the principal and redemption price of, and interest on the 2011 Bonds called for redemption to their maturity or redemption date, as applicable. Otherwise, the First Supplemental Trust Agreement shall be, continue and remain in full force and effect; provided, that, in the event Defeasance Obligations shall be deposited with and held by the Trustee or the Bond Registrar as hereinabove provided, (a) the Trustee shall nevertheless retain such rights, powers and privileges under the First Supplemental Trust Agreement as may be necessary and convenient in respect of the Subordinate 2011 Bonds for the payment of the principal and interest for which such Defeasance Obligations have been deposited, and (b) the Bond Registrar shall retain such rights, powers and privileges under the First Supplemental Trust Agreement as may be necessary and convenient for the registration, transfer and exchange of Subordinate 2011 Bonds.

Removal of Trustee

The Trustee may be removed at any time by an instrument or concurrent instruments in writing, (i) executed by the Holders of not less than a majority in aggregate principal amount of Bonds then Outstanding and filed with the District, or (ii) so long as no Event of Default has occurred and is continuing, an instrument executed by the District, not less than 60 days before such removal is to take effect as stated in said instrument or instruments. The Trustee may also be removed at any time for acting or proceeding in violation of, or for failing to act or proceed in accordance with, any provisions of the Trust Agreement with respect to the duties and obligations of the Trustee by any court of competent jurisdiction upon the application of the District or the Holders of not less than a majority in aggregate principal amount of Bonds then Outstanding.

Waiver of Jury Trial

To the extent permitted by law, the Commission, the District, the Trustee, and by their acceptance and ownership of the Subordinate 2011 Bonds, all Holders, waive any rights to a trial by jury.

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PROPOSED OPINION OF BOND COUNSEL

_____, 2011

Hampton Roads Sanitation District Commission
Virginia Beach, Virginia

We have examined Chapter 66 of the Acts of Assembly of Virginia of 1960, as amended (the “Act”), and certified copies of the proceedings of the Hampton Roads Sanitation District Commission (the “Commission”), the governing body of Hampton Roads Sanitation District (a political subdivision of the Commonwealth of Virginia and herein sometimes called the “District”), authorizing the execution and delivery of a Trust Agreement and the First Supplemental Trust Agreement (the Trust Agreement as so supplemented, the “Trust Agreement”), each dated as of October 1, 2011 and by and between the District and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), and the issuance of

\$25,000,000

HAMPTON ROADS SANITATION DISTRICT

Subordinate Wastewater Revenue Bonds

Series 2011

Dated, maturing, subject to redemption, and bearing interest,
all as provided in the Trust Agreement.

Pursuant to the Trust Agreement, as security for the payment of the amounts due on the above-captioned bonds (the “Bonds”), the District has pledged its Net Revenues Available for Debt Service to the Trustee. The District’s Net Revenues Available for Debt Service consist of all revenues derived by the District from the Wastewater System (as defined in the Trust Agreement) except such part of such revenues as may be required to pay (i) the cost of maintaining, repairing and operating such Wastewater System and (ii) Senior Obligations.

For purposes of the opinions in paragraphs 1, 2 and 3 below, we have relied upon the opinion of Kellam, Pickrell, Cox & Tayloe, A Professional Corporation, to the effect that the resolutions of the Commission authorizing the Bonds and approving the Trust Agreement were duly adopted.

We have also examined one of the Bonds, as executed and authenticated.

Based upon such examination, we are of the opinion that:

1. The Bonds have been duly authorized, executed and issued for the purpose of providing funds, together with other available funds, to finance a portion of the District's 2012-2021 Capital Improvement Plan (as defined in the Trust Agreement) and pay certain expenses incurred in connection with the issuance of the Bonds.

2. The Trust Agreement has been duly authorized and executed by the District and, assuming due authorization and execution by the Trustee, is a valid, binding and enforceable obligation of the District in accordance with its terms.

3. The Bonds are valid and binding special obligations of the District payable solely from the Net Revenues Available for Debt Service and other funds pledged as security therefor under the Trust Agreement.

4. The Bonds do not constitute a debt of the Commonwealth of Virginia or of any county, city, town or political subdivision thereof, or a pledge of the faith and credit of the Commonwealth of Virginia or of any county, city, town or political subdivision thereof. The issuance of the Bonds does not directly or indirectly or contingently obligate the Commonwealth of Virginia or any county, city, town or political subdivision thereof to levy or to pledge any form of taxation whatever therefor.

5. Assuming compliance by the District with its covenant to comply with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), with respect to the Bonds, and except as provided in the following sentence, interest on the Bonds is not includable in the gross income of the owners of the Bonds for purposes of federal income taxation under existing law. Interest on the Bonds will be includable in the gross income of the owners thereof retroactive to the date of issue of the Bonds in the event of a failure by the District to comply with applicable requirements of the Code, and covenants regarding use, expenditure, and investment of proceeds of the Bonds and the timely payment of certain investment earnings to the United States Treasury. We render no opinion as to the exclusion from gross income of the interest on the Bonds for federal income tax purposes on or after the date on which any action is taken affecting such covenants upon the approval of counsel other than ourselves. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum tax. Such interest will, however, be included in the calculation of the alternative minimum tax imposed on corporations by the Code. The Code contains other provisions that could result in tax consequences, as to which we express no opinion, as a result of ownership of such Bonds or the inclusion in certain computations (including without limitation those related to the corporate alternative minimum tax) of interest that is excluded from gross income.

6. As provided by the Act, the Bonds, their transfer and the income therefrom, including any profit made on the sale thereof, shall be free and exempt from taxation by the Commonwealth of Virginia and any political subdivision thereof.

The enforceability of the Trust Agreement and the obligations of the District with respect to such documents described above are subject to bankruptcy, insolvency, fraudulent conveyance, reorganization and other laws affecting creditors' rights generally. To the extent that the remedies under the Trust Agreement require enforcement by a court of equity, the enforceability thereof may be limited by such principles of equity as the court having jurisdiction may impose.

Respectfully submitted,

**FORM OF
CONTINUING DISCLOSURE AGREEMENT**

This Continuing Disclosure Agreement (the “Disclosure Agreement”), dated as of October 1, 2011, is executed and delivered by Hampton Roads Sanitation District (the “District”) in connection with the issuance by the District of its Subordinate Wastewater Revenue Bonds, Series 2011 (the “Bonds”), pursuant to the provisions of a Trust Agreement, dated as of October 1, 2011, as supplemented (the “Trust Agreement”), by and between the District and The Bank of New York Mellon Trust Company, N.A., as trustee. The proceeds of the Bonds are being used by the District to provide funds for its Capital Improvement Program. The District hereby covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the District for the benefit of the holders of the Bonds and in order to assist the Participating Underwriters (defined below) in complying with the Rule (defined below). The District acknowledges that it is undertaking primary responsibility for any reports, notices or disclosures that may be required under this Disclosure Agreement.

SECTION 2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Dissemination Agent” shall mean the District, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

“Filing Date” shall have the meaning given to such term in Section 3(A) hereof.

“Fiscal Year” shall mean the twelve-month period at the end of which financial position and results of operations are determined. Currently, the District’s Fiscal Year begins July 1 and continues through June 30 of the next calendar year.

“Holder” or “holder” shall mean, for purposes of this Disclosure Agreement, any person who is a record owner or beneficial owner of a Bond.

“Listed Events” shall mean any of the events listed in subsection (b)(5)(i)(C) of the Rule, which are as follows:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;

- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Notes, or other material events affecting the tax status of the Notes;
- (vii) modifications to rights of security holders, if material;
- (viii) bond calls, if material, and tender offers;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Notes, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar event of the District;
- (xiii) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and appointment of a successor or additional paying agent or the change of name of a paying agent, if material; and
- (xiv) appointment of a successor or additional paying agent or the change of name of a paying agent, if material.

“Participating Underwriter” shall mean the original underwriter of the Bonds required to comply with the Rule in connection with the offering of such Bonds.

“Repository” shall mean The Electronic Municipal Market Access (“EMMA”) system administered by the Municipal Securities Rulemaking Board. EMMA is recognized as the sole Repository for purposes of the Rule.

“Rule” shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

A. The District shall, or shall cause the Dissemination Agent to, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Such Annual Report shall be filed on a date (the “Filing Date”) that is not later than December 31 after the end of any Fiscal Year (commencing with its Fiscal Year ending June 30, 2012). Not later than ten (10) days prior to the Filing Date, the District shall provide the Annual Report to the Dissemination Agent (if applicable). In such case, the Annual Report (i) may be submitted as a single document or as separate documents comprising a package, (ii) may cross-reference other information as provided in Section 4 of this Disclosure Agreement and (iii) shall include the District’s audited financial statements or, if audited financial statements are not available, such unaudited financial statements as may be required by the Rule.

In any event, audited financial statements of the District must be submitted, if and when available, together with or separately from the Annual Report.

B. The annual financial statements of the District shall be prepared on the basis of generally accepted accounting principles and will be audited. Copies of the audited annual financial statements, which may be filed separately from the Annual Report, will be filed with the Repository when they become publicly available.

C. If the District fails to provide an Annual Report to the Repository by the date required in subsection A hereto or to file its audited annual financial statements with the Repository when they become publicly available, the District shall send a notice to the Repository in substantially the form attached hereto as Exhibit B.

SECTION 4. Content of Annual Reports. Except as otherwise agreed, any Annual Report required to be filed hereunder shall contain or incorporate by reference, at a minimum, annual financial information relating to the District, including operating data, updating such information relating to the District as described in Exhibit A, all with a view toward assisting the Participating Underwriter in complying with the Rule.

Any or all of such information may be incorporated by reference from other documents, including official statements of securities issues with respect to which the District is an “obligated person” (within the meaning of the Rule), which have been filed with the Repository or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Repository. The District shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Listed Events. The District will provide in a timely manner, not in excess of ten business days after the occurrence of the event, to the Repository, notice of any of the Listed Events, if material.

SECTION 6. Termination of Reporting Obligation. The District’s obligations under this Disclosure Agreement shall terminate upon the earlier to occur of the legal defeasance and final retirement of all the Bonds.

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the District shall be the Dissemination Agent.

SECTION 8. Amendment. Notwithstanding any other provision of this Disclosure Agreement, the District may amend this Disclosure Agreement, if such amendment is supported by an opinion of independent counsel with expertise in federal securities laws, to the effect that such amendment is permitted or required by the Rule.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this

Disclosure Agreement, the District shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. Any person referred to in Section 12 (other than the District) may take such action as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to file its Annual Report or to give notice of a Listed Event. The holders of not less than a majority in aggregate principal amount of Bonds Outstanding may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to challenge the adequacy of any information provided pursuant to this Disclosure Agreement, or to enforce any other obligation of the District hereunder. A default under this Disclosure Agreement shall not be deemed an event of default under the Trust Agreement or the Bonds, and the sole remedy under this Disclosure Agreement in the event of any failure of the District to comply herewith shall be an action to compel performance. Nothing in this provision shall be deemed to restrict the rights or remedies of any holder pursuant to the Securities Exchange Act of 1934, the rules and regulations promulgated thereunder, or other applicable laws.

SECTION 11. Format of Filings. Unless otherwise required by the Repository, all notice, documents and information provided to the Repository pursuant to this Disclosure Agreement shall be provided to EMMA, the current Internet address of which is www.emma.msrb.org. All notices, documents and information provided to the EMMA shall be provided in an electronic format prescribed by the Repository (currently, portable document format (pdf) which must be word-searchable except for non-textual elements) and shall be accompanied by identifying information as prescribed by the Repository.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the District, the Participating Underwriters and the holders from time to time of the Bonds, and shall create no rights in any other person or entity.

HAMPTON ROADS SANITATION DISTRICT

By: _____
Director of Finance

**CONTENT OF ANNUAL REPORT
HAMPTON ROADS SANITATION DISTRICT**

(a) **Financial Information.** Updated information including summary financial results, treatment charge collection rate, revenue collections from the District's largest customers, and a five-year comparison of revenues, expenses, debt service and debt service coverage ratios.

(b) **Debt Information.** Updated information including the debt service requirements of long-term indebtedness.

(c) **Operating Data.** Updated operating data including wastewater flows to the Wastewater System and its major treatment plants, the treatment capacities of its major treatment plants, total billed wastewater flows, and changes in rates and charges.

In general, the foregoing will include information as of the end of the most recent fiscal year or as of the most recent practicable date. Where information for the fiscal year just ended is provided, it may be preliminary and unaudited. Where information has historically been provided for more than a single period, comparable information will in general be provided for the same number of periods where valid and available. Where comparative demographic or economic information for the District and the United States as a whole is contemporaneously available and, in the judgment of the District, informative, such information may be included. Where, in the judgment of the District, an accompanying narrative is required to make data presented not misleading, such narrative will be provided.

**NOTICE OF FAILURE TO FILE ANNUAL REPORT
[AUDITED ANNUAL FINANCIAL STATEMENTS]**

**Re: HAMPTON ROADS SANITATION DISTRICT
SUBORDINATE WASTEWATER REVENUE BONDS,
SERIES 2011**

CUSIP NO.: 409327DV2

Dated:

NOTICE IS HEREBY GIVEN that Hampton Roads Sanitation District has not provided an Annual Report [Audited Annual Financial Statements] as required by Section 3 of the Continuing Disclosure Agreement, which was entered into in connection with the above-named bonds, the proceeds of which were used to finance a portion of the District's capital improvement program. [The District anticipates that the Annual Report [Audited Annual Financial Statements] will be filed by _____.]

Dated: _____

HAMPTON ROADS SANITATION DISTRICT

By _____

THE DEPOSITORY TRUST COMPANY

The Depository Trust Company (DTC), the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provision of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Subordinate 2011 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Subordinate 2011 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2011 Bond (the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Subordinate 2011 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Subordinate 2011 Bonds, except if use of the book-entry system for the Subordinate 2011 Bonds is discontinued.

To facilitate subsequent transfers, all Subordinate 2011 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Subordinate 2011 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Subordinate 2011 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Subordinate 2011 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Subordinate 2011 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Subordinate 2011 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Subordinate 2011 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments on the Subordinate 2011 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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