NEW ISSUE-FULL BOOK-ENTRY ONLY

RATINGS: Moody's: ...Aa3
Standard & Poor's: ....AA+
Fitch: ....AA

Interest on the Subordinate 2012 Bonds (as defined below) will be includable in gross income of the owners thereof for federal income tax purposes. The District's Enabling Act provides that the Subordinate 2012 Bonds, their transfer and the income therefrom, including any profit made on the sale thereof, shall be exempt from taxation by the Commonwealth of Virginia and by any political subdivision thereof. See "TAX MATTERS" herein for certain provisions regarding the Code that may affect the tax treatment of interest on the Subordinate 2012 Bonds for certain bondholders.

HRSD
Cleaning wastewater every day for a better Bay.

$22,680,000
HAMPTON ROADS SANITATION DISTRICT, VIRGINIA
Subordinate Wastewater Revenue Bonds, Refunding Series 2012
(Federally Taxable)

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

The Subordinate 2012 Bonds are being issued under a Trust Agreement, dated as of October 1, 2011, 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"). The proceeds of the Subordinate 2012 Bonds will be used, together with other available funds of the District, to refund a portion of the District's Outstanding VRA Subordinate Obligations (as defined herein).

The Subordinate 2012 Bonds are issuable as registered bonds without coupons and will be initially registered only in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), serving as securities depository for the Subordinate 2012 Bonds. The Subordinate 2012 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 SUBORDINATE 2012 BONDS—Book-Entry Only System" herein. Interest on the Subordinate 2012 Bonds is payable on each April 1 and October 1, commencing April 1, 2013.

The Subordinate 2012 Bonds are subject to optional redemption prior to maturity as described herein.

THE SUBORDINATE 2012 BONDS ARE SPECIAL OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM THE NET REVENUES AVAILABLE FOR DEBT SERVICE AND OTHER FUNDS PLEDGED TO SECURE THE SUBORDINATE 2012 BONDS UNDER THE TRUST AGREEMENT. THE SUBORDINATE 2012 BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT, OR A PLEDGE OF THE FAITH AND CREDIT, OF THE COMMONWEALTH OF VIRGINIA OR OF ANY COUNTY, CITY, TOWN OR POLITICAL SUBDIVISION THEREOF. THE ISSUANCE OF THE SUBORDINATE 2012 BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE COMMONWEALTH OF VIRGINIA OR ANY COUNTY, CITY, TOWN OR POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR.

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

The Subordinate 2012 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 Subordinate 2012 Bonds will be available for delivery to The Depository Trust Company in New York, New York, on or about December 27, 2012.

J.P.Morgan

BB&T Capital Markets **BofA Merrill Lynch** **Raymond James | Morgan Keegan**

December 12, 2012

$22,680,000
Hampton Roads Sanitation District, Virginia
Subordinate Wastewater Revenue Bonds, Refunding Series 2012 (Federally Taxable)

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

Due April 1	Principal Amount	Interest Rate	Price	CUSIP Suffix*
2013	$1,565,000	0.300%	100%	GD9

Due October 1	Principal Amount	Interest Rate	Price	CUSIP Suffix*
2013	$6,015,000	0.500%	100%	FV0
2014	6,145,000	0.592	100	FW8
2015	4,925,000	0.721	100	FX6
2016	2,825,000	0.985	100	FY4
2017	300,000	1.185	100	FZ1
2018	305,000	1.565	100	GA5
2019	310,000	1.765	100	GB3
2020	290,000	1.915	100	GC1

* 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 Subordinate 2012 Bonds.

HAMPTON ROADS SANITATION DISTRICT

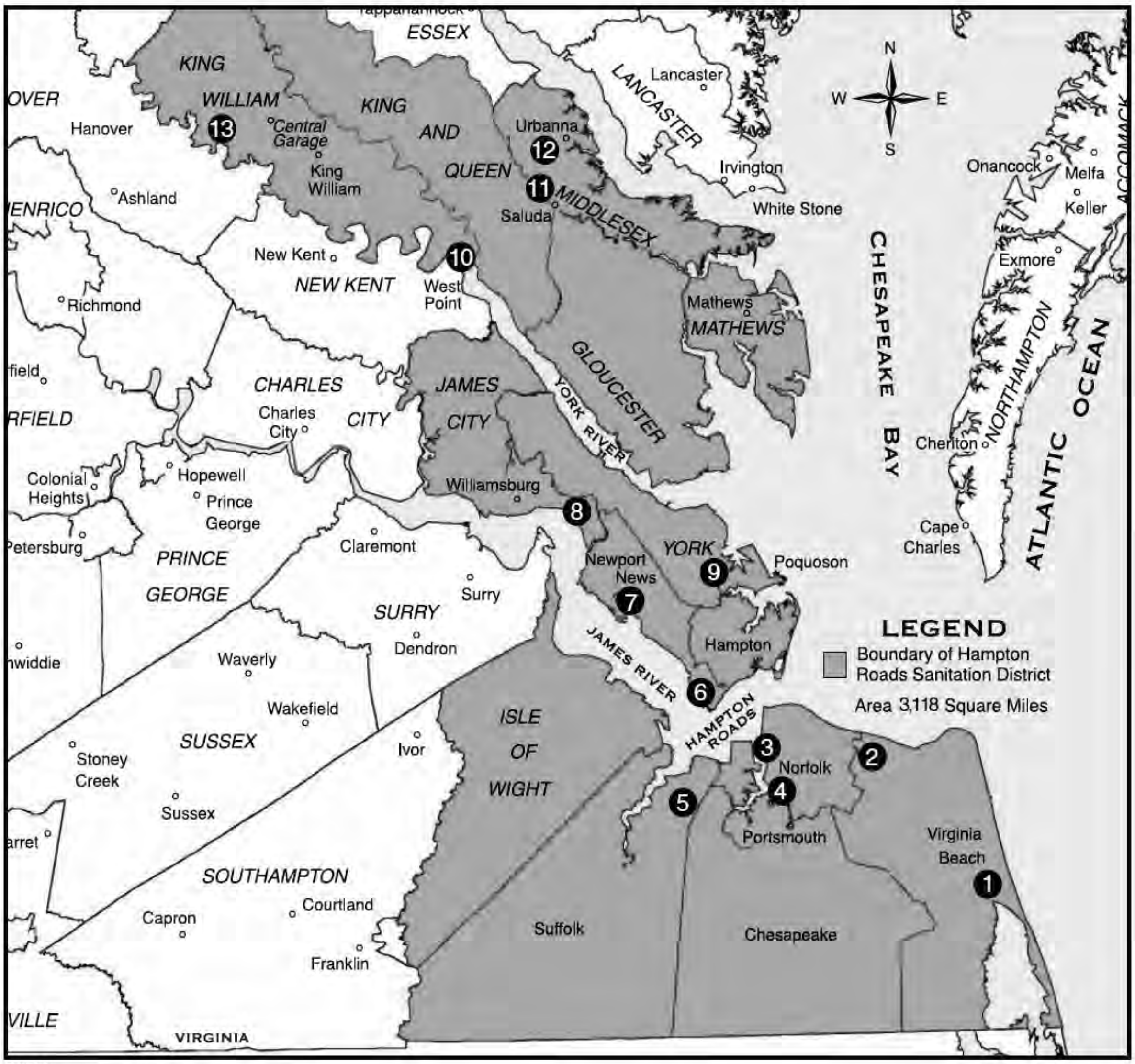
HRSD

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 Subordinate 2012 Bonds are exempt from registration under the Securities Act of 1933, as amended. As obligations of a political subdivision of the Commonwealth of Virginia, the Subordinate 2012 Bonds are also exempt from registration under the securities laws of Virginia.

No dealer, salesman or any other person who has been authorized to give any information or to make any representation, other than the information and representations contained herein, in connection with the offering of the Subordinate 2012 Bonds, and, if given or made, such information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy any of the Subordinate 2012 Bonds in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

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

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SUBORDINATE 2012 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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Official Statement

Hampton Roads Sanitation District, Virginia

Relating to its
$22,680,000
Subordinate Wastewater Revenue Bonds, Series 2012 (Federally Taxable)

INTRODUCTION

The purpose of this Official Statement, which includes the cover page hereof, the map and the appendices hereto, is to set forth information concerning the Hampton Roads Sanitation District (the "District" or "HRSD") and the District's $22,680,000 aggregate principal amount Subordinate Wastewater Revenue Bonds, Refunding Series 2012 (Federally Taxable) (the "Subordinate 2012 Bonds").

The Subordinate 2012 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 November 27, 2012, the Hampton Roads Sanitation District Commission (the "Commission"), the governing body of the District, authorized by resolution the issuance of the Subordinate 2012 Bonds. The Commission is issuing the Subordinate 2012 Bonds for the purpose of providing funds, together with other available funds, to refund certain VRA Subordinate Obligations (as hereinafter defined) (collectively, the "Refunded Bonds") and pay certain expenses incurred in connection with the issuance of the Subordinate 2012 Bonds by the District.

The Subordinate 2012 Bonds are special obligations of the District payable solely from the Net Revenues Available for Debt Service (hereinafter defined) derived by the District from the operation of its Wastewater System (hereinafter defined) and other funds pledged to secure the Subordinate 2012 Bonds under the Trust Agreement (hereinafter defined). See "SECURITY AND SOURCES OF PAYMENT" and "THE SYSTEM" herein. The Commission has determined to provide for the issuance of the Subordinate 2012 Bonds under the Trust Agreement, dated as of October 1, 2011 (the "Original Trust Agreement"), as supplemented by the Second Supplemental Trust Agreement, dated as of February 1, 2013 (the "Second Supplemental Trust Agreement" and the Original Trust Agreement, as so supplemented and as the same may be amended and further supplemented, the "Trust Agreement"), each by and between the District and The Bank of New York Mellon Trust Company, N.A., as trustee (in such capacity, the "Trustee").

On or about the date of issuance of the Subordinate 2012 Bonds, the District expects to issue $130,480,000 Wastewater Revenue Bonds, Series 2012A (the "Senior 2012 Bonds"). The Senior 2012 Bonds will constitute "Senior Obligations" under a trust agreement, dated as of March 1, 2008 (the "Senior Trust Agreement"), by and between the District and The Bank of New York Mellon Trust Company, N.A., as successor Trustee (in such capacity, the "Senior Trustee"). Proceeds of the Senior 2012 Bonds will provide additional funds for the costs of the District's 2013-2022 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 thereof. The issuance of the Subordinate 2012 Bonds is not contingent upon the issuance of the Senior 2012 Bonds. The Senior 2012 Bonds are offered by means of a separate official statement. See "PLAN OF REFUNDING – Senior 2012 Bonds."

This Official Statement contains a brief description of the Subordinate 2012 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, 2012, and includes additional information regarding the District's operations and financial condition. Appendix B contains the definitions of certain terms used in this Official Statement. Capitalized terms used but not defined herein shall have the meanings given to such terms in the Trust Agreement. Brief descriptions and summaries of certain provisions of the Subordinate 2012 Bonds, the Trust Agreement and the Second Supplemental Trust Agreement are included in Appendix C.

PLAN OF REFUNDING

Subordinate 2012 Bonds

The Refunded Bonds are certain VRA Subordinate Obligations secured by the Trust Agreement. To effect the refunding, a portion of the proceeds of the Subordinate 2012 Bonds and other available funds will be delivered to the Virginia Resources Authority (hereinafter sometimes, "VRA"), the registered owner of the Refunded Bonds, in an amount sufficient to retire the Refunded Bonds.

Concurrent with the issuance of the Subordinate 2012 Bonds, the District has requested modifications to the terms of certain other VRA Subordinate Obligations, which will have the effect of lowering the interest payable by the District on such VRA Subordinate Obligations.

Senior 2012 Bonds

The proceeds of the Senior 2012 Bonds will be applied to finance a portion of the costs of the Capital Improvement Program and pay the costs of issuing the Senior 2012 Bonds. The District anticipates that the Senior 2012 Bonds will be issued as fixed-rate serial and term bonds with a final maturity of January 1, 2044. The Senior 2012 Bonds are not offered by means of this Official Statement.

The issuance of the Subordinate 2012 Bonds is not contingent on the issuance of the Senior 2012 Bonds, and the issuance of the Senior 2012 Bonds is not contingent upon the issuance of the Subordinate 2012 Bonds.

Future Financing

The District has authorized one or more series of Senior Bonds (as hereinafter defined) to refund outstanding Senior Bonds for debt service savings. The sale of any such refunding Senior Bonds is based on market conditions, but the District does not anticipate any such sale would occur prior to January 1, 2013.

The District currently has no plans to issue additional Senior Obligations or Additional Bonds for Capital Improvement Program costs prior to the Fall of 2014. Any acceleration of the Capital Improvement Plan could result in an acceleration of the date when the District would issue additional debt. From time to time, the District may finance specific projects included in its Capital Improvement Program through VRA when the District finds it cost effective or otherwise advantageous to do so. As of the date hereof, however, the District does not have any plans to borrow from VRA over the next three years. See "SECURITY AND SOURCES OF PAYMENT – Outstanding Senior Obligations," "- Additional Senior Obligations," "- Parity Obligations" and "- Additional Parity Obligations."

SOURCES AND USES OF FUNDS

Sources

Principal Amount of Subordinate 2012 Bonds	$22,680,000.00
Total Sources of Funds	$22,680,000.00

Uses

Redemption of Refunded Bonds	$22,572,446.09
Issuance Expenses[(1)]	107,553.91
Total Uses of Funds	$22,680,000.00

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

THE SUBORDINATE 2012 BONDS

Description

The Subordinate 2012 Bonds will be dated, bear interest and mature as set forth on the cover and inside cover pages of this Official Statement. The Subordinate 2012 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 April 1 and October 1, commencing April 1, 2013. The principal of and the interest on the Subordinate 2012 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 Subordinate 2012 Bonds. The Subordinate 2012 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Subordinate 2012 Bonds and will be deposited with DTC. Additional information respecting DTC and its book entry system is contained in Appendix F.

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

DTC may discontinue providing its services as depository with respect to the Subordinate 2012 Bonds at any time by giving reasonable notice to the District. Under such circumstances, if a successor depository is not obtained, certificates for the Subordinate 2012 Bonds are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates for the Subordinate 2012 Bonds will be printed and delivered.

Redemption Provisions

Optional Redemption. The District may, at its option, redeem prior to their respective maturities, as a whole or in part, on any date, the Subordinate 2012 Bonds, at a redemption price equal to the greater of:

(i) 100% of the principal amount of the Subordinate 2012 Bonds to be redeemed, together with interest accrued to the date fixed for redemption; and

(ii) The sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Subordinate 2012 Bonds to be redeemed, discounted to the date on which the Subordinate 2012 Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as defined below), plus 20 basis points.

The "Treasury Rate" is, as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days, but not more than 45 calendar days, such date to be selected by the District (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Subordinate 2012 Bonds to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

Selection of Subordinate 2012 Bonds for Redemption

If the Subordinate 2012 Bonds are not registered in book-entry-only form, any redemption of less than all of the Subordinate 2012 Bonds will be allocated among the registered owners of such Subordinate 2012 Bonds as nearly as practicable in proportion to the principal amounts of the Subordinate 2012 Bonds owned by each registered owner, subject to the authorized denominations applicable to the Subordinate 2012 Bonds. This will be calculated based on the formula: (principal to be redeemed) x (principal amount owned by owner) / (principal amount outstanding). The particular Subordinate 2012 Bonds to be redeemed will be determined by the Trustee, using such method as the Trustee in its sole discretion shall determine.

For so long as a the Subordinate 2012 Bonds are registered in book-entry-only form and The Depository Trust Company or a successor securities depository, or its nominee, is the sole registered owner of such Subordinate 2012 Bonds, in the event of a redemption of less than all of the Subordinate 2012 Bonds of a maturity, the particular ownership interests of such maturity to be redeemed will be determined by DTC and Direct DTC Participants and Indirect DTC Participants (all as defined in APPENDIX F hereto), or by any such successor securities depository or any other intermediary, in accordance with their respective operating rules and procedures. The Subordinate 2012 Bonds will be made eligible for partial redemptions to be treated by DTC, in accordance with its rules and procedures, as a "pro-rata pass-through distribution of principal", and partial redemptions are expected to be processed by DTC on a pro-rata pass-through distribution of principal basis in accordance with such rules and procedures. In the event of a partial redemption in lieu of redemption of Subordinate 2012 Bonds, the security position at DTC will not be reduced but the balance will be subject to adjustment by a factor to be provided to DTC by the Trustee. If, at the time of a partial redemption of Subordinate 2012 Bonds, the Trustee fails to identify the Subordinate 2012 Bonds being redeemed or purchased as being subject to a pro-rata pass-through distribution of principal and/or fails to furnish such factor to DTC, DTC's rules and procedures provide that such redemption or purchase will be processed by random lottery.

The District provides no assurance that DTC and any Direct DTC Participant and Indirect DTC Participant, or any successor securities depository or other intermediary, will make any such determination on a pro rata basis or effectuate a pro-rata pass-through distribution of principal in the case of a partial redemption or purchase in lieu of redemption of Subordinate 2012 Bonds, and that the Trustee will identify the Subordinate 2012 Bonds and provide the appropriate factor as described above in the case of a partial redemption of Subordinate 2012 Bonds, and in each case any failure to do so shall not affect the sufficiency or the validity of the related redemption of Subordinate 2012 Bonds.

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 Subordinate 2012 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 Subordinate 2012 Bonds will not affect the validity of the proceedings for the redemption of any other Subordinate 2012 Bonds. **During the period that DTC or its nominee is the registered holder of the Subordinate 2012 Bonds, the Bond Registrar will not be responsible for mailing notices of redemption to the beneficial owners of the Subordinate 2012 Bonds. See "—Book-Entry Only System" above and Appendix F.** Each such notice will set forth the Subordinate 2012 Bonds or portions thereof to be redeemed, the date fixed for redemption, the redemption price to be paid, and if less than all the Subordinate 2012 Bonds will be called for redemption, the maturities of the Subordinate 2012 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 Subordinate 2012 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 Subordinate 2012 Bond, a new Subordinate 2012 Bond of authorized denominations and in principal amount equal to the unredeemed portion of such Subordinate 2012 Bond will be issued.

Any notice of optional redemption of the Subordinate 2012 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 Subordinate 2012 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 Subordinate 2012 Bonds has been set aside in escrow with the Trustee for the purpose of paying such Subordinate 2012 Bonds, then on the redemption date such Subordinate 2012 Bonds will become due and payable. In either case, if on the redemption date the Trustee holds money to pay the Subordinate 2012 Bonds called for redemption, thereafter no interest will accrue on those Subordinate 2012 Bonds, and a Bondholder's right will be to receive payment of the Redemption Price upon surrender of those Subordinate 2012 Bonds.

SECURITY AND SOURCES OF PAYMENT

THE SUBORDINATE 2012 BONDS ARE SPECIAL OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM THE NET REVENUES AVAILABLE FOR DEBT SERVICE AND OTHER FUNDS PLEDGED TO SECURE THE SUBORDINATE 2012 BONDS UNDER THE TRUST AGREEMENT. THE SUBORDINATE 2012 BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT, OR A PLEDGE OF THE FAITH AND CREDIT, OF THE COMMONWEALTH OF VIRGINIA OR OF ANY COUNTY, CITY, TOWN OR POLITICAL SUBDIVISION THEREOF. THE ISSUANCE OF THE SUBORDINATE 2012 BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE COMMONWEALTH OF VIRGINIA OR ANY COUNTY, CITY,

TOWN OR POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR.

General

Principal of and interest on the Subordinate 2012 Bonds will be payable from "Net Revenues Available for Debt Service" of the District pledged to the payment thereof and money held in certain funds and accounts under the Trust Agreement.

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

The realization of amounts to be derived upon the enforcement of the Subordinate 2012 Bonds will depend upon the exercise of various remedies specified in the Trust Agreement. These and other remedies may, in many respects, require judicial action of a nature that is often subject to discretion and delay. Under existing laws, the remedies specified in the Trust Agreement may not be readily available or may be limited. A court may decide not to order the specific performance of the covenants contained in the Trust Agreement. The various legal opinions to be delivered concurrently with the delivery of the Subordinate 2012 Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by state and federal laws, rulings and decisions affecting remedies and by bankruptcy, fraudulent conveyance, reorganization and other laws affecting the enforcement of creditors' rights generally.

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

Rate Covenant

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

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

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

Outstanding Senior Obligations

As of November 30, 2012, the District has outstanding five series of Bonds constituting Senior Obligations under the Senior Trust Agreement, including its Wastewater Refunding Revenue Bonds, Series 2003 (the "Senior 2003 Bonds"), of which $13,400,000 principal amount is outstanding, its Wastewater Revenue Bonds, Series 2008 (the "Senior 2008 Bonds"), of which $215,170,000 principal amount is outstanding, its Wastewater Revenue Bonds, Series 2009 (issued in two separate series, collectively, the "Senior 2009 Bonds"), of which $147,650,000 principal amount is outstanding and its Wastewater Revenue Bonds, Series 2011 (the "Senior 2011 Bonds"), of which $43,930,000 principal amount is outstanding. The District expects to issue its Senior 2012 Bonds (if and when issued, together with the Senior 2003 Bonds, the Senior 2008 Bonds, the Senior 2009 Bonds and Senior 2011 Bonds, the "Senior Bonds") on or about the same date as the District issues its Subordinate 2012 Bonds.

Since May 2009, the District has obtained seven loans from the Virginia Resources Authority Revolving Fund and issued in evidence of its obligations to repay such loans its bonds constituting Senior Obligations under the Trust Agreement (the "VRA Senior Bonds" and, together with the Senior Bonds, "Senior Obligations"). Such VRA Senior Bonds are secured under the Senior Trust Agreement on a parity with all other Senior Obligations, including the Senior 2003 Bonds, the Senior 2008 Bonds, the Senior 2009 Bonds, the Senior 2011 Bonds and the Senior 2012 Bonds (if and when issued). As of November 30, 2012, the District had drawn $94,816,188 of such VRA Senior Bonds, with an additional undrawn authorized amount of $17,930,892. See also "–Parity Obligations."

Additional Senior Obligations

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

Parity Obligations

In addition, in October 2011, the District issued $25,000,000 aggregate principal amount of variable rate, subordinate bonds (the "Subordinate 2011 Bonds") pursuant to the Trust Agreement. The Subordinate 2011 Bonds were the first issue of Bonds under the Trust Agreement.

In addition to the VRA Senior Bonds described under "Outstanding Senior Obligations" above, since 1993, the District has borrowed over $121.2 million from the Virginia Resources Authority Revolving Loan Fund and issued in evidence of its obligations to repay such loans 16 issues of bonds that are outstanding Parity Indebtedness and recognized as such under the Trust Agreement (the "VRA Subordinate Obligations" and collectively, with the Subordinate 2011 Bonds and the Subordinate 2012 Bonds, when, as and if issued, and other Bonds or additional VRA Subordinate Obligations issued from time to time under the provisions of the Trust Agreement, the "Parity Obligations"). As of November 30, 2012, the outstanding drawn amount of the VRA Subordinate Obligations was $102,187,641. The terms of the VRA Subordinate Obligations generally state that the lien thereof on the Net Revenues of the District is in all respects subordinate and inferior to the lien thereon of Senior Obligations outstanding under the Senior Trust Agreement. Generally, after an initial period where no interest accrues on such VRA Subordinate Obligations, interest accrues on the disbursed principal of the outstanding Parity Bonds at interest rates ranging from 3.0% to 4.75% per annum, and principal and interest are payable in installments over the 20-year terms of the VRA Subordinate Obligations. The VRA Subordinate Obligations have been issued for various improvements and upgrades at several of the District's treatment plants. See the table "DEBT SERVICE REQUIREMENTS FOR SENIOR OBLIGATIONS AND PARITY OBLIGATIONS" and "Limitation on Creation of Liens" in Appendix C. The Subordinate 2012

Bonds are on parity under the Trust Agreement with the Outstanding VRA Subordinate Obligations as to their subordinate lien on the Net Revenues of the District.

Additional Parity Obligations

Under the Trust Agreement, the District may issue Additional Parity Obligations, including Additional Bonds and VRA Subordinate Obligations, for the District's Capital Improvement Program or to refund outstanding Senior Indebtedness or Parity Obligations subject to the District's demonstrating its compliance with the conditions for the incurrence thereof under the Trust Agreement or qualifying for an exception thereto. The District anticipates that it will finance a portion of its Capital Improvement Program with future issues of additional Senior Obligations, Additional Parity Obligations and borrowings from the Virginia Resources Authority, which such borrowings may be evidenced by additional VRA Senior Bonds and additional VRA Subordinate Obligations. See "Limitations on Indebtedness" in Appendix C.

DEBT SERVICE REQUIREMENTS FOR PARITY OBLIGATIONS*

[In Thousands of Dollars]

Fiscal Year Ending June 30,	Subordinate 2012 Bonds Principal	Interest	Debt Service	Outstanding Parity Obligations Debt Service†	Total Parity Obligations Debt Service
2013	$1,565	$40	$1,605	$9,656	$11,261
2014	6,015	134	6,149	6,747	12,896
2015	6,145	101	6,246	6,981	13,227
2016	4,925	65	4,990	6,982	11,972
2017	2,825	33	2,858	6,980	9,838
	-	-			-
2018	300	18	318	6,981	7,299
2019	305	13	318	6,981	7,300
2020	310	8	318	6,983	7,301
2021	290	3	293	6,518	6,811
2022	-	-	-	6,435	6,435
2023	-	-	-	6,215	6,215
2024	-	-	-	6,008	6,008
2025	-	-	-	6,006	6,006
2026	-	-	-	6,007	6,007
2027	-	-	-	5,928	5,928
2028	-	-	-	2,823	2,823
2029	-	-	-	2,769	2,769
2030	-	-	-	2,770	2,770
2031	-	-	-	2,106	2,106
2032	-	-	-	626	626
2033	-	-	-	624	624
2034	-	-	-	625	625
2035	-	-	-	876	876
2036	-	-	-	3,847	3,847
2037	-	-	-	3,847	3,847
2038	-	-	-	3,848	3,848
2039	-	-	-	3,845	3,845
2040	-	-	-	3,846	3,846
2041	-	-	-	3,844	3,844
2042	-	-	-	3,845	3,845
TOTAL	$22,680	$415	$23,095	$141,548	$164,644

* Numbers may not add to totals due to rounding.

† Debt Service on the District's 16 series of Parity Bonds held by VRA and the Subordinate 2011 Bonds. Debt service is shown (a) net of debt service on the Refunded Bonds and (b) with the rate modifications on certain other VRA Subordinate Bonds, which will be effective on or about January 9, 2013.. See "PLAN OF REFUNDING – Subordinate 2012 Bonds" and "SECURITY AND SOURCES OF PAYMENT—Parity Obligations" herein. Debt service reflects District management's current intention to amortize the Subordinate 2011 Bonds in roughly equal annual installments, commencing in the fiscal year ending June 30, 2036 through the final maturity of the Subordinate 2011 Bonds in the fiscal year ending June 30, 2042. The District is not legally required to redeem any of such bonds prior to their stated maturity of November 1, 2041.

DEBT SERVICE REQUIREMENTS FOR SENIOR OBLIGATIONS AND PARITY OBLIGATIONS*

[In Thousands of Dollars]

Fiscal Year Ending June 30,	Total Senior Obligations Debt Service†	Total Parity Obligations Debt Service‡	Total Debt Service
2013	$37,648	$11,261	$48,909
2014	47,289	12,896	60,185
2015	47,084	13,227	60,312
2016	46,997	11,972	58,969
2017	43,142	9,838	52,981
2018	45,435	7,299	52,734
2019	45,725	7,300	53,025
2020	45,665	7,301	52,966
2021	45,598	6,811	52,409
2022	45,530	6,435	51,965
2023	45,455	6,215	51,670
2024	45,371	6,008	51,379
2025	45,287	6,006	51,293
2026	45,184	6,007	51,191
2027	45,089	5,928	51,016
2028	44,985	2,823	47,807
2029	44,882	2,769	47,651
2030	44,764	2,770	47,534
2031	44,441	2,106	46,546
2032	40,809	626	41,435
2033	38,762	624	39,386
2034	36,528	625	37,153
2035	36,139	876	37,015
2036	33,031	3,847	36,878
2037	32,878	3,847	36,725
2038	32,730	3,848	36,578
2039	16,639	3,845	20,484
2040	13,968	3,846	17,814
2041	5,615	3,844	9,459
2042	5,618	3,845	9,463
2043	5,614	-	5,614
2044	5,616	-	5,616
TOTAL	$1,159,519	$164,644	$1,324,163

* Numbers may not add to totals due to rounding.

† See "SECURITY AND SOURCE OF PAYMENT – Outstanding Senior Obligations." Includes debt service on the Senior 2012 Bonds. See "PLAN OF REFUNDING—Senior 2012 Bonds" herein.

‡ Debt service is shown (a) net of debt service on the Refunded Bonds and (b) with the rate modifications on certain other VRA Subordinate Bonds, which will be effective on or about January 9, 2013.. See "PLAN OF REFUNDING – Subordinate 2012 Bonds" and "SECURITY AND SOURCES OF PAYMENT—Parity Obligations" herein. Debt service reflects District management's current intention to amortize the Subordinate 2011 Bonds in roughly equal annual installments, commencing in the fiscal year ending June 30, 2036 through the final maturity of the Subordinate 2011 Bonds in the fiscal year ending June 30, 2042. The District is not legally required to redeem any of such bonds prior to their stated maturity of November 1, 2041.

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. There is currently one vacancy on the Commission.

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
Frederick N. Elofson, CPA, *Vice Chairman*	Newport News	Retired Certified Public Accountant and Personal Financial Specialist, Goodman & Company, LLP	2014
I. Vincent Behm, Jr.	Hampton	Owner, Goodman Glass Company	2012[1]
Arthur C. Bredemeyer	Suffolk	Attorney, Eure & Bredemeyer, PLLC	2013
Michael E. Glenn	Norfolk	President, Luna Development Services, LLC	2011[1]
Maurice P. Lynch, Ph.D.	Gloucester Point	Professor Emeritus, Virginia Institute of Marine Science, College of William and Mary	2013
Stephen C. Rodriguez	Chesapeake	Owner and President, Cruco, Inc.	2016

[1] Members serve until successors are appointed and qualified.

Vishnu K. Lakdawala, Ph.D., *Chairman.* Dr. Lakdawala, a member of the Commission since June 8, 2002, obtained his undergraduate degree in electrical engineering from Bangalore University in India in 1972 and his Master of Engineering Degree in High Voltage Engineering from Indian Institute of Science in 1974. He worked as Research and Development Engineer in Jyoti Limited for three years in the high voltage instrument transformers division. He received his Ph.D. in electrical engineering from the University of Liverpool in 1980. After serving as senior research associate in the Department of Electrical Engineering and Electronics in the University of Liverpool for a year, he joined Oak Ridge National Laboratory, Oak Ridge, Tennessee, where he conducted research for a year. He joined the faculty of Old Dominion University in 1983 as Assistant Professor in the Department of Electrical and Computer Engineering. He is currently the Chief Departmental Advisor and Associate Professor of Electrical and Computer Engineering. Dr. Lakdawala currently serves as the president of the Hindu Temple of Hampton Roads. Dr. Lakdawala resides in the City of Virginia Beach.

Frederick N. Elofson, CPA, *Vice Chairman*. 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.

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

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

Michael E. Glenn, *Commissioner*. Mr. Glenn, a member of the Commission since January 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.

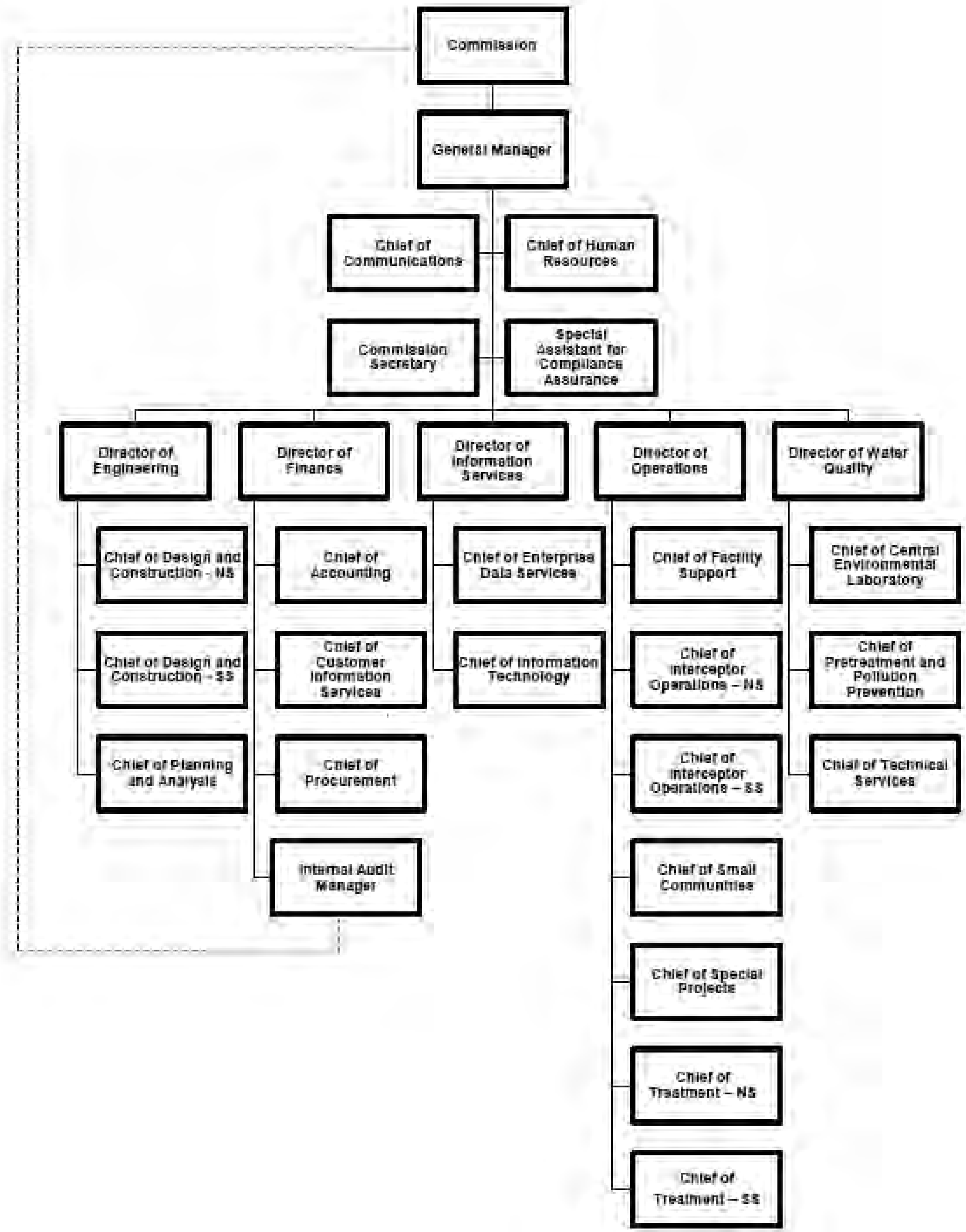
Maurice P. Lynch, Ph.D., *Commissioner*. Dr. Lynch, a member of the Commission since August 24, 2009, is professor emeritus of the College of William and Mary's Virginia Institute of Marine Science. Upon earning his bachelor's degree from Harvard College, Dr. Lynch was commissioned an ensign in the U.S. 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 USNR. 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 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.

Stephen C. Rodriguez, *Commissioner*. Mr. Rodriguez, a member of the Commission since October 5, 2012, is the owner and president Cruco Inc., which provides construction services in Hampton Roads. He currently serves on the boards of the Outer Banks Hospital and the Chesapeake Regional Medical Center. Mr. Rodriguez was named Chairman of the Foundation for Virginia Natural Resources and has served as president of the Deep Creek Ruritan Club. He also has been a member of the Chesapeake School Board, the Chesapeake Economic Development Authority and the board of directors of Opportunity, Inc. He holds a bachelor's degree in civil engineering technology and a certificate in civic leadership from Old Dominion University. Mr. Rodriguez resides in the City of Chesapeake.

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 and budget operations and treasury, debt and risk management functions.
●	Procurement:	Acquires goods and services.
●	Customer Information Services:	Responsible for billings, collections, maintenance of customer accounts and liaison with HRSD customers.

Information Services

●	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 2013, the District budgeted for 774 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. 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, securing credit rating increases and implementing a new accounting and financial reporting system. Mr. de Mik's 24 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.

James J. Pletl, Ph.D., Director of Water Quality

Jim Pletl was promoted to Director of Water Quality in December 2011. Previously, he was the Chief of Technical Services for five years. In that capacity, he managed HRSD's environmental monitoring and permitting program. He also served as an Environmental Scientist for 17 years, providing technical reviews and conducting planning for water quality studies. Dr. Pletl holds a bachelor's degree in Biology from Alfred University and a PhD in Biological Oceanography from Old Dominion University. He also is a graduate of the Kenan-Flagler Water and Wastewater Leadership Program. Dr. Pletl is the vice-chair of the National Association of Clean Water Agencies ("NACWA") Water Quality Committee and the chair of the VAMWA Water Quality Committee. He has served on two federal advisory committees for EPA and several advisory groups to the Virginia Department of Environmental Quality. Dr. Pletl has also served on numerous Water Environment Research Foundation ("WERF") project oversight committees which define the goals and guide the work of WERF research relevant to wastewater utility issues.

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

HRSD has received numerous awards for excellence in plant operations and maintenance, environmental engineering and design, and financial reporting. Its treatment plants have earned 252 national awards for outstanding compliance with National Pollutant Discharge Elimination System ("NPDES") permits since 1986, when the recognition program was established. Thirteen treatment plants qualified for an award for outstanding permit compliance for calendar year 2011, when the Army Base Treatment Plant achieved 25 consecutive years of perfect permit compliance, a record unmatched in the nation. Other awards received in 2011 and 2012 include a Governor's Environmental Excellence Award, the National Council of Public-Private Partnerships Innovation Award for the Nansemond Treatment Plant Struvite Recovery Facility and an award from the Virginia Department of Environmental Quality Award recognizing HRSD for its 35-year commitment to the education and training of environmental professionals.

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. 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	Population[1]	Population Increase (%)[2]
1960	660,338	--
1970	973,247	47
1980	1,085,332	12
1990	1,431,000	32
2000	1,551,000	8
2010	1,674,917	8

(1) Source – United States Bureau of the Census.
(2) 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 11.5% of the District's total rate base, as measured by wastewater treatment charges, in Fiscal Year 2012. The following table compares the top ten ratepayers in Fiscal Year 2012 with the ten largest ratepayers in Fiscal Year 2003.

Wastewater Treatment Charges
Ten Largest Customers

		Fiscal Year 2012		Fiscal Year 2003	
Customer	Type	Amount[(1)]	% of Total	Amount[(1)]	% of Total
Anheuser-Busch, Inc.	Brewery	$5,499	2.8%	$5,820	6.2%
U.S. Navy – Norfolk Naval Base	Military Facility	4,823	2.5	1,960	2.1
Smithfield Foods	Meat Processor	3,389	1.8	2,021	2.2
City of Norfolk	Municipality	1,899	1.0	954	1.0
Huntington Ingalls Industries	Shipbuilding	1,540	0.8	388	0.4
Norfolk Redevelopment and Housing Authority	Housing Authority	1,432	0.7	608	0.6
Joint Expeditionary Base Little Creek – Fort Story	Military Facility	1,068	0.5	737	0.8
Fort Eustis	Military Facility	1,004	0.5	-	-
U.S. Air Force – Langley Air Force Base	Military Facility	975	0.5	626	0.7
City of Virginia Beach	Municipality	873	0.4	367	0.4
Norfolk Naval Shipyard	Military Ship Repair	-	-	342	0.4
Totals		**$22,502**	**11.5%**	**$13,823**	**14.8%**

(1) Dollar amounts in thousands.

Wastewater Flow

During the past five years, there has been population growth in the service area while the number of service connections has remained relatively 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]
2008	146	120	442
2009	151	128	452
2010	171	123	455
2011	144	119	457
2012	147	115	458

(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.

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. From time to time, when the interceptor system is expanded, the District may require the local government to enter into an Interest Participation Agreement with the District. The decision to use an Interest Participation Agreement is made by the District on a case-by-case basis. 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 83 major pumping stations and approximately 532 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, 2012, their average daily flows.

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

Major Treatment Facilities	Average Design Capacity	FY 2012 Annual Average Daily Flow
Army Base Norfolk	18.0	10.2
Atlantic Virginia Beach	54.0	29.0
Boat Harbor Newport News	25.0	13.6
Chesapeake-Elizabeth Virginia Beach	24.0	15.2
James River Newport News	20.0	12.9
Nansemond Suffolk	30.0	16.2
Virginia Initiative Norfolk	40.0	29.8
Williamsburg James City County	22.5	9.1
York River York County	15.0	11.2
TOTALS	248.5	147.1

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. The interceptor system for these localities includes 29 pumping stations.

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. Electrical equipment upgrades throughout all HRSD facilities have been made to replace aging system components as well as meet new arc flash safety requirements. The on-going infrastructure renewal program has replaced a number of major interceptors and pipelines over the past few years including the Chesapeake-Elizabeth Treatment Plant Outfall Pipe Repair and Replacement, Williamsburg Interceptor Force Main, South Trunk Section F, Route 171 and Magruder projects.

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 met 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.

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, as opposed to releasing it into the Chesapeake Bay, and converts it to a slow release, high phosphorus content, commercial fertilizer.

The District continues to look for renewable energy projects such as the Atlantic Treatment Plant Digester Gas Combined Heat and Power project. This project will feed internal combustion engines with digester gas to meet up to 40% of the 2.5 mega-watt treatment plant demand and provide heating to the administration buildings and digesters. In addition, the District is part of an international group of agencies and academic institutions studying a revolutionary wastewater process using a relatively new bacteria called Anammox which has the potential to make wastewater plants net energy positive and eliminate the need for expensive carbon addition, which is needed for nutrient removal. The District is conducting a pilot study for full-scale deployment at the Chesapeake-Elizabeth treatment plant and recently started a new sidestream treatment process using this bacteria at the York River treatment plant, which is the first full-scale anammox (deammonification) process in all of North and South America. The District is also investigating other innovative projects to reduce energy usage and limit the discharge of contaminants to the environment.

HRSD continues to evaluate lower cost options for carbon sources, which is an essential chemical in the nutrient reduction process. HRSD is studying the feasibility of fermenting readily available Fats, Oils, and Grease (FOG) to use as a carbon source for the Nansemond Treatment Plant nutrient removal process.

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. The District uses a ten-year planning horizon for the CIP. 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. The District also utilizes a CIP project prioritization program using a decision-analysis based process. This process allows 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 2013-2022 CIP includes approximately $1.16 billion in interceptor system, treatment plant and other facility improvements over the ten fiscal years ending June 30, 2022. Of that total, $371 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 $375 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 $195 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 $60 million program will be to reduce inflow and infiltration coming from private house laterals as well as commercial property.

The following table sets forth the District's anticipated sources of funds for its Capital Improvement Plan in Fiscal Years 2013 through 2017.

CIP, Fiscal Years 2013 to 2017
(dollar amounts in thousands)
(as of Fiscal Years ended June 30)[(1)]

	2013	2014	2015	2016	2017	Total (2013-17)
Capital Reserves[(2)]	$120,125	$184,609	$100,695	$91,948	$52,455	$120,125[(3)]
Bonds[(4)]	169,885	-	65,000	50,000	51,000	335,885
Cash	18,599	21,086	26,253	32,507	39,434	137,878
Total Sources	$308,609	205,695	191,948	174,455	142,888	593,888
Capital Expenditures	(124,000)	(105,000)	(100,000)	(122,000)	(100,000)	(551,000)
Ending Capital Resources	$184,609	$100,695	$91,948	$52,455	$42,888	$42,888

(1) Totals may not add due to rounding.
(2) Includes unexpended Bond proceeds.
(3) Represents initial balance.
(4) Includes anticipated draws on previously authorized VRA Senior Bonds.

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.

The CIP also includes $610 million in funding in Fiscal Years 2018 through 2022, of which $392.1 million is planned to be funded with bond proceeds and $217.9 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 2014. 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, the United States Environmental Protection Agency ("EPA") and the Commonwealth of Virginia have embodied 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 extremely beneficial as the District avoided committing to a fixed implementation schedule for the regional wet weather management plan which has not yet been defined. The Consent Decree requires an implementation schedule be developed once the detailed regional wet weather management plan is developed. Selection of the appropriate level of service/capacity for the regional system will be based on a number of factors, including costs.

The Consent Decree referenced above is in the process of being modified by mutual agreement of EPA, the Commonwealth, and HRSD to accommodate the regionalization study. Once the Consent Decree is modified the Consent Agreement will be similarly modified. The modification process is expected to be complete by Spring of 2013.

Consolidation Study

During the Summer of 2012, HRSD and the localities initiated a regional study of the potential cost savings if HRSD were to assume ownership or operational control of some or all of the localities' sewer collection systems. The study is expected to be completed in the Summer of 2013 and is expected to result in the recommendation of one of three outcomes: (1) no change from the current ownership and management of the localities' sewer systems, (2) HRSD ownership of some or all of the locality systems or (3) HRSD operation of some or all of the locality systems.

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, experienced 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.

FINANCIAL MANAGEMENT

General

Through its annual budget process, management seeks to ensure 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, 2008, through June 30, 2012.

Summary of Operating Expenses and Debt Service Coverage
(dollar amounts in thousands)
(as of Fiscal Years ended June 30)

	2008	2009	2010	2011	2012
Operating Revenues					
Wastewater Treatment Charges	$129,583	$156,642	$167,807	$183,526	$194,817
Miscellaneous	2,623	3,088	3,645	3,890	2,996
Total Operating Revenues	$132,206	$159,730	$171,452	$187,416	$197,813
Non-Operating Revenues, excluding capital grants received					
Wastewater Facility Charges	$ 8,339	$5,086	$5,754	$ 5,083	$6,276
Investment Earnings	3,999	3,998	1,541	1,699	1,681
Bond Interest Subsidy[1]	-	-	1,655	2,602	2,602
Change in Fair Value of Investments	656	162	40	(19)	(224)
Total Non-Operating Revenues	$12,994	$9,246	$8,990	$9,365	$10,335
Total Revenues	$145,200	$168,976	$180,442	$196,781	$208,148
Operating Expenses, Excluding Depreciation	103,790	115,703	127,457	131,847	139,740
Net Revenues	$41,410	$53,273	$52,985	$64,933	$68,408
Total Senior Obligations Debt Service	$4,699	$17,453	$21,081	$28,257	$33,023
Coverage on Senior Obligations	8.81	3.05	2.51	2.30	2.07
Total Senior Obligations and Subordinate Obligations Debt Service	$16,691	$28,147	$31,776	$38,897	$46,647
Coverage on Senior Obligations and Subordinate Obligations	2.48	1.89	1.67	1.67	1.46

(1) Build America Bonds subsidy equal to 35% of interest expense on the Senior 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 Fund Requirement. The following table reflects the Liquidity Ratio for Fiscal Years 2008 to 2012.

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

	2008	2009	2010	2011	2012
Cash and Cash Equivalents	$34,506	$79,003	$42,229	$37,130	$34,767
Investments - Current	8,039	4,100	9,253	15,527	8,583
Investments - Non-Current	38,119	16,313	50,827	72,727	95,140
Total Cash, Cash Equivalents and Investments - Unrestricted	**$80,664**	**$99,416**	**$102,309**	**$125,384**	**$138,490**
Cash and Cash Equivalents - Restricted	129,227	32,444	141,401	76,625	88,444
Total Cash, Cash Equivalents and Investments	**$209,891**	**$131,860**	**$243,710**	**$202,009**	**$226,934**
Maximum Annual Debt Service[(1)]	$28,143	$30,971	$48,331	$48,331	$62,721
Liquidity Ratio	2.87	3.21	2.12	2.59	2.21
Required Liquidity Ratio	1.35	1.35	1.35	1.35	1.35

[(1)] Excludes debt service on the Senior 2012 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, 2013, through June 30, 2017, inclusive.

Summary of Projected Revenues and Current Expenses
(dollar amounts in thousands)
(as of Fiscal Years ended June 30)[1]

	2013	2014	2015	2016	2017
Operating Revenues	$209,125	$221,057	$233,719	$247,681	$260,016
Non-Operating Revenues	10,290	11,013	10,927	11,032	11,002
Operating Expenses Excluding Depreciation	(141,816)	(143,872)	(147,783)	(152,898)	(159,974)
Net Revenues	$77,599	$88,198	$96,863	$105,815	$111,043
Senior Obligation Debt Service[2]	37,786	46,722	47,206	51,390	51,162
Senior Debt Service Coverage Ratio[2]	2.05	1.89	2.05	2.06	2.17
Total Debt Service[2]	$50,687	$59,953	$60,671	$64,347	$61,862
Total Debt Service Coverage Ratio[2]	1.53	1.47	1.60	1.64	1.80
Liquidity Ratio[2]	1.86	2.02	2.17	2.16	2.35
Key Assumptions[3]					
Rate Increases	8%	8%	8%	6%	5%
Growth in Service Connections/Consumption	0%	0%	0%	0%	0%
Key Inflation Trends					
Average Inflation[4]	-	2%	5%	5%	5%
Personal Services and Employment Benefits	-	5%	6%	5%	5%
Utilities/Chemicals/Contractual Services	-	5%	5%	5%	5%
Bond Issuance[5]	$150,000		$65,000	$50,000	$51,000

(1) Totals may not add due to rounding.
(2) Does not reflect the impact of the refunding of the Refunded Bonds. Assumes laddered increases in debt service on variable rate Subordinate 2011 Bonds.
(3) While the District believes the assumptions set forth above are reasonable, actual results may vary.
(4) 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.
(5) Projected Project Fund deposit. May be funded with a mix of Senior Obligations and Subordinate Obligations. Fiscal Year 2013 reflects the issuance of the Senior 2012 Bonds.

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, the Fiscal Year ended June 30, 2012, 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 29 consecutive Fiscal Years. The District will submit its report for the Fiscal Year ended June 30, 2012, 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, 2012. The District's full rate schedule as of July 1, 2012, 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.

Effective July 1, 2012, the District began the process of restructuring its surcharge rates to reflect the incremental cost the District incurs to treat surcharge pollutants discharged by certain industrial customers. The District anticipates that this incremental rate structure will be fully implemented effective July 1, 2014. Other costs the District incurs to treat normal sewage concentrations from industrial and residential customers are recovered through the District's volumetric rate. In addition, effective July 1, 2012, the District established strength-based facility charges for permitted industrial customers whose District permit allows them to discharge surcharge pollutants in excess of normal sewerage concentrations. These new customers will pay both a volumetric based facility charge and the strength-based facility charge when their account is established.

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 Supreme Court of Virginia 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
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
2012	99.1

[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 Subordinate 2012 Bonds, or that would have a material adverse effect on the District's condition, financial or otherwise.

APPROVAL OF LEGAL PROCEEDINGS

The Subordinate 2012 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

Circular 230 Notice

Any discussion of U.S. federal tax issues set forth in this Official Statement relating to the Subordinate 2012 Bonds was written in connection with the promotion and marketing of the transactions described in this Official Statement. Such discussion is not intended or written to be legal or tax advice with respect to the Subordinate 2012 Bonds to any person, and is not intended or written to be used, and cannot be used, by any person for the purpose of avoiding any U.S. federal tax penalties. Each investor should seek advice based on its particular circumstances from an independent tax advisor.

General

Interest on the Subordinate 2012 Bonds will be includable in gross income of the owners thereof for federal income tax purposes.

Certain U.S. Federal Income Tax Considerations. The following is a summary of the principal U.S. federal income tax consequences of the purchase, ownership and disposition of the Subordinate 2012 Bonds. This discussion does not purport to be a complete analysis of all the potential tax consequences of such purchase, ownership and disposition and is based on the Internal Revenue Code of 1986, as amended (the "Code"), Treasury regulations, administrative rulings and judicial decisions in effect as of the date hereof. Those authorities are subject to change, possibly with retroactive effect. This summary does not discuss all aspects of U.S. federal income taxation that may be relevant to a particular investor in light of that investor's individual circumstances or to certain types of investors subject to special treatment under the U.S. federal income tax laws (including persons whose functional currency is not the U.S. dollar, entities classified as partnerships for U.S. federal income tax purposes, life insurance companies, regulated investment companies, real estate investment trusts, dealers in securities or currencies, banks, tax-exempt organizations or persons holding Subordinate 2012 Bonds in a tax-deferred or tax-advantaged account, traders in securities that elect to use a mark-to-market method of accounting for securities holdings, persons who hold Subordinate 2012 Bonds as part of a hedging, straddle, integrated, conversion or constructive sale transaction, persons who have ceased to be U.S. citizens or to be taxed as resident aliens or persons liable for the alternative minimum tax) and does not discuss any aspect of state, local or foreign tax laws. This discussion applies only to U.S. holders and non-U.S. holders (each defined below) of Subordinate 2012 Bonds who purchase their Subordinate 2012 Bonds in the initial offering at the initial offering price, and who hold their Subordinate 2012 Bonds as capital assets. This discussion does not address any tax consequences applicable to a holder of an equity interest in a holder of Subordinate 2012 Bonds. In particular, this discussion does not address any tax consequences applicable to a partner in a partnership holding Subordinate 2012 Bonds. If a partnership holds Subordinate 2012 Bonds, the tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. Thus, a person who is a partner in a partnership holding Subordinate 2012 Bonds should consult his or her own tax advisor.

This summary only addresses Subordinate 2012 Bonds with the features described herein.

Prospective purchasers are urged to consult their own tax advisors with respect to the U.S. federal and other tax consequences of the purchase, ownership and disposition of the Subordinate 2012 Bonds before determining whether to purchase the Subordinate 2012 Bonds. In addition, prospective purchasers are urged to consult their own tax advisors regarding recent changes to the Code enacted by Congress.

In this discussion, the term "U.S. Holder" means a beneficial owner of Subordinate 2012 Bonds that is, for U.S. federal income tax purposes, (i) a citizen or resident of the United States, (ii) a corporation (including an entity treated as a corporation for U.S. federal income tax purposes) that is created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or (b) the trust properly elected to be treated as a United States person. As used herein, the term "non-U.S. Holder" means a beneficial owner of Subordinate 2012 Bonds that is not a U.S. Holder.

U.S. Holders

Interest on Subordinate 2012 Bonds. Payments of interest on the Subordinate 2012 Bonds will be included in gross income for U.S. federal income tax purposes by a U.S. Holder as ordinary income at the time the interest is paid or accrued in accordance with the U.S. Holder's regular method of accounting for tax purposes.

Original Issue Discount. The following summary is a general discussion of the U.S. federal income tax consequences to U.S. Holders of the purchase, ownership and disposition of Subordinate 2012 Bonds issued with original issue discount ("*Discount Bonds*"), if any. The following summary is based upon final Treasury regulations (the "*OID Regulations*") released by the Internal Revenue Service (the "*IRS*") under the original issue discount provisions of the Code.

For U.S. federal income tax purposes, original issue discount is the excess of the stated redemption price at maturity of a bond over its issue price, if such excess equals or exceeds a *de* minimis amount (generally 1/4 of 1% of the bond's stated redemption price at maturity multiplied by the number of complete years to its maturity from its issue date or, in the case of a bond providing for the payment of any amount other than qualified stated interest (as defined below) prior to maturity, multiplied by the weighted average maturity of such bond). The issue price of each maturity of the Subordinate 2012 Bonds equals the first price at which a "substantial amount" of such maturity has been sold (ignoring sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The stated redemption price at maturity of a Subordinate 2012 Bond is the sum of all payments provided by such Subordinate 2012 Bond other than "qualified stated interest" payments. The term "qualified stated interest" generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate. Payments of qualified stated interest on a Subordinate 2012 Bond are taxable to a U.S. Holder as ordinary interest income at the time such payments are accrued or are received (in accordance with the U.S. Holder's regular method of tax accounting), as described above.

A U.S. Holder of a Discount Bond must include original issue discount in income as ordinary income for U.S. federal income tax purposes as it accrues under a constant yield method in advance of receipt of the cash payments attributable to such income, regardless of such U.S. Holder's regular method of tax accounting. In general, the amount of original issue discount included in income by the initial U.S. Holder of a Discount Bond is the sum of the daily portions of original issue discount with respect to such Discount Bond for each day during the taxable year (or portion of the taxable year) on which such U.S. Holder holds such Discount Bond. The "daily portion" of original issue discount on any Discount Bond is determined by allocating to each day in any accrual period a ratable portion of the original issue discount allocable to that accrual period. An "accrual period" may be of any length and the accrual periods may vary in length, over the term of the Discount Bond, provided that each accrual period is no longer than one year and that each scheduled payment of principal or interest occurs either on the final day of an accrual period or on the first day of an accrual period. The amount of original issue discount allocable to each accrual period is generally equal to the difference between (i) the product of the Discount Bond's adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted to take into account the length of the particular accrual period), and (ii) the amount of any qualified stated interest payments allocable to such accrual period. The "adjusted issue price" of a Discount Bond at the beginning of any accrual period is the sum of the issue price of the Discount Bond plus the amount of original issue discount allocable to all prior accrual periods minus the amount of any prior payments on the Discount Bond that were not qualified stated interest payments. Under these rules, U.S. Holders generally will have to include in income increasingly greater amounts of original issue discount in successive accrual periods.

A U.S. Holder who purchases a Discount Bond for an amount that is greater than its adjusted issue price as of the purchase date and less than or equal to the sum of all amounts payable on the Discount Bond after the purchase date, other than payments of qualified stated interest, will be considered to have purchased the Discount Bond at an "acquisition premium." Under the acquisition premium rules, the amount of original issue discount that such U.S. Holder must include in its gross income with respect to such Discount Bond for any taxable year (or portion thereof in which the U.S. Holder holds the Discount Bond) will be reduced (but not below zero) by the portion of the acquisition premium properly allocable to the period.

Market Discount. If a U.S. Holder purchases a Subordinate 2012 Bond for an amount that is less than its stated redemption price at maturity, such U.S. Holder will be treated as having purchased such Subordinate 2012 Bond at a "market discount," unless the amount of such market discount is less than a specified de minimis amount. For this purpose, the "stated redemption price at maturity" of a Subordinate 2012 Bond should generally equal its stated principal amount.

Under the market discount rules, a U.S. Holder is required to treat any partial principal payment on, or any gain realized on the sale, exchange, retirement or other disposition of, a Subordinate 2012 Bond as ordinary income to the extent of the lesser of (i) the amount of such payment or realized gain, or (ii) the amount of market discount that has not previously been included in gross income and is treated as having accrued on such Subordinate 2012 Bond at the time of such payment or disposition. Market discount will be considered to accrue ratably during the period from the date of acquisition to the maturity date of such Subordinate 2012 Bond, unless the U.S. Holder elects to accrue market discount on the basis of a constant yield method.

A U.S. Holder may be required to defer the deduction of all or a portion of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry a Subordinate 2012 Bond with market discount until the maturity of such Subordinate 2012 Bond or certain earlier dispositions, because a current deduction is only allowed to the extent the interest expense exceeds an allocable portion of market discount. A U.S. Holder may elect to include market discount in income currently as it accrues (on either a ratable or constant yield basis), in which case the rules described above regarding the treatment as ordinary income or gain upon the disposition of such Subordinate 2012 Bond and upon the receipt of certain cash payments and regarding the deferral of interest deductions will not apply. Generally, such currently included market discount is treated as ordinary interest for U.S. federal income tax purposes. Such an election will apply to all debt instruments acquired by the U.S. Holder on or after the first day of the first taxable year to which such election applies, and may be revoked only with the consent of the IRS.

Premium. If a U.S. Holder purchases a Subordinate 2012 Bond for an amount that is greater than the sum of all amounts payable on such Subordinate 2012 Bond after the purchase date, other than payments of qualified stated interest, such U.S. Holder will be considered to have purchased such Subordinate 2012 Bond with "amortizable bond premium" equal in amount to such excess. A U.S. Holder may elect to amortize such premium using a constant yield method over the remaining term of such Subordinate 2012 Bond and may offset interest otherwise required to be included in respect of such Subordinate 2012 Bond during any taxable year by the amortized amount of such premium for the taxable year. However, if a Subordinate 2012 Bond may be optionally redeemed after the U.S. Holder acquires it at a price in excess of its stated redemption price at maturity, special rules will apply that could result in a deferral of the amortization of a portion of the bond premium until later in the term of such Subordinate 2012 Bond (as discussed in more detail below). Any election to amortize bond premium applies to all taxable debt instruments held or acquired by the U.S. Holder on or after the first day of the first taxable year to which such election applies and may be revoked only with the consent of the IRS.

The following rules apply to any Subordinate 2012 Bond that may be optionally redeemed after the U.S. Holder acquires it at a price in excess of its stated redemption price at maturity. The amount of amortizable bond premium attributable to such Subordinate 2012 Bond is equal to the lesser of (1) the difference between (A) such U.S. Holder's tax basis in the Subordinate 2012 Bond and (B) the sum of all amounts payable on such Subordinate 2012 Bond after the purchase date, other than payments of qualified stated interest or (2) the difference between (X) such U.S. Holder's tax basis in such Subordinate 2012 Bond and (Y) the sum of all amounts payable on such Subordinate 2012 Bond after the purchase date due on or before the early call date, described below, other than payments of qualified stated interest. If a Subordinate 2012 Bond may be redeemed on more than one date prior to maturity, the early call date and amount payable on the early call date that produces the lowest amount of amortizable bond premium, is the early call date and amount payable that is initially used for purposes of calculating the amount pursuant to clause (2) of the previous sentence. If an early call date is not taken into account in computing premium amortization and the early call is in fact exercised, a U.S. Holder will be allowed a deduction for the excess of the U.S. Holder's tax basis in the Subordinate 2012 Bond over the amount realized pursuant to the redemption. If an early call date is taken into account in computing premium amortization and the early call is not exercised, the Subordinate 2012 Bond will be treated as "reissued" on such early call date for the call price. Following the deemed reissuance, the amount of amortizable bond premium is recalculated pursuant to the rules of this section "Premium." The rules relating to the Subordinate 2012 Bonds that may be optionally redeemed are complex and, accordingly, prospective purchasers are urged to consult their own tax advisors regarding the application of the amortizable bond premium rules to their particular situation.

Election to Use Constant Yield Method for all Interest, Discount and Premium. U.S. Holders may generally, upon election, include in income all interest (including stated interest, original issue discount, de minimis original issue discount, market discount, de minimis market discount, and unstated interest, as adjusted by any amortizable bond premium or acquisition premium) that accrues on a debt instrument by using the constant yield method applicable to original issue discount, subject to certain limitations and exceptions. If this election is made with respect to a debt instrument having market discount then the holder will be treated as having made the market discount election with respect to all other debt instruments as described under "Market Discount." Similarly, if this election is made with respect to a debt instrument having amortizable premium, then the holder will be treated as having made the premium amortization election with respect to all other debt instruments as described under "Premium." The constant yield election may be revoked only with the consent of the IRS.

Disposition of Subordinate 2012 Bonds. Except as discussed above, upon the sale, exchange, redemption or retirement of a Subordinate 2012 Bond, a U.S. Holder generally will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange, redemption or retirement (other than amounts representing accrued and unpaid interest) of such Subordinate 2012 Bond and such U.S. Holder's adjusted tax basis in such Subordinate 2012 Bond. A U.S. Holder's adjusted tax basis in a Subordinate 2012 Bond generally will equal such U.S. Holder's initial investment in the Subordinate 2012 Bond increased by any accrued market discount if the U.S. Holder has included such market discount in income) and decreased by the amount of any payments, other than qualified stated interest payments, received and amortizable bond premium taken with respect to such Subordinate 2012 Bond. Such gain or loss generally will be long term capital gain or loss if the Subordinate 2012 Bond has been held by the U.S. Holder at the time of disposition for more than one year. If the U.S. holder is an individual, long term capital gain may be subject to reduced rates of taxation. The deductibility of capital losses is subject to certain limitations.

Medicare Tax. Recently enacted legislation will impose an additional 3.8% tax on the net investment income (which includes interest, original issue discount and gains from a disposition of a Subordinate 2012 Bond) of certain individuals, trust and estates, for taxable years beginning after December 31, 2012.

Non-U.S. Holders

A non-U.S. holder who is an individual or corporation (or an entity treated as a corporation for U.S. federal income tax purposes) holding Subordinate 2012 Bonds on its own behalf will not be subject to U.S. federal income tax on payments of principal of, or premium (if any), or interest on the Subordinate 2012 Bonds, unless the non-U.S. holder is a direct or indirect 10% or greater shareholder of the District, a controlled foreign corporation related to the District or a bank receiving interest described in section 881(c)(3)(A) of the Code. To qualify for the exemption from taxation, the Withholding Agent, as defined below, must have received a statement from the individual or corporation that:

- is signed under penalties of perjury by the beneficial owner of the Subordinate 2012 Bonds,

- certifies that the owner is not a U.S. holder, and

- provides the beneficial owner's name and permanent residence address.

A "Withholding Agent" is the last U.S. payor (or non-U.S. payor who is a qualified intermediary, U.S. branch of a foreign person or withholding foreign partnership) in the chain of payment prior to payment to a non-U.S. holder (that itself is not a Withholding Agent). Generally, this statement is made on an IRS Form W-8BEN, which is effective for the remainder of the year of signature and three full calendar years thereafter, unless a change in circumstances makes any information on the form incorrect. Notwithstanding the preceding sentence, a Form W-8BEN with a U.S. taxpayer identification number will remain effective until a change in circumstances makes any information on the form incorrect, provided the Withholding Agent reports at least annually to the beneficial owner on IRS Form 1042-S. The beneficial owner must inform the Withholding Agent within 30 days of any change and furnish a new Form W-8BEN. A non-U.S. holder of Subordinate 2012 Bonds that is not an individual or corporation (or an entity treated as a corporation for U.S. federal income tax purposes) holding Subordinate 2012 Bonds on its own behalf may have substantially increased reporting requirements. In particular, in the case of Subordinate 2012 Bonds held by a foreign partnership or foreign trust, the partners or beneficiaries rather than the partnership or trust will be required to provide the certification discussed above, and the partnership or trust will be required to provide certain additional information.

A non-U.S. holder of Subordinate 2012 Bonds whose income from such Subordinate 2012 Bonds is effectively connected with the conduct of a U.S. trade or business generally will be taxed as if the holder were a U.S. holder (and, if the non-U.S. holder of Subordinate 2012 Bonds is a corporation, possibly subject to a branch profits tax at a 30% rate or lower rate as may be prescribed by an applicable tax treaty), provided the holder furnishes to the Withholding Agent an IRS Form W-8ECI.

Certain securities clearing organizations, and other entities that are not beneficial owners may be able to provide a signed statement to the Withholding Agent. In that case, however, the signed statement may require a copy of the beneficial owner's Form W-8BEN.

Generally, a non-U.S. holder will not be subject to U.S. federal income tax on any capital gain recognized on retirement or disposition of Subordinate 2012 Bonds, unless the non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of the retirement or disposition of such Subordinate 2012 Bonds, and that gain is derived from sources within the United States. Certain other exceptions may apply, and a non-U.S. holder in these circumstances should consult his tax advisor.

The Subordinate 2012 Bonds will not be includible in the estate of a non-U.S. holder unless the decedent was a direct or indirect 10% or greater shareholder of the District or, at the time of the decedent's death, income from such Subordinate 2012 Bonds was effectively connected with the conduct by the decedent of a trade or business in the United States.

Backup Withholding. Information reporting requirements, on IRS Form 1099, generally apply to (i) payments of principal of and interest on Subordinate 2012 Bonds to a noncorporate U.S. Holder within the United States or by a U.S. paying agent or other U.S. intermediary, including payments made by wire transfer from outside the United States to an account maintained in the United States, and (ii) payments to a noncorporate U.S. Holder of the proceeds from the sale of Subordinate 2012 Bonds effected by a U.S. broker or agent or at a U.S. office of a broker.

Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or otherwise fails to comply with the backup withholding rules. Compliance with the identification procedures described in the preceding section will establish an exemption from backup withholding for those non-U.S. holders who are not exempt recipients.

Future Developments

Future or pending legislative proposals, if enacted, regulations, rulings or court decisions may cause interest on the Subordinate 2012 Bonds to be subject, directly or indirectly, to State 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 future or pending proposals may also affect the economic value of the state tax exemption or the market value of the Subordinate 2012 Bonds. Prospective purchasers of the Subordinate 2012 Bonds should consult their tax advisors regarding any future, pending or proposed federal or State tax legislation, regulations, rulings or litigation as to which Sidley Austin, LLP expresses no opinion.

UNDERWRITING

Pursuant and subject to the terms and conditions set forth in a Bond Purchase Agreement (the "Purchase Agreement") dated December 12, 2012, between J.P. Morgan Securities LLC, BB&T Capital Markets, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Keegan & Company, Inc. (the "Underwriters"), for whom J.P. Morgan Securities 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 Subordinate 2012 Bonds at a purchase price that results in an Underwriters' discount of $35,570.33 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.

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Subordinate 2012 Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings, including the Subordinate 2012 Bonds, at the original issue prices. Pursuant to each Dealer Agreement, each of UBSFS and CS&Co. will purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Subordinate 2012 Bonds that such firm sells.

On April 2, 2012, Raymond James Financial, Inc. ("RJF"), the parent company of Raymond James & Associates, Inc. ("Raymond James"), acquired all of the stock of Morgan Keegan from Regions Financial Corporation. Morgan Keegan and Raymond James are each registered broker-dealers. Both Morgan Keegan and Raymond James are wholly owned subsidiaries of RJF and, as such, are affiliated broker-dealer companies under the common control of RJF, utilizing the trade name "Raymond James | Morgan Keegan" that appears on the cover of this Official Statement. It is anticipated that the businesses of Raymond James and Morgan Keegan will be combined.

Morgan Keegan has entered into a distribution arrangement with Raymond James for the distribution of the Subordinate 2012 Bonds at the original issue prices. Such arrangement generally provides that Morgan Keegan will share a portion of its underwriting compensation or selling concession with Raymond James.

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 Subordinate 2012 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 Subordinate 2012 Bonds have been assigned ratings of "Aa3," "AA+" 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 Subordinate 2012 Bonds.

CONTINUING DISCLOSURE

The Securities and Exchange Commission has adopted Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the "Rule"). In general, the Rule prohibits an underwriter from purchasing or selling municipal securities, such as the Subordinate 2012 Bonds, unless it has determined that the issuer of such securities and/or other persons deemed to be material "obligated persons" have committed to provide EMMA (i) on an annual basis, certain financial information and operating data ("Annual Reports"), and audited financial statements, if available, or such unaudited financial statements as may be required by the Rule, and (ii) notice of various events described in the Rule ("Event Notices").

The District will covenant in the Continuing Disclosure Agreement (the form of which appears in Appendix E) for the benefit of the holders of the Subordinate 2012 Bonds to provide to EMMA annually, not later than December 31 of each year, commencing December 31, 2012, Annual Reports with respect to itself, as issuer. Similarly, the District will promptly provide Event Notices with respect to the Subordinate 2012 Bonds to EMMA. As of the date of this Official Statement, the District has complied with its other undertakings regarding the Rule.

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

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

MISCELLANEOUS

All of the foregoing summaries or descriptions of the provisions of the Enabling Act, the Subordinate 2012 Bonds and the Trust Agreement are made subject to all of the detailed provisions thereof to which reference is made for further information. The foregoing summaries do not purport to be complete statements of any or all of the provisions thereof. Copies of the Trust Agreement are available upon request to the District at the following address: 1436 Air Rail Avenue, Virginia Beach, Virginia 23455, Phone (757) 460-2261.

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

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

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

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

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APPENDIX A

Basic Financial Statements and Related Auditor's Report for the fiscal year ended June 30, 2012, as rendered by KPMG LLP[1]

[1] This Appendix comprises the District's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2012. In order to preserve cross-references within such pages, this Appendix has not been repaginated and, accordingly, retains the original pagination.

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Comprehensive Annual Financial Report

For The Fiscal Year Ended June 30, 2012

Hampton Roads Sanitation District

(A Component Unit of the Commonwealth of Virginia)

HRSD

Cleaning wastewater every day for a better Bay.

HRSD

Cleaning wastewater every day for a better Bay.

HAMPTON ROADS SANITATION DISTRICT

(A Component Unit of the Commonwealth of Virginia)

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For fiscal year ended June 30, 2012

Prepared by:
Finance Department

HAMPTON ROADS SANITATION DISTRICT

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Introductory Section

The gleaming York River (left) is shown just a few miles from HRSD's York River Treatment Plant (above), which underwent a $60 million upgrade to further reduce nutrient discharges to this Chesapeake Bay tributary.

Cleaning wastewater every day for a better Bay.

September 18, 2012

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, 2012.

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, 2012. 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.

Approximately 1.7 million individuals, more than one-fifth 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 458,000 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 532 miles of pipelines ranging in size from six inches to 66 inches. Interceptor pipelines, along with 83 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 1.7 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 850,000.

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 11.2 percent of wastewater revenues for fiscal year 2012. In addition, HRSD's 2012 revenues contained only limited reliance (3.0 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 $1.2 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, Boat Harbor, Chesapeake-Elizabeth, James River and Virginia Initiative treatment plants are currently under design or construction.

In order to minimize the impacts of its capital investments on ratepayers, HRSD continues to pursue grant opportunities when available. In 2012, HRSD received approximately $15 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, 2011. This was the 29th consecutive year that HRSD has received this prestigious award. In order to be awarded a Certificate of Achievement, HRSD must publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

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

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

Respectfully submitted,

Edward Henifin, P.E.
General Manager

Steven G. de Mik, CPA
Director of Finance

Carroll L. Acors, CPA
Chief of Accounting

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Hampton Roads Sanitation District, Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

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.

Linda C. Davidson

President

Jeffrey R. Esser

Executive Director

Principal Officials

July 1, 2012

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Donald C. Corrado
Director of Information
Services

G. David Waltrip
Director of Operations

James J. Pletl, PhD
Director of Water Quality

Phillip L. Hubbard, PE
Special Assistant for
Compliance Assurance

COUNSEL

Kellam, Pickrell, Cox & Tayloe
General Counsel

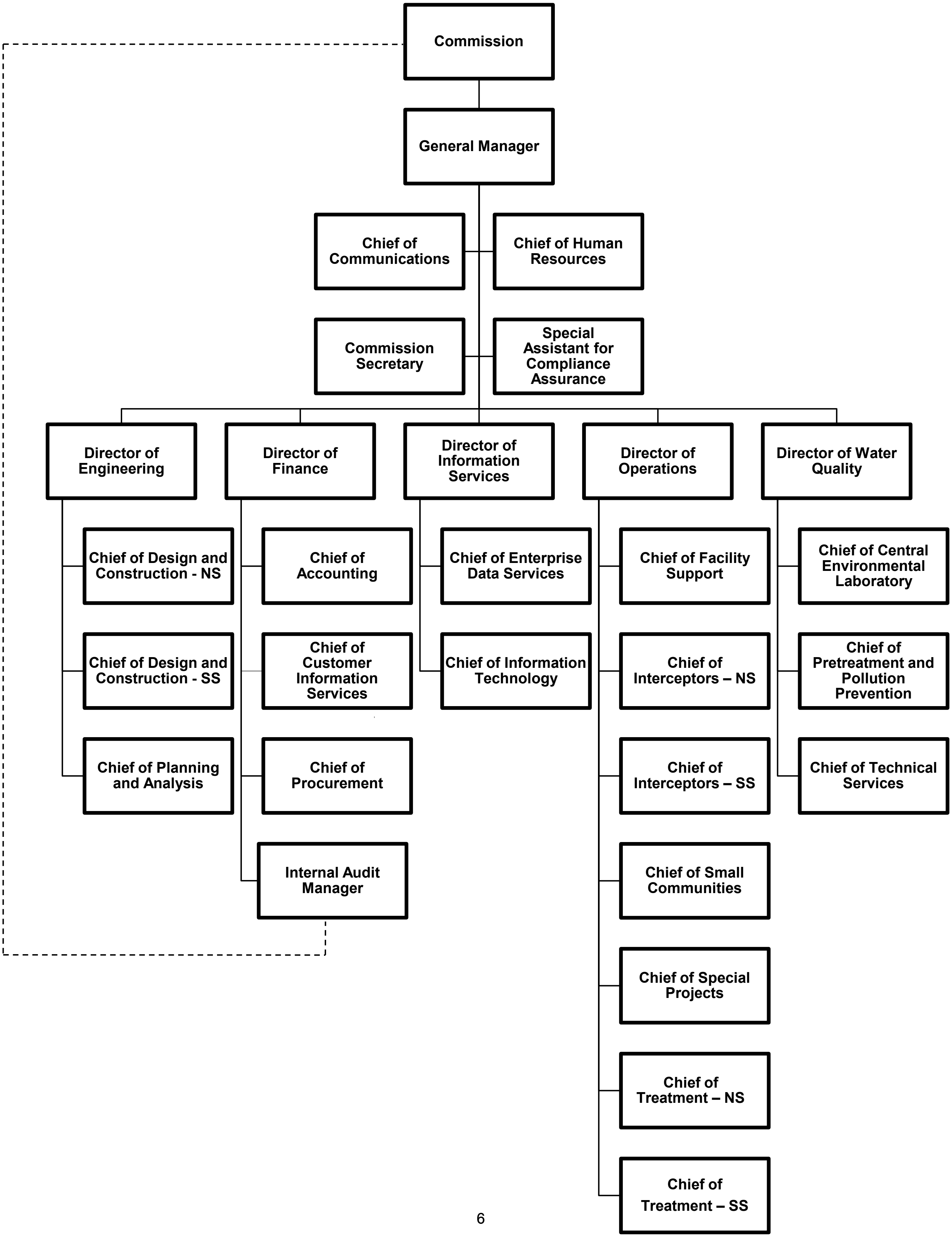
Jones, Blechman, Woltz & Kelly, PC
Associate Counsel

AquaLaw, PLC
Special Counsel

Sidley Austin, LLP
Bond Counsel

Organization Chart

July 1, 2012



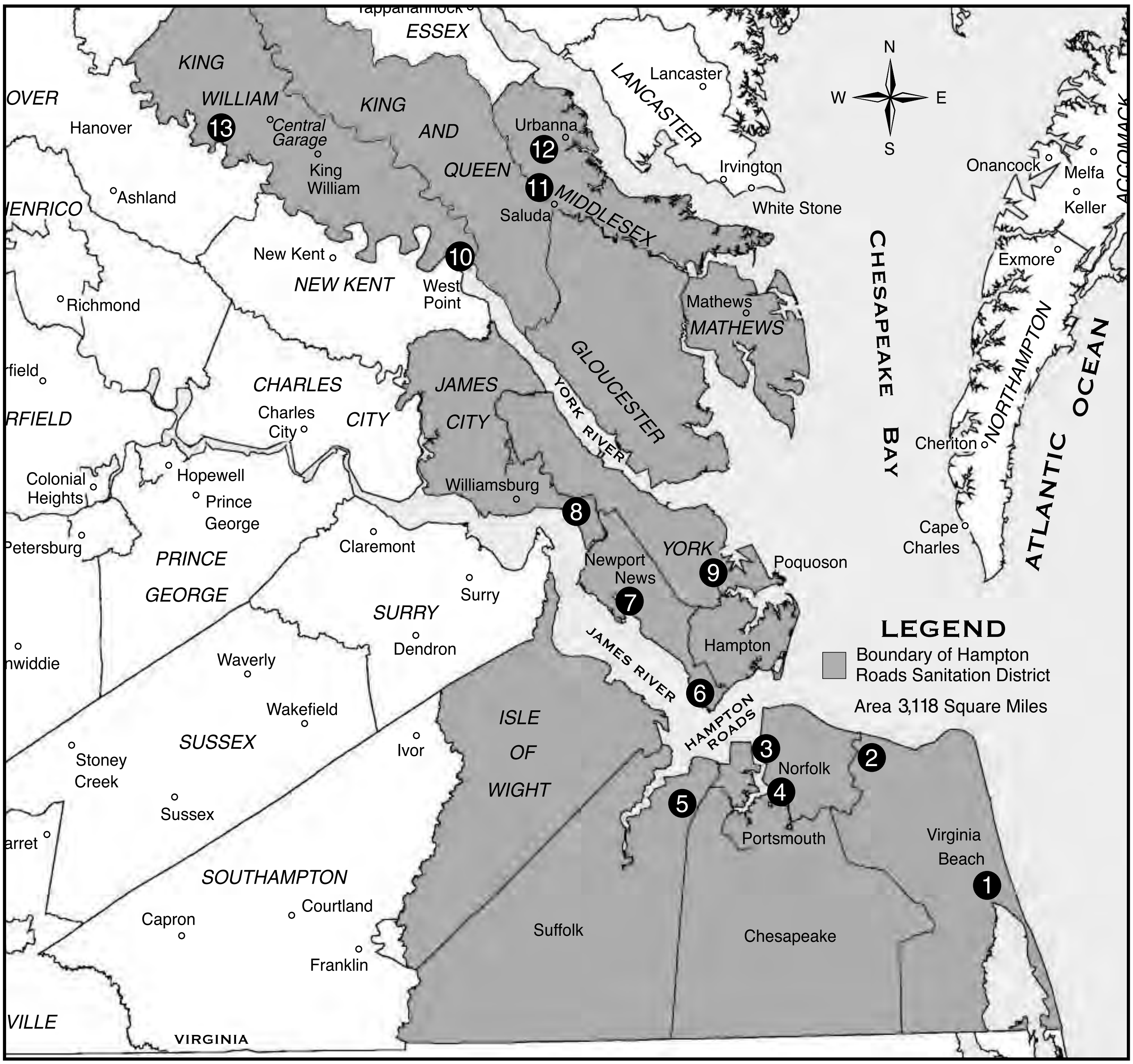
HRSD

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

The Hampton Roads Sanitation District 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 five 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 about 1.7 million in 2012.

Throughout its rich history HRSD has earned many of its industry's most prestigious awards. This tradition continued as the National Association of Clean Water Agencies (NACWA) presented Peak Performance Awards to 13 HRSD treatment plants for outstanding compliance with their National Pollutant Discharge Elimination System (NPDES) permits during calendar year 2011. The Army Base Treatment Plant was honored for 25 consecutive years of perfect permit compliance, an achievement unsurpassed in the nation. The other major treatment plants received the following awards in recognition of their outstanding permit compliance status: Atlantic Plant—Gold, Boat Harbor—Platinum (10 consecutive years), Chesapeake-Elizabeth—Gold, James River—Silver, Nansemond—Platinum (10 consecutive years), Virginia Initiative Plant—Platinum (16 consecutive years), Williamsburg—Platinum (17 consecutive years) and York River—Gold. Treatment plants in the Small Communities Division also were honored. Mathews and West Point received Gold Awards. Central Middlesex and Urbanna earned Silver Awards.

HRSD's Fiscal Year 2012 awards for environmental excellence, innovation and engineering included the American Council of Engineering Companies (ACEC) of Virginia Grand Award received by HDR and HRSD for the Atlantic Treatment Plant Expansion Phase I Project. A video that documented the success of this project was honored with five prestigious bronze Telly Awards for Editing, Education, Miscellaneous, Social Issues and Videography/Cinematography. The Virginia Department of Environmental Quality also recognized HRSD for its 35-year commitment to the education and training of environmental professionals.

Financial Section

A blazing sunset at the mouth of the James River (left) shows HRSD's Boat Harbor Treatment Plant (top) in silhouette. The Nansemond Treatment Plant (bottom), which also discharges its highly treated effluent into this portion of the James, received a 2011 Virginia Governor's Environmental Excellence Award.

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, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets, 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, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 11 through 15 and the Schedules of Funding Progress on page 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

September 18, 2012

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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, 2012 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 $19.2 million, or 4.0 percent, as a result of this year's operations.
- Total revenues increased $11.4 million, or 5.8 percent, in 2012. This increase is primarily attributable to wastewater revenue rate increases. Operating expenses increased $13.0 million or 7.7 percent.
- HRSD received $14.8 million in capital grants from the Commonwealth of Virginia to help finance its capital improvement program.
- Cash and Cash Equivalents and investments increased $24.9 million, or 12.3 percent, reflecting bond proceeds to finance capital projects offset by expenditures for construction of capital projects. Unrestricted cash and cash equivalents and investments increased $13.1 million, or 10.5 percent.
- Net Property, Plant and Equipment increased $59.4 million, or 7.0 percent, primarily due to expansion of interceptor systems.

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 32 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 $496.4 million at June 30, 2012 and by $477.2 million at June 30, 2011.

By far, the largest portion of HRSD's net assets (70.2 percent and 73.7 percent at June 30, 2012 and 2011, 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.

The significant increase in current liabilities is the result of $25 million of variable rate demand bonds issued during the 2012 fiscal year to partially fund HRSD's capital improvement program. Although the bonds mature in 2041, they are subject to an investor tender prior to final maturity. Liquidity to pay the purchase price of the bonds that are tendered and not remarketed by HRSD is provided by HRSD.

HRSD's net assets are summarized in the following condensed Statements of Net Assets as of June 30:

HRSD's Condensed Statements of Net Assets

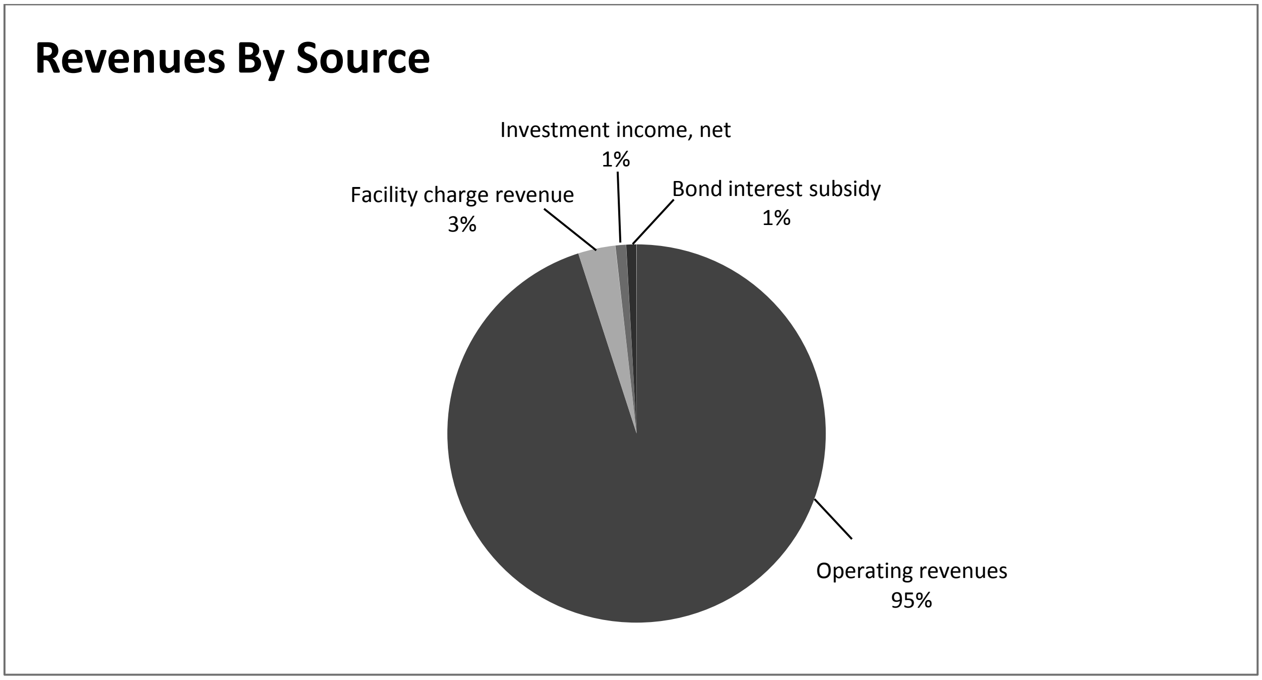
				2012 vs. 2011	
(in thousands)	**2012**	**2011**	**2010**	**Dollars**	**Percent**
Capital assets	$ 910,292	$ 850,885	$ 766,742	$ 59,407	7.0%
Current assets and noncurrent investments	271,737	239,693	284,240	32,044	13.4%
Total assets	**$ 1,182,029**	**$ 1,090,578**	**$ 1,050,982**	**$ 91,451**	**8.4%**
Long-term liabilities	$ 596,789	$ 548,229	$ 536,037	$ 48,560	8.9%
Current liabilities	88,834	65,147	62,067	23,687	36.4%
Total liabilities	**$ 685,623**	**$ 613,376**	**$ 598,104**	**$ 72,247**	**11.8%**
Investment in capital assets, net of related debt	$ 348,407	$ 351,618	$ 348,572	$ (3,211)	-0.9%
Restricted for debt service	15,736	14,896	12,253	840	5.6%
Unrestricted	132,263	110,688	92,053	21,575	19.5%
Total net assets	**$ 496,406**	**$ 477,202**	**$ 452,878**	**$ 19,204**	**4.0%**

At June 30, 2012 and 2011, HRSD retained $72.7 million and $61.7 million of unspent bond proceeds, respectively. The increase in capital assets and the corresponding changes in current assets and noncurrent investments from 2010 through 2012 are the result of issuing bonds in 2010, 2011 and 2012 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 Revenues, Expenses and Changes in Net Assets:

HRSD's Condensed Statements of Revenues, Expenses and Changes in Net Assets

				2012 vs. 2011	
(in thousands)	**2012**	**2011**	**2010**	**Dollars**	**Percent**
Operating revenues	$ 197,813	$ 187,416	$ 171,452	$ 10,397	5.5%
Facility charge revenue	6,276	5,083	5,754	1,193	23.5%
Investment income, net	1,457	1,680	1,581	(223)	-13.3%
Bond interest subsidy	2,602	2,602	1,655	0	0.0%
Total revenues	**208,148**	**196,781**	**180,442**	**11,367**	**5.8%**
Operating expenses:					
Wastewater treatment	110,783	103,225	98,022	7,558	7.3%
General and administrative	28,957	28,622	29,435	335	1.2%
Depreciation and amortization	41,250	36,191	30,441	5,059	14.0%
Total operating expenses	180,990	168,038	157,898	12,952	7.7%
Interest expense	22,760	20,516	19,973	2,244	10.9%
Total expenses	**203,750**	**188,554**	**177,871**	**15,196**	**8.1%**
Income before capital contributions	4,398	8,227	2,571	(3,829)	-46.5%
Capital contributions:					
State capital grants	14,806	16,097	41,606	(1,291)	-8.0%
Change in net assets	19,204	24,324	44,177	(5,120)	-21.0%
Beginning net assets	477,202	452,878	408,701	24,324	5.4%
Ending net assets	**$ 496,406**	**$ 477,202**	**$ 452,878**	**$ 19,204**	**4.0%**



Operating revenues increased 5.5 percent in 2012 and 9.3 percent in 2011. The majority of these increases are attributable to various rate increases in metered public wastewater services. Facility charge revenues increased $1.2 million, or 23.5 percent, in 2012 due to increased construction activities in the service area after decreasing $0.7 million, or 11.7 percent, in 2011 due to a decrease in new construction.

Operating expenses increased 7.7 percent in 2012 and 6.4 percent in 2011. Increases in 2012 were primarily due to a $3.1 million increase in personnel services and fringe benefits, primarily for merit increases and a one-time bonus; a $1.0 million increase in utilities, primarily for operations; and a $1.2 million increase in contractual services, primarily for information services; and a $5.1 million increase for depreciation and amortization, primarily for capital asset acquisition and expansion. These increases were offset by a decrease of $2.2 million in materials and supplies, primarily for operations and information services. 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. Depreciation and amortization expense increased $5.1 million in 2012 and $5.8 million in 2011 due to an expanded capital base.

In 2012 and 2011, HRSD received $14.8 million and $16.1 million, respectively, in capital grants to help finance its capital improvement program.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2012 and 2011, HRSD had $910.3 million and $850.9 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. These amounts represent a net increase of $59.4 million, or 7.0 percent, in 2012 and $84.1 million, or 11.0 percent, in 2011.

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

HRSD's Capital Assets

(in thousands)	2012	2011	2010
Land	$ 5,771	$ 5,637	$ 5,479
Treatment plants	453,721	452,386	337,054
Interceptor systems	224,501	181,361	183,435
Buildings	17,571	8,709	9,322
Small community facilities	17,661	8,162	3,846
Office equipment	9,528	12,287	14,404
Automotive	3,260	3,737	3,644
Other equipment	16,821	17,346	4,321
Software and intangible assets	22,062	-	-
	770,896	689,625	561,505
Construction in progress	139,396	161,260	205,237
Net property, plant and equipment	**$ 910,292**	**$ 850,885**	**$ 766,742**

The following summarizes the changes in capital assets for the years ended June 30:

(in thousands)	2012	2011	2010
Balance at beginning of year	$ 850,885	$ 766,742	$ 654,828
Additions	122,521	164,311	190,213
Retirements	(431)	(838)	(402)
Depreciation and amortization	(41,250)	(36,191)	(30,441)
Accumulated depreciation retired	431	838	402
Decrease in construction in progress	(21,864)	(43,977)	(47,858)
Balance at end of year	**$ 910,292**	**$ 850,885**	**$ 766,742**

The largest increase in capital assets in the past two years has been in interceptor system construction, which includes pipeline replacements, pump station rehabilitations, and other improvements to the infrastructure, and treatment plant construction. During 2012, HRSD invested significant funds in improvements to the James River, Atlantic and Boat Harbor interceptor systems, which were recorded in construction in progress in 2011 and included in the interceptor systems capital assets in 2012. 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.

Long-Term Debt

At year-end, HRSD had a total of $634.6 million in revenue bonds outstanding versus $561.0 million in 2011, an increase of 13.1 percent. This increase is related to new debt payable to the Virginia Resources Authority in the amount of $21.3 million, fixed rate revenue bonds in the amount of $45.7 million, and variable rate revenue bonds in the amount of $25.0 million, reduced by payments of $18.4 million in 2012 on existing senior and subordinate debt.

The following summarizes HRSD's outstanding debt at June 30:

HRSD's Outstanding Debt

(in thousands)	2012	2011	2010
Senior revenue bonds	$ 506,257	$ 450,335	$ 431,524
Subordinate revenue bonds	128,335	110,661	115,794
Total outstanding debt	**$ 634,592**	**$ 560,996**	**$ 547,318**

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

Ratings Agency	Senior Debt	Subordinate Long-term	Subordinate Short-term
Moody's Investors Service	Aa2	n/a	n/a
Standard & Poor's	AAA	AA+	AA+
Fitch Ratings	AA+	A-1+	F1+

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 124 million gallons per day (MGD) to approximately 121 MGD. HRSD's experience, primarily resulting from water conservation efforts throughout the region, is consistent with national trends.

In 2012, wastewater revenues increased as a result of planned rate increases needed, in part, to fund HRSD's capital improvement program. Facility charge revenues, which are generally dependent on new growth and economic expansion, were impacted during the recession and increased $1.2 million, or 23.5 percent in 2012 after decreasing $0.7 million, or 11.7 percent, in 2011. Facility charge revenues comprised approximately three percent of HRSD's total revenues in both 2012 and 2011.

Wastewater treatment rates for the 2013 fiscal year were increased by approximately 7.9 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 $1.51 per month in fiscal year 2013.

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, 2012 AND 2011

ASSETS

(in thousands)

		2012		2011
CURRENT ASSETS				
Cash and cash equivalents	$	34,767	$	37,130
Cash and cash equivalents - Restricted		58,371		32,009
Investments		8,583		15,527
Accounts receivable, net		34,595		31,132
Accrued interest		306		271
Other current assets		9,902		6,281
TOTAL CURRENT ASSETS		146,524		122,350
NONCURRENT ASSETS				
Cash and cash equivalents - Restricted		30,073		44,616
Investments		95,140		72,727
		125,213		117,343
NET PROPERTY, PLANT AND EQUIPMENT				
Land		5,771		5,637
Treatment plants		972,195		945,884
Interceptor systems		339,445		290,270
Buildings		31,238		21,603
Small community facilities		22,341		12,459
Office equipment		37,335		36,335
Automotive		15,387		15,004
Other equipment		30,032		28,221
Software and intangible assets		23,759		-
		1,477,503		1,355,413
Less: Accumulated depreciation and amortization		706,607		665,788
		770,896		689,625
Construction in progress		139,396		161,260
NET PROPERTY, PLANT AND EQUIPMENT		910,292		850,885
TOTAL NONCURRENT ASSETS		1,035,505		968,228
TOTAL ASSETS	**$**	**1,182,029**	**$**	**1,090,578**

See Accompanying Notes to Financial Statements

HAMPTON ROADS SANITATION DISTRICT
BALANCE SHEETS
AS OF JUNE 30, 2012 AND 2011

LIABILITIES AND NET ASSETS
(in thousands)

	2012	2011
CURRENT LIABILITIES		
Trade and contracts payable	$ 22,420	$ 24,678
Contract retention	5,135	5,160
Accrued salaries and wages	1,010	1,992
Current portion of bonds payable	22,814	18,229
Variable rate bonds	25,000	-
Current portion of compensated absences	2,313	2,072
Debt interest payable	6,706	8,402
Other liabilities	3,436	4,614
TOTAL CURRENT LIABILITIES	88,834	65,147
LONG-TERM LIABILITIES		
Compensated absences	5,317	5,462
Bonds payable	591,472	542,767
TOTAL LONG-TERM LIABILITIES	596,789	548,229
TOTAL LIABILITIES	685,623	613,376
NET ASSETS		
Investment in capital assets, net of related debt	348,407	351,618
Restricted for debt service	15,736	14,896
Unrestricted	132,263	110,688
TOTAL NET ASSETS	496,406	477,202
TOTAL LIABILITIES AND NET ASSETS	**$ 1,182,029**	**$ 1,090,578**

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, 2012 and 2011

(in thousands)	2012	2011
OPERATING REVENUES		
Wastewater treatment charges	$ 194,817	$ 183,526
Miscellaneous	2,996	3,890
TOTAL OPERATING REVENUES	197,813	187,416
OPERATING EXPENSES		
Wastewater treatment	110,783	103,225
General and administrative	28,957	28,622
Depreciation and amortization	41,250	36,191
TOTAL OPERATING EXPENSES	180,990	168,038
OPERATING INCOME	16,823	19,378
NONOPERATING REVENUES (EXPENSES)		
Wastewater facility charges	6,276	5,083
Investment income	1,681	1,699
Bond interest subsidy	2,602	2,602
Change in fair value of investments	(224)	(19)
Interest expense	(22,760)	(20,516)
NET NONOPERATING EXPENSES	(12,425)	(11,151)
INCOME BEFORE CAPITAL CONTRIBUTIONS	4,398	8,227
CAPITAL CONTRIBUTIONS		
State capital grants	14,806	16,097
CHANGE IN NET ASSETS	19,204	24,324
TOTAL NET ASSETS - Beginning	477,202	452,878
TOTAL NET ASSETS - Ending	**$ 496,406**	**$ 477,202**

See Accompanying Notes to Financial Statements

HAMPTON ROADS SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 and 2011

(in thousands)	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 190,202	$ 180,686
Other operating revenues	2,996	3,890
Cash payments to suppliers for goods and services	(98,346)	(77,492)
Cash payments to employees for services	(45,170)	(44,400)
Net cash provided by operating activities	49,682	62,684
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Wastewater facility charges	6,276	5,083
Acquisition and construction of property, plant and equipment	(100,403)	(124,129)
Proceeds from capital debt	91,985	30,168
Premiums on revenue bonds issued	4,834	-
Bond interest subsidy	2,602	2,602
Principal paid on capital debt	(18,389)	(16,490)
Contributions of capital from State government	11,512	14,672
Interest paid on capital debt	(24,596)	(17,967)
Net cash used in capital and related financing activities	(26,179)	(106,061)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(93,806)	(94,639)
Sales and maturities of investments	78,113	66,446
Interest and dividends on investments	1,646	1,695
Net cash used in investing activities	(14,047)	(26,498)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,456	(69,875)
CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR	113,755	183,630
CASH AND CASH EQUIVALENTS, AT END OF YEAR	$ 123,211	$ 113,755

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

(in thousands)	2012	2011
Operating income	$ 16,823	$ 19,378
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	41,250	36,191
(Increase) decrease in operating assets		
Accounts receivable	(3,463)	(737)
Net change in other current assets	(327)	5,012
Increase (decrease) in operating liabilities		
Trade and contracts payable	(2,537)	2,528
Accrued salaries and wages	(982)	(312)
Compensated absences	96	196
Net change in other liabilities	(1,178)	428
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 49,682	$ 62,684

See Accompanying Notes to Financial Statements

HAMPTON ROADS SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 and 2011

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 department 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 and/ or incur additional costs.

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 of the Commonwealth 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 by management 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, buildings and facilities	30 years
Interceptor systems	50 years
Office furniture and equipment	5 - 10 years
Software and intangible assets	5 - 7 years
Automotive	5 years

Depreciation and amortization 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, 2012 and 2011, the carrying values of HRSD's deposits were $48,934,000 and $47,583,000, respectively, and the bank balances were $52,606,000 and $50,632,000, respectively. All of the bank balances at June 30, 2012 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. 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, 2012.

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, 2012 and 2011, 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 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, 2012 and 2011, HRSD invested $216,000 and $216,000, respectively, in the LGIP, $1,261,000 and $1,087,000, respectively, in Merrill Lynch's FFI Government Fund, and $87,000 and $3,134,000, respectively in Fidelity's Government Money Market Fund. As of June 30, 2012 and 2011, HRSD invested $72,708,000 and $61,729,000 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 that 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
2012					
Certificates of Deposit		$ 6,404	$ 2,204	$ 4,200	$ -
U.S. Treasury Securities		27,644	-	26,397	1,247
Federal Agency Notes/Bonds		56,284	6,379	49,905	-
Corporate Notes/Bonds		10,221	-	10,221	-
Municipal Securities		3,170	-	1,850	1,320
	Total	**$ 103,723**	**$ 8,583**	**$ 92,573**	**$ 2,567**
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**	**$ -**

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, 2012 and 2011, the Trust Department of the Bank of New York held $103,723,000 and $88,254,000 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 by Standard & Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard & Poor's credit quality ratings scale:

As of June 30, 2012	Standard & Poor's Credit Rating by Investment Type						
(in thousands)	AAA	AA+	AA	AA-	A-1+	AAAm	Total
Investments							
US Treasury Notes	$ -	$ 27,644	$ -	$ -	$ -	$ -	$ 27,644
Municipal Bonds	-	-	2,154	1,016	-	-	3,170
Federal Agency	-	56,284	-	-	-	-	56,284
Corporate Notes	1,761	4,833	1,619	2,008	-	-	10,221
Certificate of Deposits	-	-	-	4,200	2,204	-	6,404
Total Investments	1,761	88,761	3,773	7,224	2,204	-	103,723

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 years ended June 30 is calculated as follows:

(in thousands)	2012	2011
Fair value of investments, end of year	$ 103,723	$ 88,254
Add: Proceeds of investments sold or maturing during the year	78,113	66,446
Less: Cost of investments purchased during the year	(93,806)	(94,639)
Less: Fair value of investments, beginning of year	(88,254)	(60,080)
Change in fair value of investments	$ (224)	$ (19)

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

(in thousands)	2012	2011
Debt service	$ 15,736	$ 14,896
Revenue bond construction funds - current	17,635	17,113
Revenue bond construction funds - variable rate	25,000	-
Revenue bond construction funds - noncurrent	30,073	44,616
Cash and cash equivalents - Restricted	$ 88,444	$ 76,625

NOTE 4 - ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

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

(in thousands)	2012	2011
Balance, beginning of year	$ 2,226	$ 2,165
Add: Current provision for uncollectible accounts	1,152	2,103
Less: Charge-off of uncollectible accounts	(1,624)	(2,042)
Balance, end of year	$ 1,754	$ 2,226

HRSD's collection ratios for the years ended June 30, 2012 and 2011 were 99.1 and 98.8 percent, respectively.

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

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

(in thousands)	Balance 6/30/10	Additions	Retirements	Balance 6/30/11	Additions	Retirements	Balance 6/30/12
Non-Depreciable Capital Assets							
Land	$ 5,479	$ 158	$ -	$ 5,637	$ 134	$ -	$ 5,771
Construction in progress	205,237	84,690	(128,667)	161,260	73,323	(95,187)	139,396
Depreciable Capital Assets							
Treatment plants	807,176	138,708	-	945,884	26,311	-	972,195
Interceptor systems	286,832	3,438	-	290,270	49,175	-	339,445
Buildings	21,603	-	-	21,603	9,635	-	31,238
Small community facilities	7,826	4,633	-	12,459	9,882	-	22,341
Office equipment	34,868	1,467	-	36,335	1,000	-	37,335
Automotive	14,484	1,358	(838)	15,004	814	(431)	15,387
Other equipment	13,672	14,549	-	28,221	1,811	-	30,032
Software and intangible assets	-	-	-	-	23,759	-	23,759
Total	$ 1,397,177	$ 249,001	$ (129,505)	$ 1,516,673	$ 195,844	$ (95,618)	$ 1,616,899
Less accumulated depreciation and amortization							
Treatment plants	(470,122)	(23,376)	-	(493,498)	(24,976)	-	(518,474)
Interceptor systems	(103,397)	(5,512)	-	(108,909)	(6,035)	-	(114,944)
Buildings	(12,281)	(613)	-	(12,894)	(773)	-	(13,667)
Small community facilities	(3,980)	(317)	-	(4,297)	(383)	-	(4,680)
Office equipment	(20,464)	(3,584)	-	(24,048)	(3,759)	-	(27,807)
Automotive	(10,840)	(1,265)	838	(11,267)	(1,291)	431	(12,127)
Other equipment	(9,351)	(1,524)	-	(10,875)	(2,336)	-	(13,211)
Software and intangible assets - amortization	-	-	-	-	(1,697)	-	(1,697)
Total	(630,435)	(36,191)	838	(665,788)	(41,250)	431	(706,607)
Net property, plant and equipment	$ 766,742	$ 212,810	$ (128,667)	$ 850,885	$ 154,594	$ (95,187)	$ 910,292

NOTE 6 - COMPENSATED ABSENCES

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

(in thousands)	Balance 6/30/10	Earned	Taken	Balance 6/30/11	Earned	Taken	Balance 6/30/12
Annual leave	$ 4,427	$ 1,451	$ (1,192)	$ 4,686	$ 1,579	$ (1,520)	$ 4,745
Sick leave	2,740	783	(769)	2,754	813	(703)	2,864
Compensatory leave	171	35	(112)	94	17	(90)	21
Total	7,338	$ 2,269	$ (2,073)	7,534	$ 2,409	$ (2,313)	7,630
Less: Current liability	1,920			2,072			2,313
Long-term liability	$ 5,418			$ 5,462			$ 5,317

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
2012	$ 2,231	$ -	$ 2,231	100%	$ -
2011	$ 2,196	$ -	$ 2,196	100%	$ -
2010	$ 2,356	$ -	$ 2,356	100%	$ -

Funded Status and Funding Progress. The funded status of the plan as of June 30, 2012 was as follows:

(in thousands)	
Actuarial accrued liability (AAL)	$ 32,577
Actuarial value of plan assets	24,515
Unfunded actuarial accrued liability (UAAL)	$ 8,062
Funded ratio (actuarial value of plan assets/AAL)	75.3%
Annual covered payroll (active plan members)	$ 43,213
UAAL as a percentage of covered payroll	18.7%

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, 2012, 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	12 Years
Asset valuation method	Market Value
Actuarial assumptions:	
Discount rate	6.0%
Annual healthcare cost trend	7.0% initially, reducing to 5.5% after 3 years and 3.4% after 87 years
Assumed rate of inflation	2.5%

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. All full-time permanent employees of HRSD are covered by VRS. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

VRS administers two defined benefit plans for local government employees – Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least five years of service credit or age 50 with at least 10 years of service credit.

- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.

  The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS Web site at http://www.varetire.org/Pdf/Publications/2011-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

At June 30, 2011, the date of the most recent valuation, the plan contained 734 active, 275 inactive and 272 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	30 Years (decreasing by one each year in subsequent valuations until reaching 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	
1) Plan 1 Members	2.5%
2) Plan 2 Members	2.25%

[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. HRSD paid the 5 percent member contribution for Plan 1 employees and paid 4 percent for Plan 2 employees. 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, 2012 was 11.00 percent of annual covered payroll. Actual contributions by HRSD totaled $4,580,000, $4,438,000 and $3,900,000, which were 100 percent of the Annual Required Contribution (ARC) for 2012, 2011 and 2010 respectively. HRSD has no Net Pension Obligation at June 30, 2012, 2011 or 2010.

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)	$ 174,448
Actuarial value of plan assets	132,919
Unfunded actuarial accrued liability (UAAL)	$ 41,529
Funded ratio (actuarial value of plan assets/AAL)	76.2%
Annual covered payroll (active plan members)	$ 40,462
UAAL as a percentage of covered payroll	102.6%

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.

For fiscal year 2012, HRSD issued $25 million in subordinate variable rate demand bonds to partially finance its capital improvement plan. The bonds may bear interest in either a Weekly Period or a Long-term Period. The bonds were initially issued in a Weekly Interest Period and bear interest at a varying interest rate until, at HRSD's option, they are converted to the Long-term Period. Liquidity to pay the purchase price of the bonds that are tendered and not remarketed is provided by HRSD, therefore, while it is the intention of HRSD to hold the bonds to maturity, the bonds are shown as current obligations for financial statement purposes. Maturities of the principal and interest for these bonds are shown below as if held to maturity. The bonds are subject to optional redemption by HRSD prior to their maturity. Through June 30, 2012, the bonds have been successfully remarketed by the Remarketing Agent. The interest rate for the bonds at June 30, 2012 was 0.16%, and is used to calculate interest maturity amounts shown below.

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 6/30/10	Additions	Deductions	Balance at 6/30/11	Additions	Deductions	Balance at 6/30/12	Due within One year
Series-2011FR	$ -	$ -	$ -	$ -	$ 45,705	$ -	$ 45,705	$ 1,775
Series-2011VR	-	-	-	-	25,000	-	25,000	25,000
Series-2009A	15,915	-	(2,990)	12,925	-	(3,080)	9,845	3,170
Series-2009B	134,725	-	-	134,725	-	-	134,725	-
Series-2008	219,170	-	(2,000)	217,170	-	(2,000)	215,170	2,000
Series-2003	25,405	-	(3,845)	21,560	-	(4,010)	17,550	4,150
Virginia Resources Authority								
Senior bonds	36,309	27,646	-	63,955	20,139	(832)	83,262	2,142
Subordinate bonds	115,794	2,522	(7,655)	110,661	1,141	(8,467)	103,335	9,367
	547,318	30,168	(16,490)	560,996	91,985	(18,389)	634,592	47,604
Deferred bond premiums	-	-	-	-	4,834	(140)	4,694	210
Total Bonds Outstanding	$ 547,318	$ 30,168	$ (16,490)	$ 560,996	$ 96,819	$ (18,529)	$ 639,286	$ 47,814

A summary of the senior bonds outstanding at June 30, 2012 is as follows:

(in thousands)	Issue Amount	Principal Outstanding Total	Current	Long-Term	Interest to Maturity	Interest Rates	Duration of Issue	Final Maturity
Series - 2011FR	$ 45,705	$ 45,705	$ 1,775	$ 43,930	$ 28,919	2.00 - 5.00%	23 years	November 1, 2034
Series - 2009A	15,915	9,845	3,170	6,675	552	2.38 - 4.00%	5 years	November 1, 2014
Series - 2009B	134,725	134,725	-	134,725	133,792	3.38 - 5.86%	30 years	November 1, 2039
Series - 2008	223,170	215,170	2,000	213,170	181,777	3.00 - 5.00%	30 years	July 1, 2038
Series - 2003	55,890	17,550	4,150	13,400	1,395	3.34 - 5.00%	12 years	October 1, 2015
VRA - Metering	9,989	9,806	376	9,430	3,529	3.35%	20 years	March 1, 2031
VRA - WTP	5,727	5,727	235	5,492	1,746	2.93%	20 years	September 1, 2031
VRA - NTP	-	18,422	730	17,692	6,847	3.35%	20 years	September 1, 2031
VRA - JRTP	-	12,608	517	12,091	4,830	3.35%	20 years	March 1, 2031
VRA - ABTP	-	29,900	-	29,900	17,930	2.93%	20 years	September 1, 2032
VRA - BHTP	-	5,837	284	5,553	2,259	2.93%	20 years	September 1, 2031
VRA - ATP	-	962	-	962	1,849	2.93%	20 years	September 1, 2031
Total		$ 506,257	$ 13,237	$ 493,020	$ 385,425			

The VRA bonds that do not show an issue amount had not closed as of June 30, 2012, so the principal amounts reflected represent draws through that date. The total amount available on the senior VRA bonds is $ 97,031,000, of which $28,653,000 is available at June 30, 2012.

Maturities of senior bond principal and interest as of June 30, 2012 are as follows:

(in thousands) June 30,	Principal	Interest
2013	$ 13,237	$ 24,496
2014	14,319	23,856
2015	14,532	23,278
2016	14,969	22,719
2017	11,559	22,241
2018-2022	78,600	102,096
2023-2027	96,389	81,724
2028-2032	114,918	55,549
2033-2037	109,109	26,610
2038-2042	38,625	2,856
	$ 506,257	$ 385,425

A summary of the subordinate revenue bonds outstanding at June 30, 2012 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	$ 3,535	$ 1,132	$ 2,403	$ 251	4.00%	20 years	June 1, 2015
Nansemond I	40,628	12,454	2,579	9,875	1,278	4.00%	20 years	December 1, 2016
Nansemond II	15,772	4,857	1,006	3,851	498	4.00%	20 years	December 1, 2016
CE/AB	5,450	1,900	346	1,554	257	4.75%	20 years	June 1, 2017
Disinfection	6,490	3,200	353	2,847	497	3.50%	20 years	March 1, 2020
Middle Peninsula	700	227	22	205	51	4.75%	20 years	December 1, 2020
Gen & Odor Control	3,843	2,150	202	1,948	442	4.10%	20 years	June 1, 2021
BH Odor	2,380	1,341	121	1,220	247	3.50%	20 years	September 1, 2021
York River Reuse	2,476	1,479	125	1,354	212	2.50%	20 years	September 1, 2022
AB Aeration	1,759	1,102	88	1,014	241	3.75%	20 years	October 1, 2022
Ches-Eliz Off Gas	1,070	661	50	611	152	3.75%	20 years	March 1, 2023
AB Generator	1,235	956	56	900	222	3.00%	20 years	April 1, 2026
Atlantic Expansion	7,340	6,014	320	5,694	1,552	3.10%	20 years	February 1, 2027
Ches-Eliz Expansion	40,330	32,984	1,771	31,213	8,219	3.00%	20 years	June 1, 2027
Williamsburg PS	1,605	1,349	69	1,280	360	3.10%	20 years	July 1, 2027
York River Expansion	29,683	29,126	1,127	27,999	10,966	3.55%	20 years	September 1, 2031
		103,335	9,367	93,968	25,445			
Series-2011VR	25,000	25,000	25,000	-	1,177	Variable (0.16% at June 30, 2012)	30 years	November 1, 2041
Total		$ 128,335	$ 34,367	$ 93,968	$ 26,622			

Maturities of subordinate bond principal and interest as of June 30, 2012 are as follows:

(in thousands) June 30,	Principal	Interest
2013	$ 9,366	$ 3,514
2014	9,710	3,171
2015	10,072	2,808
2016	9,174	2,444
2017	7,388	2,105
2018-2022	25,641	7,731
2023-2027	24,573	3,712
2028-2032	7,411	760
2033-2037	-	200
2038-2042	25,000	177
	$ 128,335	$ 26,622

NOTE 9 – Net Assets

Restricted Net Assets

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

Unrestricted Net Assets

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, 2012 and 2011, $7,978,000 and $6,286,000, respectively, was contained in the unrestricted net assets. HRSD was in compliance with all funding requirements of this reserve during the fiscal years ended June 30, 2012 and 2011.

Reserved for Construction. A reserve for the construction program is based on funds designated by HRSD's Commission for such purposes. At June 30, 2012 and 2011, $47,417,000 and $39,034,000, respectively, was contained in the unrestricted net assets.

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 $250,000. HRSD also maintains an aggregate insurance policy whereby total medical claims costs in excess of 125 percent of expected costs are subject to reimbursement. 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 2010 through 2012 are as follows:

(in thousands)	Beginning of Fiscal Year	Estimated Claims Incurred	Claims Paid	End of Fiscal Year
2010	$ 859	$ 9,279	$ (8,816)	$ 1,322
2011	$ 1,322	$ 8,257	$ (8,321)	$ 1,258
2012	$ 1,258	$ 7,959	$ (7,148)	$ 2,069

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, 2012 HRSD has outstanding commitments for contracts in progress of approximately $118,814,000.

Required Supplementary Information
(Unaudited)

The fishing is fine in the many waters of Hampton Roads, even along the Virginia Beach oceanfront (left), an area served by HRSD's Atlantic Treatment Plant (above). This facility can now treat up to 54 million gallons per day as the result of a $153 million expansion, the most expensive capital project in HRSD's history.

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)
6/30/2011	$132,919	$174,448	$41,529	76.2%	$40,462	102.6%
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%

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)
6/30/2012	$24,515	$32,577	$8,062	75.3%	$43,213	18.7%
6/30/2011	$22,560	$32,076	$9,516	70.3%	$40,553	23.5%
6/30/2010	$17,205	$28,210	$11,005	61.0%	$39,183	28.1%
6/30/2009	$14,922	$36,550	$21,628	40.8%	$37,431	57.8%
6/30/2008	$13,002	$27,865	$14,863	46.7%	$34,458	43.1%

Unaudited – See accompanying independent auditors’ report

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Statistical Section

(Unaudited)

Major commercial and military port facilities are located on the Elizabeth River (left), along with HRSD's Virginia Initiative Plant (top) and its Army Base Treatment Plant (bottom). HRSD is among those businesses and industries recognized as River Stars for their stewardship of this estuary.

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.

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HAMPTON ROADS SANITATION DISTRICT
DEMOGRAPHIC AND OTHER MISCELLANEOUS STATISTICS
JUNE 30, 2012

		2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
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	672	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	54.0	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	248.5	230.5	230.5	230.5	230.5	230.5	230.5	230.5
Small Communities Treatment Plants		5	5	4	4	4	3	3	3	3	3
Central Middlesex, Middlesex County		0.03	0.03	-	-	-	-	-	-	-	-
King William Plant, King William County		0.10	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	0.93	0.90	0.90	0.90	0.80	0.80	0.80	0.80	0.80
Miles of Interceptor Systems (note 1)		532	528	483	483	514	512	512	512	512	478
Interceptor Pump Stations		83	82	81	82	82	81	79	78	78	79
Small Communities Pump Stations (note 1)		29	29	25	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 2)		458	457	455	452	442	461	457	451	448	440
Daily Average Treatment in Millions of Gallons		147	144	171	151	146	163	158	173	173	172
Bond Ratings											
Moody's Investors Service	Senior	Aa2	Aa2	Aa2	Aa3	Aa3	Aa3	Aa3	Aa3	Aa3	Aa3
Standard & Poor's	Senior	AAA	AAA	AAA	AA+	AA+	AA	AA	AA	AA	AA
	Subordinate Long-term	AA+	-	-	-	-	-	-	-	-	-
	Subordinate Short-term	A-1+	-	-	-	-	-	-	-	-	-
Fitch	Senior	AA+	AA+	AA+	AA	AA	-	-	-	-	-
	Subordinate Long-term	AA	-	-	-	-	-	-	-	-	-
	Subordinate Short-term	F1+	-	-	-	-	-	-	-	-	-

Note 1 - HRSD conducted evaluations of the system during the years ended June 30, 2009 and 2011 and revised the miles of pipes and the number of small community pump stations.

Note 2 - HRSD installed a new customer billing system during the year ended June 30, 2008. 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)	2012	2011	2010	2009
OPERATING REVENUES				
Wastewater treatment charges	$ 194,817	$ 183,526	$ 167,807	$ 156,642
Miscellaneous	2,996	3,890	3,645	3,088
TOTAL OPERATING REVENUES	197,813	187,416	171,452	159,730
OPERATING EXPENSES				
Wastewater treatment	110,783	103,225	98,022	86,850
General and administrative	28,957	28,622	29,435	28,853
Depreciation	41,250	36,191	30,441	28,414
TOTAL OPERATING EXPENSES	180,990	168,038	157,898	144,117
OPERATING INCOME (LOSS)	16,823	19,378	13,554	15,613
NONOPERATING REVENUES (EXPENSES)				
Wastewater facility charges	6,276	5,083	5,754	5,086
Investment income	1,681	1,699	1,541	3,998
Bond interest subsidy	2,602	2,602	1,655	-
Sale of land	-	-	-	-
Change in fair value of investments	(224)	(19)	40	162
Interest expense	(22,760)	(20,516)	(19,973)	(15,263)
NET NONOPERATING REVENUES (EXPENSES)	(12,425)	(11,151)	(10,983)	(6,017)
INCOME BEFORE CONTRIBUTIONS AND SPECIAL ITEM	4,398	8,227	2,571	9,596
CAPITAL CONTRIBUTIONS				
Contributions from other governments	14,806	16,097	41,606	16,678
SPECIAL ITEM				
Prior service cost for post retirement health program	-	-	-	-
CHANGE IN NET ASSETS	$ 19,204	$ 24,324	$ 44,177	$ 26,274
NET ASSETS				
Investment in capital assets, net of related debt	$ 348,407	$ 351,618	$ 348,572	$ 319,594
Restricted for debt service	15,736	14,896	12,253	7,542
Unrestricted	132,263	110,688	92,053	81,565
TOTAL NET ASSETS	$ 496,406	$ 477,202	$ 452,878	$ 408,701
DEBT SERVICE EXPENDITURES				
Senior debt	$ 33,023	$ 28,257	$ 21,081	$ 17,453
Subordinate debt	$ 13,694	$ 10,640	$ 10,695	$ 10,694
Senior Debt Coverage	2.07	2.30	2.51	3.05
Total Debt Coverage	1.46	1.67	1.67	1.89

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

2008	2007	2006	2005	2004	2003
$ 129,583	$ 118,423	$ 106,208	$ 98,308	$ 96,894	$ 93,841
2,623	3,558	3,419	3,354	4,453	3,483
132,206	121,981	109,627	101,662	101,347	97,324
72,034	68,930	67,496	59,041	55,106	55,448
31,756	26,070	21,820	20,509	19,522	18,118
27,282	24,958	24,509	24,912	26,230	27,475
131,072	119,958	113,825	104,462	100,858	101,041
1,134	2,023	(4,198)	(2,800)	489	(3,717)
8,339	9,645	10,526	10,579	10,554	8,677
3,999	3,363	2,896	2,349	2,151	3,488
-	-	-	-	-	-
-	-	-	-	-	4,517
656	994	(868)	343	(1,622)	(155)
(5,867)	(4,630)	(4,518)	(4,682)	(5,497)	(6,755)
7,127	9,372	8,036	8,589	5,586	9,772
8,261	11,395	3,838	5,789	6,075	6,055
-	-	-	-	-	-
-	-	-	-	-	(6,944)
$ 8,261	$ 11,395	$ 3,838	$ 5,789	$ 6,075	$ (889)
$ 301,760	$ 314,708	$ 282,177	$ 271,907	$ 260,808	$ 250,043
7,377	6,247	7,817	6,871	5,772	7,062
73,290	53,211	72,777	80,155	86,564	89,964
$ 382,427	$ 374,166	$ 362,771	$ 358,933	$ 353,144	$ 347,069
$ 4,699	$ 8,609	$ 8,720	$ 8,545	$ 8,744	$ 11,577
$ 11,992	$ 8,000	$ 7,500	$ 7,249	$ 7,250	$ 7,330
8.81	4.76	3.77	4.14	4.32	3.48
2.48	2.47	2.03	2.24	2.36	2.13

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

(in thousands)	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Personal Services	$ 47,319	$ 44,284	$ 42,529	$ 40,840	$ 37,333	$ 36,228	$ 32,045	$ 30,908	$ 30,664	$ 29,535
Fringe Benefits	17,800	17,692	15,217	12,410	12,573	11,106	8,430	7,790	7,228	6,515
Repairs and Maintenance	26,057	21,234	23,445	14,176	10,704	11,101	13,036	9,523	6,912	8,761
Materials and Supplies	6,143	8,381	6,284	5,715	5,965	5,224	5,153	5,236	4,893	5,198
Transportation	1,319	1,196	1,009	972	965	802	855	716	652	647
Utilities	12,027	11,026	10,755	13,218	11,601	10,457	10,782	9,185	8,531	8,423
Chemicals	8,587	8,084	7,571	8,342	8,032	7,077	6,721	4,715	4,659	4,190
Contractual Services	12,312	11,118	10,333	8,642	9,064	7,828	7,108	6,733	6,617	6,321
Miscellaneous	1,324	1,148	1,049	1,028	897	720	642	736	655	607
General (1)	6,852	7,684	9,265	10,360	6,656	4,457	4,544	4,008	3,817	3,369
Subtotal, Expense before Depreciation	139,740	131,847	127,457	115,703	103,790	95,000	89,316	79,550	74,628	73,566
Depreciation	41,250	36,191	30,441	28,414	27,282	24,958	24,509	24,912	26,230	27,475
Total Operating Expenses	$ 180,990	$ 168,038	$ 157,898	$ 144,117	$ 131,072	$ 119,958	$ 113,825	$ 104,462	$ 100,858	$ 101,041

(1) Includes bad debt expense

HAMPTON ROADS SANITATION DISTRICT
RATIOS OF OUTSTANDING DEBT BY TYPE
JUNE 30, 2012

			(in thousands)			
As of June 30,	No. Of Service Conections		Senior Revenue Bonds	Subordinate Revenue Bonds	Total Outstanding Debt	Debt Per Service Connection
2012	458,000		$ 506,257	$ 128,335	$ 634,592	$ 1,386
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

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Residential - Metered										
Per CCF * (single step)	$ 3.05	$ 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	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	24.40	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	46.77	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	36.70	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	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	74.51	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.

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Septic Tank Waste										
Per each 500 gallons or part thereof	48.57	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

		2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Residential		$ 1,895	$ 1,715	$ 1,715	$ 1,655	$ 1,607	$ 1,540	$ 1,465	$ 1,355	$ 1,300	$ 1,240
Commercial/Industrial											
5/8"	Meter	$ 1,895	$ 1,715	$ 1,715	$ 1,655	$ 1,607	$ 1,540	$ 1,465	$ 1,355	$ 1,300	$ 1,240
3/4"	Meter	2,885	2,605	2,605	2,515	2,443	2,340	2,230	2,060	1,975	1,880
1"	Meter	5,370	4,850	4,850	4,685	4,548	4,350	4,150	3,835	3,680	3,500
1 1/2"	Meter	13,035	11,780	11,780	11,365	11,040	10,565	10,065	9,310	8,935	8,495
2"	Meter	24,420	22,065	22,065	21,290	20,681	19,785	18,855	17,435	16,735	15,915
3"	Meter	59,140	53,440	53,440	51,565	50,088	47,920	45,670	42,225	40,525	38,545
4"	Meter	110,860	100,175	100,175	96,660	93,892	89,830	85,605	79,155	75,970	72,255
6"	Meter	268,675	242,780	242,780	234,260	227,556	217,710	207,470	191,840	184,120	175,110
8"	Meter	503,350	454,835	454,835	438,875	426,315	407,870	388,685	359,405	344,940	328,065
10"	Meter	819,310	740,340	740,340	714,355	693,915	663,890	632,665	585,000	561,460	533,990

Note: One charge per connection.

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

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
District Total										
Flow (MGD)	147.1	144.4	170.9	151.4	146.3	163.3	157.5	172.7	173.0	172.0
Influent										
BOD (1,000 lbs.)	254.6	273.1	275.2	300.9	332.1	346.3	357.3	358.6	385.0	357.8
TSS (1,000 lbs.)	200.3	205.9	210.7	203.6	211.3	224.0	225.0	230.4	281.4	217.9
TP (1,000 lbs.)	6.7	7.0	7.4	7.8	6.7	7.2	6.7	8.3	7.1	6.7
TKN (1,000 lbs.)	48.3	49.8	48.2	49.0	51.4	-	-	-	-	-
Effluent										
BOD (1,000 lbs.)	7.5	9.3	11.5	8.7	9.2	10.9	9.6	12.7	14.0	14.9
TSS (1,000 lbs.)	10.5	9.2	13.1	10.5	10.8	11.5	11.0	14.7	15.5	13.4
TP (1,000 lbs.)	1.1	1.0	1.0	1.0	1.1	1.1	1.2	1.3	1.5	1.4
TKN (1,000 lbs.)	10.1	12.3	14.9	13.3	11.2	-	-	-	-	-
Army Base Plant										
Flow (MGD)	10.2	10.0	12.6	10.4	9.7	11.3	11.3	12.5	13.1	13.1
Influent										
BOD (1,000 lbs.)	17.4	16.9	17.0	18.1	18.9	19.5	21.7	21.0	21.5	20.8
TSS (1,000 lbs.)	13.7	12.9	13.5	12.9	13.0	13.8	14.4	14.5	14.5	14.3
TP (1,000 lbs.)	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.4
TKN (1,000 lbs.)	3.5	3.2	3.2	3.1	3.4	-	-	-	-	-
Effluent										
BOD (1,000 lbs.)	0.9	0.8	1.0	0.8	1.0	0.9	0.8	0.8	1.1	0.9
TSS (1,000 lbs.)	0.8	1.0	1.1	0.8	1.1	0.9	0.9	1.0	1.3	1.0
TP (1,000 lbs.)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2
TKN (1,000 lbs.)	2.5	2.3	2.3	2.3	2.4	-	-	-	-	-
Atlantic Plant										
Flow (MGD)	29.0	29.7	30.4	26.6	26.3	29.4	30.2	31.1	30.0	30.0
Influent										
BOD (1,000 lbs.)	56.0	58.6	55.1	52.0	55.7	58.2	61.6	63.6	77.2	63.3
TSS (1,000 lbs.)	43.8	46.9	43.3	40.2	41.7	46.3	47.1	47.4	92.6	40.6
TP (1,000 lbs.)	1.5	1.8	1.8	1.9	-	-	-	-	-	-
TKN (1,000 lbs.)	11.7	12.3	11.3	10.5	10.7	-	-	-	-	-
Effluent										
BOD (1,000 lbs.)	2.0	3.0	2.3	1.8	1.9	2.0	2.2	3.2	3.9	3.9
TSS (1,000 lbs.)	1.8	2.0	2.9	2.2	2.0	2.1	2.7	4.2	3.8	3.0
Boat Harbor Plant										
Flow (MGD)	13.6	12.6	16.7	13.0	11.6	14.6	13.7	15.3	16.4	15.6
Influent										
BOD (1,000 lbs.)	19.9	19.4	19.9	19.9	19.6	21.4	23.6	22.7	25.2	22.0
TSS (1,000 lbs.)	16.9	15.6	17.5	15.2	14.6	17.3	17.4	17.2	20.2	17.4
TP (1,000 lbs.)	0.5	0.5	0.5	0.5	0.5	0.6	0.6	2.0	0.7	0.5
TKN (1,000 lbs.)	3.7	3.8	3.7	3.6	3.6	-	-	-	-	-
Effluent										
BOD (1,000 lbs.)	0.6	0.6	1.1	0.6	0.9	1.5	1.3	1.3	1.8	2.2
TSS (1,000 lbs.)	0.9	0.7	1.3	0.7	0.7	1.2	0.8	1.3	1.5	1.8
TP (1,000 lbs.)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1
TKN (1,000 lbs.)	3.0	2.8	2.8	2.6	2.3	-	-	-	-	-
Chesapeake-Elizabeth Plant										
Flow (MGD)	15.2	16.3	20.1	19.5	18.7	15.6	16.8	21.0	21.1	18.2
Influent										
BOD (1,000 lbs.)	24.8	30.1	32.7	36.0	38.3	30.8	35.0	41.8	42.8	35.4
TSS (1,000 lbs.)	21.0	22.6	26.9	27.1	27.5	21.5	23.4	28.2	27.3	21.6
TP (1,000 lbs.)	0.7	0.7	0.8	0.9	1.0	0.7	0.9	1.1	1.1	0.9
TKN (1,000 lbs.)	5.4	6.1	6.2	6.9	7.2	-	-	-	-	-
Effluent										
BOD (1,000 lbs.)	1.5	1.8	2.2	2.1	2.0	1.9	1.7	2.1	2.5	1.9
TSS (1,000 lbs.)	1.8	1.9	2.2	2.2	2.1	1.7	2.1	2.8	3.4	2.0
TP (1,000 lbs.)	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.2
TKN (1,000 lbs.)	3.2	3.9	3.9	4.2	3.8	-	-	-	-	-

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

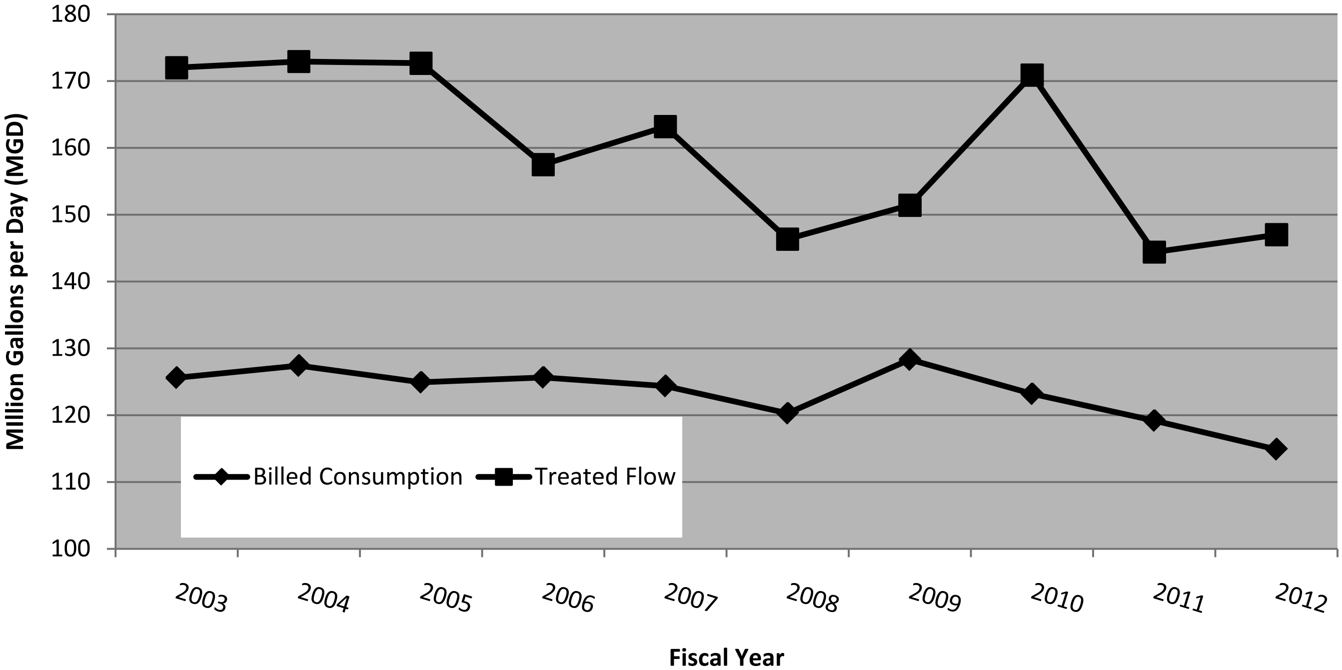
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
James River Plant										
Flow (MGD)	12.9	12.2	14.9	12.3	12.7	15.1	12.5	15.3	15.2	14.7
Influent										
BOD (1,000 lbs.)	25.3	26.2	24.7	23.0	25.4	30.8	28.7	30.1	29.6	30.0
TSS (1,000 lbs.)	19.0	19.8	19.9	17.6	19.6	21.1	19.0	21.2	21.5	20.2
TP (1,000 lbs.)	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7
TKN (1,000 lbs.)	4.4	4.4	4.3	4.2	4.2	-	-	-	-	-
Effluent										
BOD (1,000 lbs.)	0.7	0.9	1.2	0.8	1.1	1.2	0.7	1.4	0.9	1.0
TSS (1,000 lbs.)	0.8	0.9	1.8	1.4	1.5	1.4	0.9	1.3	1.1	1.1
TP (1,000 lbs.)	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2
TKN (1,000 lbs.)	0.5	2.3	2.6	1.2	1.0	-	-	-	-	-
Nansemond Plant										
Flow (MGD)	16.2	15.9	18.0	17.1	17.2	18.7	17.9	20.8	20.5	19.6
Influent										
BOD (1,000 lbs.)	23.7	27.9	30.2	31.6	32.3	36.7	38.0	41.3	40.3	38.2
TSS (1,000 lbs.)	22.6	22.6	24.5	23.1	24.5	27.1	25.5	28.6	26.7	26.9
TP (1,000 lbs.)	1.0	1.0	1.1	1.1	1.3	1.7	1.3	1.5	1.6	1.5
TKN (1,000 lbs.)	6.0	6.1	6.0	6.2	6.4	-	-	-	-	-
Effluent										
BOD (1,000 lbs.)	0.6	0.8	1.2	0.7	0.6	0.8	0.7	1.3	1.0	1.1
TSS (1,000 lbs.)	0.9	1.1	1.3	1.0	1.4	1.5	1.2	1.6	1.7	1.3
TP (1,000 lbs.)	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.1	0.2	0.2
TKN (1,000 lbs.)	0.3	0.5	2.3	1.3	0.3	-	-	-	-	-
Virginia Initiative Plant										
Flow (MGD)	29.8	28.5	35.7	29.9	25.4	31.2	29.2	29.0	29.7	33.4
Influent										
BOD (1,000 lbs.)	42.3	42.8	43.0	46.9	47.2	50.3	48.5	43.5	45.8	50.4
TSS (1,000 lbs.)	32.3	31.8	31.7	31.1	27.3	31.6	32.0	29.6	32.1	33.7
TP (1,000 lbs.)	1.1	1.1	1.2	1.3	1.4	1.5	1.3	1.1	1.1	1.3
TKN (1,000 lbs.)	7.6	7.3	7.2	7.5	7.1	-	-	-	-	-
Effluent										
BOD (1,000 lbs.)	0.8	0.7	1.7	1.3	1.2	1.8	1.2	1.1	1.2	2.4
TSS (1,000 lbs.)	1.5	1.1	1.7	1.5	1.2	1.7	1.1	0.9	1.0	1.5
TP (1,000 lbs.)	0.2	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.2
TKN (1,000 lbs.)	0.5	0.4	0.8	1.5	1.1	-	-	-	-	-
Williamsburg Plant										
Flow (MGD)	9.1	8.6	10.0	12.0	14.4	15.1	14.5	15.0	14.6	15.3
Influent										
BOD (1,000 lbs.)	33.5	37.5	37.9	59.9	79.0	80.8	80.1	75.5	82.2	77.3
TSS (1,000 lbs.)	16.7	19.0	19.6	23.4	30.6	28.8	28.3	27.3	29.0	26.7
TP (1,000 lbs.)	0.5	0.6	0.6	0.8	1.0	1.0	0.9	0.9	0.9	0.9
TKN (1,000 lbs.)	3.4	3.5	3.5	4.3	5.2	-	-	-	-	-
Effluent										
BOD (1,000 lbs.)	0.3	0.3	0.4	0.3	0.4	0.4	0.3	0.6	0.6	0.8
TSS (1,000 lbs.)	0.6	0.3	0.4	0.3	0.5	0.5	0.6	0.7	0.8	1.0
TP (1,000 lbs.)	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2
TKN (1,000 lbs.)	0.2	0.2	0.2	0.3	0.2	-	-	-	-	-
York River Plant										
Flow (MGD)	11.2	10.8	12.5	10.7	10.2	12.3	11.4	12.7	12.4	12.1
Influent										
BOD (1,000 lbs.)	13.3	15.5	16.3	15.5	15.8	17.8	20.1	19.1	20.4	20.4
TSS (1,000 lbs.)	14.1	14.3	14.0	12.6	12.4	16.5	17.9	16.4	17.5	16.5
TP (1,000 lbs.)	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5
TKN (1,000 lbs.)	3.2	3.6	3.3	3.3	3.7	-	-	-	-	-
Effluent										
BOD (1,000 lbs.)	0.2	0.5	0.4	0.4	0.3	0.4	0.7	0.9	1.0	0.7
TSS (1,000 lbs.)	0.1	0.3	0.5	0.5	0.4	0.5	0.7	0.9	0.9	0.7
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	0.1	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	2012 Amount	2012 Percent	2003 Amount	2003 Percent
Anheuser - Busch, Inc.	Brewery	$ 5,499	2.8%	$ 5,820	6.2%
U.S. Navy - Norfolk Naval Base	Military Facility	4,823	2.5%	1,960	2.1%
Smithfield Foods	Meat Processor	3,389	1.8%	2,021	2.2%
City of Norfolk	Municipality	1,899	1.0%	954	1.0%
Huntington Ingalls Industries (formerly Northrop Grumman Newport News)	Shipbuilding	1,540	0.8%	388	0.4%
Norfolk Redevelopment & Housing Authority	Housing Authority	1,432	0.7%	608	0.6%
Joint Expeditionary Base Little Creek-Fort Story	Military Facility	1,068	0.5%	737	0.8%
Fort Eustis	Military Facility	1,004	0.5%	0	0.0%
U.S. Air Force - Langley Air Force Base	Military Facility	975	0.5%	626	0.7%
City of Virginia Beach	Municipality	873	0.4%	367	0.4%
Norfolk Naval Shipyard	Military Ship Repair	0	0.0%	342	0.4%
Total		$ 22,502	11.5%	$ 13,823	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)
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
2012	147	115

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

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
General Management										
General Manager	5	5	5	5	5	5	5	5	5	6
Human Resources	10	11	11	10	7	7	6	6	6	5
	15	16	16	15	12	12	11	11	11	11
Finance & Administration										
Accounting & Finance	10	10	10	10	10	10	10	10	10	10
Procurement	7	7	8	8	8	7	7	7	7	7
Support Staff	3	3	3	3	2	3	3	2	2	2
Total Finance & Administration	20	20	21	21	20	20	20	19	19	19
Information Services										
Customer Information Service	69	69	69	63	61	58	59	59	59	60
Information Technology	33	33	33	21	21	21	16	15	15	16
Support Staff	2	2	2	3	3	3	2	2	2	2
Total Information Services	104	104	104	87	85	82	77	76	76	78
Operations										
Army Base Treatment Plant	32	32	32	32	32	32	33	33	32	32
Atlantic Base Treatment Plant	32	32	32	33	33	33	33	33	33	33
Boat Harbor Treatment Plant	33	33	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	121	122	122	106	93	89	89	89	89	89
James River Treatment Plant	21	21	21	21	21	21	21	21	21	21
Maintenance Shops	86	86	86	81	78	78	76	74	70	66
Nansemond Treatment Plant	30	30	30	30	30	30	30	30	29	29
Virginia Initiative Plant	31	31	31	31	31	31	31	31	31	31
Williamsburg Treatment Plant	31	31	31	31	34	34	34	34	34	34
York River Treatment Plant	23	23	23	23	23	23	23	23	23	23
Middle Peninsula Division	17	17	15	15	15	13	12	12	13	13
Support Staff	24	24	24	24	30	30	37	36	33	34
Total - Operations	513	514	513	493	486	480	485	482	474	471
Engineering										
Design and Construction	17	15	15	15	14	14	14	14	14	14
Support Staff	14	14	14	14	13	13	3	4	4	4
Total - Engineering	31	29	29	29	27	27	17	18	18	18
Water Quality										
Industrial Waste	24	24	24	24	24	24	24	25	25	25
Technical Services	21	21	20	20	20	20	20	18	18	17
Laboratory	38	38	38	38	38	38	37	38	38	37
Support Staff	3	3	3	3	3	3	3	3	2	2
Total - Water Quality	86	86	85	85	85	85	84	84	83	81
Total Employees	769	769	768	730	715	706	694	690	681	678

Other Supplemental Section
(Unaudited)

Sun tinged surf at the mouth of the Chesapeake Bay (left) washes the sand not far from HRSD's Chesapeake-Elizabeth Treatment Plant (above).

HAMPTON ROADS SANITATION DISTRICT
SUMMARY OF PRIMARY BONDED DEBT SERVICE
JUNE 30, 2012

(in thousands)

As of June 30,	Senior Bonds Principal	Senior Bonds Interest	Senior Bonds Debt Service	Subordinate Bonds Debt Service	Total Debt Service
2013	$ 13,237	$ 24,496	$ 37,733	$ 12,880	$ 50,613
2014	14,319	23,856	38,175	12,881	51,056
2015	14,532	23,278	37,810	12,880	50,690
2016	14,969	22,719	37,688	11,618	49,306
2017	11,559	22,241	33,800	9,493	43,293
2018	14,288	21,768	36,056	6,945	43,001
2019	15,146	21,168	36,314	6,944	43,258
2020	15,747	20,468	36,215	6,944	43,159
2021	16,377	19,733	36,110	6,463	42,573
2022	17,042	18,959	36,001	6,076	42,077
2023	17,745	18,140	35,885	5,846	41,731
2024	18,462	17,300	35,762	5,631	41,393
2025	19,234	16,397	35,631	5,631	41,262
2026	20,051	15,438	35,489	5,631	41,120
2027	20,897	14,449	35,346	5,546	40,892
2028	21,777	13,415	35,192	2,240	37,432
2029	22,723	12,322	35,045	2,185	37,230
2030	23,694	11,182	34,876	2,185	37,061
2031	24,510	9,992	34,502	1,521	36,023
2032	22,214	8,638	30,852	40	30,892
2033	22,024	7,605	29,629	40	29,669
2034	21,945	6,460	28,405	40	28,445
2035	22,715	5,303	28,018	40	28,058
2036	20,735	4,173	24,908	40	24,948
2037	21,690	3,069	24,759	40	24,799
2038	22,695	1,913	24,608	40	24,648
2039	7,815	705	8,520	40	8,560
2040	8,115	238	8,353	40	8,393
2041	-	-	-	40	40
2042	-	-	-	25,017	25,017
Totals	$ 506,257	$ 385,425	$ 891,682	$ 154,957	$ 1,046,639

HAMPTON ROADS SANITATION DISTRICT
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

(in thousands)	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with final Budget (over) under	Percent Variance
OPERATING BUDGET EXPENSES					
General Management	$ 2,124	$ 2,124	$ 1,995	$ 129	6.1%
Finance & Administration	2,394	2,394	2,381	13	0.5%
Information Services	16,457	16,457	14,137	2,320	14.1%
Operations	76,562	76,562	75,173	1,389	1.8%
Engineering	3,500	3,650	3,592	58	1.6%
Water Quality	9,811	9,867	9,553	314	3.2%
General	6,416	6,266	5,701	565	9.0%
Debt Service	50,772	49,623	41,149	8,474	17.1%
TOTAL	168,036	166,943	153,681	13,262	7.9%
IMPROVEMENT BUDGET EXPENSES					
Major Repairs and Replacements	4,123	4,093	3,199	894	21.8%
Improvements	4,667	5,893	2,943	2,950	50.1%
	8,790	9,986	6,142	3,844	38.5%
TOTAL	$ 176,826	$ 176,929	159,823	$ 17,106	9.7%
Add:					
Prior Year Major Repairs and Replacements carried over to current year			1,291		
Prior Year Improvements carried over to current year			721		
Unbudgeted Depreciation			41,250		
Unbudgeted Bad Debt Expense			1,152		
Capital Improvement Program items expensed			21,507		
Less:					
Capitalized items Major Repairs and Replacements			843		
Capitalized items Improvements			2,762		
Debt Service			41,149		
TOTAL OPERATING EXPENSES			$ 180,990		

See Accompanying Notes to Budgetary Comparison Schedule

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-12 was $168,036,019 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-12 was $8,789,767 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 $1,195,984 for pumps, computer hardware, and other equipment resulted in a final budget of $9,985,751. 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 FISCAL YEAR ENDED JUNE 30, 2012

(In thousands)	Actual	Budget	Variance Favorable/ (Unfavorable)	Budget Variance Percentage
OPERATING REVENUE				
Wastewater treatment charges	$ 194,817	$ 199,550	$ (4,733)	(2%)
Miscellaneous	2,996	2,900	96	3%
TOTAL REVENUES	197,813	202,450	(4,637)	(2%)
CURRENT EXPENDITURES				
General Management	1,995	2,124	129	6%
Finance & Administration	2,381	2,394	13	1%
Information Services	14,137	16,457	2,320	14%
Operations	75,173	76,562	1,389	2%
Engineering	3,592	3,650	58	2%
Water Quality	9,553	9,867	314	3%
Major Repairs & Replacements	4,549	9,986	5,437	54%
General	5,701	6,266	565	9%
TOTAL CURRENT EXPENDITURES	117,081	127,306	10,225	8%
EXCESS OF OPERATING REVENUES OVER EXPENDITURES	80,732	75,144	5,588	7%
NONOPERATING REVENUE				
Wastewater facility charges	6,276	4,000	2,276	57%
Bond interest subsidy	2,602	2,600	2	0%
Investment income	1,457	1,600	(143)	(9%)
TOTAL NONOPERATING REVENUE	10,335	8,200	2,135	26%
INCOME BEFORE CAPITAL CONTRIBUTIONS	91,067	83,344	7,723	9%
CAPITAL CONTRIBUTIONS				
State capital grants	14,806	-	14,806	100%
AMOUNT AVAILABLE FOR DEBT	105,873	83,344	22,529	27%
DEBT EXPENDITURES				
Principal & Interest	41,149	49,623	8,474	17%
TOTAL DEBT EXPENDITURES	41,149	49,623	8,474	17%
AMOUNT AVAILABLE TO REINVEST	$ 64,724	$ 33,721	$ 31,003	92%

HAMPTON ROADS SANITATION DISTRICT
OBJECTIVE CLASSIFICATION OF DEPARTMENTAL EXPENDITURES
FOR OPERATIONS - ACTUAL TO BUDGET
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

(in thousands)	General Management	Finance & Administration	Information Services	Operations
Personal Services	$ 1,295	$ 1,465	$ 5,664	$ 30,567
Fringe Benefits	423	522	2,162	11,840
Materials and Supplies	16	24	1,035	4,127
Transportation	33	17	102	965
Utilities	-	-	1,443	10,582
Chemicals	-	-	-	8,587
Contractual Services	80	232	3,581	7,951
Miscellaneous	148	121	150	554
General	-	-	-	-
	$ 1,995	$ 2,381	$ 14,137	$ 75,173
Debt Expenditures				
Total Departmental and Debt Expenditures				

HAMPTON ROADS SANITATION DISTRICT
OBJECTIVE CLASSIFICATION OF DEPARTMENTAL EXPENDITURES
FOR OPERATIONS - ACTUAL TO BUDGET
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Engineering	Water Quality	General	Totals	Percent of Total	FY-2012 Budget	Variance Favorable/ (Unfavorable)
$ 2,520	$ 5,808	$ -	$ 47,319	30	$ 47,786	$ 467
830	2,023	-	17,800	12	19,671	1,871
17	924	-	6,143	4	5,526	(617)
37	165	-	1,319	1	1,214	(105)
2	-	-	12,027	8	13,357	1,330
-	-	-	8,587	5	8,899	312
87	381	-	12,312	8	13,086	774
99	252	-	1,324	1	1,515	191
-	-	5,701	5,701	4	6,266	565
$ 3,592	$ 9,553	$ 5,701	112,532	73	117,320	4,788
			41,149	27	49,623	8,474
			$ 153,681	100	$ 166,943	$ 13,262

HAMPTON ROADS SANITATION DISTRICT
DEPARTMENTAL SUMMARY OF EXPENDITURES
ACTUAL TO BUDGET
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

(In thousands)	Actual	Budget	Variance Favorable/ (Unfavorable)
GENERAL MANAGEMENT			
Personal Services	$ 1,295	$ 1,276	$ (19)
Fringe Benefits	423	466	43
Materials and Supplies	16	27	11
Transportation	33	38	5
Contractual Services	80	135	55
Miscellaneous	148	182	34
	1,995	2,124	129
FINANCE & ADMINISTRATION			
Personal Services	1,465	1,418	(47)
Fringe Benefits	522	556	34
Materials and Supplies	24	30	6
Transportation	17	4	(13)
Contractual Services	232	227	(5)
Miscellaneous	121	159	38
	2,381	2,394	13
INFORMATION SERVICES			
Personal Services	5,664	6,164	500
Fringe Benefits	2,162	2,506	344
Materials and Supplies	1,035	1,588	553
Transportation	102	142	40
Utilities	1,443	1,506	63
Contractual Services	3,581	4,331	750
Miscellaneous	150	220	70
	14,137	16,457	2,320
OPERATIONS			
Personal Services	30,567	30,583	16
Fringe Benefits	11,840	13,120	1,280
Materials and Supplies	4,127	3,021	(1,106)
Transportation	965	843	(122)
Utilities	10,582	11,848	1,266
Chemicals	8,587	8,899	312
Contractual Services	7,951	7,692	(259)
Miscellaneous	554	556	2
	75,173	76,562	1,389

HAMPTON ROADS SANITATION DISTRICT
DEPARTMENTAL SUMMARY OF EXPENDITURES
ACTUAL TO BUDGET
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Actual	Budget	Variance Favorable/ (Unfavorable)
ENGINEERING			
Personal Services	2,520	2,537	17
Fringe Benefits	830	836	6
Materials and Supplies	17	17	-
Transportation	37	38	1
Utilities	2	2	-
Contractual Services	87	136	49
Miscellaneous	99	84	(15)
	3,592	3,650	58
WATER QUALITY			
Personal Services	5,808	5,808	-
Fringe Benefits	2,023	2,187	164
Materials and Supplies	924	843	(81)
Transportation	165	149	(16)
Utilities	-	1	1
Contractual Services	381	565	184
Miscellaneous	252	314	62
	9,553	9,867	314
GENERAL			
Personal Services	399	200	(199)
Fringe Benefits	51	88	37
Materials and Supplies	99	190	91
Utilities	422	500	78
Contractual Services	1,787	1,952	165
Apprentice Program	160	154	(6)
Insurance	1,968	2,350	382
District Memberships	321	339	18
Miscellaneous	494	493	(1)
	5,701	6,266	565
TOTAL DEPARTMENTAL EXPENDITURES	$ 112,532	$ 117,320	$ 4,788

Hampton Roads is the name for both a body of water and the region in southeastern Virginia served by HRSD. The water area known as Hampton Roads is one of the world's largest natural harbors. This roadstead or "roads," which empties into the Chesapeake Bay near its mouth leading to the Atlantic Ocean, incorporates the mouths of the James River and the Elizabeth River. The dividers of this document feature photos of the region's waterways and the HRSD treatment plants built to protect them.

Photography Credits

Treatment Plants:
Backus Aerial Photography

Waterways:
Ted Henifin, P.E.
Financial Section Divider

Mark Rhodes
Introductory, Statistical and Other Supplemental Section Dividers

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Cleaning wastewater every day for a better Bay.

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APPENDIX B

CERTAIN DEFINITIONS

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

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

"**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 Parity Obligations until their final maturity.

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

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

"**Bonds**" means the Subordinate 2012 Bonds, and any Additional Bonds under the Trust Agreement, including such Bonds issued in exchange for other such Bonds and Bonds issued in replacement for and upon the cancellation of mutilated Bonds or in lieu of and in substitution for destroyed, stolen or lost Bonds.

"**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.

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

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

“**Cross-over Refunding Indebtedness**” means Indebtedness issued for the purpose of refunding other Indebtedness if the proceeds of such refunding Indebtedness are irrevocably deposited in escrow to secure the payment on the applicable redemption date or maturity date of the refunded Indebtedness, and the earnings on such escrow deposit (i) are required to be applied to pay interest on such Refunding Indebtedness until the Cross-over Date and (ii) are not to be used directly or indirectly to pay interest on the Refunded Indebtedness.

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

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

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

“**Debt Service Reserve Fund Requirement**” means (i) on the date of issuance of the Subordinate 2012 Bonds, zero (0) and (ii) if, and to the extent, the District in its sole discretion determines to fund the Debt Service Reserve Fund, the Debt Service Reserve Fund Requirement specified in a Series Agreement.

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

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

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

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

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

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

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

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

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

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

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

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

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

"**Designated Office**" of the Trustee and the Tender Agent means the designated offices of the Trustee and the Tender Agent. respectively, which offices at the date of acceptance by the Trustee of the duties and obligations imposed on the Trustee by the Second Supplemental Trust Agreement is located at 919 East Main Street, Suite 1602, Richmond, Virginia 23219, and at the date of acceptance by the Tender Agent of the duties and obligations imposed on the Tender Agent by the Second Supplemental Trust Agreement is 919 East Main Street, Suite 1602, Richmond, Virginia 23219.

"**District**" means the Hampton Roads Sanitation District, a political subdivision of the Commonwealth of Virginia.

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

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

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

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

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

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

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

"**Issuance Costs**" means all issuance costs incurred in connection with the Bonds. Examples of such issuance costs include, but are not limited to, the following, if any: (a) counsel fees; (b) financial advisor fees incurred in connection with the issuance of the Bonds; (c) Rating Agency fees; (d) 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.

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

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

Obligations and within 90 days in the case of any other default after the giving of such notice, then, *first*, the Holders of Senior Obligations shall be entitled to receive payment in full of all principal, premium and interest on all Senior Obligations before the Holders of the Parity Obligation are entitled to receive any payment on account of principal or interest upon the Parity Obligations and, *second*, the Holders of Parity Obligations shall be entitled to receive payment in full of all principal, premium and interest on all Parity Obligations before the Holders of the Junior Obligations are entitled to receive any payment on account of principal, premium or interest upon the Junior Obligations.

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

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

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

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

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

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

(iv) with respect to Derivative Indebtedness, (i) for any historical computation, the interest on such Indebtedness is to be calculated by adding (A) the amount of interest payable by the District on such Derivative Indebtedness pursuant to its terms and (B) the amount of regularly scheduled payments made by the District pursuant to the Derivative Agreement and subtracting (C) the amount of regularly scheduled payments made by the Derivative Agreement Counterparty pursuant to the Derivative Agreement; (ii) for any historical pro forma or forecasted computation, if the Derivative Agreement Counterparty has a long-term credit rating of at least "A" (without regard to any rating refinement or gradation by numerical modifier or otherwise) assigned to it by at least one Rating Agency then rating the Indebtedness and does not have a long-term rating of less than "A" (without regard to any rating refinement or gradation by numerical modifier or otherwise) from any Rating Agency then rating the Indebtedness and has not defaulted on its payment obligations thereunder as of the date of computation, the interest on such Derivative Indebtedness is to be calculated at the Hedged Fixed Rate or the Hedged Variable Rate, as the case may be; and (iii) in all other instances, the amount of interest payable by the District on such Derivative Indebtedness is to be calculated as if such Derivative Agreement had not been executed; and

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

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

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

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

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

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

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

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

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

"**Maximum Interest Rate**" means, for all Subordinate 2012 Bonds, the lesser of (i) 12% per annum and (ii) the maximum rate permitted by law.

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

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

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

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

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

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

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

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

(2) Bonds and Parity Obligations for the payment of which money, Defeasance Obligations, or a combination of both, sufficient to pay, on the date when such Bonds are to be paid, the principal amount of, and the interest accruing to such date on, the Bonds to be paid, has been deposited with the Trustee or the Bond Registrar in trust for the Holders of such Bonds; Defeasance Obligations shall be deemed to be sufficient to pay Bonds on a specified date if the principal of and the interest on such Defeasance Obligations, when due, will be sufficient to pay on such date the principal of, and the interest accruing on, such Bonds to such date;

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

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

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

“**Parity Obligations**” means Bonds and VRA Subordinate Obligations.

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

“**Principal Payment Date**” means each date described as such in a Series Agreement.

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

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

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

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

“**Qualified Reserve Fund Substitute**” means (i) an irrevocable letter of credit, naming the Trustee as beneficiary, issued by any domestic or foreign bank, or any branch or agency thereof, whose long-term debt obligations are rated in one of the two highest rating categories by at least two of the Rating Agencies that will rate such obligations, or (ii) a policy of reserve fund insurance naming the Trustee as beneficiary, issued by an insurance company or financial institution whose claims paying ability is rated in one of the two highest rating categories by at least two of the Rating Agencies that rate such obligations, in either case (A) in an amount not less than the Debt Service Reserve Fund Requirement, (B) the terms of which allow the Trustee to make the draws required to fund the Debt

Service Reserve Fund if and as required (See "Debt Service Reserve Fund; Qualified Reserve Fund Substitute" in Appendix C) and (C) that provides that the issuer of which has not been given a lien on any portion of the property of the District unless such lien also secures the Bonds on a parity basis.

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

"**Senior Bonds**" has the meaning given the term "Bonds" by the Senior Trust Agreement.

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

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

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

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

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

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

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

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

(3) installment purchase or conditional sale contracts having an original term of one year or less.

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

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

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

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

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

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

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

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

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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 Subordinate 2012 Bonds provides any such unexpended fund balances are to be applied as directed by the District.

Bond Fund

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

Debt Service Reserve Fund; Qualified Reserve Fund Substitute

No funds will be deposited to the credit of the Debt Service Reserve Fund upon the delivery of the Subordinate 2012 Bonds. If the District elects to fund the Debt Service Reserve Fund, then an amount equal to the Debt Service Reserve Fund Requirement, as the same shall be specified in a Supplemental Agreement, shall be deposited to the Debt Service Reserve Fund Requirement.

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

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

Payment of Principal and Interest

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

Investment of Money

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

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

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

Valuation

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

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

Limitations on Indebtedness

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

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

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

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

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

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

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

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

(d) Junior Obligations may be incurred without limitation.

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

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

Rate Covenant

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

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

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

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

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

Limitation on Creation of Liens

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

"Permitted Liens" consist of the following:

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

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

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

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

(e) Any Lien that was existing on the date of authentication and delivery of the Subordinate 2012 Bonds issued under the Trust Agreement; provided that no such Lien may be increased, extended, renewed or modified to apply to any Property of the District not subject to such Lien on such date or to secure Indebtedness not Outstanding on the date of issuance of the Subordinate 2012 Bonds, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Lien under the Trust Agreement;

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

(g) The Lien of the Senior Trust Agreement;

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

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

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

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

Designation of Funds

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

Covenants as of Maintenance of Properties

The District covenants in the Trust Agreement:

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

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

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

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

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

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

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

Insurance

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

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

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

Insurance and Condemnation Proceeds

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

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

Annual Budget

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

Senior Trust Agreement

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

Events of Default

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

Remedies for Default

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

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

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

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

Restrictions upon Actions by Individual Holders

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

Notice of Default to Holders

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

Pro-Rata Application of Funds

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

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

> first: to the payment to the persons entitled thereto of all installments of interest on Bonds then due and payable in the order in which such installments became due and payable and, if the amount available is not sufficient to pay in full any particular installment, then to the payment, ratably according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in such Bonds;
>
> second: to the payment to the persons entitled thereto of the unpaid principal of any Bonds that have become due and payable (other than Bonds called for redemption for the payment of which money is held pursuant to the provisions of the Trust Agreement), in the order of their due dates, and, if the amount available is not sufficient to pay in full the principal of Bonds due and payable on any particular date, then to the payment ratably according to the amount of such principal due on such date, to the persons entitled thereto without any discrimination or preference; and
>
> third: to the payment of the interest on and the principal of Bonds, to the purchase and retirement of Bonds due to the redemption of Bonds in accordance with the Trust Agreement and the applicable Series Agreement.

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

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

Subordination

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

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

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

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

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

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

Supplemental Trust Agreements without Consent of Holders

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

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

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

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

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

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

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

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

Modification of Trust Agreement with Consent of Holders

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

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

Defeasance

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

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

Release of Second Supplemental Trust Agreement

When (a) the Subordinate 2012 Bonds shall have become due and payable in accordance with their terms or otherwise as provided in the Second Supplemental Trust Agreement, the whole amount of the principal and the interest so due and payable upon all Subordinate 2012 Bonds shall be paid, (b) if the Subordinate 2012 Bonds shall not have become due and payable in accordance with their terms, the Trustee or the Bond Registrar shall hold, sufficient money or Defeasance Obligations, or a combination of money and Defeasance Obligations, the principal of and the interest on which, when due and payable, will provide sufficient money to pay the principal of, and the interest on, all Subordinate 2012 Bonds then Outstanding to the maturity date or dates of such Subordinate 2012 Bonds and (c) sufficient funds shall also have been provided or provision made for paying all other obligations payable under the Second Supplemental Trust Agreement by the District, then and in that case the right, title and interest of the Trustee in the funds and accounts mentioned in the Second Supplemental Trust Agreement shall thereupon cease, determine and become void and, on demand of the District and upon being furnished with an opinion, in form and substance satisfactory to the Trustee, of Bond Counsel, to the effect that all conditions precedent to the release of the Second Supplemental Trust Agreement have been satisfied, the Trustee shall release the Second Supplemental Trust Agreement and shall execute such documents to evidence such release as may reasonably be required by the District and, subject to the provisions of the

Trust Agreement, shall turn over to the District any surplus in, and all balances remaining in, all funds and accounts.

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.

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APPENDIX D

PROPOSED OPINION OF BOND COUNSEL

______ __, 2012

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 October 1, 2011, as supplemented (the "Trust Agreement"), including as supplemented by the Second Supplemental Trust Agreement, dated as of December 1, 2012, 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

$22,680,000
HAMPTON ROADS SANITATION DISTRICT

Subordinate Wastewater Revenue Bonds
Refunding Series 2012 (Federally Taxable)

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

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

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

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

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

1. The Bonds have been duly authorized, executed and issued for the purpose of providing funds, together with other available funds, to refund certain Outstanding Subordinate Obligations (as defined in the Trust Agreement) and pay certain expenses incurred in connection with the issuance of the Bonds.

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

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

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

5. 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 December 1, 2012, is executed and delivered by Hampton Roads Sanitation District (the "District") in connection with the issuance by the District of its Subordinate Wastewater Revenue Bonds, Refunding Series 2012 (Federally Taxable) (the "Bonds"), pursuant to the provisions of a Trust Agreement, dated as of October 1, 2011, as supplemented (the "Trust Agreement"), by and between the District and The Bank of New York Mellon Trust Company, N.A., as trustee. The proceeds of the Bonds are being used by the District to provide funds for to refund certain outstanding VRA Subordinate Obligations. The District hereby covenants and agrees as follows:

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

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

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

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

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

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

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

"Listed Events" shall mean any of the events listed in subsection (b)(5)(i)(C) of the Rule, which are as follows:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults, if material;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Notes, or other material events affecting the tax status of the Notes;

(vii) modifications to rights of security holders, if material;

(viii) bond calls, if material, and tender offers;

(ix) defeasances;

(x) release, substitution, or sale of property securing repayment of the Notes, if material;

(xi) rating changes;

(xii) bankruptcy, insolvency, receivership or similar event of the District;

(xiii) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and appointment of a successor or additional paying agent or the change of name of a paying agent, if material; and

(xiv) appointment of a successor or additional paying agent or the change of name of a paying agent, if material.

"Participating Underwriter" shall mean the original underwriter of the Bonds required to comply with the Rule in connection with the offering of such Bonds.

"Repository" shall mean The Electronic Municipal Market Access ("EMMA") system administered by the Municipal Securities Rulemaking Board. EMMA is recognized as the sole Repository for purposes of the Rule.

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

A. The District shall, or shall cause the Dissemination Agent to, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Such Annual Report shall be filed on a date (the "Filing Date") that is not later than December 31 after the end of any Fiscal Year (commencing with its Fiscal Year ending June 30, 2012). Not later than ten (10) days prior to the Filing Date, the District shall provide the Annual Report to the Dissemination Agent (if applicable). In such case, the Annual Report (i) may be submitted as a single document or as separate documents comprising a package, (ii) may cross-reference other information as provided in Section 4 of this Disclosure Agreement and (iii) shall include the District's audited financial statements or, if audited financial statements are not available, such unaudited financial statements as may be required by the Rule. In any event, audited financial statements of the District must be submitted, if and when available, together with or separately from the Annual Report.

B. The annual financial statements of the District shall be prepared on the basis of generally accepted accounting principles and will be audited. Copies of the audited annual financial statements, which may be filed separately from the Annual Report, will be filed with the Repository when they become publicly available.

C. If the District fails to provide an Annual Report to the Repository by the date required in subsection A hereto or to file its audited annual financial statements with the Repository when they become publicly available, the District shall send a notice to the Repository in substantially the form attached hereto as Exhibit B.

SECTION 4. Content of Annual Reports. Except as otherwise agreed, any Annual Report required to be filed hereunder shall contain or incorporate by reference, at a minimum, annual financial information relating to the District, including operating data, updating such information relating to the District as described in Exhibit A, all with a view toward assisting the Participating Underwriter in complying with the Rule.

Any or all of such information may be incorporated by reference from other documents, including official statements of securities issues with respect to which the District is an "obligated person" (within the meaning of the Rule), which have been filed with the Repository or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Repository. The District shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Listed Events. The District will provide in a timely manner, not in excess of ten business days after the occurrence of the event, to the Repository, notice of any of the Listed Events, if material.

SECTION 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Agreement shall terminate upon the earlier to occur of the legal defeasance and final retirement of all the Bonds.

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the District shall be the Dissemination Agent.

SECTION 8. Amendment. Notwithstanding any other provision of this Disclosure Agreement, the District may amend this Disclosure Agreement, if such amendment is supported by an opinion of independent counsel with expertise in federal securities laws, to the effect that such amendment is permitted or required by the Rule.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the District chooses to include any information in any Annual

Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, the District shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. Any person referred to in Section 12 (other than the District) may take such action as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to file its Annual Report or to give notice of a Listed Event. The holders of not less than a majority in aggregate principal amount of Bonds Outstanding may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to challenge the adequacy of any information provided pursuant to this Disclosure Agreement, or to enforce any other obligation of the District hereunder. A default under this Disclosure Agreement shall not be deemed an event of default under the Trust Agreement or the Bonds, and the sole remedy under this Disclosure Agreement in the event of any failure of the District to comply herewith shall be an action to compel performance. Nothing in this provision shall be deemed to restrict the rights or remedies of any holder pursuant to the Securities Exchange Act of 1934, the rules and regulations promulgated thereunder, or other applicable laws.

SECTION 11. Format of Filings. Unless otherwise required by the Repository, all notice, documents and information provided to the Repository pursuant to this Disclosure Agreement shall be provided to EMMA, the current Internet address of which is www.emma.msrb.org. All notices, documents and information provided to the EMMA shall be provided in an electronic format prescribed by the Repository (currently, portable document format (pdf) which must be word-searchable except for non-textual elements) and shall be accompanied by identifying information as prescribed by the Repository.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the District, the Participating Underwriters and the holders from time to time of the Bonds, and shall create no rights in any other person or entity.

HAMPTON ROADS SANITATION DISTRICT

By: ____
Director of Finance

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
SUBORDINATE WASTEWATER REVENUE BONDS,
REFUNDING SERIES 2012 (FEDERALLY TAXABLE)

CUSIP NO.: 409327GD9 – GC1

Dated: December __, 2012

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 Subordinate 2012 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Subordinate 2012 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2011 Bond (the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Subordinate 2012 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Subordinate 2012 Bonds, except If use of the book-entry system for the Subordinate 2012 Bonds is discontinued.

To facilitate subsequent transfers, all Subordinate 2012 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Subordinate 2012 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Subordinate 2012 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Subordinate 2012 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Subordinate 2012 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Subordinate 2012 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Subordinate 2012 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments on the Subordinate 2012 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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HAMPTON ROADS SANITATION DISTRICT, VIRGINIA • SUBORDINATE WASTEWATER REVENUE BONDS, REFUNDING SERIES 2012 (FEDERALLY TAXABLE)

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