NEW ISSUE-FULL BOOK-ENTRY ONLY

RATINGS:
Moody's: Aa2
Standard & Poor's: ....AAA
Fitch: ....AA+

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 Series 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 Series 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 Series 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 Series 2011 Bonds for certain bondholders.

$45,705,000
Hampton Roads Sanitation District, Virginia
Wastewater Revenue Bonds, Series 2011

Dated: Date of Issue **Due: As shown on the inside cover**

The Series 2011 Bonds are being issued under a Trust Agreement, dated as of March 1, 2008, as 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 Series 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 Series 2011 Bonds. The Series 2011 Bonds will be available to purchasers in denominations of $5,000 and any whole multiple thereof 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 SERIES 2011 BONDS—Book-Entry Only System" herein. Interest on the Series 2011 Bonds is payable on each May 1 and November 1, commencing May 1, 2012.

The Series 2011 Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein.

THE SERIES 2011 BONDS ARE SPECIAL OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM THE NET REVENUES AND OTHER FUNDS PLEDGED TO SECURE THE SERIES 2011 BONDS UNDER THE TRUST AGREEMENT. THE SERIES 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 SERIES 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 Series 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 underwriters by Hunton & Williams LLP, Richmond, Virginia. It is expected that the Series 2011 Bonds will be available for delivery to The Depository Trust Company in New York, New York, on or about October 20, 2011.

Morgan Stanley

BB&T Capital Markets **Morgan Keegan**

October 4, 2011

$45,705,000
Hampton Roads Sanitation District, Virginia
Wastewater Revenue Bonds, Series 2011

MATURITIES, AMOUNTS, INTEREST RATES AND YIELDS
Base CUSIP Number: 409327

$36,955,000 Serial Bonds

Due November 1	Principal Amount	Interest Rate	Yield	CUSIP Suffix[1]
2012	$1,775,000	2.00%	0.32%	DX8
2013	1,480,000	2.00	0.42	DY6
2014	1,280,000	3.00	0.61	DZ3
2015	1,320,000	3.00	0.81	EA7
2016	1,360,000	3.00	1.17	EB5
2017	1,410,000	4.00	1.45	EC3
2018	1,465,000	4.00	1.74	ED1
2019	1,525,000	4.00	2.04	EE9
2020	1,595,000	5.00	2.29*	EF6
2021	1,675,000	5.00	2.43*	EG4
2022	1,765,000	5.00	2.60*	EH2
2023	1,855,000	5.00	2.78*	EJ8
2024	1,950,000	5.00	2.98*	EK5
2025	660,000	3.00	3.10	EL3
2025	1,380,000	5.00	3.10*	EU3
2026	2,130,000	4.00	3.21*	EM1
2027	2,225,000	5.00	3.30*	EP4
2028	2,345,000	5.00	3.40*	EQ2
2029	500,000	4.00	3.50*	ER0
2029	1,960,000	5.00	3.50*	EV1
2030	2,585,000	5.00	3.60*	ES8
2031	2,715,000	5.00	3.67*	ET6

$8,750,000 5.00% Term Bonds due November 1, 2034, Priced to Yield 3.78%*, CUSIP Suffix EN9

---

* Priced at the stated yield to the November 1, 2019 optional redemption date.

[1] CUSIP® is a registered trademark of the American Bankers Association. The CUSIP numbers listed above are being provided solely for the convenience of bondholders only, and the District does not make any representation with respect to such numbers or undertake any responsibility for their accuracy. The CUSIP numbers are subject to being changed after the issuance of the Series 2011 Bonds.

HAMPTON ROADS SANITATION DISTRICT

COMMISSIONERS

VISHNU K. LAKDAWALA, Ph.D., *Chair*

B. ANNE DAVIS, *Vice Chair*

ARTHUR C. BREDEMEYER
MICHAEL E. GLENN
MAURICE P. LYNCH, Ph.D.
FREDERICK N. ELOFSON, CPA
GERALD S. JOHNSON
I. VINCENT BEHM, JR.

STAFF

EDWARD G. HENIFIN, P.E.
General Manager

DONALD C. CORRADO
Director of Information Services

STEVEN G. de MIK, CPA
Director of Finance

PHILLIP L. HUBBARD, P.E.
Special Assistant for Compliance Assurance

BRUCE W. HUSSELBEE, P.E.
Director of Engineering

NORMAN E. LeBLANC
Director of Water Quality

G. DAVID WALTRIP, P.E.
Director of Operations

JENNIFER L. HEILMAN
Secretary

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

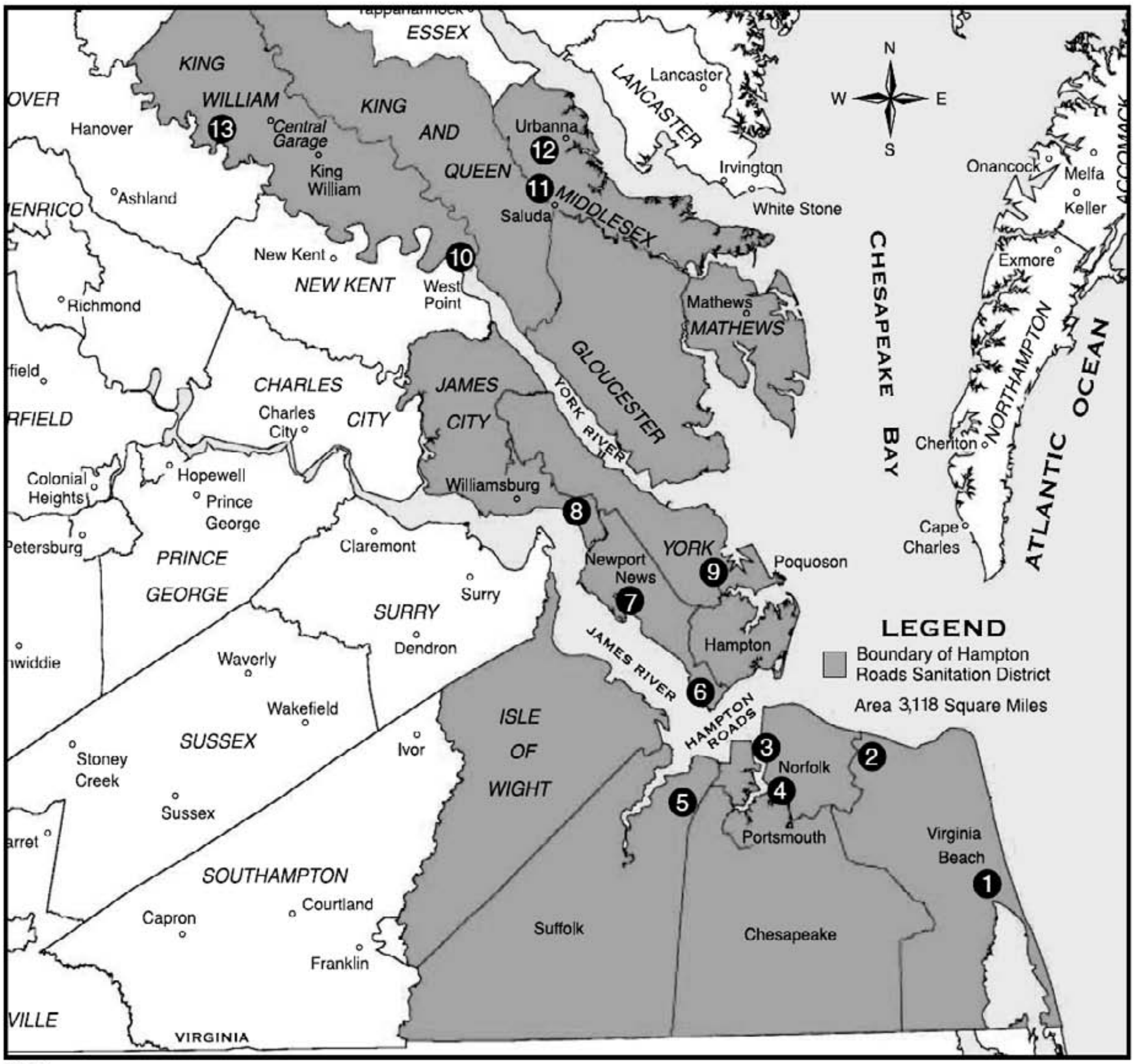
HRSD

A Political Subdivision of the Commonwealth of Virginia

Major facilities include the following treatment plants:

1. Atlantic, Virginia Beach
2. Chesapeake-Elizabeth, Va. Beach
3. Army Base, Norfolk
4. Virginia Initiative, Norfolk
5. Nansemond, Suffolk
6. Boat Harbor, Newport News
7. James River, Newport News
8. Williamsburg, James City County
9. York River, York County
10. West Point, King William County
11. Central Middlesex, Middlesex County
12. Urbanna, Middlesex County
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 Series 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 Series 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 Series 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 Series 2011 Bonds in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their 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 Underwriters do 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 SERIES 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.

TABLE OF CONTENTS

[THIS PAGE INTENTIONALLY LEFT BLANK]

Official Statement

Hampton Roads Sanitation District, Virginia

Relating to its
$45,705,000
Wastewater Revenue Bonds, Series 2011

INTRODUCTION

The purpose of this Official Statement, which includes the cover and inside cover pages 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 $45,705,000 aggregate principal amount Wastewater Revenue Bonds, Series 2011 (the "Series 2011 Bonds").

The Series 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 Series 2011 Bonds. The Commission is issuing the Series 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 Series 2011 Bonds by the District.

The Series 2011 Bonds are special obligations of the District payable solely from the Net Revenues (hereinafter defined) derived by the District from the operation of its Wastewater System (hereinafter defined) and other funds pledged to secure the Series 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 Series 2011 Bonds under the Trust Agreement, dated as of March 1, 2008, as amended and supplemented (the "Trust Agreement"), by and between the District and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee").

The District expects to issue $25,000,000* aggregate principal amount of its Subordinate Wastewater Revenue Bonds, Series 2011 (the "Subordinate 2011 Bonds") on or about October 20, 2011. The Subordinate 2011 Bonds will constitute "Subordinated Indebtedness" under the Trust Agreement. Proceeds of the Subordinate 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 Series 2011 Bonds is not contingent upon the issuance of the Subordinate 2011 Bonds. The Subordinate 2011 Bonds will be offered by means of a separate official statement. See "PLAN OF FINANCING – Subordinate 2011 Bonds."

This Official Statement contains a brief description of the Series 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

* *Preliminary, subject to change.*

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 Series 2011 Bonds and the Trust Agreement are included in Appendix C.

PLAN OF FINANCING

Series 2011 Bonds

The proceeds of the Series 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 Series 2011 Bonds. See "THE SYSTEM—Capital Improvement Program."

Subordinate 2011 Bonds

The proceeds of the Subordinate 2011 Bonds will be applied to finance a portion of the costs of the Capital Improvement Program and pay the costs of issuing the Subordinate 2011 Bonds. The Subordinate 2011 Bonds will be issued as multi-modal bonds bearing interest initially at a variable rate, maturing on November 1, 2041. As of the date hereof, the District does not anticipate delivering a liquidity facility to pay the purchase price of any Subordinate 2011 Bonds tendered by the holders thereof and will provide self-liquidity for such tendered Subordinate 2011 Bonds.

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

Future Financing

Subject to the following paragraphs, the District currently has no plans to issue 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 Bonds.

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 "- Subordinate Obligations."

SOURCES AND USES OF FUNDS

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

Sources

Principal Amount of Series 2011 Bonds	$45,705,000.00
Net Bond Premium	4,834,603.95
Total Sources of Funds	$50,539,603.95

Uses

Deposit to Construction Fund	$50,000,000.00
Issuance Expenses[1]	539,603.95
Total Uses of Funds	$50,539,603.95

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

THE SERIES 2011 BONDS

Description

The Series 2011 Bonds will be dated, bear interest and mature as set forth on the cover and inside cover pages of this Official Statement. The Series 2011 Bonds are issuable as registered bonds without coupons in the denomination of $5,000 or any whole multiple thereof as provided in the Trust Agreement. Interest will be payable on each May 1 and November 1, commencing May 1, 2012. The principal of and the interest on the Series 2011 Bonds will be payable as described below under "Book-Entry Only System."

Book-Entry Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2011 Bonds. The Series 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 Series 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 Series 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 Series 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 Series 2011 Bonds will be printed and delivered.

Redemption Provisions

Optional Redemption

The District may, at its option, redeem the Series 2011 Bonds due after November 1, 2019, prior to their respective maturities, in whole or in part, on any date beginning November 1, 2019, at a redemption price of par, together with interest accrued to the date fixed for redemption.

Mandatory Redemption

The Series 2011 Bonds due on November 1, 2034 are subject to mandatory sinking fund redemption on November 1 in the following years in the following principal amounts ("Sinking Fund Requirements") at a redemption price equal to par, together with interest accrued to the date of redemption.

Term Bonds due November 1, 2034

Year	Sinking Fund Requirement
2032	$2,855,000
2033	3,000,000
2034	2,895,000†

† Unamortized balance at maturity.

In the event of a partial optional redemption or purchase of such term bonds, the District will credit the principal amount of such term bonds so purchased or redeemed against the Sinking Fund Requirements for the remaining term bonds outstanding in such amounts and in such years as it in its sole discretion shall determine.

Notice of Redemption

Notice of redemption is to be given not more than 60 nor less than 30 days before the redemption date by first class mail to the registered owner or owners of the Series 2011 Bonds or portions thereof to be redeemed; provided, however, that any defect in such notice or the failure so to mail any such notice to any owners of any Series 2011 Bonds will not affect the validity of the proceedings for the redemption of any other Series 2011 Bonds. **During the period that DTC or its nominee is the registered holder of the Series 2011 Bonds, the Bond Registrar will not be responsible for mailing notices of redemption to the beneficial owners of the Series 2011 Bonds. See "—Book-Entry Only System" above and Appendix F.** Each such notice will set forth the Series 2011 Bonds or portions thereof to be redeemed, the date fixed for redemption, the redemption price to be paid, and if less than all the Series 2011 Bonds will be called for redemption, the maturities of the Series 2011 Bonds to be redeemed and shall otherwise comply with Securities Exchange Act of 1934 Release No. 34-23856, dated December 3, 1986, including the requirement that notice be given to all organizations registered with the Securities and Exchange Commission as securities depositories, and to one or more information services of national recognition which disseminate redemption information with respect to tax-exempt securities. If any Series 2011 Bond is to be redeemed in part only, the notice of redemption will state also that on or after the redemption date, upon surrender of such Series 2011 Bond, a new Series 2011 Bond of authorized denominations and in principal amount equal to the unredeemed portion of such Series 2011 Bond will be issued.

Any notice of optional redemption of the Series 2011 Bonds may state that it is conditioned upon there being available an amount of money sufficient to pay the Redemption Price, consisting of par plus interest accrued and unpaid to the redemption date, and any conditional notice so given may be rescinded at any time before the payment of the Redemption Price if any such condition so specified is not satisfied. If a redemption does not occur after a conditional notice is given due to an insufficient amount of funds on deposit with the Trustee, the corresponding notice of redemption will be deemed to be revoked.

If the District gives an unconditional notice of redemption, then on the redemption date the Series 2011 Bonds called for redemption will become due and payable. If the District gives a conditional notice of redemption and money to pay the Redemption Price of the affected Series 2011 Bonds has been set aside in escrow with the Trustee for the purpose of paying such Series 2011 Bonds, then on the redemption date such Series 2011 Bonds will become due and payable. In either case, if on the redemption date the Trustee holds money to pay the Series 2011 Bonds called for redemption, thereafter no interest will accrue on those Series 2011 Bonds, and a Bondholder's right will be to receive payment of the Redemption Price upon surrender of those Series 2011 Bonds.

SECURITY AND SOURCES OF PAYMENT

THE SERIES 2011 BONDS ARE SPECIAL OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM THE NET REVENUES AND OTHER FUNDS PLEDGED TO SECURE THE SERIES 2011 BONDS UNDER THE TRUST AGREEMENT. THE SERIES 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 SERIES 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 Series 2011 Bonds will be payable from "Net Revenues" of the District pledged to the payment thereof, and money held in certain funds and accounts under, the Trust Agreement.

"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.

The realization of amounts to be derived upon the enforcement of the Series 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 Series 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, the incurrence of Indebtedness and the existence of liens on Property. See "Limitation on Creation of Liens," "Limitations on Indebtedness," and "Long-Term Debt Service Coverage Ratio" in Appendix C hereto.

Rate Covenant

In the Trust Agreement, the District covenants to set rates and charges for facilities, services and products such that the Income Available for Debt Service, calculated at the end of each Fiscal Year, will be not less than the greater of (i) 120% of the Long-Term Debt Service Requirement for all Indebtedness except Subordinated Indebtedness for such Fiscal Year and (ii) 100% of the Long-Term Debt Service Requirement for Indebtedness including Subordinated Indebtedness for such Fiscal Year. For purposes of such covenant, "Income Available for Debt Service" means the excess of its revenues over expenses before depreciation, amortization and interest expense on Long-Term Indebtedness, as determined in accordance with generally accepted accounting principles consistently applied. "Long-Term Debt Service Requirement" means generally the principal and interest due on Outstanding Long-Term Indebtedness of the District during such period. See "FINANCIAL MANAGEMENT—Rate Making Process" herein and also "Long-Term Debt Service Coverage Ratio" in Appendix C.

Debt Service Reserve Fund

While a Debt Service Reserve Fund is created under the Trust Agreement, the Debt Service Reserve Fund will not be funded when the Series 2011 Bonds are issued. If (a) the Liquidity Ratio (as defined in Appendix B) of the District, as calculated based on the Audited Financial Statements of the District as of the end of each Fiscal Year or (b) the Long-Term Debt Service Coverage Ratio (as defined in Appendix B) is less than 1.35, the Trust Agreement requires that the District fund, within six (6) months after the end of such Fiscal Year, the Debt Service Reserve Fund in an amount equal to the Debt Service Reserve Fund Requirement (as defined in Appendix C). If the Debt Service Reserve Fund is funded as described in the preceding sentence, amounts on deposit therein may be released upon the satisfaction of certain conditions precedent.

Outstanding Senior Obligations

The District has outstanding three series of Bonds constituting Senior Obligations under the 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.

Since May 2009, the District has obtained six loans from the Virginia Resources Authority Revolving Loan Fund and issued in evidence of its obligations to repay such loans its bonds constituting Senior Obligations under the Trust Agreement (the "VRA Senior Indebtedness"). Such VRA Senior Indebtedness is secured under the 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 Virginia Resources Authority loans, with an additional undrawn authorized amount of $38,663,350. See also "- Subordinate Obligations."

Additional Senior Obligations

Under the Trust Agreement, the District may issue Additional Bonds and incur other 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 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 issues of Additional Bonds and borrowings from the Virginia Resources Authority, which such borrowings may be evidenced with additional VRA Senior Indebtedness. See "Limitations on Indebtedness" in Appendix C.

Subordinate Obligations

In addition to the VRA Senior Indebtedness 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 Subordinated Indebtedness under the Trust Agreement (collectively, the "Other Subordinate Bonds"). As of October 1, 2011, the outstanding drawn amount of the Other Subordinate Bonds was $111,653,095, with an additional undrawn authorized amount of $1,041,562. The terms of the Other Subordinate Bonds 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 any Senior Obligations. Generally, after an initial period where no interest accrues on such Other Subordinate Bonds, interest accrues on the disbursed principal of the outstanding Other Subordinate 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 Other Subordinate Bonds. The Other Subordinate Bonds 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 SUBORDINATE OBLIGATIONS" and "Limitation on Creation of Liens" in Appendix C. The Subordinate 2011 Bonds will be secured on parity under the Trust Agreement with the Other Subordinate Bonds as to their subordinate lien on the Net Revenues of the District. Commencing with the issuance of the Subordinate 2011 Bonds, the District anticipates that it will issue Subordinated Indebtedness pursuant to the terms of a trust agreement, dated as of October 1, 2011 (the "Subordinate Trust Agreement"), between the District and The Bank of New York Mellon Trust Company, N.A., as trustee under the Subordinate Trust Agreement. The Subordinate 2011 Bonds, the Other Subordinate Bonds and any additional obligations issued pursuant to the Subordinate Trust Agreement are collectively referred to herein as "Subordinate Obligations."

Additional Subordinate Obligations

Under the Trust Agreement and the Subordinate Trust Agreement, the District may, in addition to the Subordinate 2011 Bonds, issue Subordinate Obligations for the District's Capital Improvement Program or to refund outstanding Senior Obligations or Subordinate 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 Obligations, additional Subordinate Obligations and borrowings from the Virginia Resources Authority, which 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 SENIOR OBLIGATIONS*
[IN THOUSANDS OF DOLLARS]

Fiscal Year Ending June 30,	Series 2011 Bonds Principal†	Series 2011 Bonds Interest	Series 2011 Bonds Debt Service	Other Senior Obligations Debt Service‡	Total Senior Obligations Debt Service
2012	-	$1,074	$1,074	$31,968	$33,043
2013	$1,775	2,007	3,782	34,234	38,016
2014	1,480	1,975	3,455	35,390	38,845
2015	1,280	1,941	3,221	35,331	38,551
2016	1,320	1,902	3,222	35,241	38,463
2017	1,360	1,861	3,221	31,387	34,609
2018	1,410	1,813	3,223	33,678	36,901
2019	1,465	1,755	3,220	33,974	37,194
2020	1,525	1,696	3,221	33,912	37,133
2021	1,595	1,625	3,220	33,846	37,066
2022	1,675	1,543	3,218	33,778	36,997
2023	1,765	1,457	3,222	33,699	36,922
2024	1,855	1,367	3,222	33,619	36,841
2025	1,950	1,272	3,222	33,531	36,753
2026	2,040	1,179	3,219	33,436	36,654
2027	2,130	1,092	3,222	33,336	36,558
2028	2,225	993	3,218	33,233	36,452
2029	2,345	879	3,224	33,128	36,352
2030	2,460	762	3,222	33,012	36,234
2031	2,585	638	3,223	32,897	36,120
2032	2,715	505	3,220	29,285	32,506
2033	2,855	366	3,221	27,009	30,231
2034	3,000	220	3,220	25,186	28,405
2035	2,895	72	2,967	25,050	28,018
2036	-	-	-	24,909	24,909
2037	-	-	-	24,759	24,759
2038	-	-	-	24,608	24,608
2039	-	-	-	8,520	8,520
2040	-	-	-	8,353	8,353
TOTAL	$45,705	$29,993	$75,698	$870,312	$946,010

* Numbers may not add to totals due to rounding.

† Principal is due on November 1 in each of the indicated fiscal years.

‡ Debt Service on the District's Series 2003 Bonds, Series 2008 Bonds, Series 2009 Bonds and six issues of Senior VRA Indebtedness. Interest on the Series 2009B Bonds is calculated without regard to receipt of the 35% interest subsidy. Debt service on the Senior VRA Indebtedness that has been authorized, but not drawn, is estimated and included in the table above. See "SECURITY AND SOURCES OF PAYMENT—Outstanding Senior Obligations" herein.

DEBT SERVICE REQUIREMENTS
FOR SENIOR OBLIGATIONS AND
SUBORDINATE OBLIGATIONS*
[IN THOUSANDS OF DOLLARS]

Fiscal Year Ending June 30,	Total Senior Obligations Debt Service	Subordinate 2011 Bonds Debt Service†	Other Subordinate Obligations Debt Service‡	Total Debt Service
2012	$33,043	$ 40	$13,674	$46,757
2013	38,016	65	12,840	50,922
2014	38,845	390	12,840	52,076
2015	38,551	625	12,840	52,016
2016	38,463	626	11,578	50,667
2017	34,609	624	9,453	44,686
2018	36,901	625	6,904	44,430
2019	37,194	625	6,904	44,723
2020	37,133	626	6,905	44,663
2021	37,066	624	6,423	44,113
2022	36,997	625	6,036	43,658
2023	36,922	625	5,806	43,353
2024	36,841	626	5,591	43,058
2025	36,753	624	5,591	42,967
2026	36,654	625	5,591	42,870
2027	36,558	625	5,507	42,689
2028	36,452	626	2,200	39,278
2029	36,352	624	2,145	39,121
2030	36,234	625	2,145	39,003
2031	36,120	625	2,145	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	-	25,262	-	25,262
TOTAL	$946,010	$42,632†	$143,119	$1,131,761

* Numbers may not add to totals due to rounding.

† Assumes that the District issues $25,000,000 (preliminary, subject to change) aggregate principal amount of Subordinate 2011 Bonds on or about October 20, 2011. The interest rate payable on the Subordinate 2011 Bonds will, at least initially, reset weekly. Assumes, for purposes of presenting the debt service payable on the Subordinate 2011 Bonds, an interest rate of 0.26% was assumed for the first two years and an interest rate of 2.50% thereafter, but the actual interest rate will vary. See "PLAN OF FINANCING—Subordinate 2011 Bonds" herein.

‡ As of September 1, 2011, $111,653,095 was the unpaid principal balance of the Other Subordinate Bonds. Debt service on the Other Subordinated Bonds issued to VRA that has been authorized, but not drawn, is estimated and included in the table above. See "SECURITY AND SOURCES OF PAYMENT—Subordinate Obligations" 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.

Commissioners	**Residence**	**Occupation**	**Term Expires June 7,**
Vishnu K. Lakdawala, Ph.D., *Chairman*	Virginia Beach	Associate Professor, Electrical and Computer Engineering, Old Dominion University	2014
B. Anne Davis, *Vice Chairman*	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.

<u>Vishnu K. Lakdawala, Ph.D.</u>, *<u>Chairman.</u>* 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.

<u>B. Anne Davis</u>, *<u>Vice Chairman</u>*. 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.

<u>I. Vincent Behm, Jr.,</u> *<u>Commissioner</u>*. 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.

<u>Arthur C. Bredemeyer,</u> *<u>Commissioner</u>*. 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.

<u>Frederick N. Elofson, CPA,</u> *<u>Commissioner</u>*. 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 Hoffler 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.

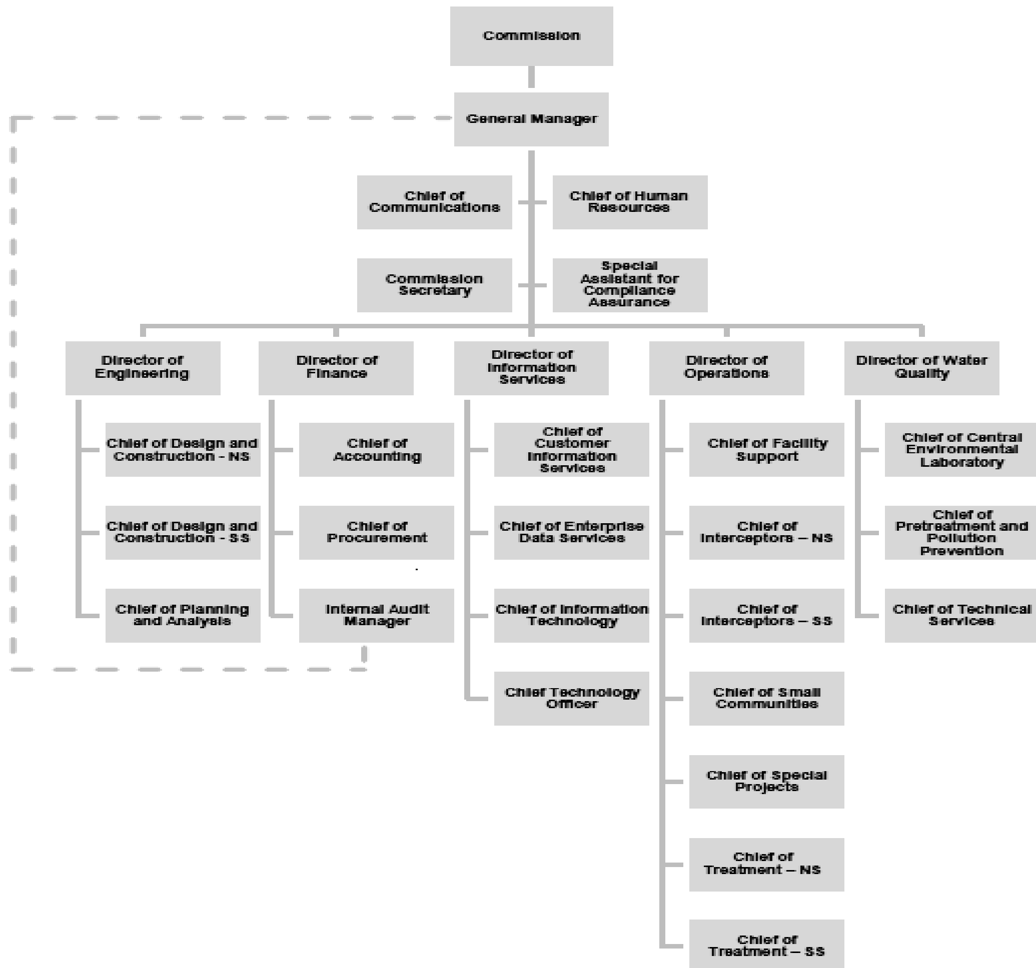
Gerald S. Johnson, *Commissioner*. Mr. Johnson, a member of the Commission since April 18, 2007, retired from Norfolk Naval Shipyard with more than 38 years of service. His work as a Nuclear Engineering Technician included planning and scheduling nuclear overhauls and refueling. He has extensive experience 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: Manages projects to ensure that contracted work is performed according to HRSD's quality standards, fiscal policies and environmental commitment.
- Planning & Analysis: 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: Performs accounting operations, treasury functions, and debt and risk management functions.
- Procurement: 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.

Year	Source	Population	Population Increase (%)[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

Customer	Type	Fiscal Year 2011 Amount[1]	Fiscal Year 2011 % of Total	Fiscal Year 2002 Amount[1]	Fiscal Year 2002 % 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

Fiscal Year Ended June 30,	Average Daily Wastewater Flow[1]	Total Billed Wastewater Flow[1,2]	Service Connections[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)

Major Treatment Facilities	Average Design Capacity	FY 2011 Annual Average Daily Flow
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	15.0	10.8
TOTALS	248.5	144.6

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 of 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)

	2012	2013	2014	2015	2016	Total (2012-16)
Cash	23,757	17,550	15,000	19,985	41,739	118,031
Series 2009 Bonds	44,500	-	-	-	-	44,500
Bonds	90,124	99,450	85,000	80,015	80,261	434,850
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.

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 permitted 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)

	2007	2008	2009	2010	2011
Operating Revenues					
Wastewater Treatment Charges	$118,423	$129,583	$156,642	$167,807	$183,526
Miscellaneous	3,558	2,623	3,088	3,645	3,890
Total Operating Revenues	$121,981	$132,206	$159,730	$171,452	$187,416
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	994	656	162	40	(19)
Total Non-Operating Revenues	14,002	12,994	$9,246	$8,990	$9,365
Total Revenues	$135,983	$145,200	$168,976	$180,442	$196,781
Operating Expenses, Excluding Depreciation	95,000	103,790	115,703	127,457	131,847
Net Revenues	$40,983	$41,410	$53,273	$52,985	$64,933
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 Subordinate Obligations Debt Service	$16,609	$16,691	$28,147	$31,776	$38,897
Coverage on Senior Obligations and Subordinate 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 Trust Agreement requires that the District maintain a minimum Liquidity Ratio of 1.35 or fund the Debt Service Reserve Fund at the Debt Service Reserve Requirement. 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)

	2007	2008	2009	2010	2011
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	**$69,348**	**$80,664**	**$99,416**	**$102,309**	**$125,384**
Cash and Cash Equivalents - Restricted	6,247	129,227	32,444	141,401	76,625
Total Cash, Cash Equivalents and Investments	**$75,595**	**$209,891**	**$131,860**	**$243,710**	**$202,009**
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)

	2012	2013	2014	2015	2016
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	(133,808)	(141,141)	(147,236)	(169,392)	(177,480)
Net Revenues	$76,842	$86,129	$98,434	$93,612	$101,905
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 cashiering 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

Fiscal Year Ended June 30,	**Percentage of Wastewater Treatment Charges Collected**
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.

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 Series 2011 Bonds, or that would have a material adverse effect on the District's condition, financial or otherwise.

APPROVAL OF LEGAL PROCEEDINGS

The Series 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 underwriters by Hunton & Williams LLP, Richmond, Virginia.

TAX MATTERS

General

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 Series 2011 Bonds, and except as provided in the following sentence, interest on the Series 2011 Bonds will not be includable in the gross income of the owners of the Series 2011 Bonds for purposes of federal income taxation under existing law. Interest on the Series 2011 Bonds will be includable in the gross income of the owners thereof retroactive to the date of issue of the Series 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 Series 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 Series 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 Series 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 Series 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 Series 2011 Bonds owned by a corporation will be included in the calculation of the corporation's federal alternative minimum tax liability.

Original Issue Discount

The excess, if any, of the amount payable at maturity of any maturity of the Series 2011 Bonds over the issue price thereof constitutes original issue discount. The amount of original issue discount accrues in accordance with a constant yield method based on the compounding of interest. The amount of original issue discount that has accrued pursuant to the constant yield method described above, and is properly allocable to an owner of any maturity of the Series 2011 Bonds with original issue discount (the "Discount Bonds"), will be excluded from gross income to the same extent as interest on the Series 2011 Bonds for federal income tax purposes. In general, the issue price of a maturity of the Series 2011 Bonds is the first price at which a substantial amount of that maturity was sold (excluding sales to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers). A purchaser's adjusted basis in a Discount Bond will be increased by the amount of such accruing discount for purposes of determining taxable gain or loss on the sale or other disposition of such Discount Bond for federal income tax purposes.

A portion of the original issue discount that accrues in each year to an owner of a Discount Bond that is a corporation will be included in the calculation of the corporation's federal alternative minimum tax liability. In addition, original issue discount that accrues in each year to an owner of a Discount Bond is included in the calculation of the distribution requirements of certain regulated investment companies and may result in some of the collateral federal income tax consequences discussed herein. Consequently, owners of any Discount Bond should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral federal income tax consequences although the owner of such Discount Bond has not received cash attributable to such original issue discount in such year.

The accrual of original issue discount and its effect on the sale or other disposition of a Discount Bond that is not purchased in the initial offering at the first price at which a substantial amount of Discount Bonds of that maturity is sold to the public may be determined according to rules that differ from those described above. Owners of Discount Bonds should consult their tax advisors with respect to the determination for federal income tax purposes of the amount of original issue discount or interest properly accruable with respect to such Discount Bonds and with respect to state and local tax consequences of owning and disposing of such Discount Bonds.

Original Issue Premium

The excess, if any, of the tax basis of the Series 2011 Bonds to a purchaser (other than a purchaser who holds such Series 2011 Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) who purchased such Series 2011 Bonds as part of the initial public offering and at the initial offering price set forth on the cover page over the amount payable at maturity is "bond premium." Bond premium is amortized over the term of such Series 2011 Bonds for federal income tax purposes (or, in the case of a bond with bond premium callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). Owners of such Series 2011 Bonds are required to decrease their adjusted basis in such Series 2011 Bonds by the amount of amortizable bond premium attributable to each taxable year such Series 2011 Bonds are held. The amortizable bond premium on such Series 2011 Bonds attributable to a taxable year is not deductible for federal income tax purposes; however, bond premium is treated as an offset to qualified stated interest received on such Series 2011 Bonds. Owners of such Series 2011 Bonds should consult their tax advisors with respect to the determination for federal income tax purposes of the treatment of bond premium upon sale or other disposition of such Series 2011 Bonds and with respect to the state and local tax consequences of owning and disposing of such Series 2011 Bonds.

Backup Withholding

Interest paid on the Series 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 Series 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 Series 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 Series 2011 Bonds should consult their tax advisors as to the applicability and impact of these consequences.

Virginia Taxes

The Enabling Act provides that the Series 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 Series 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 Series 2011 Bonds. Prospective purchasers of the Series 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 Series 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 Series 2011 Bonds to a tax or cause interest on the Series 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") dated October 4, 2011, between Morgan Stanley & Co. LLC, BB&T Capital Markets and Morgan Keegan & Company, Inc. (the "Underwriters"), for whom Morgan Stanley & Co. LLC is acting as representative, and the District, the Underwriters will agree to purchase from the District, and the District will agree to sell to the Underwriters, all, but not less than all, of the Series 2011 Bonds at a purchase price that results in an Underwriters' discount of $178,714.68 from the initial reoffering prices derived from the yields shown on the inside cover page. The Underwriters have supplied the information as to the prices or yields shown on the inside cover page.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, an underwriter of the Series 2011 Bonds, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture, Morgan Stanley & Co. LLC will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. LLC will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2011 Bonds.

BB&T Capital Markets, is a division of Scott & Stringfellow, LLC, a wholly-owned subsidiary of BB&T Corporation.

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 Series 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 the 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 Series 2011 Bonds have been assigned ratings of "Aa2," "AAA" and "AA+" by Moody's Investors Service, Inc., 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 Series 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 Series 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 to The Electronic Municipal Market Access ("EMMA") system administered by the Municipal Securities Rulemaking Board (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 Series 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 Series 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 Series 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

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX A

Basic Financial Statements and Related Auditor's Report for the fiscal year ended June 30, 2011, as rendered by KPMG LLP[1]

[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.

[THIS PAGE INTENTIONALLY LEFT BLANK]

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

This page was intentionally left blank

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

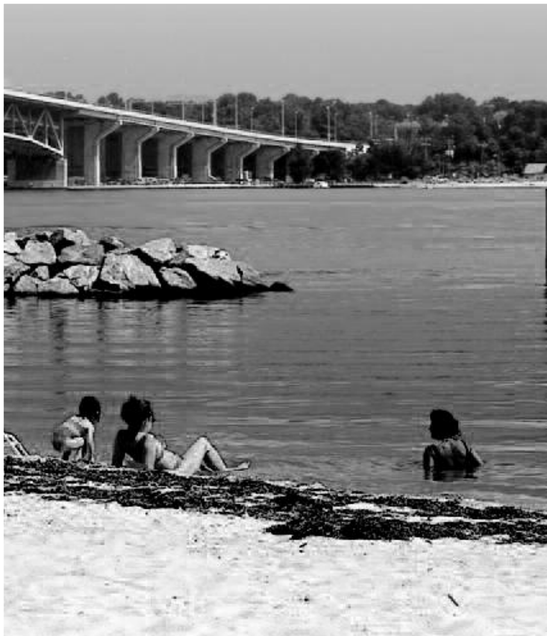
This page was intentionally left blank

HAMPTON ROADS SANITATION DISTRICT

TABLE OF CONTENTS

This page was intentionally left blank

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 the 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

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.	Steven G. de Mik, CPA	Carroll L. Acors, CPA
General Manager	Director of Finance	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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

Principal Officials

June 30, 2011

COMMISSIONERS

Vishnu K. Lakdawala, PhD, Chair

B. Anne Davis, Vice-Chair

Frederick N. Elofson, CPA

Michael E. Glenn

Maurice P. Lynch, PhD

Gerald S. Johnson

Arthur C. Bredemeyer

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

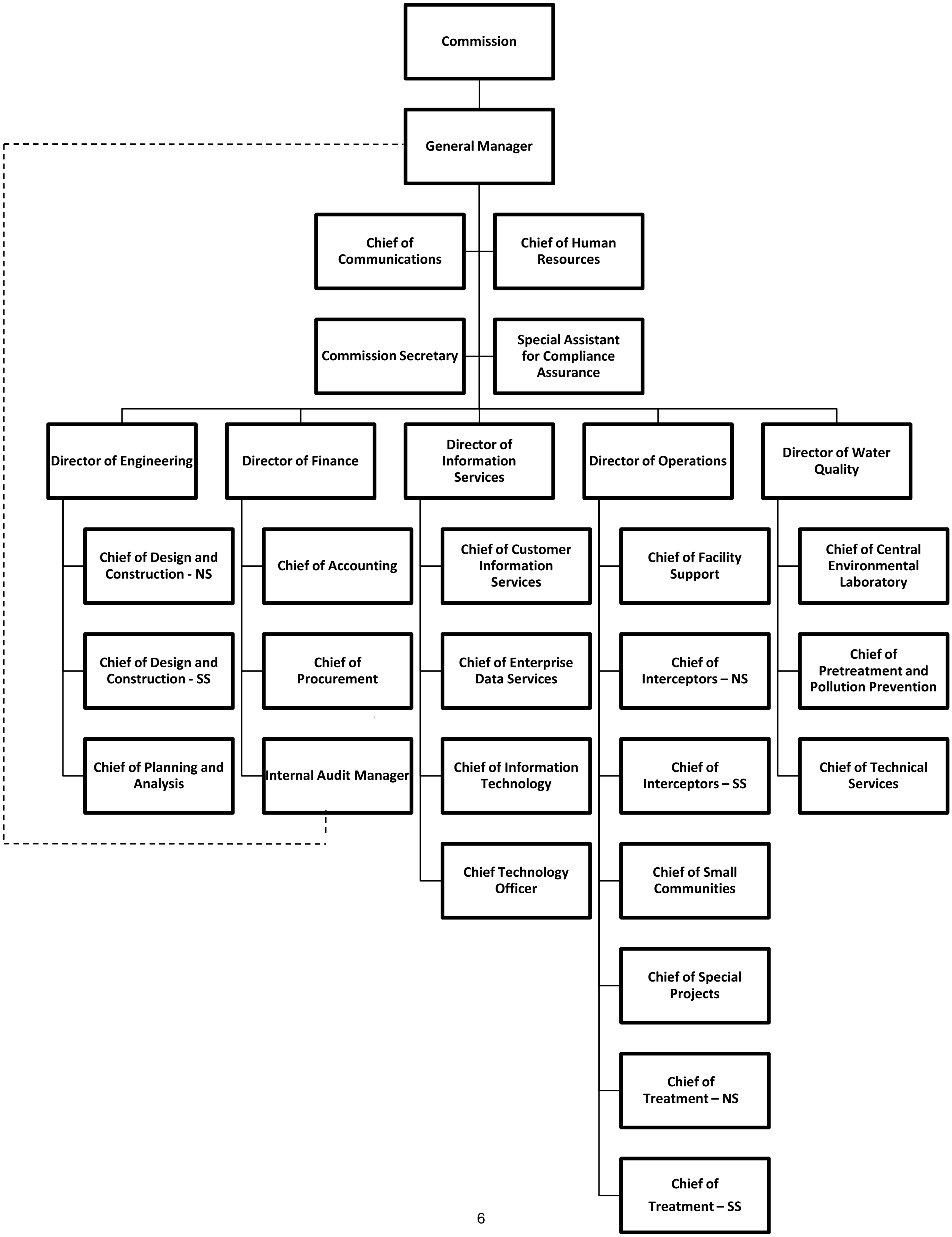
Jones, Blechman, Woltz & Kelly, PC
Associate Counsel

AquaLaw, PLC
Special Counsel

Sidley Austin, LLP
Bond Counsel

Organization Chart

June 30, 2011



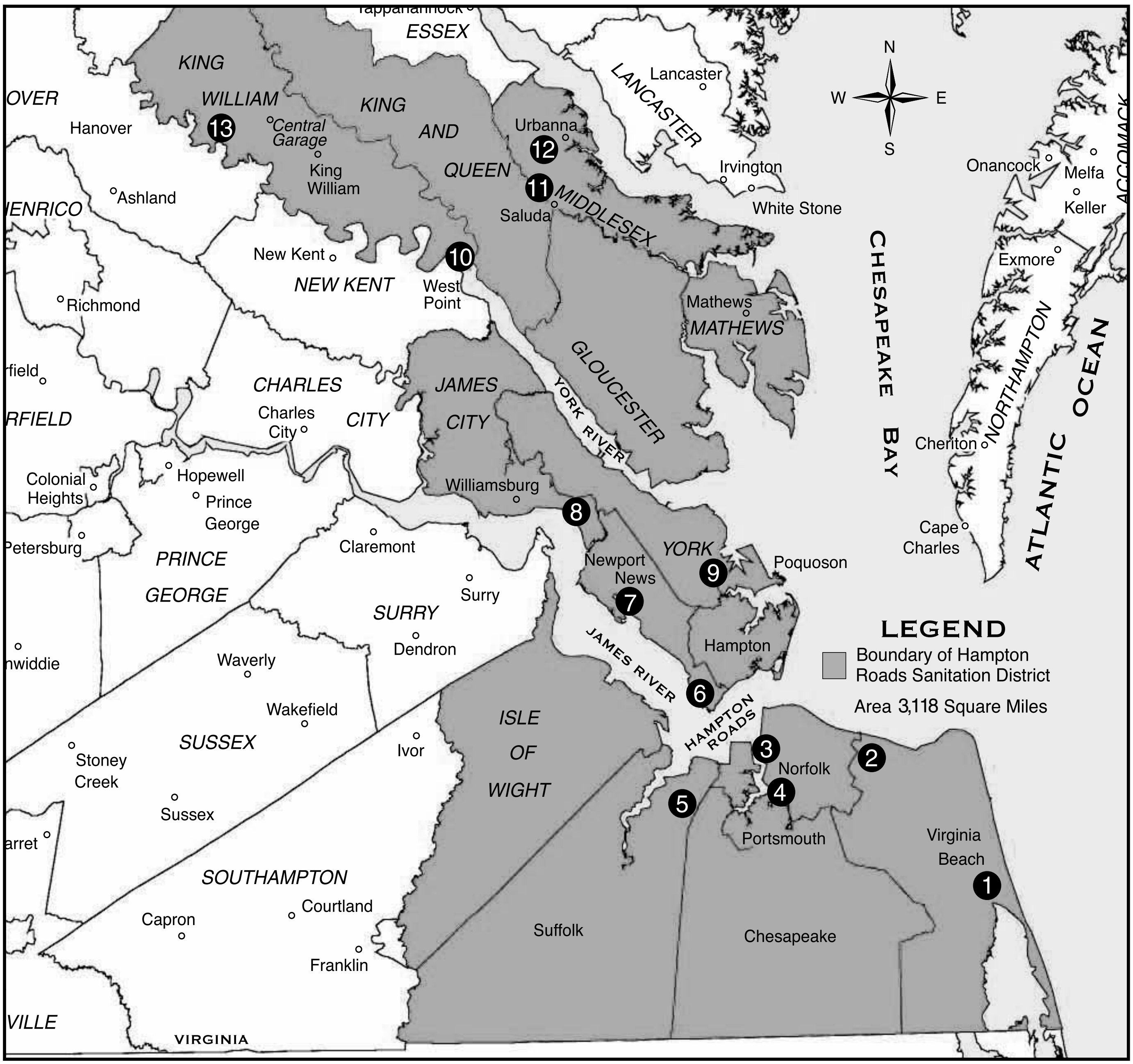
HRSD

A Political Subdivision of the Commonwealth of Virginia

Major facilities include the following treatment plants:

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

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

				2011 vs. 2010	
(in thousands)	**2011**	**2010**	**2009**	**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%**

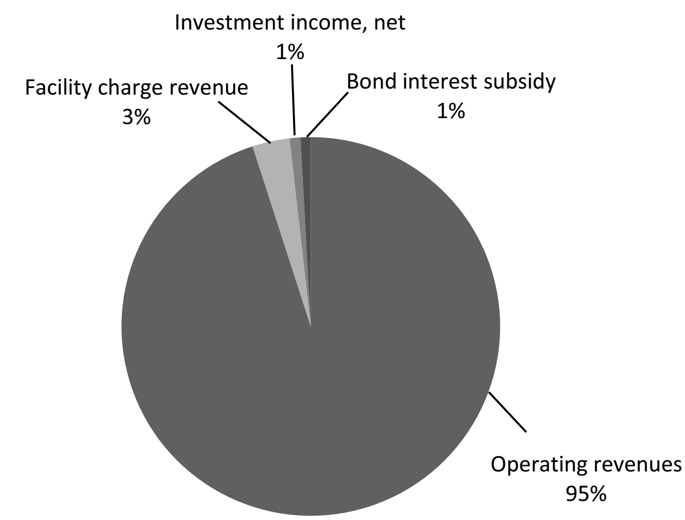
At June 30, 2011 and 2010, HRSD retained $61.7 million and $129.1 million of unspent bond proceeds, respectively. The increase in capital assets and the corresponding changes in current assets and noncurrent investments from 2009 through 2011 are the result of issuing bonds in 2008 and 2010 and using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

				2011 vs. 2010	
(in thousands)	**2011**	**2010**	**2009**	**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	62,684	41,882
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	(106,061)	68,364
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	(26,498)	(38,063)
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	$ 113,755	$ 183,630

Reconciliation of Operating Income to Net Cash Provided by Operating Activities
(in thousands)

	2011	2010
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	$ 62,684	$ 41,882

See Accompanying Notes to Financial Statements

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)		Investment Maturities (in years)		
Investment Type	Fair Value	Less Than 1	1-3	4-6
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	$ 88,254	$ 15,527	$ 72,727	$ -
Investment Type	Fair Value	Less Than 1	1-3	4-6
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	$ 60,080	$ 9,253	$ 49,811	$ 1,016

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	$ (19)	$ 40

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	$ 76,625	$ 141,401

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	$ 2,226	$ 2,165

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)	$ 9,516
Funded ratio (actuarial value of plan assets/AAL)	70.3%
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)	$ 35,367
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	$ 360,136	$ 200,152	$ (12,970)	$ 547,318	$ 30,168	$ (16,490)	$ 560,996

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

(in thousands)	Issue Amount	Principal Outstanding Total	Current	Long-Term	Interest to Maturity	Interest Rates	Duration of Issue	Final Maturity
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		$ 450,335	$ 9,806	$ 440,529	$ 377,792			

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
	$ 450,335	$ 377,792

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

(in thousands)	Issue Amount	Principal Outstanding Total	Current	Long-term	Interest to Maturity	True Interest Cost	Duration of Issue	Final Maturity
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		$ 110,661	$ 8,423	$ 102,238	$ 30,947			

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
	$ 110,661	$ 30,947

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.

This page was intentionally left blank

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

This page was intentionally left blank

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)**

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.

This page was intentionally left blank

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

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
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.

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.

2007	2006	2005	2004	2003	2002
$ 118,423	$ 106,208	$ 98,308	$ 96,894	$ 93,841	$ 93,819
3,558	3,419	3,354	4,453	3,483	3,949
121,981	109,627	101,662	101,347	97,324	97,768
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
119,958	113,825	104,462	100,858	101,041	96,909
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)
(4,630)	(4,518)	(4,682)	(5,497)	(6,755)	(7,360)
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)	-
$ 11,395	$ 3,838	$ 5,789	$ 6,075	$ (889)	$ 7,833
$ 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
$ 374,166	$ 362,771	$ 358,933	$ 353,144	$ 347,069	$ 347,958
$ 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	$ 168,038	$ 157,898	$ 144,117	$ 131,072	$ 119,958	$ 113,825	$ 104,462	$ 100,858	$ 101,041	$ 96,909

(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 Conections		Senior Revenue Bonds (in thousands)	Subordinate Revenue Bonds (in thousands)	Total Outstanding Debt (in thousands)	Debt Per Service Connection
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
Residential - Metered									
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
Residential - Unmetered				Per 30-Day Period					
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
Non-Residential - Special Category				Per Hundred Pounds					
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.

	2011	2010	2009	2008	2007	2006	2005	2004	2002 - 2003
Septic Tank Waste									
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

		2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
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	-	-	-	-	-	-

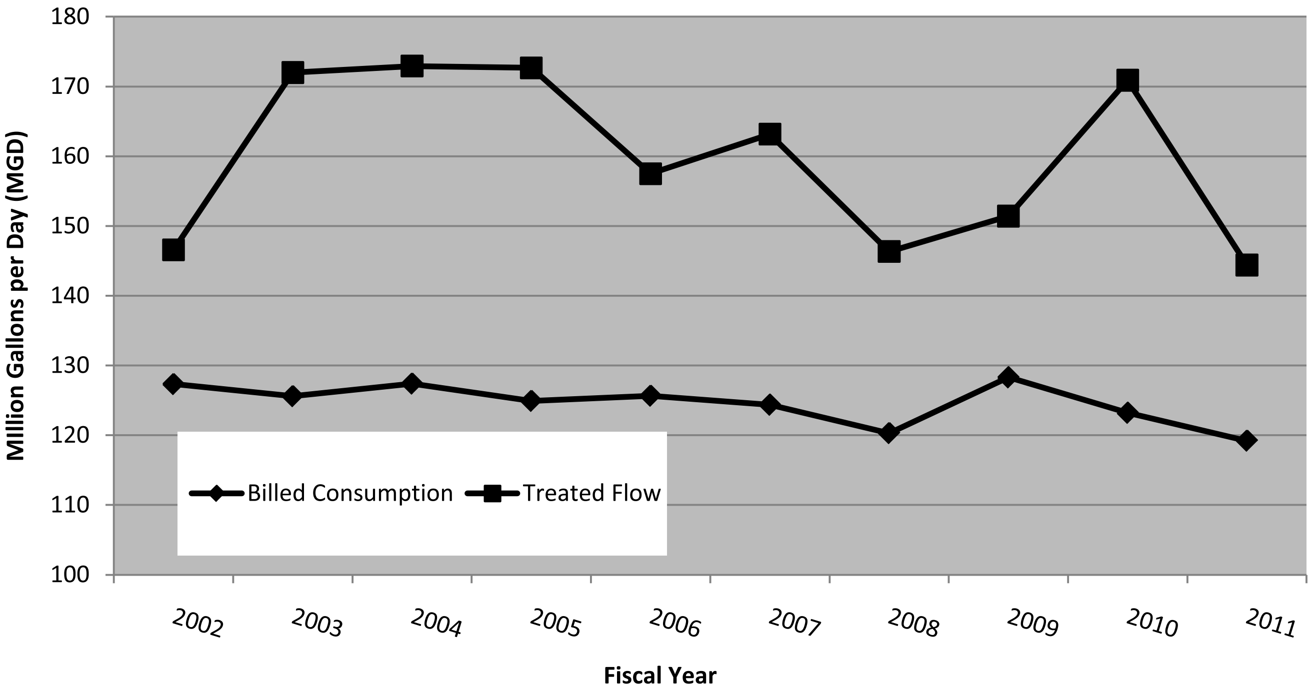
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
James River Plant										
Flow (MGD)	12.2	14.9	12.3	12.7	15.1	12.5	15.3	15.2	14.7	12.8
Influent										
BOD (1,000 lbs.)	26.2	24.7	23.0	25.4	30.8	28.7	30.1	29.6	30.0	31.0
TSS (1,000 lbs.)	19.8	19.9	17.6	19.6	21.1	19.0	21.2	21.5	20.2	18.5
TP (1,000 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)

Customer	Type	2011 Amount	2011 Percent	2002 Amount	2002 Percent
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		$ 20,225	11.1%	$ 13,812	14.8%

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

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
General Management										
General Manager	5	5	5	5	5	5	5	5	6	6
Human Resources	11	11	10	7	7	6	6	6	5	5
	16	16	15	12	12	11	11	11	11	11
Finance & Administration										
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	20	21	21	20	20	20	19	19	19	19
Information Services										
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	104	104	87	85	82	77	76	76	78	77
Operations										
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	514	513	493	486	480	485	482	474	471	480
Engineering										
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	29	29	29	27	27	17	18	18	18	18
Water Quality										
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	86	85	85	85	85	84	84	83	81	84
Total Employees	769	768	730	715	706	694	690	681	678	689

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.)*

This page was intentionally left blank

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

(in thousands)

As of June 30,	Senior Bonds Principal	Senior Bonds Interest	Senior Bonds Debt Service	Subordinate Bonds Debt Service	Total Debt 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	$ 450,335	$ 377,792	$ 828,127	$ 141,608	$ 969,735

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

(in thousands)	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with final Budget (over) under	Percent Variance
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	154,089	153,763	145,516	8,247	5.4%
IMPROVEMENT BUDGET EXPENSES					
Major Repairs and Replacements	7,866	8,223	6,066	2,157	26.2%
Improvements	2,376	2,506	1,485	1,021	40.7%
	10,242	10,729	7,551	3,178	29.6%
TOTAL	$ 164,331	$ 164,492	153,067	$ 11,425	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			$ 168,038		

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.

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	187,416	192,730	(5,314)	(3%)
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	114,850	124,909	10,059	8%
EXCESS OF OPERATING REVENUES OVER EXPENDITURES	72,566	67,821	4,745	7%
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	9,384	7,800	1,584	20%
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	37,006	39,583	2,577	7%
AMOUNT AVAILABLE TO REINVEST	$ 61,041	$ 36,038	$ 25,003	69%

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	-	-	-	-
	$ 1,939	$ 2,193	$ 13,673	$ 72,685
Debt Expenditures				
Total Departmental and Debt Expenditures				

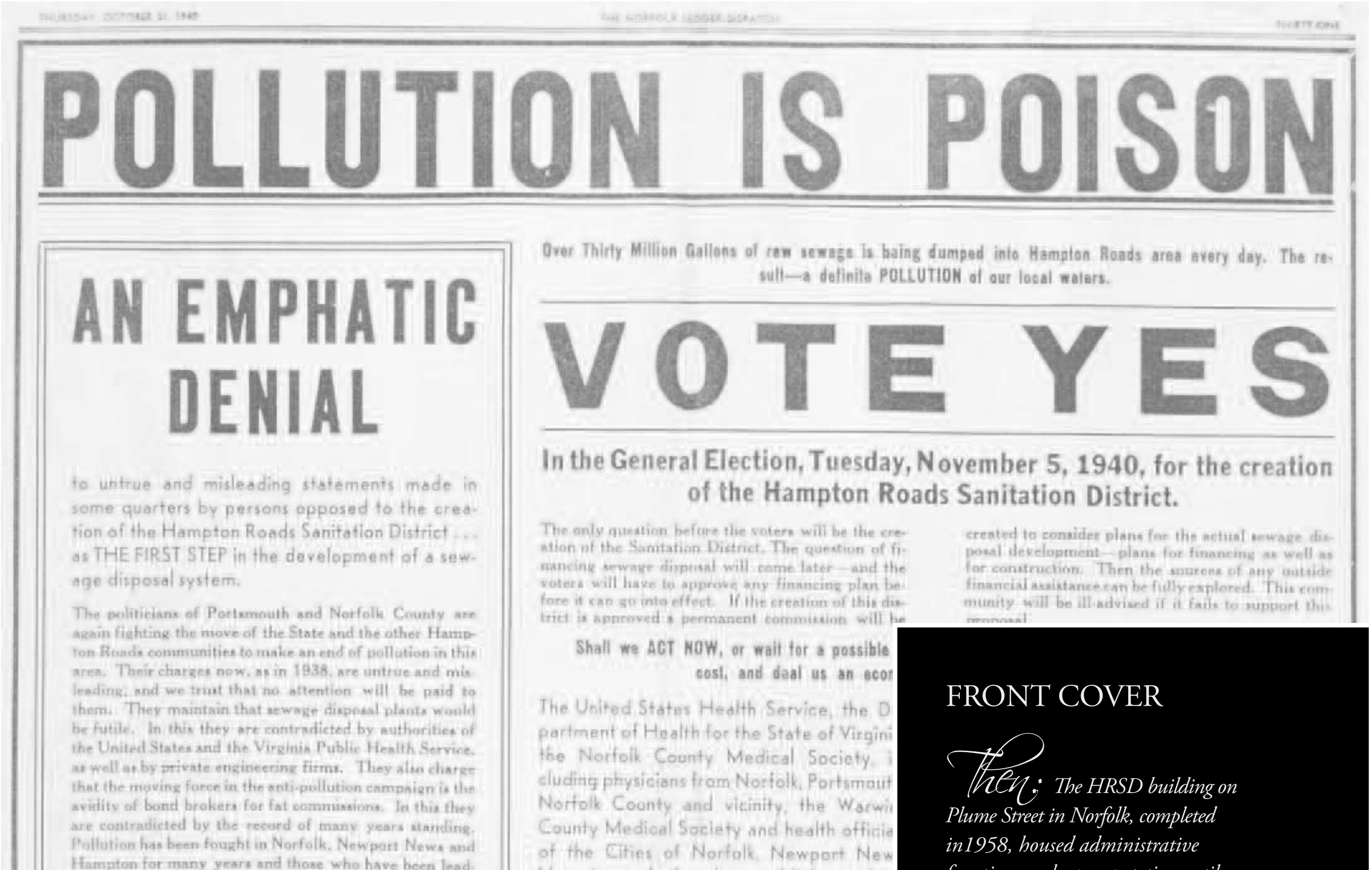
Engineering	Water Quality	General	Totals	Percent of Total	FY-2011 Budget	Variance Favorable/ (Unfavorable)
$ 2,161	$ 5,493	$ -	$ 44,284	29	$ 46,012	$ 1,728
764	2,031	-	17,692	12	20,453	2,761
14	866	-	8,381	6	6,306	(2,075)
30	140	-	1,196	1	1,200	4
1	-	-	11,026	8	11,470	444
-	-	-	8,084	5	9,423	1,339
84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

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
	1,939	2,190	251
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
	2,193	2,292	99
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
	13,673	16,083	2,410
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
	72,685	74,787	2,102

	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
	3,133	3,332	199
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
	9,306	9,684	378
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
	5,581	5,812	231
TOTAL DEPARTMENTAL EXPENDITURES	$ 108,510	$ 114,180	$ 5,670

This page was intentionally left blank.



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 proposal.

Shall we ACT NOW, or wait for a possible

cost, and deal us an econ

The United States Health Service, the D

partment of Health for the State of Virgini

the Norfolk County Medical Society, i

cluding physicians from Norfolk, Portsmout

Norfolk County and vicinity, the Warwi

County Medical Society and health officia

of the Cities of Norfolk, Newport New

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.

FRONT COVER

Then: *The HRSD building on Plume Street in Norfolk, completed in1958, 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 Dixson)*

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

Cleaning wastewater every day for a better Bay.

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

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B

CERTAIN DEFINITIONS

The following is a brief summary of certain definitions used in the Trust Agreement and this Official Statement. 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.

Definitions

The following is a summary of the definitions of certain terms contained in the Trust Agreement and used in this Official Statement:

"**Additional Bonds**" means Bonds, if any, issued by the District, subsequent to the issuance of the Series 2008 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. The Series 2011 Bonds constitute Additional Bonds for purpose of the Trust Agreement.

"**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.

"**Average Annual Debt Service**" means, at any given time of determination, average annual Principal and Interest Requirements for the Senior 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 Series 2003 Bonds, the Series 2008 Bonds, the Series 2009A Bonds, the Series 2009B Bonds, the Series 2011 Bonds, and any other 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 any day on which banks in the city in which the principal corporate trust office of the Trustee is located and in New York, New York are open for commercial banking purposes.

"**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.

"**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 Requirement**" means (i) on the date of issuance of the Series 2011 Bonds zero (0) and (ii) during any Reserve Funding Period or at such other time as the District may elect to fund the Debt Service Reserve Fund, the least of (A) 100% of Maximum Annual Debt Service on the Senior Obligations, (B) 125% of Average Annual Debt Service and (C) 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.

"**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, (iv) 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, (v) Defeased Municipal Obligations, and (vi) 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.

"**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.

"**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.

"**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 before depreciation, amortization and interest expense on

Long-Term Indebtedness, as determined in accordance with generally accepted accounting principles consistently applied; provided, however, that (1) 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, (2) revenues will include all wastewater facility charges, and (3) 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 hereof 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 Payment Date**" means each date described as such in a Series Agreement.

"**Interest Requirements**" for any Fiscal Year means the amount that is required to pay interest on all Outstanding Senior 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) depositary 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.

"**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.

"**Liquidity Ratio**" means the ratio determined by dividing (i) the sum of all 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 or 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 by (ii) Maximum Annual Debt Service. For the purposes of the preceding sentence, "Restricted Funds" means funds or other assets of the District the use of which is restricted or limited in such a way that such funds or other assets are not available for general purposes of the District, but does not include funds or assets designated, restricted or limited by the Commission for specific purposes where such designation, restriction or limitation may be changed at the discretion of the Commission.

"**Long-Term Debt Service Coverage Ratio**" means, for any period of time, the ratio determined by dividing the Income Available for Debt Service by Maximum Annual Debt Service.

"**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.

"**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 Bonds**" means, at any given time of determination, the maximum Principal and Interest Requirements for the Bonds for the then current or any succeeding Fiscal Year.

"**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.

"**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 incorporates 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, means, as of a particular date, all Bonds theretofore issued under the Trust Agreement, except:

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

(2) Bonds 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 will 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 in exchange for or in lieu of which other Bonds have been issued; and

(4) Bonds deemed to have been paid in accordance with the provisions for defeasance Bonds (See "Defeasance" in Appendix C);

provided, however, that Bonds owned or held by or for the account of the District or any affiliate or any subsidiary or controlled affiliate of the District will not be deemed Outstanding Bonds for the purpose of any consent or other action or any calculation of Outstanding Bonds provided for in the Trust Agreement relating to defaults and remedies, supplemental trust agreements and defeasance, and neither the District nor any affiliate, subsidiary or controlled affiliate of the District as registered owners of such Bonds will be entitled to consent or take any other action provided for in the provisions of the Trust Agreement.

"**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.

"**Principal Requirements**" for any Fiscal Year means the amount required to pay the principal of all Outstanding Bonds 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) 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.

"**Reserve Funding Period**" means the period beginning at such time, if any, when the District is required to fund the Debt Service Reserve Fund due to its Liquidity Ratio or its Long-Term Debt Service Coverage Ratio falling bellow 135% and ending at such time, if any, when the Liquidity Ratio for each of the past two Fiscal Years, as computed based on the Audited Financial Statements as of the end of each Fiscal Year, is equal to or greater than 1.35 and the Long-Term Debt Service Coverage Ratio for each of the past two Fiscal Years is equal to or greater than 1.35.

"**Senior Indebtedness**" means any Senior Obligation incurred or assumed by the District and not evidenced by Bonds which (a) is designated as Senior Indebtedness in the Series Agreement pursuant to which it was incurred, (b) is incurred within the applicable limitations on Indebtedness (See "Limitations on Indebtedness" in Appendix C) or is a reimbursement obligation for a Credit Facility supporting Senior Obligations incurred in compliance with such limitations on Indebtedness, and (c) may be accelerated only upon the happening and continuance of any Event of Default in compliance with the procedures set forth in the Trust Agreement for acceleration of maturities (See "Remedies for Default" in Appendix C).

"**Senior Obligations**" means, collectively, Bonds and Senior Indebtedness.

"**Series 2003 Bonds**" means the District's Wastewater Refunding Revenue Bonds, Series 2003, issued in the initial aggregate principal amount of $55,890,000, and secured on a parity with the Bonds and other Senior Obligations under the Trust Agreement.

"**Series 2008 Bonds**" or "**2008 Bonds**" means the District's Wastewater Revenue Bonds, Series 2008 issued in the initial aggregate principal amount of $74,000,000 and secured on a parity with the Bonds and other Senior Obligations under the Trust Agreement.

"**Series 2009 Bonds**" means, collectively, the Series 2009A Bonds and the Series 2009B Bonds.

"**Series 2009A Bonds**" means the District's Wastewater Revenue Bonds, Series 2009A (Tax-Exempt) issued in the initial aggregate principal amount of $15,915,000 and secured on a parity with the Bonds and other Senior Obligations under the Trust Agreement.

"**Series 2009B Bonds**" means the District's Wastewater Revenue Bonds, Series 2009B (Federally Taxable – Issuer Subsidy – Build America Bonds) issued in the initial aggregate principal amount of $134,725,000 and secured on a parity with the Bonds and other Senior Obligations under the Trust Agreement.

"**Series Agreement**" means the supplemental trust agreement entered into or the resolution adopted by the Commission providing for the issuance of Bonds. 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.

"**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.

"**Subordinated Indebtedness**" means Indebtedness of the District the terms of which will provide that it will be subordinate and junior in right of payment to the prior payment in full of the Senior 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 Subordinated Indebtedness 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 Subordinated Indebtedness is issued; and such declaration has not been rescinded and annulled, or (c) any Event of Default under the Trust Agreement occurs and is continuing with respect to Senior Obligations and (1) written notice of such default has been given to the District and (2) judicial proceedings 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 and within 90 days in the case of any other default after the giving of such notice, then the Holders of Senior Obligations will be entitled to receive payment in full of all principal, premium and interest on all Senior Obligations before the Holders of the Subordinated Indebtedness are entitled to receive any payment on account of principal or interest upon the Subordinated Indebtedness, and to that end the Holders of Senior Obligations will be entitled to receive for application in payment thereof any payment or distribution of any kind or character, whether in cash or property or securities, which may be payable or deliverable in any such proceedings in respect of the Subordinated Indebtedness after giving effect to any concurrent payment or distribution in respect of such Senior Obligations.

"**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 Senior Obligations means any Senior 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 Senior Obligations.

"**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 March 1, 2008, 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.

"**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.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX C

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 Series 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.

Debt Service Reserve Fund; Qualified Reserve Fund Substitute

No funds are currently on deposit to the credit of the Debt Service Reserve Fund, and, as of the date hereof, no funds are to be deposited from the proceeds of the Series 2011 Bonds to the credit of the Debt Service Reserve Fund on the date of delivery of the Series 2011 Bonds.

The District is required to fund the Debt Service Reserve Fund in an amount equal to the Debt Service Reserve Fund Requirement within six months after the end of the relevant Fiscal Year if (1) the Liquidity Ratio, as calculated based on the Audited Financial Statements of the District as of the end of any Fiscal Year, is less than 135% or (2) the Long-Term Debt Service Coverage Ratio, as derived from the most recent Financial Statements for the most recent Fiscal Year is less than 135%. Nonetheless, the District may, in its sole discretion, at any time elect to fund the Debt Service Reserve Fund.

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 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.

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 required to be 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 in such Investment Obligation fund or account 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.

Long-Term Debt Service Coverage Ratio

(a) The District covenants to set rates and charges for its facilities, services and products such that the Income Available for Debt Service, calculated at the end of each Fiscal Year, will not be less than the greater of (i) 120% of the Long-Term Debt Service Requirement for all Indebtedness except Subordinated Indebtedness for such Fiscal Year and (ii) 100% of the Long-Term Debt Service Requirement for all Indebtedness including Subordinated Indebtedness for such Fiscal Year; provided, however, that in any case where Long-Term Indebtedness has been incurred to acquire or construct capital improvements, the Long-Term Debt Service Requirement with respect thereto will not be taken into account in making the foregoing calculation until the first Fiscal Year commencing after the occupation or utilization of such capital improvements to the extent the Long-Term Debt Service Requirement with respect thereto is required to be paid from sources other than the proceeds of such Long-Term Indebtedness prior to such Fiscal Year.

(b) If at any time the Long-Term Debt Service Coverage Ratio described in clause (a) above, as derived from the most recent Audited Financial Statements for the most recent Fiscal Year, is not met, the District covenants to retain an Independent Consultant within 30 days to make recommendations to increase the Long-Term Debt Service Coverage Ratio in the following Fiscal Year to the level required or, if in the opinion of the Independent Consultant the attainment of such level is impracticable, to the highest level attainable. Any Independent Consultant so retained will be required to submit such recommendations within 45 days after being retained. The District agrees that it will, to the extent permitted by law, follow the recommendations of the Independent Consultant. So long as an Independent Consultant is retained and the District is required to follow such Independent Consultant's recommendations to the extent permitted by law, such covenant will be deemed to have been complied with even if the Long-Term Debt Service Coverage Ratio for the following Fiscal Year is below the required level; provided, however, that the revenues of the District shall not be less than the amount required to pay when due the total operating expenses of the District and to pay when due the debt service on all Indebtedness of the District for such Fiscal Year and further provided, however, that the District will not be required to retain an Independent Consultant to make recommendations described in this paragraph (b) more frequently than biennially.

Limitations on Indebtedness

The District may incur Indebtedness by issuing Bonds or incurring Senior Indebtedness pursuant to the Trust Agreement or by creating Subordinated Indebtedness under any other document; provided that such Indebtedness may only be incurred in the manner and pursuant to the terms described below:

(a) The District may incur Long-Term Indebtedness if prior to the incurrence of Long-Term Indebtedness there is delivered to the Trustee:

(i) an Officer's Certificate of a District Representative certifying that the Long-Term Debt Service Coverage Ratio for the most recent period of 12 full consecutive calendar months preceding the date of delivery of the certificate of the District Representative for which there are Financial Statements available adjusted for revenues and expenses resulting from anticipated new customers and any planned program of rate increases that has been approved by the Commission, taking all Long-Term Indebtedness incurred after such period and the proposed Long-Term Indebtedness into account as if such Long-Term Indebtedness had been incurred at the beginning of such period, is not less than 120%; or

(ii) an Officer's Certificate of a District Representative certifying (A) that for the aforementioned 12 month period, the Long-Term Debt Service Coverage Ratio was at least 120%; and (B) that the projected Long-Term Debt Service Coverage Ratio is not less than 130% for (x) in the case of Long-Term Indebtedness to finance capital improvements, each of the first two full Fiscal Years succeeding the earlier of (1) the date on which all such capital improvements are expected to be in operation and (2) the last day of the last Fiscal Year in which the entire Long-Term Debt Service Requirement with respect thereto has been funded from proceeds of such Long-Term Indebtedness or (y) in the case of Long-Term Indebtedness not financing capital improvements, each of the two full Fiscal Years succeeding the date on which the Indebtedness is incurred, as shown by pro forma Financial Statements for the District for each such period, accompanied by a statement of the relevant assumptions upon which such pro forma Financial Statements for the District are based including but not limited to adjustments to revenues and expenses resulting from anticipated new customers and any planned program of rate increases that has been approved by the Commission.

(b) The District may also incur Long-Term Indebtedness to refund any Outstanding Long-Term Indebtedness if, prior to the incurrence of such Long-Term Indebtedness, (i) either (A) the Trustee receives an Officer's Certificate stating that, taking into account the Long-Term Indebtedness proposed to be incurred, the existing Long-Term Indebtedness to remain Outstanding after the refunding and the refunding of the existing Long-Term Indebtedness to be refunded, Maximum Annual Debt Service will not be increased by more than 5%, or (B) the conditions to incur Long-Term Indebtedness, described in paragraphs (a)(i) and (a)(ii) above, are met with respect to such proposed Long-Term Indebtedness, taking into account the existing Long-Term Indebtedness to remain Outstanding after the refunding and the refunding of the existing Long-Term Indebtedness to be refunded and (ii) the Trustee receives 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.

(c) The District may also incur Short-Term Indebtedness as a Senior Obligation subject to the same tests that apply to the incurrence of Long-Term Indebtedness. Notwithstanding such limitation, the District may incur as a Senior 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 12 consecutive months for which Financial Statements are available. Short-Term Indebtedness may be incurred as Subordinated Indebtedness without compliance with the tests that apply to the incurrence of Senior Indebtedness.

(d) The District may incur Subordinated Indebtedness, without limitation.

(e) For purposes of demonstrating compliance with the incurrence test described in paragraphs (a) or (b) herein, the District may (but is not required to) elect in the applicable Series Agreement to treat all or any Senior Obligations authorized in a Credit Facility, 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 Senior Obligations have been issued or incurred as of such date.

(f) Notwithstanding the foregoing provisions regarding limitations on Indebtedness described herein, nothing described herein will preclude the District from incurring any obligation under a Credit Facility.

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:

(i) 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;

(ii) 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;

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

(iv) (A) 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; (B) 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; (C) 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; (D) to the extent that it affects title to any Property, the Trust Agreement; and (E) landlord’s liens;

(v) Any Lien that was existing on the date of authentication and delivery of the Series 2008 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 Series 2008 Bonds, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Lien under the Trust Agreement;

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

(vii) Any lien securing all Senior Obligations on a parity basis;

(viii) 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;

(ix) 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

(x) Any lien on Net Revenues securing Subordinated Indebtedness; provided that such lien is expressly subordinate and junior to the Lien on Net Revenues granted to the Trustee for the payment of principal of, redemption premium, if any, and the interest on the Senior 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 collectibility 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.

Events of Default

Events of Default under the Trust Agreement are as follows: (a) payment of any installment of interest on any Bond is not made by the District when the same becomes due and payable; or (b) 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 (c) 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) or (b) in the immediately proceeding 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 (c) 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 have 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, 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 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 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 required thereafter to be 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.

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 in bearer form, or

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

(h) 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.

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.

APPENDIX D

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, dated as of March 1, 2008, as supplemented and amended by the First Supplemental Trust Agreement, dated as of March 1, 2008, the Second Supplemental Trust Agreement, dated as of November 1, 2009, the Third Supplemental Trust Agreement, dated as of November 1, 2009, and the Fourth Supplemental Trust Agreement, dated as of October 1, 2011 (as so supplemented and amended, the "Trust Agreement"), each by and between the District and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), and the issuance of

$45,705,000
HAMPTON ROADS SANITATION DISTRICT

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 to the Trustee. Net Revenues of the District 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 the cost of maintaining, repairing and operating such Wastewater System.

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 Program (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 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 Wastewater Revenue Bonds, Series 2011 (the "Bonds"), pursuant to the provisions of a Trust Agreement, dated as of March 1, 2008, as amended and 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 each 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 ended June 30, 2011). 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 11 (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) 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

EXHIBIT A

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.

EXHIBIT B

NOTICE OF FAILURE TO FILE ANNUAL REPORT
[AUDITED ANNUAL FINANCIAL STATEMENTS]

Re: HAMPTON ROADS SANITATION DISTRICT
WASTEWATER REVENUE BONDS,
SERIES 2011

CUSIP NOS.: 409327 DX8-EN9

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 ____

APPENDIX F

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 Series 2011 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 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 Series 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 Series 2011 Bonds, except in the event that use of the book-entry system for the Series 2011 Bonds is discontinued.

To facilitate subsequent transfers, all Series 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 Series 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 Series 2011 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 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 Series 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 Series 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 Series 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 Series 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.

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

HAMPTON ROADS SANITATION DISTRICT, VIRGINIA • Wastewater Revenue Bonds, Series 2011

HRSD

Cleaning wastewater every day for a better Bay.

MIX
From responsible sources
FSC™ C017146
FSC
www.fsc.org

Printed by: ImageMaster
www.ImageMaster.com