NEW ISSUE-FULL BOOK-ENTRY ONLY

RATINGS:
Standard & Poor's: ….AA+
Fitch: ….AA+
(See "RATINGS" herein.)

In the opinion of Bond Counsel, assuming compliance with the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), as described herein, and subject to the conditions described in "TAX MATTERS" herein, interest on the Series 2014 Bonds will not be includable in the gross income of the owners thereof for federal income tax purposes under existing law. Interest on the Series 2014 Bonds will not be a specific preference item for purposes of calculating the federal alternative minimum taxable income of individuals or corporations but will be included in the calculation of a corporation's federal alternative minimum tax liability. The District's Enabling Act provides that the Series 2014 Bonds, their transfer and the income therefrom, including any profit made on the sale thereof, shall be exempt from taxation by the Commonwealth of Virginia and by any political subdivision thereof. See "TAX MATTERS" herein for certain provisions regarding the Code that may affect the tax treatment of interest on the Series 2014 Bonds for certain bondholders.

$111,345,000
Hampton Roads Sanitation District, Virginia
Wastewater Revenue Bonds, Refunding Series 2014A

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

The Series 2014A Bonds (the "Series 2014 Bonds") are being issued under a Trust Agreement, dated as of March 1, 2008, as amended and supplemented (the "Trust Agreement"), between the Hampton Roads Sanitation District (the "District") and The Bank of New York Mellon Trust Company, N.A., as trustee (in such capacity, the "Trustee"). The proceeds of the Series 2014 Bonds will be used to refund a portion of the District's Outstanding Senior Bonds (as defined herein).

The Series 2014 Bonds are issuable as registered bonds without coupons and will be initially registered only in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), serving as securities depository for the Series 2014 Bonds. The Series 2014 Bonds will be available to purchasers in denominations of $5,000 and any whole multiple thereof only under the book-entry system maintained by DTC through brokers and dealers that are, or that act through, DTC Participants.

Principal and interest will be paid by the Trustee as bond registrar to DTC or its nominee, which will remit the payments to the DTC Participants for subsequent disbursement. See "THE SERIES 2014 BONDS–Book-Entry Only System" herein. Interest on the Series 2014 Bonds is payable on each January 1 and July 1, commencing January 1, 2015.

The Series 2014 Bonds are subject to optional redemption prior to maturity as described herein.

THE SERIES 2014 BONDS ARE SPECIAL OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM THE NET REVENUES AND OTHER FUNDS PLEDGED TO SECURE THE SERIES 2014 BONDS UNDER THE TRUST AGREEMENT. THE SERIES 2014 BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT, OR A PLEDGE OF THE FAITH AND CREDIT, OF THE COMMONWEALTH OF VIRGINIA OR OF ANY COUNTY, CITY, TOWN OR POLITICAL SUBDIVISION THEREOF. THE ISSUANCE OF THE SERIES 2014 BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE COMMONWEALTH OF VIRGINIA OR ANY COUNTY, CITY, TOWN OR POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR.

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

The Series 2014 Bonds are offered when, as and if issued, subject to the approving opinion of Sidley Austin LLP, Washington, D.C., Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the District by Kellam, Pickrell, Cox & Tayloe, a Professional Corporation, Norfolk, Virginia, and for the Underwriters by Hunton & Williams LLP, Richmond, Virginia. It is expected that the Series 2014 Bonds will be available for delivery to The Depository Trust Company in New York, New York, on or about November 12, 2014.

J.P. Morgan

BofA Merrill Lynch **Raymond James**

October 29, 2014

$111,345,000
Hampton Roads Sanitation District, Virginia
Wastewater Revenue Bonds, Refunding Series 2014A

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

Due July 1	Principal Amount	Interest Rate	Yield	CUSIP Suffix*
2018	$ 5,500,000	5.00%	0.85%	GE7
2019	5,785,000	5.00	1.11	GF4
2020	6,080,000	5.00	1.37	GG2
2021	8,070,000	5.00	1.64	GH0
2022	11,825,000	5.00	1.84	GJ6
2023	12,430,000	5.00	2.01	GK3
2024	13,070,000	5.00	2.13	GL1
2025	13,065,000	5.00	2.25†	GM9
2026	8,225,000	5.00	2.35†	GN7
2027	8,650,000	5.00	2.43†	GP2
2028	9,090,000	5.00	2.52†	GQ0
2029	9,555,000	5.00	2.58†	GR8

* CUSIP® is a registered trademark of the American Bankers Association. The CUSIP numbers listed above are being provided solely for the convenience of bondholders only, and the District does not make any representation with respect to such numbers or undertake any responsibility for their accuracy. The CUSIP numbers are subject to being changed after the issuance of the Series 2014 Bonds.

† Priced at the stated yield to the July 1, 2024 optional redemption date.

HAMPTON ROADS SANITATION DISTRICT

COMMISSIONERS

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

FREDERICK N. ELOFSON, CPA, *Vice Chairman*

ARTHUR C. BREDEMEYER
WILLIE LEVENSTON, JR.
STEPHEN C. RODRIGUEZ

MICHAEL E. GLENN
MAURICE P. LYNCH, Ph.D.
SUSAN M. ROTKIS

STAFF

EDWARD G. HENIFIN, P.E.
General Manager

DONALD C. CORRADO
Director of Information Services

STEVEN G. de MIK, CPA
Director of Finance

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

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

JAMES J. PLETL, Ph.D.
Director of Water Quality

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

JENNIFER L. HEILMAN
Secretary

COUNSEL, ADVISOR, TRUSTEE

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

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

PUBLIC FINANCIAL MANAGEMENT, INC.
Financial Advisor

SIDLEY AUSTIN LLP
Bond Counsel

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

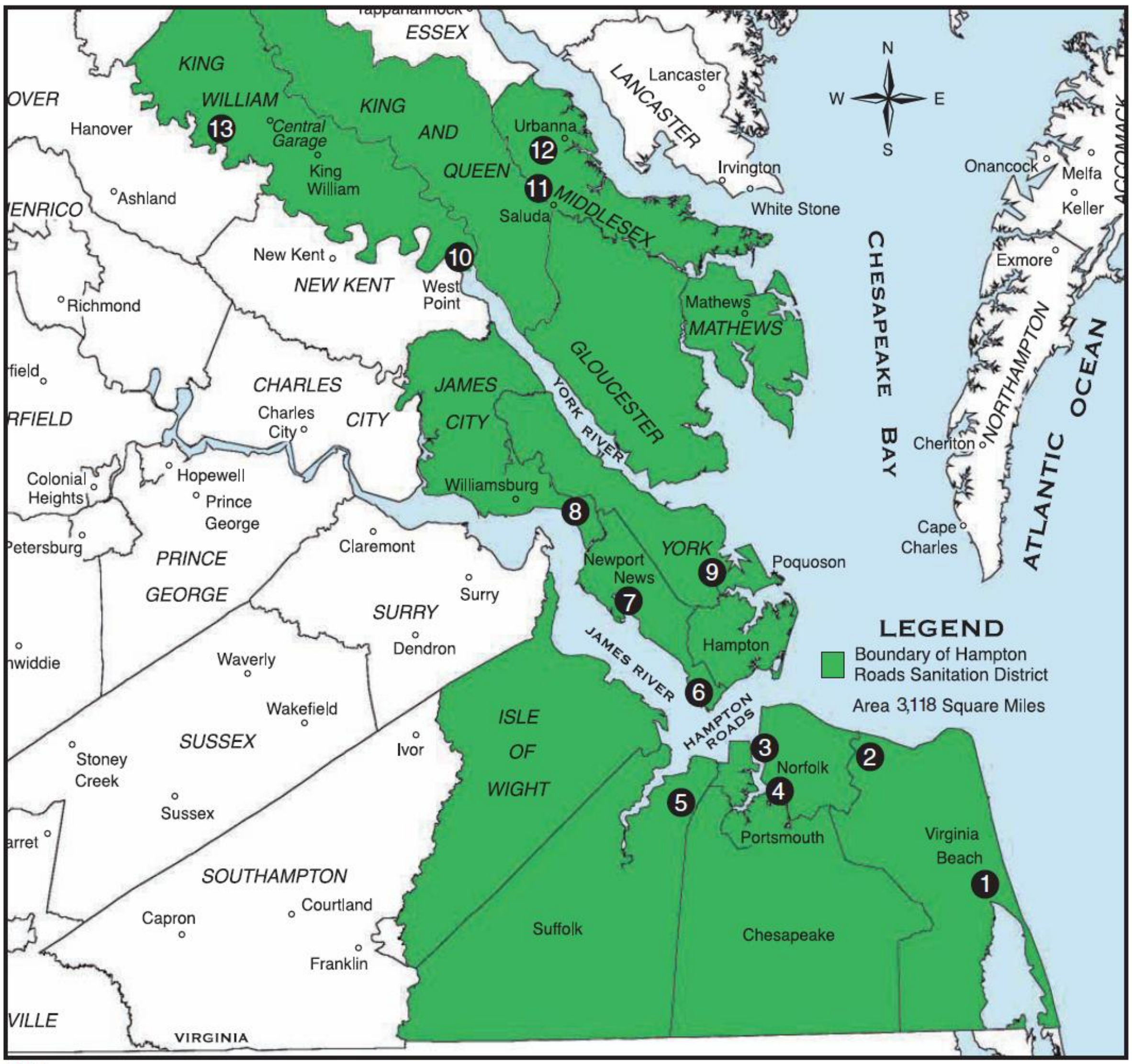
HRSD

A Political Subdivision of the Commonwealth of Virginia

Major facilities include the following treatment plants:

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

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



2011

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

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

The Series 2014 Bonds are exempt from registration under the Securities Act of 1933, as amended. As obligations of a political subdivision of the Commonwealth of Virginia, the Series 2014 Bonds are also exempt from registration under the securities laws of Virginia.

No dealer, salesman or any other person who has been authorized to give any information or to make any representation, other than the information and representations contained herein, in connection with the offering of the Series 2014 Bonds, and, if given or made, such information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy any of the Series 2014 Bonds in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

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

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2014 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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Appendix D - Proposed Opinion of Bond Counsel
Appendix E - Form of Continuing Disclosure Agreement
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Official Statement

Hampton Roads Sanitation District, Virginia

Relating to its
$111,345,000
Wastewater Revenue Bonds,
Refunding Series 2014A

INTRODUCTION

This Official Statement, which includes the cover and inside cover pages hereof, the map and the appendices hereto, sets forth information concerning the Hampton Roads Sanitation District (the "District" or "HRSD") and the District's $111,345,000 aggregate principal amount Wastewater Revenue Bonds, Refunding Series 2014A (the "Series 2014 Bonds").

The Series 2014 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 February 25, 2014, the Hampton Roads Sanitation District Commission (the "Commission"), the governing body of the District, authorized by resolution the issuance of the Series 2014 Bonds. The Commission is issuing the Series 2014 Bonds to provide funds to refund, in advance of their maturity, certain Outstanding Senior Bonds (the "Refunded Bonds") and pay certain expenses incurred in connection with the issuance of the Series 2014 Bonds by the District.

The Series 2014 Bonds are special obligations of the District payable solely from the Net Revenues (hereinafter defined) derived by the District from the operation of its Wastewater System (hereinafter defined) and other funds pledged to secure the Series 2014 Bonds under the Trust Agreement (hereinafter defined). See "SECURITY AND SOURCES OF PAYMENT" and "THE SYSTEM" herein. The Commission has determined to provide for the issuance of the Series 2014 Bonds under the Trust Agreement, dated as of March 1, 2008, as amended and supplemented (the "Trust Agreement"), by and between the District and The Bank of New York Mellon Trust Company, N.A., as trustee (in such capacity, the "Trustee").

This Official Statement contains a brief description of the Series 2014 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, 2014, 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 Series 2014 Bonds and the Trust Agreement are included in Appendix C.

PLAN OF REFUNDING

A portion of the proceeds of the Series 2014 Bonds will be applied to refund the Refunded Bonds. The District has determined that refunding the Refunded Bonds will produce debt service savings for the District. The Refunded Bonds are set forth below:

Wastewater Revenue Bonds, Series 2008

Maturity (April 1)	Principal Amount	Redemption Date	Redemption Price	CUSIPs
2019	$6,040,000	April 1, 2018	100%	409327CA9
2020	645,000	April 1, 2018	100	409327CB7
2020	5,700,000	April 1, 2018	100	409327CC5
2021	1,220,000	April 1, 2018	100	409327CD3
2021	5,435,000	April 1, 2018	100	409327CE1
2022	6,980,000	April 1, 2018	100	409327CF8
2023	3,465,000	April 1, 2018	100	409327CG6
2023	3,860,000	April 1, 2018	100	409327CH4
2024	2,000,000	April 1, 2018	100	409327CJ0
2024	5,675,000	April 1, 2018	100	409327CK7
2025	8,050,000	April 1, 2018	100	409327CL5
2026	495,000	April 1, 2018	100	409327CM3
2026	7,960,000	April 1, 2018	100	409327CN1
2027	2,630,000	April 1, 2018	100	409327CP6
2027	6,245,000	April 1, 2018	100	409327CQ4
2028	600,000	April 1, 2018	100	409327CR2
2028	8,715,000	April 1, 2018	100	409327CS0
2033*	20,045,000	April 1, 2018	100	409327CT8

Wastewater Revenue Bonds, Series 2011

Maturity (November 1)	Principal Amount	Redemption Date	Redemption Price	CUSIPs
2021	$1,675,000	November 1, 2019	100%	409327EG4
2022	1,765,000	November 1, 2019	100	409327EH2
2023	1,855,000	November 1, 2019	100	409327EJ8
2024	1,950,000	November 1, 2019	100	409327EK5
2025	1,380,000	November 1, 2019	100	409327EU3

Wastewater Revenue Bonds, Series 2012A

Maturity (January 1)	Principal Amount	Redemption Date	Redemption Price	CUSIPs
2023	$3,260,000	January 1, 2021	100%	409327FF5
2024	3,420,000	January 1, 2021	100	409327FG3
2025	3,595,000	January 1, 2021	100	409327FH1
2026	3,770,000	January 1, 2021	100	409327FJ7

To effect the refunding, a sufficient amount of the proceeds of the Series 2014 Bonds will be deposited in an escrow account (the "Escrow Fund") established by the District with The Bank of New York Mellon Trust Company, N.A. (in such capacity, the "Escrow Agent"), and will be invested in certain non-callable direct obligations or obligations the principal and interest on which are unconditionally guaranteed by the United States of America ("Defeasance Obligations") that mature in

* Denotes partially refunded maturity. The refunded portion of the maturity has been assigned the CUSIP Number 409327GS6 and the unrefunded portion of the maturity has been assigned the CUSIP Number 409327GT4.

amounts and pay interest at rates sufficient to pay, when due, the principal, applicable redemption premiums, if any, and interest on the Refunded Bonds through their respective maturity or redemption dates, as applicable. The sufficiency of the Escrow Fund, including Defeasance Obligations and the income thereon, to pay such amounts will be verified by Bingham Arbitrage Rebate Services, Inc. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS FOR THE REFUNDED BONDS." The Escrow Agent will be given irrevocable instructions to call the callable Refunded Bonds for redemption on the applicable redemption dates and at the applicable redemption prices.

FUTURE FINANCINGS THROUGH FISCAL YEAR 2016

The District anticipates that it will finance a portion of the Capital Improvement Program ("Capital Improvement Program" or "CIP") through the issuance of Additional Bonds, VRA Parity Indebtedness (as hereinafter defined), Subordinate Bonds (as hereinafter defined), and VRA Subordinate Bonds (as hereinafter defined). Subject to the factors set forth in this paragraph and the following paragraph, however, the District currently has no plans to issue Additional Senior or Subordinated Obligations for Capital Improvement Program costs prior to June 30, 2015, and does not plan to undertake any additional borrowings through the Virginia Resources Authority ("VRA"), through the issuance of VRA Parity Indebtedness or VRA Subordinate Bonds, over the next three years. See "SECURITY AND SOURCES OF PAYMENT – Outstanding Senior Obligations," "– Additional Senior Obligations," "– Subordinate Obligations," and "Additional Subordinate Obligations." The District currently anticipates that it may issue approximately $50 million in variable rate Subordinate Bonds during the fiscal year ending June 30, 2016 to finance its Capital Improvement Program. Any acceleration of the Capital Improvement Program could result in an acceleration of the date and, potentially, an increase the sizing of any issuance of indebtedness by the District.

The District anticipates that it will initiate a tax-exempt commercial paper program (the "Commercial Paper Program") to provide interim financing for the Capital Improvement Program. The size of the Commercial Paper has not yet been determined and the date of its initiation will be based upon the financing needs of the District relating to its Capital Improvement Program. For planning purposes, certain projections in this Official Statement assume the Commercial Paper Program is established during the fiscal year ending June 30, 2016 in the amount of $125 million. It is anticipated that the obligations issued by the District to evidence the Commercial Paper Program will be issued below the senior lien and will repaid with the proceeds of an issuance of Senior Obligations or Subordinated Obligations of the District.

SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the issuance of the Series 2014 Bonds are as follows:

Sources

Principal Amount of Series 2014 Bonds	$111,345,000
Net Bond Premium	24,299,870
Total Sources of Funds	$135,644,870

Uses

Deposit to Escrow Fund	$135,487,995
Costs of Issuance(1)	156,875
Total Uses of Funds	$135,644,870

(1) Includes Underwriters' Discount and a portion of the costs of issuance. The District will substantially all of the other costs related to the issuance of the Bonds from available money of the District.

Debt Service Reserve Fund

As set forth herein under the heading "SECURITY AND SOURCES OF PAYMENT – Debt Service Reserve Fund," in accordance with the provisions of the Trust Agreement and based on a recalculation of the Long-Term Debt Service Coverage Ratio, the District was recently required to fund the Debt Service Reserve Fund in an amount equal to the Debt Service Reserve Requirement.

THE SERIES 2014 BONDS

Description

The Series 2014 Bonds will be dated, bear interest and mature as set forth on the cover and inside cover pages of this Official Statement. The Series 2014 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 January 1 and July 1, commencing January 1, 2015. The principal of and the interest on the Series 2014 Bonds will be payable as described below under "Book-Entry Only System."

Book-Entry Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2014 Bonds. The Series 2014 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 each series of the Series 2014 Bonds and will be deposited with DTC. Additional information respecting DTC and its book entry system is contained in Appendix F.

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

DTC may discontinue providing its services as depository with respect to the Series 2014 Bonds at any time by giving reasonable notice to the District. Under such circumstances, if a successor depository is not obtained, certificates for the Series 2014 Bonds are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates for the Series 2014 Bonds will be printed and delivered.

Redemption Provisions

Optional Redemption. The District may, at its option, redeem the Series 2014 Bonds due on and after July 1, 2025, prior to their respective maturities, in whole or in part, on any date beginning July 1, 2024, at a redemption price of par, together with interest accrued to the date fixed for redemption.

Notice of Redemption

Notice of redemption is to be given not more than 60 nor less than 30 days before the redemption date by first class mail to the registered owner or owners of the Series 2014 Bonds or portions thereof to be redeemed; provided, however, that any defect in such notice or the failure so to mail any such notice to any owners of any Series 2014 Bonds will not affect the validity of the proceedings for the redemption of any other Series 2014 Bonds. **During the period that DTC or its nominee is the registered holder of the Series 2014 Bonds, the Bond Registrar will not be responsible for mailing notices of redemption to the beneficial owners of the Series 2014 Bonds. See "–Book-Entry Only System" above and Appendix F.** Each such notice will set forth the Series 2014 Bonds or portions thereof to be redeemed, the date fixed for redemption, the redemption price to be paid, and if less than all the Series 2014 Bonds will be called for redemption, the maturities of the Series 2014 Bonds to be redeemed and shall otherwise comply with Securities Exchange Act of 1934 Release No. 34-23856, dated December 3, 1986, including the requirement that notice be given to all organizations registered with the Securities and Exchange Commission as securities depositories, and to one or more information services of national recognition which disseminate redemption information with respect to tax-exempt securities. If any Series 2014 Bond is to be redeemed in part only, the notice of redemption will state also that on or after the redemption date, upon surrender of such Series 2014 Bond, a new Series 2014 Bond of authorized denominations and in principal amount equal to the unredeemed portion of such Series 2014 Bond will be issued.

Any notice of optional redemption of the Series 2014 Bonds may state that it is conditioned upon there being available an amount of money sufficient to pay the Redemption Price, consisting of par plus interest accrued and unpaid to the redemption date, and any conditional notice so given may be rescinded at any time before the payment of the Redemption Price if any such condition so specified is not satisfied. If a redemption does not occur after a conditional notice is given due to an insufficient amount of funds on deposit with the Trustee, the corresponding notice of redemption will be deemed to be revoked.

If the District gives an unconditional notice of redemption, then on the redemption date the Series 2014 Bonds called for redemption will become due and payable. If the District gives a conditional notice of redemption and money to pay the Redemption Price of the affected Series 2014 Bonds has been set aside in escrow with the Trustee for the purpose of paying such Series 2014 Bonds, then on the redemption date such Series 2014 Bonds will become due and payable. In either case, if on the redemption date the Trustee holds money to pay the Series 2014 Bonds called for redemption, thereafter no interest will accrue on those Series 2014 Bonds, and a Bondholder's right will be to receive payment of the Redemption Price upon surrender of those Series 2014 Bonds.

SECURITY AND SOURCES OF PAYMENT

THE SERIES 2014 BONDS ARE SPECIAL OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM THE NET REVENUES AND OTHER FUNDS PLEDGED TO SECURE THE SERIES 2014 BONDS UNDER THE TRUST AGREEMENT. THE SERIES 2014 BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT, OR A PLEDGE OF THE FAITH AND CREDIT, OF THE COMMONWEALTH OF VIRGINIA OR OF ANY COUNTY, CITY, TOWN OR POLITICAL SUBDIVISION THEREOF. THE ISSUANCE OF THE SERIES 2014 BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE COMMONWEALTH OF VIRGINIA OR ANY COUNTY, CITY, TOWN OR POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR.

General

Principal of and interest on the Series 2014 Bonds will be payable from "Net Revenues" of the District pledged to the payment thereof and money held in certain funds and accounts under the Trust Agreement.

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

The realization of amounts to be derived upon the enforcement of the Series 2014 Bonds will depend upon the exercise of various remedies specified in the Trust Agreement. These and other remedies may, in many respects, require judicial action of a nature that is often subject to discretion and delay. Under existing laws, the remedies specified in the Trust Agreement may not be readily available or may be limited. A court may decide not to order the specific performance of the covenants contained in the Trust Agreement. The various legal opinions to be delivered concurrently with the delivery of the Series 2014 Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by state and federal laws, rulings and decisions affecting remedies and by bankruptcy, fraudulent conveyance, reorganization and other laws affecting the enforcement of creditors’ rights generally.

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

Rate Covenant

In the Trust Agreement, the District covenants to set rates and charges for facilities, services and products such that the Income Available for Debt Service, calculated at the end of each Fiscal Year, will be not less than the greater of (i) 120% of the Long-Term Debt Service Requirement for all Indebtedness except Subordinated Indebtedness for such Fiscal Year and (ii) 100% of the Long-Term Debt Service Requirement for all Indebtedness including Subordinated Indebtedness for such Fiscal Year. For purposes of such covenant, “Income Available for Debt Service” means, for any period of 12 consecutive calendar months, the excess of its revenues over expenses before depreciation, amortization and interest expense on Long-Term Indebtedness, as determined in accordance with generally accepted accounting principles consistently applied. “Long-Term Debt Service Requirement” means generally, for any period of 12 consecutive calendar months, the principal and interest due on Outstanding Long-Term Indebtedness of the District during such period. See “FINANCIAL MANAGEMENT–Rate Making Process” herein and also “Long-Term Debt Service Coverage Ratio” in Appendix C.

Debt Service Reserve Fund

Pursuant to the Trust Agreement, the District is obligated to fund the Debt Service Reserve Fund upon the occurrence of certain events. Specifically, if (a) the Liquidity Ratio (as defined in Appendix B) of the District, as calculated based on the Audited Financial Statements of the District as of the end of each Fiscal Year or (b) the Long-Term Debt Service Coverage Ratio (as defined in Appendix B) is less than 1.35, the Trust Agreement requires that the District, within six (6) months after the end of such Fiscal Year, fund the Debt Service Reserve Fund in an amount equal to the Debt Service Reserve Fund Requirement (as defined in Appendix B).

Based upon a recent recalculation of the Long-Term Debt Service Coverage Ratio, undertaken in preparation for the issuance and sale of the Bonds, for the District’s fiscal years ended June 30, 2010 through June 30, 2013, inclusive, the District determined that its Long Term Debt Service Coverage Ratio was less than 1.35 for each fiscal year during that period. As a result, the District had entered a Reserve Funding Period that commenced on December 31, 2010. Upon the recalculation that demonstrated that the District had entered a Reserve Funding Period, the District promptly deposited $45,207,112 in cash with the Trustee for further credit to the Debt Service Reserve Fund, an amount at least equal to the Debt Service Reserve Fund Requirement.

Amounts held in Debt Service Reserve Fund may be released upon the satisfaction of certain conditions, including a reduction in the Debt Service Reserve Fund Requirement. See the definition of "Reserve Funding Period" in Appendix B and "Debt Service Reserve Fund; Qualified Reserve Fund Substitute" in Appendix C. Upon the delivery of the Series 2014 Bonds and the refunding of the Refunded Bonds, the Debt Service Reserve Fund Requirement will be reduced to $44,117,890 and, as a consequence thereof, $1,089,222 currently credited to the Debt Service Reserve Fund will be released to the District.

Outstanding Senior Obligations

As of September 30, 2014, the District has outstanding five series of Bonds constituting Senior Obligations ("Senior Bonds") under the Trust Agreement, including its Wastewater Refunding Revenue Bonds, Series 2003 (the "Series 2003 Bonds"), of which $9,105,000 principal amount is Outstanding, its Wastewater Revenue Bonds, Series 2008 (the "Series 2008 Bonds"), of which $211,170,000 principal amount is Outstanding, its Wastewater Revenue Bonds, Series 2009 (the "Series 2009 Bonds"), of which $138,125,000 principal amount is Outstanding, its Wastewater Revenue Bonds, Series 2011 (the "Series 2011 Bonds"), of which $42,450,000 principal amount is Outstanding, and its Wastewater Revenue Bonds, Series 2012A (the "Series 2012 Bonds"), of which $128,275,000 principal amount is Outstanding.

Since May 2009, the District has obtained seven loans from the Virginia Resources Authority Revolving Loan Fund and issued in evidence of its obligations to repay such loans its bonds constituting Senior Obligations under the Trust Agreement (the "VRA Parity Indebtedness"). Such VRA Senior Indebtedness is secured under the Trust Agreement on parity with all other Senior Obligations, including the Series 2003 Bonds, the Series 2008 Bonds, the Series 2009 Bonds, the Series 2011 Bonds and the Series 2012 Bonds. As of September 30, 2014, the District had drawn $112,443,915 of such VRA Parity Indebtedness, with no remaining undrawn authorized amount. See also "– Subordinate Obligations."

Additional Senior Obligations

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

Subordinate Obligations

In addition to the VRA Senior Indebtedness described under "Outstanding Senior Obligations" above, since 1993, the District has borrowed over $177 million from the Virginia Resources Authority Revolving Loan Fund and issued, in evidence of its obligations to repay such loans, 10 issues of bonds that are outstanding Subordinated Indebtedness under the Trust Agreement (collectively, the "VRA Subordinate Bonds"). As of September 30, 2014, the outstanding drawn amount of the VRA Subordinate Bonds was $68,589,626, with no remaining undrawn authorized amount. The terms of the VRA Subordinate Bonds generally state that the lien thereof on the Net Revenues of the District is in all respects subordinate and inferior to the lien thereon of any Senior Obligations. Generally, after an initial period where no interest accrues on such VRA Subordinate Bonds, interest accrues on the disbursed principal of the outstanding VRA Subordinate Bonds at interest rates ranging from 3.00% to 4.75% per annum, and principal and interest are payable in installments over the 20-year terms of the VRA Subordinate Bonds. The VRA Subordinate Bonds have been issued for various improvements and upgrades at several of the District's treatment plants. See the table "DEBT SERVICE REQUIREMENTS FOR SENIOR OBLIGATIONS AND SUBORDINATE OBLIGATIONS" and "Limitation on Creation of Liens" in Appendix C.

In addition, in October 2011 and December 2012, respectively, the District issued $25,000,000 aggregate principal amount of variable rate subordinate bonds (the "Subordinate 2011 Bonds") and $22,680,000 aggregate principal amount of fixed-rate subordinate bonds (the "Subordinate 2012 Bonds" and, together with the Subordinate 2011 Bonds, the "Subordinate Bonds") pursuant to a trust agreement, dated as of October 1, 2011 (the "Subordinate Trust Agreement"). As with the VRA Subordinate Bonds, the Subordinate Bonds constitute "Subordinated Indebtedness" under the Trust Agreement. The Subordinate Bonds are secured on parity under the Trust Agreement with the VRA Subordinate Bonds as to their subordinate lien on the Net Revenues of the District. The Subordinate Bonds, the VRA Subordinate Bonds and any additional obligations issued pursuant to the Subordinate Trust Agreement are collectively referred to herein as "Subordinate Obligations."

Additional Subordinate Obligations

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

DEBT SERVICE REQUIREMENTS
FOR SENIOR OBLIGATIONS*

Fiscal Year Ending June 30,	Series 2014 Bonds Principal	Interest	Debt Service	Other Senior Obligations Debt Service†	Total Senior Obligations Debt Service
2015	-	$ 757,765	$ 757,765	$44,147,576	$44,905,341
2016	-	5,567,250	5,567,250	41,122,862	46,690,112
2017	-	5,567,250	5,567,250	37,268,599	42,835,849
2018	-	5,567,250	5,567,250	39,561,240	45,128,490
2019	$ 5,500,000	5,429,750	10,929,750	33,811,328	44,741,078
2020	5,785,000	5,147,625	10,932,625	33,747,933	44,680,558
2021	6,080,000	4,851,000	10,931,000	33,682,647	44,613,647
2022	8,070,000	4,497,250	12,567,250	31,980,692	44,547,942
2023	11,825,000	3,999,875	15,824,875	28,645,440	44,470,315
2024	12,430,000	3,393,500	15,823,500	28,564,249	44,387,749
2025	13,070,000	2,756,000	15,826,000	28,476,923	44,302,923
2026	13,065,000	2,102,625	15,167,625	29,029,201	44,196,826
2027	8,225,000	1,570,375	9,795,375	34,308,413	44,103,788
2028	8,650,000	1,148,500	9,798,500	34,203,000	44,001,500
2029	9,090,000	705,000	9,795,000	34,100,224	43,895,224
2030	9,555,000	238,875	9,793,875	33,985,700	43,779,575
2031	-	-	-	43,781,937	43,781,937
2032	-	-	-	40,755,645	40,755,645
2033	-	-	-	38,634,582	38,634,582
2034	-	-	-	36,527,583	36,527,583
2035	-	-	-	36,139,021	36,139,021
2036	-	-	-	33,031,005	33,031,005
2037	-	-	-	32,878,075	32,878,075
2038	-	-	-	32,730,268	32,730,268
2039	-	-	-	16,638,999	16,638,999
2040	-	-	-	13,967,932	13,967,932
2041	-	-	-	5,615,400	5,615,400
2042	-	-	-	5,618,400	5,618,400
2043	-	-	-	5,613,600	5,613,600
2044	-	-	-	5,616,000	5,616,000
TOTAL	$111,345,000	$53,299,890	$164,644,890	$894,184,472	$1,058,829,362

* Numbers may not add to totals due to rounding. Debt Service is shown net of the Refunded Bonds.

† Debt Service on the District's Series 2003 Bonds, Series 2008 Bonds, Series 2009 Bonds, Series 2011 Bonds, Series 2012 Bonds and seven issues of Senior VRA Indebtedness. Interest on the District's Series 2009B Bonds, which were issued as Build America Bonds, is calculated without regard to receipt of the interest subsidy.

DEBT SERVICE REQUIREMENTS FOR SENIOR OBLIGATIONS AND SUBORDINATE OBLIGATIONS*

Fiscal Year Ending June 30,	Total Senior Obligations Debt Service	Subordinate Obligations Debt Service†	Total Debt Service
2015	$44,905,341	$13,227,278	$58,132,619
2016	46,690,112	11,972,480	58,662,593
2017	42,835,849	9,838,520	52,674,369
2018	45,128,490	7,298,976	52,427,466
2019	44,741,078	7,299,812	52,040,890
2020	44,680,558	7,301,103	51,981,661
2021	44,613,647	6,811,031	51,424,677
2022	44,547,942	6,434,729	50,982,671
2023	44,470,315	6,215,276	50,685,591
2024	44,387,749	6,007,946	50,395,695
2025	44,302,923	6,005,654	50,308,576
2026	44,196,826	6,006,807	50,203,632
2027	44,103,788	5,927,966	50,031,754
2028	44,001,500	2,821,217	46,822,717
2029	43,895,224	2,768,854	46,664,078
2030	43,779,575	2,770,000	46,549,575
2031	43,781,937	2,105,683	45,887,620
2032	40,755,645	626,146	41,381,791
2033	38,634,582	623,854	39,258,436
2034	36,527,583	625,000	37,152,583
2035	36,139,021	876,297	37,015,318
2036	33,031,005	3,847,055	36,878,060
2037	32,878,075	3,847,034	36,725,109
2038	32,730,268	3,847,727	36,577,995
2039	16,638,999	3,845,367	20,484,366
2040	13,967,932	3,846,155	17,814,087
2041	5,615,400	3,843,723	9,459,123
2042	5,618,400	3,844,874	9,463,274
2043	5,613,600	-	5,613,600
2044	5,616,000	-	5,616,000
TOTAL	$1,058,829,362	$140,486,563	$1,199,315,925

* Numbers may not add to totals due to rounding. Debt service is shown net of the Refunded Bonds.

† Interest on the Subordinate 2011 Bonds is estimated to be 2.00%. 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 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 (the "Commonwealth") 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 and Matthews and the Town of Urbanna, the collection systems, consisting of lateral sewers and subtrunk facilities which carry wastewater from industries, homes, apartments and businesses to the District's interceptor system, are the responsibility of the various cities, counties and military establishments within the District.

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

History

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

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

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

The Commission

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

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

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

Commissioners	**Residence**	**Occupation**	**Term Expires June 7,**
Vishnu K. Lakdawala, Ph.D. *Chairman*	Virginia Beach	Associate Professor, Electrical and Computer Engineering, Old Dominion University	2018
Frederick N. Elofson, CPA *Vice Chairman*	Newport News	Retired Certified Public Accountant and Personal Financial Specialist, Goodman & Company, LLP	2018
Arthur C. Bredemeyer	Suffolk	Attorney, Eure & Bredemeyer, PLLC	2017
Michael E. Glenn	Norfolk	President, Luna Development Services, LLC	2015
Willie Levenston, Jr.	Portsmouth	Retired Supervisor Electronics Engineer, Norfolk Naval Shipyard	2015
Maurice P. Lynch, Ph.D.	Gloucester Point	Professor Emeritus, Virginia Institute of Marine Science, College of William and Mary	2017
Stephen C. Rodriguez	Chesapeake	Owner and President, Cruco, Inc.	2016
Susan M. Rotkis	Hampton	Attorney, Consumer Litigation Associates, P.C.	2016

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.

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 have included 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.

Willie Levenston, Jr., *Commissioner*. Mr. Levenston, a member of the Commission since September 9, 2014, earned his Bachelor of Science in Engineering from Southern University in Baton Rouge, Louisiana. He retired from the Norfolk Naval Shipyard in 2008 after more than 40 years of service. In his capacity as Supervisor Electronics Engineer, Mr. Levenston was responsible for Surface Ship Exterior Radio Communications, Secure/Communication Information Processing, Naval Tactical Data Systems, Search Radar, Electronics Countermeasure/Navigational Aids, and the Submarine Communication sections. Mr. Levenston resides in the City of Portsmouth.

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.

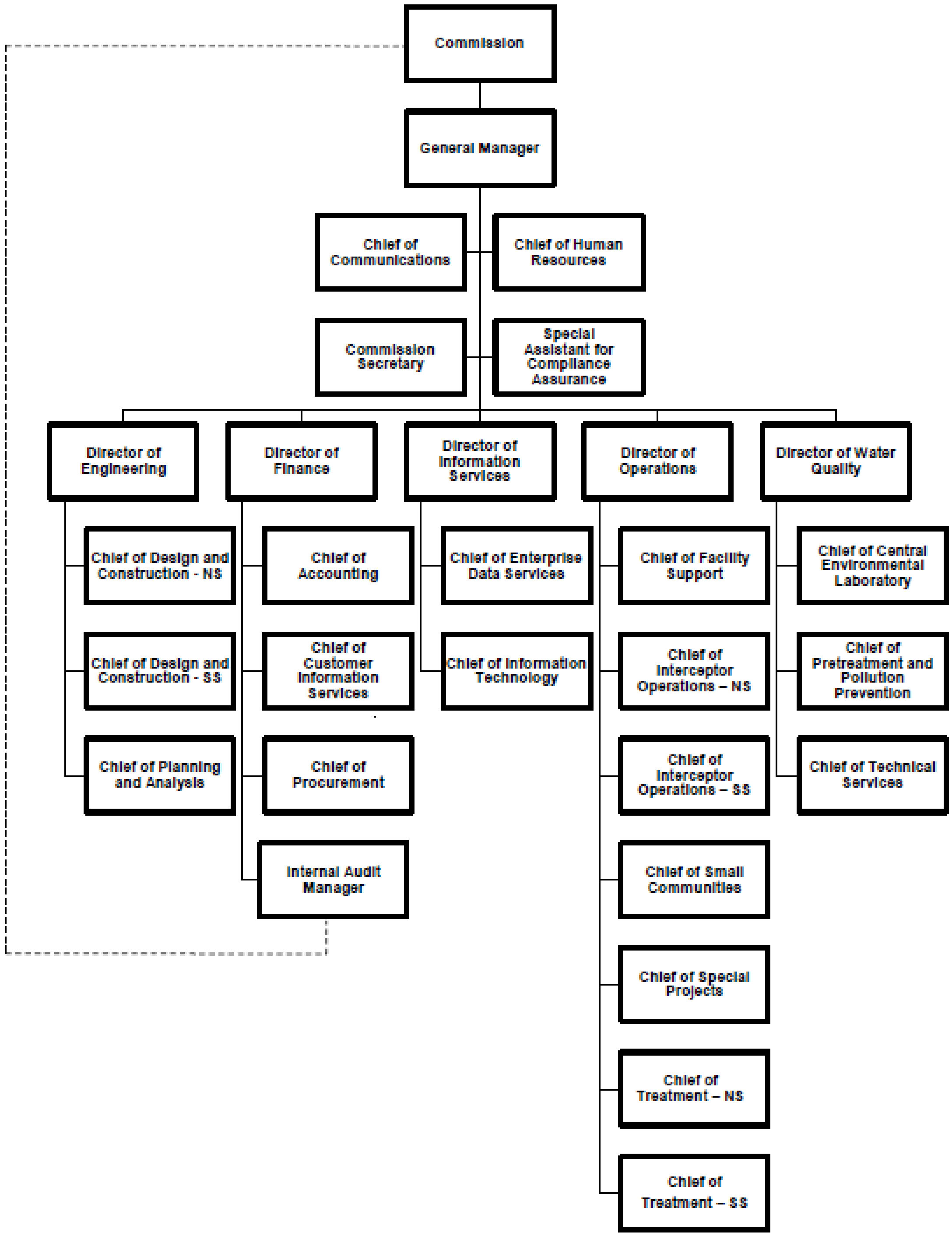
Stephen C. Rodriguez, *Commissioner*. Mr. Rodriguez, a member of the Commission since October 5, 2012, is the owner and president of Cruco Inc., which provides construction services in Hampton Roads. He currently serves on the boards of the Outer Banks Hospital and the Chesapeake Regional Medical Center. 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.

Susan M. Rotkis, *Commissioner*. Ms. Rotkis, a member of the Commission since August 8, 2014, is an attorney with Consumer Litigation Associates, P.C. Ms. Rotkis, who has practiced law in Virginia since 1996, now focuses on federal consumer protection law. She began her legal career at the National Center for Missing and Exploited Children in Alexandria. As legal and legislative counsel, she was an advocate for the rights of child victims and their families. She also served as general counsel and corporate facility security officer of Total Immersion Software, Inc. (now Intific), a game developer and defense contractor headquartered in Hampton, Virginia. There she focused her practice on licensing, intellectual property, transactions, compliance and other business-related legal issues. Ms. Rotkis earned a bachelor's degree in journalism from Arizona State University and a J.D. from Georgetown University Law Center. She also served several years as a federal judicial law clerk. Ms. Rotkis resides in the City of Hampton.

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 2015, the District has budgeted for 785 full-time employees. Current staffing is sufficient to operate all existing facilities. Under the current laws of the Commonwealth, its employees may not be 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 served for eight 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 26 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 and is a certified public accountant. Mr. de Mik also has completed the Kenan-Flagler Water and Wastewater Leadership Program and was chosen for the 2012 Class of LEAD Virginia.

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.

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 Virginia Association of Municipal Wastewater Agencies ("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.

<u>G. David Waltrip, P.E.,</u> <u>Director of Operations</u>

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 277 awards for outstanding compliance with National Pollutant Discharge Elimination System ("NPDES") permits since 1986, when the recognition program was established. All 13 treatment plants qualified for an award for outstanding permit compliance for calendar year 2013, when the Army Base Treatment Plant achieved 27 consecutive years of perfect permit compliance, a record unmatched in the nation. During Fiscal Year 2013, HRSD received the prestigious Platinum Excellence in Management Award from the National Association of Clean Water Agencies and the Honor Award in the Environmental Sustainability category for "HRSD York River Treatment Plant Demon Sidestream Deammonification Process Implementation" from the American Academy of Environmental Engineers & Scientists (AAEES). In addition, HRSD received the American Council of Engineering Companies (ACEC) Grand Prize for research accomplished in partnership with DC Water. The U.S. Green Building Council awarded Silver Leadership in Energy and Environmental Design (LEED) Certification to HRSD's North Shore Operations Center, the Elizabeth River Project recognized HRSD as a Sustained Distinguished Performance Model Level River Star business, and the Engineers Club of Hampton Roads named HRSD's Force Main Condition Assessment Program the 2013 Project of the Year. Honors received during Fiscal Year 2014 included the Outstanding Agency Accreditation Achievement Award from the National Institute for Public Procurement (NIGP), a certificate from the Virginia Tech Wastewater Treatment Plant Operator Short School recognizing HRSD's commitment to improving plant operations within the Commonwealth for 37 consecutive years, and the Hampton Roads Alliance for Environmental Education (HRAEE) 2013 Increasing Communications Award. Also, Team HRSD placed first overall in the Division 2 Operations Challenge competition held during the 2013 Water Environment Federation Technical Exhibition and Conference (WEFTEC) and the Elizabeth River Project recognized HRSD for a second consecutive year as a Sustained Distinguished Performance Model Level River Star business.

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.

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 10.2% of the District's total rate base, as measured by wastewater treatment charges, in Fiscal Year 2014. The following table compares the top ten ratepayers in Fiscal Year 2014 with the ten largest ratepayers in Fiscal Year 2005.

Wastewater Treatment Charges
Ten Largest Customers

Customer	Type	Fiscal Year 2014 Amount[1]	Fiscal Year 2014 % of Total	Fiscal Year 2005 Amount[1]	Fiscal Year 2005 % of Total
Anheuser-Busch, Inc.	Brewery	$4,457	2.1	$5,271	5.4
U.S. Navy – Norfolk Naval Base	Military Facility	4,026	1.9	1,811	1.8
Smithfield Foods	Meat Processor	3,327	1.6	2,347	2.4
City of Norfolk	Municipality	1,686	0.8	1,050	1.1
Huntington Ingalls Industries[2]	Shipbuilding	1,661	0.8	430	0.4
Norfolk Redevelopment and Housing Authority	Housing Authority	1,479	0.7	569	0.6
Joint Expeditionary Base Little Creek – Fort Story[3]	Military Facility	1,384	0.7	695	0.7
Norfolk Navy Shipyard	Military Ship Repair	1,249	0.6	424	0.4
Fort Eustis	Military Facility	1,076	0.5	-	-
Sentara Healthcare	Health Care Network	1,019	0.5	-	-
U.S. Air Force – Langley Air Force Base	Military Facility	-	-	705	0.7
City of Virginia Beach	Municipality	-	-	379	0.4
Totals		**$21,364**	**10.2**	**$13,681**	**13.9**

(1) Dollar amounts in thousands.
(2) Formerly Northrop Grumman Newport News/Newport News Shipbuilding and Drydock.
(3) Formerly U.S Air Force – Langley Air Force Base.

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]
2010	171	123	455
2011	144	119	457
2012	147	115	458
2013	158	112	460
2014	155	113	462

(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 531 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, 2014, their average daily flows.

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

Major Treatment Facilities	Average Design Capacity	FY 2014 Annual Average Daily Flow
Army Base Norfolk	18.0	10.7
Atlantic Virginia Beach	54.0	25.8
Boat Harbor Newport News	25.0	14.9
Chesapeake-Elizabeth Virginia Beach	24.0	19.1
James River Newport News	20.0	13.6
Nansemond Suffolk	30.0	16.9
Virginia Initiative Norfolk	40.0	30.7
Williamsburg James City County	22.5	9.2
York River York County	15.0	13.2
TOTALS	248.5	154.1

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 interceptor pipelines and pump stations over the past few years including the East Princess Anne Trunk Force Main in Virginia Beach, Center Avenue Pump Station in Newport News, and South Trunk Sewer Section C in Norfolk.

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 deadline. Through the use of creative design and phased construction, cost-effective adaptive technologies were deployed taking advantage of the existing facilities and the unique treatment processes at each plant. There are over $260 million in treatment plant improvements under construction at the Army Base and VIP plants to meet the next Chesapeake Bay compliance deadline in 2017.

A comprehensive metering network has been installed throughout the Wastewater System to aid in optimizing system operations and 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 is being used to guide placement and sizing of future system improvements to cost effectively address wet weather peak flows. The hydraulic model was also instrumental in HRSD's decision to take the Chesapeake-Elizabeth Treatment Plant offline and diverting flow to use available capacity at the Atlantic Treatment Plant. The 30-year net present value savings to be gained by this decision is estimated to be between $133 million to $212 million.

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

The District continues to evaluate potential renewable energy projects, such as the Atlantic Treatment Plant Digester Gas Combined Heat and Power project completed in 2013. This project feeds internal combustion engines with digester gas to meet up to 40% of the 2.5 megawatt demand of the treatment plant and provide heating to the administration buildings and digesters. The digester gas cleaning system uses a biological hydrogen sulfide gas scrubber, which is a first in North America. In 2008, HRSD partnered with the Navy to use the Atlantic Treatment Plant's effluent to act as a heat sink for a large Navy facility located adjacent to the plant. This system, similar in function to a geothermal system, saves the Navy $3 million per year and won a Federal Facility Presidential Award in 2009.

The District is a leading agency in wastewater research and development. In collaboration with an international group of researchers, the District played a major role in patenting the S-select technology, which improves biomass settleability and stabilizes biological phosphorus removal. This technology is being installed at the James River Plant and expected to enter operation in November 2014. In addition, the District is partnered with an international group of agencies and academic institutions studying a revolutionary wastewater process using a relatively new bacteria called Anammox. The District started operating the first two full-scale sidestream treatment processes using Anammox in the Western Hemisphere at York River Plant and James River Plant.

The District is also investigating other innovative projects to reduce energy usage and limit the discharge of contaminants to the environment. The District is using ammonia-based aeration control at two plants to improve nutrient removal while reducing energy, alkalinity and supplemental carbon demand. There are only a few plants in the United States attempting to use this control strategy.

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 to ensure the right project is completed at the right time. 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 2015-2024 CIP includes approximately $1.34 billion in interceptor system, treatment plant and other facility improvements. Of that total, $277 million is identified for the rehabilitation and upgrade of wastewater treatment plants. A number of interceptor sewer projects, totaling approximately $283 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 CIP includes $30 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 Decree (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. In 2011, the District worked with the localities to develop a private property inflow and infiltration program as required by the Consent Decree. This program will reduce inflow and infiltration coming from private house laterals as well as commercial property. The CIP includes over $762 million to be spent in the next ten years to comply with the Consent Decree.

The following table sets forth the District's anticipated sources of funds for its Capital Improvement Plan in Fiscal Years 2015 through 2019.

CIP, Fiscal Years 2015 to 2019
(dollar amounts in thousands)
(as of Fiscal Years ended June 30)[(1)]

	2015	2016	2017	2018	2019	Total (2015-19)
Beginning Capital Balance[(2)(3)]	$146,249	$62,181	$671	$63	$90	$146,249
Interim Financing and Bonds	-	13,000	73,000	72,000	75,000	233,000
Cash	28,916	35,490	38,392	43,027	40,913	186,738
Grants and Other Reimbursements	13,900	10,400	9,400	-	-	33,700
Total Sources	189,065	121,071	121,463	115,090	116,003	599,687
Capital Expenditures	126,884	120,400	121,400	115,000	115,000	598,684
Ending Capital Resources	$62,181	$671	$63	$90	$1,003	$1,003

(1) Totals may not add due to rounding. Assumes the initiation of Commercial Paper Program. See "FUTURE FINANCINGS THROUGH FISCAL YEAR 2016" herein.
(2) Includes unexpended Bond proceeds.
(3) Represents initial balance.

The District plans to fund the Capital Improvement Program through a combination of cash and debt financing as shown in the above table. The CIP also includes an additional $744 million in funding in Fiscal Years 2020 through 2024, of which $376 million is planned to be funded with bond proceeds and $368 million with operating cash.

In addition to its ten-year planning horizon, the District undertakes preliminary planning for its CIP through 2034. While subject to change, the District estimates additional capital expenditures of $2.8 billion for years 2025-2034, with approximately half to be financed with new debt. Capital expenditures include estimated costs associated with the Regional Wet Weather Management Plan discussed under "Consent Agreement and EPA Order and Regionalization" below.

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 and Regionalization" 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 and Regionalization

In September 2007, the Commonwealth 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. The substance of the Consent Agreement was developed, in large part, by the District and such localities. The Consent Agreement imposed no penalty 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 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 ("RWWMP") to control sewer overflows. Second, it includes a requirement for the District to implement a portion of its current ten year Capital Improvement Plan. Finally, the Consent Decree imposed a $900,000 penalty for all allegations of non-compliance prior to the date of the Consent Decree.

As noted, the Consent Agreement and the Consent Decree require HRSD to evaluate the wet weather capacity of the regional sewer system, including those collection systems owned by 13 of the localities that HRSD serves in the Hampton Roads area. Based upon that evaluation, HRSD, in consultation with the localities, is required to develop the RWWMP for submittal to the federal and state environmental agencies for their approval. The recommended plan will include an implementation schedule. The RWWMP will identify the attainable level of wet weather capacity in individual areas of the region and/or on a region-wide basis. The RWWMP will also summarize the major projects and programs that must be implemented in order to achieve the specified level of regional wet weather capacity. It is likely that the RWWMP will call for at least several hundred million dollars in infrastructure investments across the Hampton Roads region over several decades. See "– Capital Improvement Program" above for certain costs the District has included in the CIP for RWWMP projects.

HRSD and the localities believe that addressing wet weather capacity issues from a regional perspective will result in the most affordable and cost-effective approach for ratepayers throughout the region. Toward that end, HRSD and the localities entered into a legally binding Memorandum of Agreement ("MOA") in March 2014. The MOA commits HRSD to (1) develop the RWWMP in consultation with the localities, (2) fund the approved plan through a regional rate imposed on all regional ratepayers, (3) design and construct the necessary improvements, and (4) assume responsibility for wet weather capacity throughout the region in each area once the RWWMP is implemented. In exchange, the localities have agreed to (1) cooperate with HRSD, (2) facilitate the construction of and accept ownership of any improvements which HRSD may need to construct in the localities' systems, and (3) maintain the integrity of their systems to industry standards.

The Consent Decree and the MOA also contemplate that the localities' obligation to maintain the integrity of their sewer systems to industry standards will be embodied in a new or revised state Consent Agreement to be entered prior to the end of calendar year 2014. A new Consent Agreement (which will replace the 2007 Consent Agreement) has been drafted and executed by the localities and it is expected that the Commonwealth will issue it before the end of 2014.

The change in approach reflected in the MOA and pending new state Consent Agreement has also been integrated into HRSD's federal consent decree by modification entered by the Federal District Court in August 2014. That modification requires HRSD to submit the RWWMP to the EPA and the Commonwealth on October 1, 2017.

While HRSD is preparing the RWWMP, the Consent Decree also requires HRSD to implement approximately $200 million in priority capital system upgrade projects over a nine-year period. HRSD is on schedule to complete these projects.

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, 2010, through June 30, 2014.

Summary of Operating Expenses and Debt Service Coverage
(dollar amounts in thousands)
(as of Fiscal Years ended June 30)[(1)]

	2014	2013[(2)]	2012[(2)]	2011	2010
Operating Revenues					
Wastewater Treatment Charges	$211,538	$199,318	$194,817	$183,526	$167,807
Miscellaneous	3,643	3,297	2,996	3,890	3,645
Total Operating Revenues	$215,181	$202,615	$197,813	$187,416	$171,452
Non-Operating Revenues, excluding capital grants received					
Wastewater Facility Charges	$6,640	$5,851	$6,276	$5,083	$5,754
Investment Earnings	1,872	1,705	1,681	1,699	1,541
Bond Interest Subsidy[(3)]	2,364	2,602	2,602	2,602	1,655
Bond Issue Costs	-	(658)	(2,206)	-	-
Change in Fair Value of Investments	(422)	(714)	(224)	(19)	40
Total Non-Operating Revenues	$10,454	$8,786	$8,129	$9,365	$8,990
Total Revenues	$225,635	$211,401	$205,942	$196,781	$180,442
Operating Expenses, Excluding Depreciation	144,299	141,390	139,740	131,847	127,457
Net Revenues	$81,336	$70,011	$66,202	$64,934	$52,985
Total Senior Obligations Debt Service	$44,856	$34,972	$30,480	$25,655	$19,860
Coverage on Senior Obligations[(4)]	1.81	2.00	2.17	2.53	2.67
Total Senior Obligations and Subordinate Obligations Debt Service	$57,375	$46,221	$44,175	$36,350	$30,555
Coverage on Senior Obligations and Subordinate Obligations[(4)]	1.42	1.51	1.50	1.79	1.73

(1) Revenues and Operating Expenses are presented in accordance with generally accepted accounting principles. Debt Service presented on a cash basis (i.e., debt service actually due during the related fiscal year).
(2) Effective July 1, 2012, HRSD adopted GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position ("GASB 63") and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities ("GASB 65"). These statements require reporting of deferred outflows and inflows of resources separately from assets and liabilities and replace net assets with net position. In addition, certain items previously reported as assets and liabilities are now recognized as outflows or inflows of resources. Other than these changes and renaming net assets with net position, GASB 63 had no impact on the District's financial position or results of operation. To implement GASB 65, unamortized bond issuance costs were expensed and applied retroactively by restating the prior period financial statements.
(3) Actual Build America Bonds subsidy received relating to interest on the Series 2009B Bonds.
(4) Calculated based on actual debt service payable on a current year basis, rather than based upon the calculation of the Long-Term Debt Service Requirement and maximum annual debt service, as provided by the Trust Agreement for purposes of determining compliance with certain covenants therein. See Appendix C – "Summary of Certain Provisions of the Trust Agreement - Debt Service Reserve Fund; Qualified Reserve Fund Substitute" and " – Long Term Debt Service Coverage Ratio."

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 and a Long-Term Debt Service Coverage Ratio of at least 1.35 or fund the Debt Service Reserve Fund at the Debt Service Reserve Fund Requirement. See "SECURITY AND SOURCES OF PAYMENT – Debt Service Reserve Fund" herein. The following table reflects the Liquidity Ratio and Long Term Debt Service Coverage Ratios for Fiscal Years 2010 to 2014.

Historical Liquidity Ratio and Long-Term Debt Service Coverage Ratio
(dollar amounts in thousands)
(as of Fiscal Years ended June 30)

	2014	2013	2012	2011	2010
Cash and Cash Equivalents	$12,924	$38,355	$34,767	$37,130	$42,229
Investments – Current	-	5,569	8,583	15,527	9,253
Investments - Non-Current	111,861	108,721	95,140	72,727	50,827
Total Cash, Cash Equivalents and Investments – Unrestricted	**$124,785**	**$152,645**	**$138,490**	**$125,384**	**$102,309**
Cash and Cash Equivalents – Restricted	164,257	179,588	88,444	76,625	141,401
Investments – Current - Restricted	8,600	-	-	-	-
Total Cash, Cash Equivalents and Investments*	**$297,642**	**$332,233**	**$226,934**	**$202,009**	**$243,710**
Total Net Revenues	$81,336	$70,011	$66,202	$64,934	$52,985
Maximum Annual Debt Service†	$59,776	$60,114	$52,420	$48,231	$48,231
Liquidity Ratio	2.09	2.54	2.21	2.59	2.12
Required Liquidity Ratio†	1.35	1.35	1.35	1.35	1.35
Long-Term Debt Service Coverage Ratio	1.36	1.16	1.26	1.34	1.09
Required Long-Term Debt Service Coverage Ratio†	1.35	1.35	1.35	1.35	1.35

* Includes amounts set aside pursuant to the Senior Trust Agreement and the Subordinate Trust Agreement for debt service.

† Ratios to be maintained without triggering requirement under Trust Agreement to fund Debt Service Reserve Fund. Debt service is calculated in accordance with the Trust Agreement calculation of the Long-Debt Service Coverage Requirements, which includes adjustments for Balloon Long-Term Indebtedness and Variable Rate Long-Term Indebtedness. See Appendix C – "Summary of Certain Provisions of the Trust Agreement - Debt Service Reserve Fund; Qualified Reserve Fund Substitute" and " – Long Term Debt Service Coverage Ratio."

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, 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 and controls, 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 funds.

Projected Operating Results. The next table shows projected Revenues and Current Expenses for the Fiscal Years ending June 30, 2015, through June 30, 2019, inclusive.

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

	2015	2016	2017	2018	2019
Operating Revenues	$216,200	$231,056	$240,225	$252,118	$272,029
Non-Operating Revenues	10,410	10,981	10,757	11,560	11,218
Operating Expenses Excluding Depreciation	(146,993)	(154,309)	(160,471)	(163,549)	(180,104)
Net Revenues	$79,617	$87,728	$90,511	$100,129	$103,143
Senior Obligation Debt Service[2]	$47,271	$47,084	$46,997	$43,142	$45,435
Senior Debt Service Coverage Ratio[2]	1.68	1.86	1.93	2.32	2.27
Total Debt Service[2]	$59,976	$59,970	$59,618	$59,662	$63,801
Total Debt Service Coverage Ratio[2]	1.33	1.46	1.52	1.68	1.62
Liquidity Ratio[3]	2.11	2.11	2.12	1.93	2.10
Key Assumptions[4]					
Rate Increases		8%	5%	6%	9%
Growth in Consumption		-1%	-1%	-1%	-1%
Key Inflation Trends					
Personal Services and Employment Benefits		5%	5%	5%	4%
Utilities/Chemicals/Contractual Services		5%	5%	5%	5%
Other Operating Expenses		7%	4%	5%	4%

(1) Totals may not add due to rounding.

(2) Calculated based on actual debt service payable on a current year basis, rather than based upon the calculation of the Long-Term Debt Service Requirement and maximum annual debt service, as provided by the Trust Agreement for purposes of determining compliance with certain covenants therein. See Appendix C – "Summary of Certain Provisions of the Trust Agreement - Debt Service Reserve Fund; Qualified Reserve Fund Substitute" and " – Long Term Debt Service Coverage Ratio." Does not reflect the impact of the refunding of the Refunded Bonds. Assumes laddered increases in debt service on the variable rate Subordinate 2011 Bonds.

(3) Calculated in accordance with the Trust Agreement calculation of the Long-Debt Service Coverage Requirements, which includes adjustments for Balloon Long-Term Indebtedness and Variable Rate Long-Term Indebtedness. See Appendix C – "Summary of Certain Provisions of the Trust Agreement - Debt Service Reserve Fund; Qualified Reserve Fund Substitute" and " – Long Term Debt Service Coverage Ratio."

(4) While the District believes the assumptions set forth above are reasonable, actual results may vary. Included is a projection of capital improvement projects that will be considered operating expenses for financial reporting purposes. For instance, in Fiscal Year 2019, the District anticipates commencement of its work on locality interceptor systems.

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 financial statements and the report thereon by KPMG LLP, the Fiscal Year ended June 30, 2014, 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 31 consecutive Fiscal Years. The District will submit its report for the Fiscal Year ended June 30, 2014, 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, 2014. The District's full rate schedule as of July 1, 2014, as amended, 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. This incremental rate structure was 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 that, 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
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
2013	99.3
2014	99.3

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

LITIGATION

There is no litigation pending in any court (either state or federal) or, to the knowledge of the District, threatened against the District that in any way questions or affects the validity of or the security for the Series 2014 Bonds or that would have a material adverse effect on the District's condition, financial or otherwise.

APPROVAL OF LEGAL PROCEEDINGS

The Series 2014 Bonds are offered subject to the approving opinion of Sidley Austin LLP, Washington, D.C., Bond Counsel. Certain legal matters will be passed upon for the District by its General Counsel, Kellam, Pickrell, Cox & Tayloe, a Professional Corporation, Norfolk, Virginia, and for the underwriters by Hunton & Williams LLP, Richmond, Virginia.

TAX MATTERS

General

In the opinion of Sidley Austin LLP, Bond Counsel, assuming compliance by the District with its covenant to comply with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), with respect to the Series 2014 Bonds, and except as provided in the following sentence, interest on the Series 2014 Bonds will not be includable in the gross income of the owners of the Series 2014 Bonds for purposes of federal income taxation under existing law. Interest on the Series 2014 Bonds will be includable in the gross income of the owners thereof retroactive to the date of issue of the Series 2014 Bonds in the event of a failure by the District to comply with applicable requirements of the Code and its covenants regarding use, expenditure and investment of the proceeds of the Series 2014 Bonds and timely payment of certain investment earnings to the United States Treasury. Bond Counsel renders no opinion as to the exclusion from gross income of the interest on the Series 2014 Bonds for federal income tax purposes on or after the date on which any action is taken or not taken affecting such covenants upon the approval of counsel other than Bond Counsel.

Interest on the Series 2014 Bonds will not be a specific preference item for purposes of the federal individual or corporate alternative minimum tax. Such interest will, however, will be included in the calculation of the corporation's federal alternative minimum tax liability imposed on corporations by the Code. The Code contains other provisions that could result in tax consequences, upon which Bond Counsel renders no opinion, as a result of ownership of the Series 2014 Bonds or the inclusion in certain computations (including, without limitation, those related to the corporate alternative minimum tax) of interest that is excluded from gross income.

Original Issue Discount

The excess, if any, of the amount payable at maturity of any maturity of the Series 2014 Bonds over the issue price thereof constitutes original issue discount. The amount of original issue discount accrues in accordance with a constant yield method based on the compounding of interest. The amount of original issue discount that has accrued pursuant to the constant yield method described above, and is properly allocable to an owner of any maturity of the Series 2014 Bonds with original issue discount (the "Discount Bonds"), will be excluded from gross income to the same extent as interest on the Series 2014 Bonds for federal income tax purposes. In general, the issue price of a maturity of the Series 2014 Bonds is the first price at which a substantial amount of that maturity was sold (excluding sales to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers). A purchaser's adjusted basis in a Discount Bond will be increased by the amount of such accruing discount for purposes of determining taxable gain or loss on the sale or other disposition of such Discount Bond for federal income tax purposes.

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

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

Original Issue Premium

The excess, if any, of the tax basis of the Series 2014 Bonds to a purchaser (other than a purchaser who holds such Series 2014 Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) who purchased such Series 2014 Bonds as part of the initial public offering and at the initial offering price set forth on the cover page over the amount payable at maturity is "bond premium." Bond premium is to be amortized over the term of such Series 2014 Bonds for federal income tax purposes (or, in the case of a bond with bond premium callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). Owners of such Series 2014 Bonds are required to decrease their adjusted basis in such Series 2014 Bonds by the amount of amortizable bond premium attributable to each taxable year such Series 2014 Bonds are held. The amortizable bond premium on such Series 2014 Bonds attributable to a taxable year will not be deductible for federal income tax purposes; however, bond premium will be treated as an offset to qualified stated interest received on such Series 2014 Bonds. Owners of such Series 2014 Bonds should consult their tax advisors with respect to the determination for federal income tax purposes of the treatment of bond premium upon sale or other disposition of such Series 2014 Bonds and with respect to the state and local tax consequences of owning and disposing of such Series 2014 Bonds.

Backup Withholding

Interest paid on the Series 2014 Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. While this reporting requirement does not, by itself, affect the excludability of interest from gross income for federal income tax purposes, the reporting requirement causes the payment of interest on the Series 2014 Bonds to be subject to backup withholding if such interest is paid to beneficial owners that (a) are not "exempt recipients," and (b) either fail to provide certain identifying information (such as the beneficial owner's taxpayer identification number) in the required manner or have been identified by the IRS as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner are allowed as a refund or credit against such beneficial owner's federal income tax liability so long as the required information is furnished to the IRS.

Collateral Tax Consequences

Prospective purchasers of the Series 2014 Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Prospective purchasers of the Series 2014 Bonds should consult their tax advisors as to the applicability and impact of these consequences.

Virginia Taxes

The Enabling Act provides that the Series 2014 Bonds, their transfer and the income therefrom, including any profit made on the sale thereof, shall be free and exempt from taxation by the Commonwealth of Virginia and by any political subdivision thereof.

Future Developments

Future legislative proposals, if enacted, regulations, rulings or court decisions may cause interest on the Series 2014 Bonds to be subject, directly or indirectly, to federal income taxation or to

Commonwealth of Virginia or local income taxation, or may otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. Legislation or regulatory actions and future or pending proposals may also affect the economic value of the federal or Commonwealth of Virginia tax exemption or the market value of the Series 2014 Bonds. Prospective purchasers of the Series 2014 Bonds should consult their tax advisors regarding any future, pending or proposed federal or Commonwealth of Virginia tax legislation, regulations, rulings or litigation as to which Bond Counsel expresses no opinion.

For example, various proposals have been made in Congress by the President (the "Proposed Legislation"), which, if enacted, would subject interest on bonds that is otherwise excludable from gross income for federal income tax purposes, including interest on the Series 2014 Bonds, to a tax payable by certain bondholders that are individuals, estates or trusts with adjusted gross income in excess of thresholds specified in the Proposed Legislation. It is unclear if the Proposed Legislation will be enacted, whether in its current or an amended form, or if other legislation that would subject interest on the Series 2014 Bonds to a tax or cause interest on the Series 2014 Bonds to be included in the computation of a tax, will be introduced or enacted. Prospective purchasers should consult their tax advisors as to the effect of the Proposed Legislation, if enacted, in its current form or as it may be amended, or such other legislation on their individual situations.

UNDERWRITING

Pursuant and subject to the terms and conditions set forth in a Bond Purchase Agreement (the "Purchase Agreement"), dated October 29, 2014, between J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Raymond James & Associates, Inc. (the "Underwriters"), for whom J.P. Morgan Securities LLC is acting as representative, and the District, the Underwriters agreed to purchase from the District, and the District agreed to sell to the Underwriters, all, but not less than all, of the Series 2014 Bonds at a purchase price that results in an Underwriters' discount of $156,509.86 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 has provided the following paragraph for inclusion in this Official Statement, and the District cannot and does not assume any responsibility for the accuracy or completeness of such statements or information:

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Series 2014 Bonds, has entered into a negotiated dealer agreement ("Dealer Agreement") with Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings, including the Series 2014 Bonds, at the original issue prices. Pursuant to the Dealer Agreement, CS&Co. will purchase Series 2014 Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series 2014 Bonds that CS&Co. sells.

FINANCIAL ADVISOR

The District has retained Public Financial Management, Inc., Arlington, Virginia, as financial advisor (the "Financial Advisor") in connection with the issuance of the Series 2014 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.

VERIFICATION OF MATHEMATICAL COMPUTATIONS FOR THE REFUNDED BONDS

The accuracy of the arithmetical and mathematical computations (a) of the adequacy of the maturity principal amounts of the Defeasance Obligations in the Escrow Fund together with the interest income thereon and uninvested cash, if any, to pay, when due, the principal of, redemption premium, if any, and interest on the Refunded Bonds, and (b) relating to the determination of compliance with certain regulations and rulings promulgated under the Code will be verified by Bingham Arbitrage Rebate Services, Inc. Such verification of arithmetical accuracy and computations shall be based upon information and assumptions supplied by the District and on interpretations of the Code provided by Bond Counsel.

RATINGS

The Series 2014 Bonds have been assigned ratings of "AA+" and "AA+" by Standard & Poor's Financial Services LLC 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 Series 2014 Bonds. The District furnished to such rating agencies certain information regarding its policies, practices and finances, including information that is not included in this Official Statement. There is no assurance that such policies, practices and finances or such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by such rating agencies. Any such downward revision or withdrawal could have an adverse effect on the market price of the Series 2014 Bonds.

CONTINUING DISCLOSURE

The Securities and Exchange Commission has adopted Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the "Rule"). In general, the Rule prohibits an underwriter from purchasing or selling municipal securities, such as the Series 2014 Bonds, unless it has determined that the issuer of such securities and other persons deemed to be material "obligated persons" have committed to provide to The Electronic Municipal Market Access ("EMMA") system administered by the Municipal Securities Rulemaking Board (i) on an annual basis, certain financial information and operating data ("Annual Reports"), and audited financial statements, if available, or such unaudited financial statements as may be required by the Rule, and (ii) notice of various events described in the Rule ("Event Notices").

The District will covenant in the Continuing Disclosure Agreement (the form of which appears in Appendix E) for the benefit of the holders of the Series 2014 Bonds to provide to EMMA annually, not later than December 31 of each year, commencing December 31, 2014, Annual Reports with respect to itself, as issuer. Similarly, the District will promptly provide Event Notices with respect to the Series 2014 Bonds to EMMA. In the five years preceding the date of this Official Statement, the District has materially complied with its other undertakings under the Rule. The District notes, however, that in connection with the District's determination that it had entered a Reserve Funding Period on December 31, 2010, the District filed notice thereof with EMMA on October 15, 2014.

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

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

MISCELLANEOUS

All of the foregoing summaries or descriptions of the provisions of the Enabling Act, the Series 2014 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

Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2014, including as a part thereof, the Financial Statements and Related Auditor's Report for the Fiscal Year ended June 30, 2014, as rendered by KPMG LLP[1]

[1] This Appendix comprises the District's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2014. In order to preserve cross-references within such pages, this Appendix has not been repaginated and, accordingly, retains the original pagination.

Comprehensive Annual Financial Report

For The Fiscal Years Ended
June 30, 2014 and 2013

Hampton Roads Sanitation District
(A Component Unit of the Commonwealth of Virginia)

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 the fiscal years ended
June 30, 2014 and 2013

Prepared by:
Finance Department

HAMPTON ROADS SANITATION DISTRICT

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Introductory Section

Photo Above: Army Base Treatment Plant First placed in service in 1947, this 18 MGD Norfolk plant, HRSD's oldest, has earned perfect compliance with its environmental permits for 26 consecutive years, a record unsurpassed in the nation. A $109 million upgrade began in 2010.

Photo Below: Virginia Initiative Plant (VIP) The patented VIP biological nutrient removal process put this 40 MGD Norfolk facility (originally the Lamberts Point Plant) at the forefront of environmental innovation in the late 1980s. A $103 million project to further enhance nutrient removal started in 2012.

HRSD
Cleaning wastewater every day for a better Bay.

October 24, 2014

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, 2014.

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

KPMG LLP, Certified Public Accountants, has issued an unmodified ("clean") opinion on HRSD's financial statements for the year ended June 30, 2014. The independent auditors report is located at the front of the financial section of this report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditors 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 the Hampton Roads area 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 462,000 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 • 757.460.7003

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 531 miles of pipelines ranging from six inches to 66 inches in diameter. 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 some flow diversions to provide for maintenance or emergency work. HRSD owns and maintains 33 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 ninth largest MSA in the southeastern United States and the thirty-seventh 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. Virginia Beach is the most populous city in the Commonwealth, with Norfolk and Chesapeake second and third, respectively. Suffolk is the largest city by land area. Unemployment rates remain below national averages in the region, which has a civilian labor force of 847,200.

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. 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 10.2 percent of wastewater revenues for fiscal year 2014. In addition, HRSD's 2014 revenues contained only limited reliance (2.9 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 $1.3 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. Major projects are currently under construction at the Army Base Treatment Plant and Virginia Initiative Plant.

To minimize the impacts of its capital investments on ratepayers, HRSD continues to pursue grant opportunities when available. In 2014, HRSD received approximately $13.9 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, 2013. This was the 31st consecutive year that HRSD has received this prestigious award. In order to be awarded a Certificate of Achievement, HRSD must publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

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

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

Respectfully submitted,

Edward Henifin, P.E.	Steven G. de Mik, CPA	Carroll L. Acors, CPA
General Manager	Director of Finance	Chief of Accounting

Government Finance Officers Association

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, 2013

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Principal Officials

June 30, 2014

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Sidley Austin, LLP
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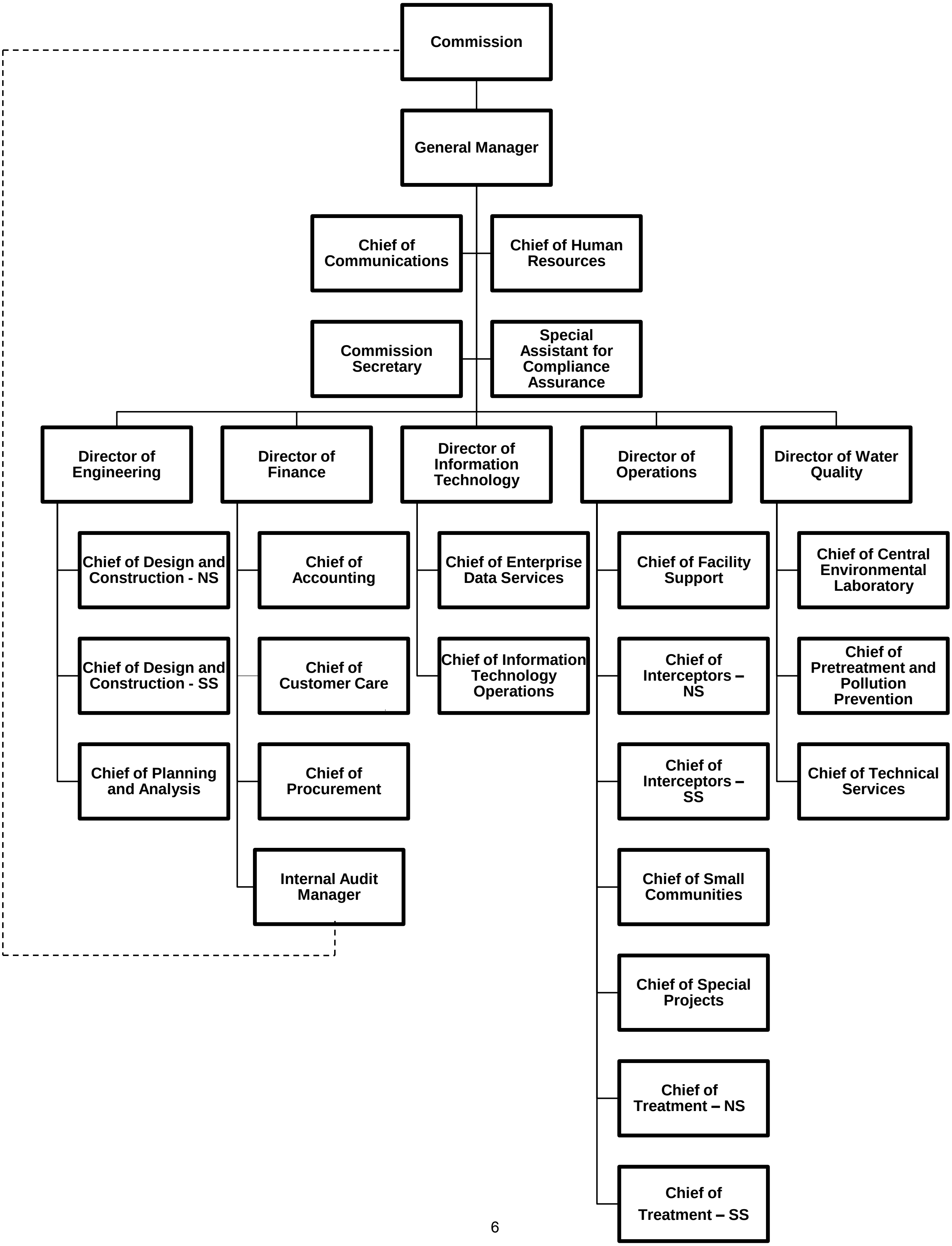
Organization Chart

June 30, 2014



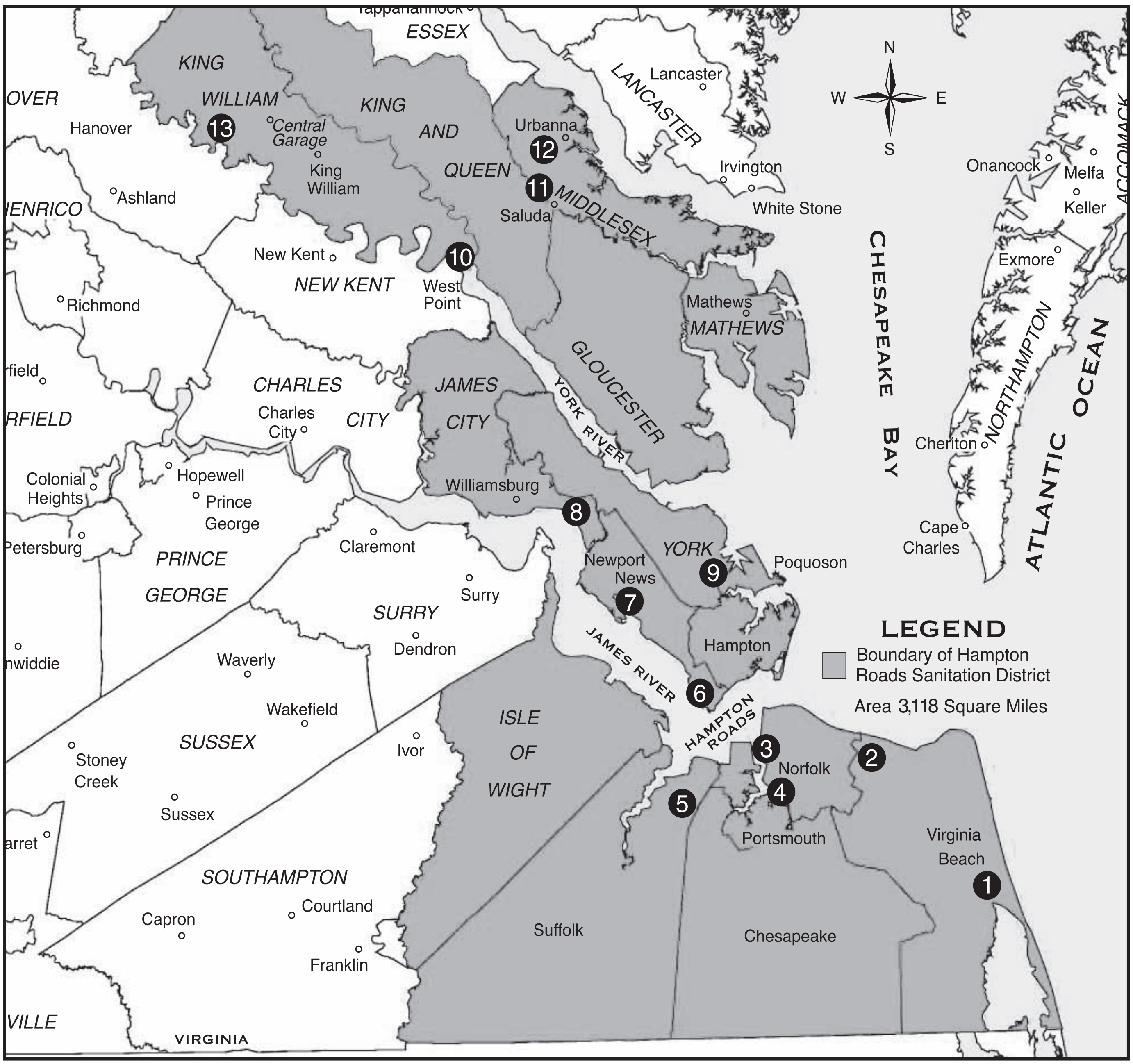
HRSD

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

June 30, 2014

HRSD can trace its beginnings to 1925 when the Virginia Department of Health condemned a large oyster producing area in Hampton Roads. The closure resulted in the Virginia General Assembly creating in 1927 a "Commission to Investigate and Survey the Seafood Industry of Virginia." Other studies recommended a public body to construct and operate a sewage system in the area. HRSD was named after Hampton Roads, a ship anchorage used for 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 2014.

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 every HRSD treatment plant for outstanding compliance with National Pollutant Discharge Elimination System (NPDES) permits during calendar year 2013. The Army Base Treatment Plant was honored for 27 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 (12 consecutive years), Chesapeake-Elizabeth—Gold, James River—Silver, Nansemond—Platinum (12 consecutive years), Virginia Initiative Plant—Platinum (18 consecutive years), Williamsburg—Platinum (19 consecutive years) and York River—Platinum (6 consecutive years). Central Middlesex, King William, Urbanna and West Point, treatment plants in the Small Communities Division, all earned Gold Awards.

HRSD's other Fiscal Year 2014 honors included the Outstanding Agency Accreditation Achievement Award from the National Institute for Public Procurement (NIGP), a certificate from the Virginia Tech Wastewater Treatment Plant Operator Short School recognizing HRSD's commitment to improving plant operations within the Commonwealth of Virginia for 37 consecutive years and the Hampton Roads Alliance for Environmental Education (HRAEE) 2013 Increasing Communications Award. In addition, Team HRSD placed first overall in the Division 2 Operations Challenge competition held during the 2013 Water Environment Federation Technical Exhibition and Conference (WEFTEC). The Elizabeth River Project also recognized HRSD as a Sustained Distinguished Performance Model Level River Star business.

Financial Section

Photo Above: Atlantic Treatment Plant This Virginia Beach facility, placed in operation in 1983, became HRSD's largest plant when a $163.6 million project to expand its capacity from 36 to 54 MGD was completed in 2010. Innovative resource recovery initiatives include a partnership with the U.S. Navy that earned a Presidential Energy Award and a 2012 project to convert digester gas to energy.

Photo Below: Chesapeake-Elizabeth Treatment Plant Located in Virginia Beach at the mouth of the Chesapeake Bay, this 24 MGD plant started up in 1968. It is the site of a collaborative pilot project to test a novel process to remove nitrogen and phosphorus from wastewater more cost effectively.

KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report

The Commissioners
Hampton Roads Sanitation District:

We have audited the accompanying basic financial statements of the Hampton Roads Sanitation District (HRSD), which comprise the statements of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 2 to the basic financial statements, in fiscal year 2014, HRSD retrospectively adopted new accounting guidance described in Governmental Accounting Standards Board No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The introductory section, statistical section and other supplemental section are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

KPMG LLP

October 24, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

This narrative overview and analysis of the financial activities of the Hampton Roads Sanitation District (HRSD) for the fiscal year ended June 30, 2014 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

- Total net position increased $26.8 million, or 5.3 percent, in 2014, as a result of this year's operations.
- Total revenues increased $13.6 million, or 6.4 percent. This increase is primarily attributable to wastewater revenue rate increases.
- Operating expenses increased $0.3 million, or 0.1 percent, primarily due to higher personnel costs, principally due to a $1.2 million increase in personnel services, a $1.4 million increase in repairs and maintenance costs and a $1.5 million increase in general expenses, partially offset by a $2.7 million decrease for depreciation and amortization, primarily for lower depreciation costs related to disposal of capital assets in 2013, and a $1.2 million decrease in utilities expense.
- Nonoperating expenses decreased $1.0 million, or 3.7 percent, primarily due to lower bond issuance costs and a loss on the disposal of certain capital assets in 2013, which did not recur in 2014. These reductions in nonoperating expenses were offset by higher interest expense in 2014.
- HRSD received $13.9 million in capital grants from the Commonwealth of Virginia in 2014 to help finance its capital improvement program.
- Restricted cash and cash equivalents and investments decreased $6.7 million, or 3.7 percent, primarily due to capital asset construction activity offset by increases in debt service reserves. Unrestricted cash and cash equivalents and investments decreased $27.9 million, or 18.3 percent, primarily as a result of debt service payments partially offset by increased cash flows from wastewater rate increases.
- Net Property, Plant and Equipment increased $41.9 million, or 4.3 percent, primarily due to expansion of interceptor systems, treatment plants, and purchases of office equipment.

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 required supplementary information and 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 Statements of Net Position, found on pages 16 and 17 of this report, present information on all of HRSD's assets, deferred outflows of resources, liabilities, and deferred inflows of resources; the difference between these components is reported as net position. Over time, changes in net position 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 Position, found on page 18 of this report, present all of HRSD's revenues and expenses, showing how HRSD's net position changed during the year. All changes in net position 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 related 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 position may serve over time as a useful indicator of HRSD's financial position. Assets exceeded liabilities by $529.8 million at June 30, 2014 and by $503.0 million at June 30, 2013.

By far, the largest portion of HRSD's net position (66.3 percent and 67.1 percent at June 30, 2014 and 2013, respectively) reflects its net 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 net investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, because the capital assets themselves cannot be used to liquidate these liabilities.

HRSD's net position is summarized in the following condensed Statements of Net Position as of June 30:

HRSD's Condensed Statements of Net Position

(in thousands)	2014	(restated) 2013 (1)	(restated) 2012 (1)	2014 vs. 2013 Dollars	2014 vs. 2013 Percent
Capital assets	$ 1,013,958	$ 972,099	$ 910,292	$ 41,859	4.3%
Current assets and noncurrent investments	342,236	372,939	269,530	(30,703)	-8.2%
Total assets	**$ 1,356,194**	**$ 1,345,038**	**$ 1,179,822**	**$ 11,156**	**0.8%**
Long-term liabilities	$ 716,563	$ 741,747	$ 596,789	$ (25,184)	-3.4%
Current liabilities	109,829	100,302	88,834	9,527	9.5%
Total liabilities	**$ 826,392**	**$ 842,049**	**$ 685,623**	**$ (15,657)**	**-1.9%**
Net investment in capital assets	$ 351,191	$ 337,342	$ 348,407	$ 13,849	4.1%
Restricted for debt service	24,064	23,843	15,736	221	0.9%
Restricted for debt service reserve fund	45,207	-	-	45,207	-
Unrestricted	109,340	141,804	130,056	(32,464)	-22.9%
Total net position	**$ 529,802**	**$ 502,989**	**$ 494,199**	**$ 26,813**	**5.3%**

(1) As restated for the adoption of GASB Statement No. 65 retrospectively in fiscal year 2014. See Note 2 of the Notes to Financial Statements

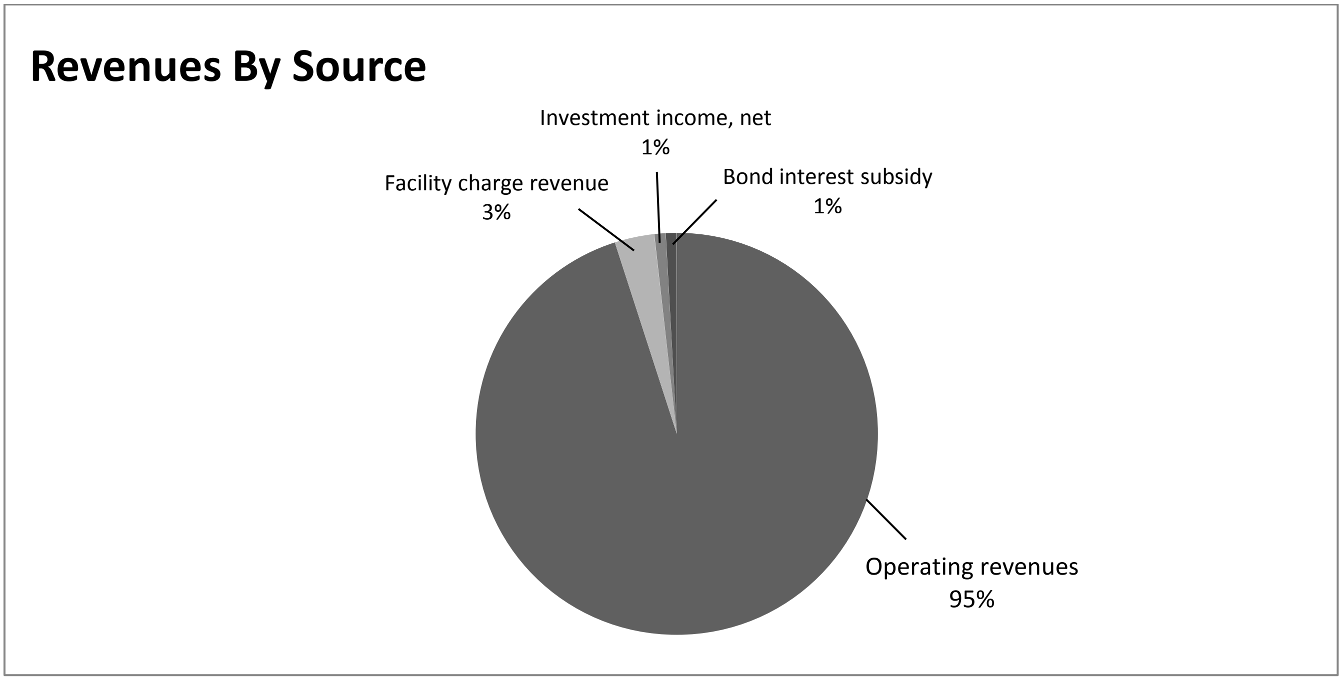
At June 30, 2014 and 2013, HRSD retained $103.6 million and $155.7 million of unspent bond proceeds, respectively. The increase in capital assets and the corresponding changes in current assets and noncurrent investments from 2012 through 2014 are primarily the result of issuing bonds in 2012 and 2013 and using these funds in subsequent fiscal years to fund capital improvements.

The changes in HRSD's net position can be determined by reviewing the following condensed Statements of Revenues, Expenses and Changes in Net Position:

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

(in thousands)	2014	(restated) 2013 (1)	(restated) 2012 (1)	2014 vs. 2013 Dollars	2014 vs. 2013 Percent
Operating revenues	$ 215,181	$ 202,615	$ 197,813	$ 12,566	6.2%
Facility charge revenue	6,640	5,851	6,276	789	13.5%
Investment income, net	1,450	991	1,457	459	46.3%
Bond interest subsidy	2,364	2,602	2,602	(238)	-9.1%
Total revenues	**225,635**	**212,059**	**208,148**	**13,576**	**6.4%**
Operating expenses:					
Wastewater treatment	111,287	109,980	110,783	1,307	1.2%
General and administrative	33,012	31,410	28,957	1,602	5.1%
Depreciation and amortization	42,761	45,414	41,250	(2,653)	-5.8%
Total operating expenses	187,060	186,804	180,990	256	0.1%
Nonoperating expenses:					
Disposal of capital assets	-	1,649	-	(1,649)	-
Bond issuance costs	-	658	2,207	(658)	-
Interest expense	25,650	24,330	22,760	1,320	5.4%
Total nonoperating expenses	25,650	26,637	24,967	(987)	-3.7%
Total expenses	**212,710**	**213,441**	**205,957**	**(731)**	**-0.3%**
Income (loss) before capital contributions	12,925	(1,382)	2,191	14,307	1035.2%
Capital contributions:					
State capital grants	13,888	10,172	14,806	3,716	36.5%
Change in net position	26,813	8,790	16,997	18,023	205.0%
Total net position - beginning, as restated	502,989	494,199	477,202	8,790	1.8%
Total net position - ending	**$ 529,802**	**$ 502,989**	**$ 494,199**	**$ 26,813**	**5.3%**

(1) As restated for the adoption of GASB Statement No. 65 retrospectively in fiscal year 2014. See Note 2 of the Notes to Financial Statements.



Operating revenues increased 6.2 percent in 2014 and 2.4 percent in 2013. The majority of these increases are attributable to various rate increases in metered public wastewater services. Facility charge revenues increased $0.8 million, or 13.5 percent, in 2014 due to an increase in new construction activity across the region after decreasing $0.4 million, or 6.8 percent, in 2013.

Operating expenses increased 0.1 percent in 2014 and increased 3.2 percent in 2013. Increases in 2014 were principally due to a $1.2 million increase in personnel services, primarily for merit adjustments, a $1.4 million increase in repairs and maintenance costs and a $1.5 million increase in general expenses, partially offset by a $2.7 million decrease for depreciation and amortization, primarily for lower depreciation costs related to disposal of capital assets in 2013, and a $1.2 million decrease in utilities expense. Increases in 2013 were primarily due to a $2.0 million increase in personnel services, primarily for a one-time salary adjustment for all employees to offset changing the Virginia Retirement System employee funding requirement to the employee; a $2.2 million increase in fringe benefits, primarily for escalating employee medical costs; a $1.0 million increase in contractual services, primarily for Web and e-bill delivery services and credit card charges for e-bill customers; and a $4.2 million increase for depreciation and amortization, primarily for capital asset acquisition and expansion. These increases were offset by decreases of $0.7 million in chemical expenses and $0.4 million in materials and supplies, primarily for operations, and a $3.0 million decrease in construction and improvement expenses. Depreciation and amortization expense decreased $2.7 million in 2014, primarily for lower depreciation costs related to disposal of capital assets in 2013, and increased $4.2 million in 2013 due to an expanded capital base.

In 2014 and 2013, HRSD received $13.9 million and $10.2 million, respectively, in capital grants to help finance its capital improvement program.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2014 and 2013, HRSD had approximately $1.0 billion and $972.1 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 software and equipment. These amounts represent a net increase of $41.9 million, or 4.3 percent, in 2014 and $61.8 million, or 6.8 percent, in 2013.

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

HRSD's Capital Assets

(in thousands)	2014	2013	2012
Land	$ 6,031	$ 5,850	$ 5,771
Treatment plants	436,007	457,012	453,721
Interceptor systems	286,168	270,404	224,501
Small community facilities	16,889	17,445	17,661
Buildings	33,086	33,849	17,571
Office equipment	8,798	10,180	9,528
Automotive	1,841	2,415	3,260
Other equipment	13,556	14,730	16,821
Software and intangible assets	15,274	18,668	22,062
	817,650	830,553	770,896
Construction in progress	196,308	141,546	139,396
Net property, plant and equipment	**$ 1,013,958**	**$ 972,099**	**$ 910,292**

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

(in thousands)	2014	2013	2012
Balance at beginning of year	$ 972,099	$ 910,292	$ 850,885
Additions	29,858	106,720	122,521
Retirements	(218)	(5,867)	(431)
Depreciation and amortization	(42,761)	(45,414)	(41,250)
Accumulated depreciation retired	218	4,218	431
Net increase (decrease) in construction in progress	54,762	2,150	(21,864)
Balance at end of year	**$ 1,013,958**	**$ 972,099**	**$ 910,292**

The largest increase in capital assets in the past two years has been in treatment plant construction; interceptor system construction, which includes pipeline replacements, pump station rehabilitations and other improvements to the infrastructure; and construction of a new operations center. During 2014, HRSD invested significant funds in improvements to the Atlantic, and James River treatment plants, the James River, Army Base, Virginia Initiative and Williamsburg interceptor systems, and the Virginia Beach operations center, which were recorded in construction in progress in 2013 and included in the treatment plants, interceptor systems and buildings capital assets in 2014. During 2013, HRSD invested significant funds in improvements to the Atlantic, Boat Harbor and Nansemond treatment plants, the Boat Harbor and Williamsburg interceptor systems, and the Virginia Beach operations center, which were recorded in construction in progress in 2013 and included in the treatment plants, interceptor systems and buildings capital assets in 2014. The operations center completed in 2013 replaced buildings that were not fully depreciated at June 30, 2013. The disposal of these capital assets was shown as a nonoperating expense in the 2013 statements of revenues, expenses and changes in net position.

Long-Term Debt

At year-end, HRSD had a total of $744.0 million in revenue bonds outstanding versus $766.6 million in 2013, a decrease of 3.0 percent. This decrease is related to payments of $28.0 million in 2014 on existing senior and subordinate debt offset by an increase in debt payable to the Virginia Resources Authority in the amount of $5.4 million.

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

HRSD's Outstanding Debt

(in thousands)	2014	2013	2012
Senior revenue bonds	$ 634,107	$ 646,390	$ 506,257
Subordinate revenue bonds	109,850	120,231	128,335
Total outstanding debt	**$ 743,957**	**$ 766,621**	**$ 634,592**

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 Trust Agreements, which require senior and subordinate debt service coverage ratios of 1.2 and 1.0 times annual debt service, respectively. These Trust Agreements require a debt service reserve fund (DSRF); but funding the DSRF is not required if both senior and total debt service coverages are at least 1.35 times annual debt service and a liquidity ratio of 1.35 are also met. HRSD plans to fund this requirement in fiscal year 2015, and these amounts are shown as restricted on the statements of net position as of June 30, 2014. 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

The five-year rolling average billed consumption has decreased over the last three fiscal years from approximately 121 million gallons per day (MGD) to approximately 116 MGD. HRSD's experience, primarily resulting from water conservation efforts throughout the region, is consistent with national trends.

In 2014, wastewater revenues increased as a result of planned rate increases needed, in large part, to fund HRSD's capital improvement program. Facility charge revenues, which are generally dependent on new growth and economic expansion, increased $0.8 million, or 13.5 percent, in 2014 after decreasing $0.4 million, or 6.8 percent, in 2013. Facility charge revenues comprised only three percent of HRSD's total revenues in both 2014 and 2013.

Wastewater treatment rates for the 2014 fiscal year were increased by approximately 8 percent at the beginning of the year for the vast majority of HRSD 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 $1.79 per month in fiscal year 2015.

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, 1434 Air Rail Avenue, Virginia Beach, Virginia 23455.

HAMPTON ROADS SANITATION DISTRICT
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2014 AND 2013

ASSETS

(in thousands)	2014	(restated) 2013
CURRENT ASSETS		
Cash and cash equivalents	$ 12,924	$ 38,355
Cash and cash equivalents - Restricted	107,300	63,398
Investments	-	5,569
Investments - Restricted	8,600	-
Accounts receivable, net	37,437	35,083
Accrued interest	312	483
Other current assets	6,845	5,140
TOTAL CURRENT ASSETS	173,418	148,028
NONCURRENT ASSETS		
Cash and cash equivalents - Restricted	56,957	116,190
Investments	111,861	108,721
	168,818	224,911
NET PROPERTY, PLANT AND EQUIPMENT		
Land	6,031	5,850
Treatment plants	1,002,898	1,001,276
Interceptor systems	415,988	392,404
Buildings	45,132	44,471
Small community facilities	22,551	22,551
Office equipment	43,933	41,928
Automotive	16,129	15,785
Other equipment	31,575	30,332
Software and intangible assets	23,759	23,759
	1,607,996	1,578,356
Less: Accumulated depreciation and amortization	790,346	747,803
	817,650	830,553
Construction in progress	196,308	141,546
NET PROPERTY, PLANT AND EQUIPMENT	1,013,958	972,099
TOTAL NONCURRENT ASSETS	1,182,776	1,197,010
TOTAL ASSETS	**$ 1,356,194**	**$ 1,345,038**

See Accompanying Notes to Financial Statements

HAMPTON ROADS SANITATION DISTRICT
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2014 AND 2013

LIABILITIES AND NET POSITION

(in thousands)	2014	(restated) 2013
CURRENT LIABILITIES		
Trade and contracts payable	$ 28,537	$ 20,477
Contract retention	6,506	6,466
Accrued salaries and wages	1,399	1,067
Current portion of bonds payable	30,137	29,225
Variable rate demand bonds	25,000	25,000
Current portion of compensated absences	2,591	2,389
Debt interest payable	8,780	8,977
Other liabilities	6,879	6,701
TOTAL CURRENT LIABILITIES	109,829	100,302
LONG-TERM LIABILITIES		
Compensated absences	5,347	5,469
Bonds payable	711,216	736,278
TOTAL LONG-TERM LIABILITIES	716,563	741,747
TOTAL LIABILITIES	826,392	842,049
NET POSITION		
Net investment in capital assets	351,191	337,342
Restricted for debt service	24,064	23,843
Restricted for debt service reserve fund	45,207	-
Unrestricted	109,340	141,804
TOTAL NET POSITION	529,802	502,989
TOTAL LIABILITIES AND NET POSITION	**$ 1,356,194**	**$ 1,345,038**

See Accompanying Notes to Financial Statements

HAMPTON ROADS SANITATION DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED JUNE 30, 2014 and 2013

(in thousands)	2014	(restated) 2013
OPERATING REVENUES		
Wastewater treatment charges	$ 211,538	$ 199,318
Miscellaneous	3,643	3,297
TOTAL OPERATING REVENUES	215,181	202,615
OPERATING EXPENSES		
Wastewater treatment	111,287	109,980
General and administrative	33,012	31,410
Depreciation and amortization	42,761	45,414
TOTAL OPERATING EXPENSES	187,060	186,804
OPERATING INCOME	28,121	15,811
NONOPERATING REVENUES (EXPENSES)		
Wastewater facility charges	6,640	5,851
Investment income	1,872	1,705
Bond interest subsidy	2,364	2,602
Bond issuance costs	-	(658)
Change in fair value of investments	(422)	(714)
Loss on disposal of capital assets	-	(1,649)
Interest expense	(25,650)	(24,330)
NET NONOPERATING EXPENSES	(15,196)	(17,193)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	12,925	(1,382)
CAPITAL CONTRIBUTIONS		
State capital grants	13,888	10,172
CHANGE IN NET POSITION	26,813	8,790
TOTAL NET POSITION - Beginning, as restated	502,989	494,199
TOTAL NET POSITION - Ending	**$ 529,802**	**$ 502,989**

See Accompanying Notes to Financial Statements

HAMPTON ROADS SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2014 and 2013

(in thousands)	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 207,543	$ 197,620
Other operating revenues	3,643	3,297
Cash payments to suppliers for goods and services	(90,274)	(89,401)
Cash payments to employees for services	(50,126)	(49,075)
Net cash provided by operating activities	70,786	62,441
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Wastewater facility charges	6,640	5,851
Acquisition and construction of property, plant and equipment	(77,687)	(110,032)
Proceeds from capital debt	5,356	176,153
Premiums on revenue bonds issued	-	20,194
Bond interest subsidy	2,364	2,602
Principal paid on capital debt	(28,020)	(44,124)
Contributions of capital from State government	11,682	11,465
Deposit received for capital asset construction	-	3,000
Interest paid on capital debt	(27,333)	(23,065)
Net cash provided by (used in) capital and related financing activities	(106,998)	42,044
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(111,702)	(103,898)
Sales and maturities of investments	105,109	92,617
Interest and dividends on investments	2,043	1,528
Net cash used in investing activities	(4,550)	(9,753)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(40,762)	94,732
CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR	217,943	123,211
CASH AND CASH EQUIVALENTS, AT END OF YEAR	$ 177,181	$ 217,943

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

(in thousands)		
Operating income	$ 28,121	$ 15,811
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	42,761	45,414
(Increase) decrease in operating assets		
Accounts receivable	(2,354)	(488)
Net change in other current assets	501	604
Increase in operating liabilities		
Trade and contracts payable	1,167	550
Accrued salaries and wages	332	57
Compensated absences	80	228
Net change in other liabilities	178	265
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 70,786	$ 62,441
Noncash Capital and Related Financing Activities:		
Disposal of capital assets	$ -	$ (1,649)
Amortization of premium	(1,486)	(1,006)

See Accompanying Notes to Financial Statements

NOTE 1 - GENERAL INFORMATION

Organization and Administration

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

Budgetary Accounting and Control

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 by management 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. Transfers to and from the Operating and the Improvement budgets require the approval of the Commission. Unspent Improvement budget items may be spent in subsequent fiscal years if approved by the Commission.

The Capital Budget represents a ten-year plan. Funds for the Capital Budget are adopted throughout a fiscal year 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 an original 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 of U.S. government obligations including agencies, FDIC-guaranteed corporate notes and other corporate notes and bonds, and municipal 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's investment practices are governed by its 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

Generally, wastewater treatment charges are computed based on a user's water consumption. These charges are recognized as revenue when billed. Revenues earned but unbilled 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 potential for high strength pollutant discharges, and are recognized as revenue prior to the issuance of a building or operating 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 other related 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 leave upon starting a full-time position. The amount and type of leave earned is based upon the employee's date of hire and years of service and is expensed as employees earn the right to these benefits.

Permanent employees hired prior to January 1, 2014 earn from 15 to 27 days of annual leave per year. 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. These employees also earn eight hours per month of sick leave regardless of the number of 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. For these employees, long-term disability (LTD) insurance is an optional employee paid benefit that replaces part of their income if the employee suffers a serious illness or injury and can't work for an extended period of time.

Permanent employees hired after January 1, 2014 earn 8 hours of paid time off for each two-week pay period. Employees may use accumulated paid time off for any type of absence from work, subject to supervisor approval. The maximum paid time off an employee may accumulate at year-end is 208 hours. After five years of service with HRSD, an employee has vested rights to 50 percent of their accumulated paid time off at separation. For these employees, HRSD also provides a state mandated long-term disability (LTD) benefit since these employees are not eligible for disability retirement benefits through VRS. The long-term disability benefit provides income replacement for employees who become disabled and unable to work for an extended period of time due to a non work-related or work-related condition (as determined under the Virginia Workers' Compensation Act). Long-term disability benefits begin at the expiration of an additional state mandated employer paid short-term disability (STD) benefit period of 125 days.

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.

New Accounting Pronouncement

In March 2012, the GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities, effective for financial statements for periods beginning after December 15, 2012. The Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. HRSD has only one item that meets the criteria for reclassification, debt issuance costs, which were previously capitalized and amortized over the life of the bonds for which they were incurred. HRSD has implemented GASB Statement No. 65 by treating the unamortized bond issuance costs as an expense in the period incurred and has applied this treatment retrospectively by restating the prior period financial statements. A summary of the effect of adopting GASB Statement No. 65 on HRSD's net position at July 1, 2012 and June 30, 2013, and change in net position for the year ended June 30, 2013 is provided in Note 12, Change in Accounting Principle.

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, 2014 and 2013, the carrying values of HRSD's deposits were $73,342,000 and $62,158,000, respectively, and the bank balances were $75,397,000 and $63,979,000, respectively. All of the bank balances at June 30, 2014 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 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.

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, 2014 and 2013, 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.

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
June 30, 2014			
U.S. Treasury Securities	$ 74,293	$ -	$ 74,293
Federal Agency Notes/Bonds	16,866	-	16,866
Certificates of Deposit	10,644	3,353	7,291
Commercial Paper	5,247	5,247	-
Corporate Notes/Bonds	11,695	-	11,695
Municipal Securities	1,716	-	1,716
Total	**$ 120,461**	**$ 8,600**	**$ 111,861**
Investment Type	Fair Value	Less Than 1	1-3
June 30, 2013			
U.S. Treasury Securities	$ 52,126	$ 1,914	$ 50,212
Federal Agency Notes/Bonds	37,197	-	37,197
Certificates of Deposit	10,699	2,651	8,048
Corporate Notes/Bonds	9,881	-	9,881
Municipal Securities	4,387	1,004	3,383
Total	**$ 114,290**	**$ 5,569**	**$ 108,721**

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 investments, 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. At June 30, 2014 and 2013, the Trust Department of the Bank of New York held $120,461,000 and $114,290,000 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 securities using the Standard & Poor's credit quality ratings scale are presented below:

As of June 30, 2014 (in thousands)	AA+	AA	AA-	A-1+	A-1	Total
Investments						
US Treasury Securities	$ 74,293	$ -	$ -	$ -	$ -	$ 74,293
Federal Agency Notes/Bonds	16,866	-	-	-	-	16,866
Corporate Notes/Bonds	5,187	4,437	2,071	-	-	11,695
Certificates of Deposit	-	-	2,249	7,543	852	10,644
Commercial Paper	-	-	-	-	5,247	5,247
Municipal Securities	1,553	163	-	-	-	1,716
Total Investments	$ 97,899	$ 4,600	$ 4,320	$ 7,543	$ 6,099	$ 120,461

Concentration of Credit Risk. HRSD's investment policy includes a maximum exposure for each individual issuer for its permitted investment categories. U.S. Treasury obligations, however, are not subject to these 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. Municipal obligations, commercial paper, and bankers acceptances are limited to 5 percent per issuer.

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

(in thousands)	2014	2013
Fair value of investments, end of year	$ 120,461	$ 114,290
Add: Proceeds of investments sold or maturing during the year	105,109	92,617
Less: Cost of investments purchased during the year	(111,702)	(103,898)
Less: Fair value of investments, beginning of year	(114,290)	(103,723)
Change in fair value of investments	$ (422)	$ (714)

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

(in thousands)	2014	2013
Debt service	$ 24,064	$ 23,843
Debt service reserve fund	45,207	-
Revenue bond construction funds - current	21,629	14,555
Revenue bond construction funds - noncurrent	81,957	141,190
Total cash, cash equivalents and investments - restricted	$ 172,857	$ 179,588

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)	2014	2013
Balance, beginning of year	$ 1,539	$ 1,754
Add: Current provision for uncollectible accounts	1,641	1,210
Less: Charge-off of uncollectible accounts	(1,529)	(1,425)
Balance, end of year	$ 1,651	$ 1,539

HRSD's collection ratio for the years ended June 30, 2014 and 2013 was 99.3 percent for each year.

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

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

(in thousands)	Balance 6/30/12	Additions	Retirements	Balance 6/30/13	Additions	Retirements	Balance 6/30/14
Non-Depreciable Capital Assets							
Land	$ 5,771	$ 79	$ -	$ 5,850	$ 181	$ -	$ 6,031
Construction in progress	139,396	66,154	(64,004)	141,546	70,986	(16,224)	196,308
Depreciable Capital Assets							
Treatment plants	972,195	29,081	-	1,001,276	1,622	-	1,002,898
Interceptor systems	339,445	52,959	-	392,404	23,584	-	415,988
Small community facilities	22,341	210	-	22,551	-	-	22,551
Buildings	31,238	19,100	(5,867)	44,471	661	-	45,132
Office equipment	37,335	4,593	-	41,928	2,005	-	43,933
Automotive	15,387	398	-	15,785	562	(218)	16,129
Other equipment	30,032	300	-	30,332	1,243	-	31,575
Software and intangible assets	23,759	-	-	23,759	-	-	23,759
Total	$ 1,616,899	$ 172,874	$ (69,871)	$ 1,719,902	$ 100,844	$ (16,442)	$ 1,804,304
Less accumulated depreciation and amortization							
Treatment plants	(518,474)	(25,790)	-	(544,264)	(22,627)	-	(566,891)
Interceptor systems	(114,944)	(7,056)	-	(122,000)	(7,820)	-	(129,820)
Small community facilities	(4,680)	(426)	-	(5,106)	(556)	-	(5,662)
Buildings	(13,667)	(1,173)	4,218	(10,622)	(1,424)	-	(12,046)
Office equipment	(27,807)	(3,941)	-	(31,748)	(3,387)	-	(35,135)
Automotive	(12,127)	(1,243)	-	(13,370)	(1,136)	218	(14,288)
Other equipment	(13,211)	(2,391)	-	(15,602)	(2,417)	-	(18,019)
Software and intangible assets - amortization	(1,697)	(3,394)	-	(5,091)	(3,394)	-	(8,485)
Total	(706,607)	(45,414)	4,218	(747,803)	(42,761)	218	(790,346)
Net property, plant and equipment	$ 910,292	$ 127,460	$ (65,653)	$ 972,099	$ 58,083	$ (16,224)	$ 1,013,958

NOTE 6 - COMPENSATED ABSENCES

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

(in thousands)	Balance 6/30/12	Earned	Taken	Balance 6/30/13	Earned	Taken	Balance 6/30/14
Annual leave	$ 4,745	$ 1,620	$ (1,389)	$ 4,976	$ 1,618	$ (1,514)	$ 5,080
Sick leave	2,864	891	(902)	2,853	927	(945)	2,835
Paid time off	-	-	-	-	31	(8)	23
Compensatory leave	21	106	(98)	29	96	(125)	-
Total	7,630	$ 2,617	$ (2,389)	7,858	$ 2,672	$ (2,592)	7,938
Less: Current liability	2,313			2,389			2,591
Long-term liability	$ 5,317			$ 5,469			$ 5,347

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). Members become eligible for benefits 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:

Fiscal Year Ended	ARC	Actuarial Adjustment	Annual OPEB Cost	Percentage of Annual ARC Contributed	Net OPEB Obligation
2014	$ 2,244	$ -	$ 2,244	100%	$ -
2013	$ 2,102	$ -	$ 2,102	100%	$ -
2012	$ 2,231	$ -	$ 2,231	100%	$ -

Funded Status and Funding Progress. The funded status of the plan as of June 30, 2014 was as follows:

(in thousands)	
Actuarial accrued liability (AAL)	$ 39,422
Actuarial value of plan assets	34,115
Unfunded actuarial accrued liability (UAAL)	$ 5,307
Funded ratio (actuarial value of plan assets/AAL)	86.5%
Annual covered payroll (active plan members)	$ 46,096
UAAL as a percentage of covered payroll	11.5%

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

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

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

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

Additional information at June 30, 2014, 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	10 years
Asset valuation	Market value
Actuarial assumptions:	
Discount Rate	6.0%
Annual healthcare cost trend	6.0%, reducing to 4.9% after 3 years and 3.4% after 85 years
Assumed rate of inflation	2.5%

Defined Benefit Pension Plan

Plan Description. HRSD contributes to the Virginia Retirement System (VRS), an agent multiple-employer public employee retirement system (PERS) with separate cost-sharing pools for each locality, 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. 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. 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.

VRS administers three defined benefit plans for local government employees – Plan 1, Plan 2 and the Hybrid Retirement Plan:

- Members are in Plan 1 if their membership date is before July 1, 2010 and they were vested as of January 1, 2013. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or at 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 are in Plan 2 if their membership date is on or after July 1, 2010, and they were not vested as of January 1, 2013. 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.

- Members are in the Hybrid Retirement Plan (the HRP) if their membership date is on or after January 1, 2014 and they were not vested as of January 1, 2013. The HRP combines the features of a defined benefit plan and a defined contribution plan. VRS Plan 1 and VRS Plan 2 members who met certain eligibility requirements were allowed to opt into the plan during a special election window from January 1 through April 31, 2014. The employee's retirement benefit is funded through mandatory and voluntary contributions made by the employee and HRSD to both the defined benefit and the defined contribution components of the plan. 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.

Members in Plan 1 and Plan 2 contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. HRSD makes a separate actuarially determined contribution to VRS for all covered employees. The retirement benefit for members in the HRP is funded through mandatory and voluntary contributions made by the member and HRSD to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

Members in Plan 1 and Plan 2 earn one month of service credit for each month they are employed in a covered position, and vest when they have at least five years (60 months) of creditable service. Members in the HRP earn one month of service credit for each month they are employed in a covered position for the defined benefit component, and service credits are used to determine vesting for the employer contribution portion of the plan. HRP members are always 100% vested in the defined contributions they make, and upon retirement or leaving covered employment are eligible to withdraw employer contributions of 50%, 75%, or 100% after two, three, or four years of service, respectively.

The VRS Basic Benefit for Plan 1 and Plan 2 members, and the defined benefit component for HRP members, 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 and the HRP, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members in Plan 1 is 1.7%; in Plan 2 the multiplier is 1.7% for service earned, purchased or granted prior to January 1, 2013 and 1.65% after that date. The multiplier is 1.0% for members in the HRP. 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 5.0%; under Plan 2 and for the HRP defined benefit component, the COLA cannot exceed 3.0%. During years of no inflation or deflation there is no COLA adjustment. The VRS also provides death and disability benefits.

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/2013-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

The most recent VRS valuation was prior to the implementation of the HRP. At June 30, 2013, the date of the most recent valuation, the plan contained 750 active, 293 inactive and 287 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, Closed
Payroll growth rate	3.0%
Remaining amortization period	30 Years (decreasing by one each year in subsequent valuations until reaching 0 years)
Asset valuation method	Five-Year Smoothed Market Value
Actuarial assumptions:	
Investment rate of return[1]	7.0%
Projected salary increases[1]	3.50% to 5.35%
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 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 for the fiscal year ended June 30, 2014 was 9.09 percent of annual covered payroll. Actual contributions by HRSD totaled $4,107,000, $4,075,000 and $4,580,000, which were 100 percent of the Annual Required Contribution (ARC) for 2014, 2013 and 2012 respectively. HRSD has no Net Pension Obligation at June 30, 2014, 2013 or 2012.

Funded Status and Funding Progress. The funded status of the plan as of June 30, 2013 was as follows:

(in thousands)	
Actuarial accrued liability (AAL)	$ 187,686
Actuarial value of plan assets	140,242
Unfunded actuarial accrued liability (UAAL)	$ 47,444
Funded ratio (actuarial value of plan assets/AAL)	74.7%
Annual covered payroll (active plan members)	$ 45,044
UAAL as a percentage of covered payroll	105.3%

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. HRSD is required to adhere to and is in compliance with the rebate and reporting requirements of the federal regulations pertaining to arbitrage.

In fiscal year 2013, HRSD issued $22.7 million in taxable subordinate wastewater revenue bonds to provide funds to refund certain VRA subordinate bonds. The refunding resulted in a reduction of total debt service payments of $1,678,000 and created an economic gain (difference between the present values of the debt service payments on the old and new debt) of $1,596,000. Concurrent with the issuance of the bonds, HRSD obtained interest rate modifications from the Commonwealth of Virginia to the terms of certain other VRA subordinate bonds. These rate modifications resulted in a reduction of total debt service payments of $3,201,000 and created an economic gain of $2,618,000.

HRSD has outstanding $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, 2014, the bonds have been successfully remarketed by the Remarketing Agent. The interest rate for the bonds at June 30, 2014 was 0.06 percent, 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 6/30/12	Additions	Deductions	Balance at 6/30/13	Additions	Deductions	Balance at 6/30/2014	Due within One year
Series-2012 A	$ -	$ 130,480	$ -	$ 130,480	$ -	$ (2,205)	$ 128,275	$ 2,315
Series-2012 Subordinate	-	22,680	(1,565)	21,115	-	(6,015)	15,100	6,145
Series-2011FR	45,705	-	(1,775)	43,930	-	(1,480)	42,450	1,280
Series-2011VR	25,000	-	-	25,000	-	-	25,000	25,000
Series-2009A	9,845	-	(3,170)	6,675	-	(3,275)	3,400	3,400
Series-2009B	134,725	-	-	134,725	-	-	134,725	-
Series-2008	215,170	-	(2,000)	213,170	-	(2,000)	211,170	2,000
Series-2003	17,550	-	(4,150)	13,400	-	(4,295)	9,105	4,460
Virginia Resources Authority	-			-				
Senior bonds	83,262	22,993	(2,245)	104,010	5,356	(4,384)	104,982	4,562
Subordinate bonds	103,335	-	(29,219)	74,116	-	(4,366)	69,750	4,482
	634,592	176,153	(44,124)	766,621	5,356	(28,020)	743,957	53,644
Unamortized bond premiums	4,694	20,194	(1,006)	23,882	-	(1,486)	22,396	1,493
Total Bonds Outstanding	$ 639,286	$ 196,347	$ (45,130)	$ 790,503	$ 5,356	$ (29,506)	$ 766,353	$ 55,137

A summary of the senior bonds outstanding at June 30, 2014 is as follows:

(in thousands)	Issue Amount	Principal Outstanding Total	Current	Long-Term	Interest to Maturity	Interest Rates	Duration of Issue	Final Maturity
Series 2012A	$ 130,480	$ 128,275	$ 2,315	$ 125,960	$ 102,818	2.00 - 5.00%	30 years	January 1, 2044
Series-2011FR	45,705	42,450	1,280	41,170	24,937	2.00 - 5.00%	30 years	November 1, 2034
Series-2009A	15,915	3,400	3,400	-	68	2.38 - 4.00%	5 years	November 1, 2014
Series-2009B	134,725	134,725	-	134,725	118,925	3.38 - 5.86%	30 years	November 1, 2039
Series-2008	223,170	211,170	2,000	209,170	160,850	3.00 - 5.00%	30 years	July 1, 2038
Series-2003	55,890	9,105	4,460	4,645	368	3.34 - 5.00%	12 years	October 1, 2015
VRA - Metering	9,989	9,041	402	8,639	2,891	3.35%	20 years	March 1, 2031
VRA - WTP	5,727	5,250	249	5,001	1,421	2.93%	20 years	September 1, 2031
VRA - NTP	19,395	17,514	783	16,731	5,578	3.35%	20 years	March 1, 2031
VRA - JRTP	13,431	12,053	565	11,488	3,698	3.35%	20 years	March 1, 2031
VRA - ABTP	50,000	47,994	1,993	46,001	14,489	2.93%	20 years	September 1, 2032
VRA - BHTP	7,584	6,941	312	6,629	1,962	2.93%	20 years	September 1, 2031
VRA - ATP	6,318	6,189	258	5,931	1,629	2.31%	20 years	February 1, 2033
Total		$ 634,107	$ 18,017	$ 616,090	$ 439,634			

Maturities of senior bond principal and interest as of June 30, 2014 are as follows:

(in thousands) June 30,	Principal	Interest
2015	$ 18,017	$ 29,067
2016	18,558	28,438
2017	15,279	27,864
2018	18,144	27,291
2019	19,138	26,587
2020-2024	108,083	119,536
2025-2029	132,787	92,639
2030-2034	144,506	59,959
2035-2039	126,480	24,937
2040-2044	33,115	3,316
	$ 634,107	$ 439,634

A summary of the subordinate revenue bonds outstanding at June 30, 2014 is as follows:

(in thousands)	Issue Amount	Principal Outstanding Total	Current	Long-term	Interest to Maturity	Interest Rates	Duration of Issue	Final Maturity
Series-2012	$ 22,680	$ 15,100	$ 6,145	$ 8,955	$ 241	0.3% - 1.92%	8 years	October 1, 2020
Disinfection	6,490	2,481	378	2,103	291	3.50%	20 years	March 1, 2020
BH Odor	2,380	1,094	130	964	159	3.50%	20 years	September 1, 2021
York River Reuse	2,476	1,223	135	1,088	96	1.70%	20 years	September 1, 2022
AB Aeration	1,759	916	101	815	72	1.70%	20 years	October 1, 2022
Ches-Eliz Off Gas	1,070	560	53	507	105	3.75%	20 years	March 1, 2023
AB Generator	1,235	839	63	776	109	2.00%	20 years	April 1, 2026
Atlantic Expansion	7,340	5,351	362	4,989	791	2.10%	20 years	February 1, 2027
Ches-Eliz Expansion	40,330	29,245	1,979	27,266	4,323	2.10%	20 years	June 1, 2027
Williamsburg PS	1,605	1,204	78	1,126	185	2.10%	20 years	July 1, 2027
York River Expansion	29,683	26,837	1,203	25,634	8,964	3.55%	20 years	March 1, 2031
		84,850	10,627	74,223	15,336			
Series-2011VR	25,000	25,000	25,000	-	410	Variable (0.06% at June 30, 2014)	30 years	November 1, 2041
Total		$ 109,850	$ 35,627	$ 74,223	$ 15,746			

Maturities of subordinate bond principal and interest as of June 30, 2014 are as follows:

(in thousands) June 30,	Principal	Interest
2015	$ 10,627	$ 1,990
2016	9,526	1,835
2017	7,549	1,680
2018	5,151	1,538
2019	5,286	1,404
2020-2024	24,703	5,015
2025-2029	18,522	1,960
2030-2034	3,486	214
2035-2039	-	75
2040-2044	25,000	35
	$ 109,850	$ 15,746

NOTE 9 – NET POSITION

Restricted Portions of Net Position

Restricted for debt service and restricted for debt service reserve fund. HRSD's Trust Agreement requires that funds be set aside for its revenue bond debt service and for a debt service reserve fund.

Unrestricted Portion of Net Position

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, 2014 and 2013, $8,477,000 and $15,545,000, respectively, was contained in the unrestricted net position. HRSD was in compliance with all funding requirements of this reserve during the fiscal years ended June 30, 2014 and 2013.

Reserved for Construction. A reserve for the construction program is based on funds designated by HRSD's Commission for such purposes. At June 30, 2014 and 2013, $55,532,000 and $54,556,000, respectively, was contained in the unrestricted net position.

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, dental and vision care benefits program for all employees. Certain health 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 2012 through 2014 are as follows:

(in thousands)	Beginning of Fiscal Year	Estimated Claims Incurred	Claims Paid	End of Fiscal Year
2012	$ 1,258	$ 7,959	$ (7,148)	$ 2,069
2013	$ 2,069	$ 10,392	$ (9,862)	$ 2,599
2014	$ 2,599	$ 10,186	$ (9,914)	$ 2,871

NOTE 11 – COMMITMENTS AND CONTINGENCIES

HRSD is party to a federal consent decree with the federal and state governments (the Consent Decree), which requires HRSD to evaluate the wet weather capacity of the regional sewer system, including collection systems owned by 13 of the localities which HRSD serves in the Hampton Roads area. Based upon that evaluation, HRSD, in consultation with the Localities, is required to develop a regional wet weather management plan (RWWMP) for submittal to the federal and state environmental agencies for their approval. The recommended plan will include an implementation schedule. The RWWMP will identify the attainable level of wet weather capacity in individual areas of the region and/or on a region-wide basis. The RWWMP will also summarize the major projects and programs that must be implemented in order to achieve the specified level of regional wet weather capacity. It is likely that the RWWMP will call for several hundred million dollars in infrastructure investments across the Hampton Roads region over several decades.

HRSD and the localities believe that addressing wet weather capacity issues from a regional perspective will result in the most affordable and cost-effective approach for ratepayers throughout the region. Toward that end, HRSD and the localities entered into a legally binding Memorandum of Agreement in March of 2014 (the MOA). The MOA commits HRSD to (1) develop the RWWMP in consultation with the localities, (2) fund the approved plan through a regional rate imposed on all regional ratepayers, (3) design and construct the necessary improvements, and (4) assume responsibility for wet weather capacity throughout the region in each area once the RWWMP is implemented. In exchange, the localities have agreed to (1) cooperate with HRSD, (2) facilitate the construction of and accept ownership of any improvements which HRSD may need to construct in the localities' systems, and (3) maintain the integrity of their systems to industry standards.

The Consent Decree and MOA also contemplate that the localities' obligation to maintain the integrity of their sewer systems to industry standards will be embodied in a State administrative order by the end of 2014. While HRSD is preparing the RWWMP, the Consent Decree also requires HRSD to implement approximately $200 million in priority capital system upgrade projects over a nine year period, which are included in the capital improvement and expansion program noted below. Management currently believes that HRSD is on schedule to complete these projects.

HRSD has a major capital improvement and expansion program funded through the issuance of debt and its own resources. At June 30, 2014 HRSD has outstanding commitments for contracts in progress of approximately $217,396,000.

NOTE 12 – CHANGE IN ACCOUNTING PRINCIPLE

HRSD adopted GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, effective July 1, 2012. This statement requires that certain items previously reported as assets and liabilities are now recognized as outflows or inflows of resources. To implement GASB Statement No. 65 retrospectively, unamortized bond issuance costs were expensed and the prior period financial statements were restated accordingly.

The following summarizes the effect of adopting GASB Statement No. 65 on the net position at July 1, 2012 and change in net position as of June 30, 2013:

(in thousands)	
Net position previously reported at July 1, 2012	$ 496,406
Unamortized bond issuance costs	(2,207)
Restated net position at July 1, 2012	494,199
Change in net position previously reported as of June 30, 2013	9,448
Bond issuance costs expensed	(781)
Amortization of bond issuance costs	123
Restated change in net position as of June 30, 2013	8,790
Restated net position at June 30, 2013	$ 502,989

Required Supplementary Information

(Unaudited)

Photo Above: Boat Harbor Treatment Plant This 25 MGD plant was placed in service in 1948. Located in Newport News at the mouth of the James River, it also receives flows from portions of Hampton.

Photo Below: Nansemond Treatment Plant A winner of the Governor's Environmental Excellence Award, this 30 MGD Suffolk plant near the mouth of the James River hosts the Chesapeake Bay Watershed's first Nutrient Recovery Facility and a Regional Residuals Facility.

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)
6/30/2013	$140,242	$187,686	$47,444	74.7%	$45,044	105.3%
6/30/2012	$133,331	$183,384	$50,053	72.7%	$42,166	118.7%
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%

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)
6/30/2014	$34,115	$39,422	$5,307	86.5%	46,096	11.5%
6/30/2013	$28,030	$35,552	$7,522	78.8%	45,032	16.7%
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%

Unaudited – See accompanying independent auditors' report

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Statistical Section

(Unaudited)

Photo Above: James River Treatment Plant Placed in operation in 1967, this 20 MGD Newport News plant underwent a $31.7 million upgrade, completed in 2012, that included the installation of IFAS, an innovative nutrient removal technology.

Photo Below: Williamsburg Treatment Plant This 22.5 MGD facility on the James River started up in 1971. Its unique design accommodates waste from the nearby Anheuser-Busch brewery.

Statistical Section (Unaudited)

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

Contents **Page(s)**

Demographic and Economic Information

This schedule offers demographic and economic indicators to help the reader understand the environment within which HRSD's financial activities take place and to help make comparisons over time and with other governments. 37

Financial Trends

These schedules contain trend information to help the reader understand how HRSD's financial performance and well-being have changed over time. 38-40

Debt Capacity

This schedule presents information to help the reader assess the affordability of HRSD's current levels of outstanding debt and HRSD's ability to issue additional debt in the future. 41

Revenue Capacity

These schedules contain information to help the reader assess the factors affecting HRSD's ability to generate revenue from rate payers. 42-43, 46-48

Operating Information

These schedules contain information about the HRSD's operations and resources to help the reader understand how the HRSD's financial information relates to the services HRSD provides and the activities it performs. 44-45, 49

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, 2014

		2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
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	672
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	54.0	54.0	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	248.5	248.5	230.5	230.5	230.5	230.5	230.5
Small Communities Treatment Plants		4	4	5	5	4	4	4	3	3	3
Central Middlesex, Middlesex County		0.03	0.03	0.03	0.03	-	-	-	-	-	-
King William Plant, King William County		0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-
Mathews Plant, Mathews County (note 1)		-	-	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		0.83	0.83	0.93	0.93	0.90	0.90	0.90	0.80	0.80	0.80
Miles of Interceptor Systems (note 2)		531	531	532	528	483	483	514	512	512	512
Interceptor Pump Stations		83	83	83	82	81	82	82	81	79	78
Small Communities Pump Stations (note 2)		33	29	29	29	25	20	20	20	20	20
Maintenance Facilities		2	2	2	2	2	2	2	2	2	2
Number of Service Connections (in thousands; note 3)		462	460	458	457	455	452	442	461	457	451
Daily Average Treatment in Millions of Gallons		155	158	147	144	171	151	146	163	158	173
Bond Ratings											
Moody's Investors Service	Senior	Aa2	Aa2	Aa2	Aa2	Aa2	Aa3	Aa3	Aa3	Aa3	Aa3
Standard & Poor's	Senior	AAA	AAA	AAA	AAA	AAA	AA+	AA+	AA	AA	AA
	Subordinate Long-term	AA+	AA+	AA+	-	-	-	-	-	-	-
	Subordinate Short-term	A-1+	A-1+	A-1+	-	-	-	-	-	-	-
Fitch	Senior	AA+	AA+	AA+	AA+	AA+	AA	AA	-	-	-
	Subordinate Long-term	AA	AA	AA	-	-	-	-	-	-	-
	Subordinate Short-term	F1+	F1+	F1+	-	-	-	-	-	-	-

Note 1 - The Mathews Treatment Plant has been closed. Wastewater from the area is now handled by the York River Treatment Plant.

Note 2 - 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 3 - 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 POSITION BY COMPONENT, AND
DEBT SERVICE EXPENDITURES
LAST TEN FISCAL YEARS

(in thousands)	2014	(restated) 2013	(restated) 2012	2011
OPERATING REVENUES				
Wastewater treatment charges	$ 211,538	$ 199,318	$ 194,817	$ 183,526
Miscellaneous	3,643	3,297	2,996	3,890
TOTAL OPERATING REVENUES	215,181	202,615	197,813	187,416
OPERATING EXPENSES				
Wastewater treatment	111,287	109,980	110,783	103,225
General and administrative	33,012	31,410	31,163	28,622
Depreciation	42,761	45,414	41,250	36,191
TOTAL OPERATING EXPENSES	187,060	186,804	183,196	168,038
OPERATING INCOME (LOSS)	28,121	15,811	14,617	19,378
NONOPERATING REVENUES (EXPENSES)				
Wastewater facility charges	6,640	5,851	6,276	5,083
Investment income	1,872	1,705	1,681	1,699
Bond interest subsidy	2,364	2,602	2,602	2,602
Bond issuance costs	-	(658)	(2,206)	-
Change in fair value of investments	(422)	(714)	(224)	(19)
Disposal of capital assets	-	(1,649)	-	-
Interest expense	(25,650)	(24,330)	(22,760)	(20,516)
NET NONOPERATING REVENUES (EXPENSES)	(15,196)	(17,193)	(14,631)	(11,151)
INCOME (LOSS) BEFORE CONTRIBUTIONS	12,925	(1,382)	(14)	8,227
CAPITAL CONTRIBUTIONS				
State Capital Grants	13,888	10,172	14,806	16,097
CHANGE IN NET POSITION	$ 26,813	$ 8,790	$ 14,792	$ 24,324
NET POSITION				
Net Investment in capital assets	$ 351,191	$ 337,342	$ 348,407	$ 351,618
Restricted for debt service	24,064	23,843	15,736	14,896
Restricted for debt service reserve fund	45,207	-	-	-
Unrestricted	109,340	141,804	130,056	110,688
TOTAL NET POSITION	$ 529,802	$ 502,989	$ 494,199	$ 477,202
DEBT SERVICE EXPENDITURES				
Senior debt	$ 47,331	$ 37,574	$ 33,023	$ 28,257
Subordinate debt	$ 14,112	$ 11,243	$ 13,694	$ 10,640
Senior Debt Coverage	1.72	1.86	1.94	2.30
Total Debt Coverage	1.32	1.43	1.37	1.67

Note - HRSD implemented GASB Statement 65 effective July 1, 2012, which requires expensing bond issuance costs in the year incurred.

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

2010	2009	2008	2007	2006	2005
$ 167,807	$ 156,642	$ 129,583	$ 118,423	$ 106,208	$ 98,308
3,645	3,088	2,623	3,558	3,419	3,354
171,452	159,730	132,206	121,981	109,627	101,662
98,022	86,850	72,034	68,930	67,496	59,041
29,435	28,853	31,756	26,070	21,820	20,509
30,441	28,414	27,282	24,958	24,509	24,912
157,898	144,117	131,072	119,958	113,825	104,462
13,554	15,613	1,134	2,023	(4,198)	(2,800)
5,754	5,086	8,339	9,645	10,526	10,579
1,541	3,998	3,999	3,363	2,896	2,349
1,655	-	-	-	-	-
-	-	-	-	-	-
40	162	656	994	(868)	343
-	-	-	-	-	-
(19,973)	(15,263)	(5,867)	(4,630)	(4,518)	(4,682)
(10,983)	(6,017)	7,127	9,372	8,036	8,589
2,571	9,596	8,261	11,395	3,838	5,789
41,606	16,678	-	-	-	-
$ 44,177	$ 26,274	$ 8,261	$ 11,395	$ 3,838	$ 5,789
$ 348,572	$ 319,594	$ 301,760	$ 314,708	$ 282,177	$ 271,907
12,253	7,542	7,377	6,247	7,817	6,871
-	-	-	-	-	-
92,053	81,565	73,290	53,211	72,777	80,155
$ 452,878	$ 408,701	$ 382,427	$ 374,166	$ 362,771	$ 358,933
$ 21,081	$ 17,453	$ 4,699	$ 8,609	$ 8,720	$ 8,545
$ 10,695	$ 10,694	$ 11,992	$ 8,000	$ 7,500	$ 7,249
2.51	3.05	8.81	4.76	3.77	4.14
1.67	1.89	2.48	2.47	2.03	2.24

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

(in thousands)	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Personal Services	$ 50,538	$ 49,361	$ 47,319	$ 44,284	$ 42,529	$ 40,840	$ 37,333	$ 36,228	$ 32,045	$ 30,908
Fringe Benefits	20,170	20,039	17,800	17,692	15,217	12,410	12,573	11,106	8,430	7,790
Repairs and Maintenance	24,458	23,075	26,057	21,234	23,445	14,176	10,704	11,101	13,036	9,523
Materials and Supplies	5,764	5,700	6,143	8,381	6,284	5,715	5,965	5,224	5,153	5,236
Transportation	1,417	1,376	1,319	1,196	1,009	972	965	802	855	716
Utilities	11,126	12,295	12,027	11,026	10,755	13,218	11,601	10,457	10,782	9,185
Chemicals	7,752	7,892	8,587	8,084	7,571	8,342	8,032	7,077	6,721	4,715
Contractual Services	14,222	13,993	12,312	11,118	10,333	8,642	9,064	7,828	7,108	6,733
Miscellaneous	1,274	1,172	1,324	1,148	1,049	1,028	897	720	642	736
General (1)	7,578	6,487	6,852	7,684	9,265	10,360	6,656	4,457	4,544	4,008
Subtotal, Expense before Depreciation	144,299	141,390	139,740	131,847	127,457	115,703	103,790	95,000	89,316	79,550
Depreciation	42,761	45,414	41,250	36,191	30,441	28,414	27,282	24,958	24,509	24,912
Total Operating Expenses	$ 187,060	$ 186,804	$ 180,990	$ 168,038	$ 157,898	$ 144,117	$ 131,072	$ 119,958	$ 113,825	$ 104,462

(1) Includes bad debt expense

HAMPTON ROADS SANITATION DISTRICT
RATIOS OF OUTSTANDING DEBT BY TYPE
JUNE 30, 2014

As of June 30,	No. Of Service Conections		Senior Revenue Bonds (in thousands)	Subordinate Revenue Bonds (in thousands)	Total Outstanding Debt (in thousands)	Debt Per Service Connection
2014	462,000		$ 656,503	$ 109,850	$ 766,353	$ 1,659
2013	460,000		670,272	120,231	790,503	1,718
2012	458,000		510,951	128,335	639,286	1,396
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

* 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

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Residential - Metered										
Per CCF * (single step)	$ 3.55	$ 3.29	$ 3.05	$ 2.82	$ 2.52	-	-	-	-	-
First 30 CCF* per 30-day period	-	-	-	-	-	$ 2.28	$ 1.98	$ 1.72	$ 1.52	$ 1.43
In excess of 30 CCF* per 30-day period	-	-	-	-	-	2.06	1.79	1.55	1.37	1.29
Minimum Charges										
Per day	0.25	0.25	0.25	0.25	0.25	-	-	-	-	-
2 CCF* or less per 30-day period	-	-	-	-	-	6.50	5.65	4.91	4.34	4.08
Residential - Unmetered per 30-day period										
Flat rate accounts	26.32	26.32	24.40	22.56	20.16	-	-	-	-	-
First toilet	-	-	-	-	-	10.25	8.91	7.74	6.84	6.45
Second toilet	-	-	-	-	-	6.83	5.94	5.16	4.56	4.30
Additional, each	-	-	-	-	-	3.42	2.97	2.58	2.28	2.15
Non-Residential - Special Category										
Biochemical Oxygen Demand (BOD)										
Excess over 250 mg/liter										
Per mg/liter per CCF	0.001558	0.002451	-	-	-	-	-	-	-	-
Per Hundred Pounds	-	-	46.77	39.71	35.39	31.95	27.71	24.05	22.50	22.23
Total suspended solids (TSS)										
Excess over 250 mg/liter										
Per mg/liter per CCF	0.001244	0.001865	-	-	-	-	-	-	-	-
Per Hundred Pounds	-	-	36.70	34.73	30.25	28.54	24.82	22.51	20.30	19.96
Total phosphorus (TP)										
Excess over 6 mg/liter										
Per mg/liter per CCF	0.011714	0.012790	-	-	-	-	-	-	-	-
Per Hundred Pounds	-	-	300.57	300.57	293.41	283.10	252.52	239.83	210.59	188.76
Total Kjeldahl Nitrogen (TKN)										
Excess over 35 mg/liter										
Per mg/liter per CCF	0.001752	0.002085	-	-	-	-	-	-	-	-
Per Hundred Pounds	-	-	74.51	63.39	61.88	59.73	53.96	28.54	24.37	23.99

Unusual wastes not covered by this schedule may be assigned a special rate.

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Septic Tank Waste										
Per gallon	0.1258	0.1146	-	-	-	-	-	-	-	-
Per each 500 gallons or part thereof	-	-	48.57	44.46	38.51	35.84	31.21	28.05	25.45	24.82

*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

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Residential	$ 1,895	$ 1,895	$ 1,895	$ 1,715	$ 1,715	$ 1,655	$ 1,607	$ 1,540	$ 1,465	$ 1,355
Commercial/Industrial										
Volume based facility charges:										
5/8" Meter	$ 1,895	$ 1,895	$ 1,895	$ 1,715	$ 1,715	$ 1,655	$ 1,607	$ 1,540	$ 1,465	$ 1,355
3/4" Meter	4,830	4,510	2,885	2,605	2,605	2,515	2,443	2,340	2,230	2,060
1" Meter	8,170	7,630	5,370	4,850	4,850	4,685	4,548	4,350	4,150	3,835
1 1/2" Meter	17,260	16,130	13,035	11,780	11,780	11,365	11,040	10,565	10,065	9,310
2" Meter	29,420	27,490	24,420	22,065	22,065	21,290	20,681	19,785	18,855	17,435
3" Meter	62,270	58,180	59,140	53,440	53,440	51,565	50,088	47,920	45,670	42,225
4" Meter	106,060	99,110	110,860	100,175	100,175	96,660	93,892	89,830	85,605	79,155
6" Meter	224,650	209,920	268,675	242,780	242,780	234,260	227,556	217,710	207,470	191,840
8" Meter	382,670	357,580	503,350	454,835	454,835	438,875	426,315	407,870	388,685	359,405
10" Meter	587,820	540,610	819,310	740,340	740,340	714,355	693,915	663,890	632,665	585,000
Strength based facility charges: (per permitted pound)										
Biochemical Oxygen Demand (BOD) Excess over 250 mg/liter	$ 987	$ 928	-	-	-	-	-	-	-	-
Total suspended solids (TSS) Excess over 250 mg/liter	624	587	-	-	-	-	-	-	-	-
Total phosphorus (TP) Excess over 6 mg/liter	5,846	5,502	-	-	-	-	-	-	-	-
Total Kjeldahl Nitrogen (TKN) Excess over 35 mg/liter	1,313	1,235	-	-	-	-	-	-	-	-

Note - One charge per connection.

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

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
District Total										
Flow (MGD)	154.0	157.9	147.1	144.4	170.9	151.4	146.3	163.3	157.5	172.7
Influent (1,000 lbs.)										
BOD	288.6	274.4	254.6	273.1	275.2	300.9	332.1	346.3	357.3	358.6
TSS	204.7	198.1	200.3	205.9	210.7	203.6	211.3	224.0	225.0	230.4
TP	6.8	6.6	6.7	7.0	7.4	7.8	6.7	7.2	6.7	8.3
TKN	47.9	48.9	48.3	49.8	48.2	49.0	51.4	-	-	-
Effluent (1,000 lbs.)										
BOD	9.6	9.3	7.5	9.3	11.5	8.7	9.2	10.9	9.6	12.7
TSS	9.1	9.3	10.5	9.2	13.1	10.5	10.8	11.5	11.0	14.7
TP	1.1	1.0	1.1	1.0	1.0	1.0	1.1	1.1	1.2	1.3
TKN	11.2	12.0	10.1	12.3	14.9	13.3	11.2	-	-	-
Army Base Plant										
Flow (MGD)	10.7	11.8	10.2	10.0	12.6	10.4	9.7	11.3	11.3	12.5
Influent (1,000 lbs.)										
BOD	19.0	18.5	17.4	16.9	17.0	18.1	18.9	19.5	21.7	21.0
TSS	14.2	14.4	13.7	12.9	13.5	12.9	13.0	13.8	14.4	14.5
TP	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5
TKN	3.5	3.7	3.5	3.2	3.2	3.1	3.4	-	-	-
Effluent (1,000 lbs.)										
BOD	0.8	0.8	0.9	0.8	1.0	0.8	1.0	0.9	0.8	0.8
TSS	0.8	0.9	0.8	1.0	1.1	0.8	1.1	0.9	0.9	1.0
TP	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
TKN	2.6	2.8	2.5	2.3	2.3	2.3	2.4	-	-	-
Atlantic Plant										
Flow (MGD)	25.7	26.7	29.0	29.7	30.4	26.6	26.3	29.4	30.2	31.1
Influent (1,000 lbs.)										
BOD	52.7	51.3	56.0	58.6	55.1	52.0	55.7	58.2	61.6	63.6
TSS	37.3	36.4	43.8	46.9	43.3	40.2	41.7	46.3	47.1	47.4
TP	1.3	1.3	1.5	1.8	1.8	1.9	-	-	-	-
TKN	10.4	10.5	11.7	12.3	11.3	10.5	10.7	-	-	-
Effluent (1,000 lbs.)										
BOD	2.2	2.6	2.0	3.0	2.3	1.8	1.9	2.0	2.2	3.2
TSS	2.0	1.9	1.8	2.0	2.9	2.2	2.0	2.1	2.7	4.2
Boat Harbor Plant										
Flow (MGD)	14.9	15.5	13.6	12.6	16.7	13.0	11.6	14.6	13.7	15.3
Influent (1,000 lbs.)										
BOD	19.2	19.3	19.9	19.4	19.9	19.9	19.6	21.4	23.6	22.7
TSS	16.7	16.0	16.9	15.6	17.5	15.2	14.6	17.3	17.4	17.2
TP	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.6	0.6	2.0
TKN	3.7	3.7	3.7	3.8	3.7	3.6	3.6	-	-	-
Effluent (1,000 lbs.)										
BOD	0.7	0.7	0.6	0.6	1.1	0.6	0.9	1.5	1.3	1.3
TSS	0.8	0.8	0.9	0.7	1.3	0.7	0.7	1.2	0.8	1.3
TP	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2
TKN	2.4	2.9	3.0	2.8	2.8	2.6	2.3	-	-	-
Chesapeake-Elizabeth Plant										
Flow (MGD)	19.1	18.4	15.2	16.3	20.1	19.5	18.7	15.6	16.8	21.0
Influent (1,000 lbs.)										
BOD	38.7	32.1	24.8	30.1	32.7	36.0	38.3	30.8	35.0	41.8
TSS	26.6	25.1	21.0	22.6	26.9	27.1	27.5	21.5	23.4	28.2
TP	0.8	0.8	0.7	0.7	0.8	0.9	1.0	0.7	0.9	1.1
TKN	6.7	6.4	5.4	6.1	6.2	6.9	7.2	-	-	-
Effluent (1,000 lbs.)										
BOD	2.5	2.2	1.5	1.8	2.2	2.1	2.0	1.9	1.7	2.1
TSS	1.9	2.1	1.8	1.9	2.2	2.2	2.1	1.7	2.1	2.8
TP	0.1	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.3
TKN	4.5	4.2	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)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
James River Plant										
Flow (MGD)	13.6	14.3	12.9	12.2	14.9	12.3	12.7	15.1	12.5	15.3
Influent (1,000 lbs.)										
BOD	27.5	25.5	25.3	26.2	24.7	23.0	25.4	30.8	28.7	30.1
TSS	19.4	19.2	19.0	19.8	19.9	17.6	19.6	21.1	19.0	21.2
TP	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7
TKN	4.2	4.4	4.4	4.4	4.3	4.2	4.2	-	-	-
Effluent (1,000 lbs.)										
BOD	0.5	0.7	0.7	0.9	1.2	0.8	1.1	1.2	0.7	1.4
TSS	0.6	0.8	0.8	0.9	1.8	1.4	1.5	1.4	0.9	1.3
TP	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2
TKN	0.2	0.6	0.5	2.3	2.6	1.2	1.0	-	-	-
Nansemond Plant										
Flow (MGD)	16.9	17.1	16.2	15.9	18.0	17.1	17.2	18.7	17.9	20.8
Influent (1,000 lbs.)										
BOD	29.0	27.0	23.7	27.9	30.2	31.6	32.3	36.7	38.0	41.3
TSS	23.1	22.9	22.6	22.6	24.5	23.1	24.5	27.1	25.5	28.6
TP	1.1	1.1	1.0	1.0	1.1	1.1	1.3	1.7	1.3	1.5
TKN	5.8	5.9	6.0	6.1	6.0	6.2	6.4	-	-	-
Effluent (1,000 lbs.)										
BOD	0.9	0.6	0.6	0.8	1.2	0.7	0.6	0.8	0.7	1.3
TSS	1.1	0.8	0.9	1.1	1.3	1.0	1.4	1.5	1.2	1.6
TP	0.2	0.2	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.1
TKN	0.5	0.3	0.3	0.5	2.3	1.3	0.3	-	-	-
Virginia Initiative Plant										
Flow (MGD)	30.7	31.9	29.8	28.5	35.7	29.9	25.4	31.2	29.2	29.0
Influent (1,000 lbs.)										
BOD	45.8	45.8	42.3	42.8	43.0	46.9	47.2	50.3	48.5	43.5
TSS	30.6	31.6	32.3	31.8	31.7	31.1	27.3	31.6	32.0	29.6
TP	1.2	1.1	1.1	1.1	1.2	1.3	1.4	1.5	1.3	1.1
TKN	7.4	7.5	7.6	7.3	7.2	7.5	7.1	-	-	-
Effluent (1,000 lbs.)										
BOD	1.4	0.9	0.8	0.7	1.7	1.3	1.2	1.8	1.2	1.1
TSS	1.7	1.4	1.5	1.1	1.7	1.5	1.2	1.7	1.1	0.9
TP	0.2	0.1	0.2	0.1	0.1	0.1	0.2	0.1	0.1	0.1
TKN	0.6	0.5	0.5	0.4	0.8	1.5	1.1	-	-	-
Williamsburg Plant										
Flow (MGD)	9.2	8.9	9.1	8.6	10.0	12.0	14.4	15.1	14.5	15.0
Influent (1,000 lbs.)										
BOD	40.4	37.7	33.5	37.5	37.9	59.9	79.0	80.8	80.1	75.5
TSS	19.9	16.8	16.7	19.0	19.6	23.4	30.6	28.8	28.3	27.3
TP	0.6	0.5	0.5	0.6	0.6	0.8	1.0	1.0	0.9	0.9
TKN	3.3	3.3	3.4	3.5	3.5	4.3	5.2	-	-	-
Effluent (1,000 lbs.)										
BOD	0.3	0.3	0.3	0.3	0.4	0.3	0.4	0.4	0.3	0.6
TSS	0.3	0.4	0.6	0.3	0.4	0.3	0.5	0.5	0.6	0.7
TP	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2
TKN	0.2	0.3	0.2	0.2	0.2	0.3	0.2	-	-	-
York River Plant										
Flow (MGD)	13.2	13.3	11.2	10.8	12.5	10.7	10.2	12.3	11.4	12.7
Influent (1,000 lbs.)										
BOD	17.9	17.2	13.3	15.5	16.3	15.5	15.8	17.8	20.1	19.1
TSS	16.4	15.7	14.1	14.3	14.0	12.6	12.4	16.5	17.9	16.4
TP	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5
TKN	3.6	3.5	3.2	3.6	3.3	3.3	3.7	-	-	-
Effluent (1,000 lbs.)										
BOD	0.4	0.5	0.2	0.5	0.4	0.4	0.3	0.4	0.7	0.9
TSS	0.1	0.2	0.1	0.3	0.5	0.5	0.4	0.5	0.7	0.9
TP	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
TKN	0.3	0.4	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
TEN LARGEST CUSTOMERS
CURRENT YEAR AND NINE YEARS AGO
(in thousands)

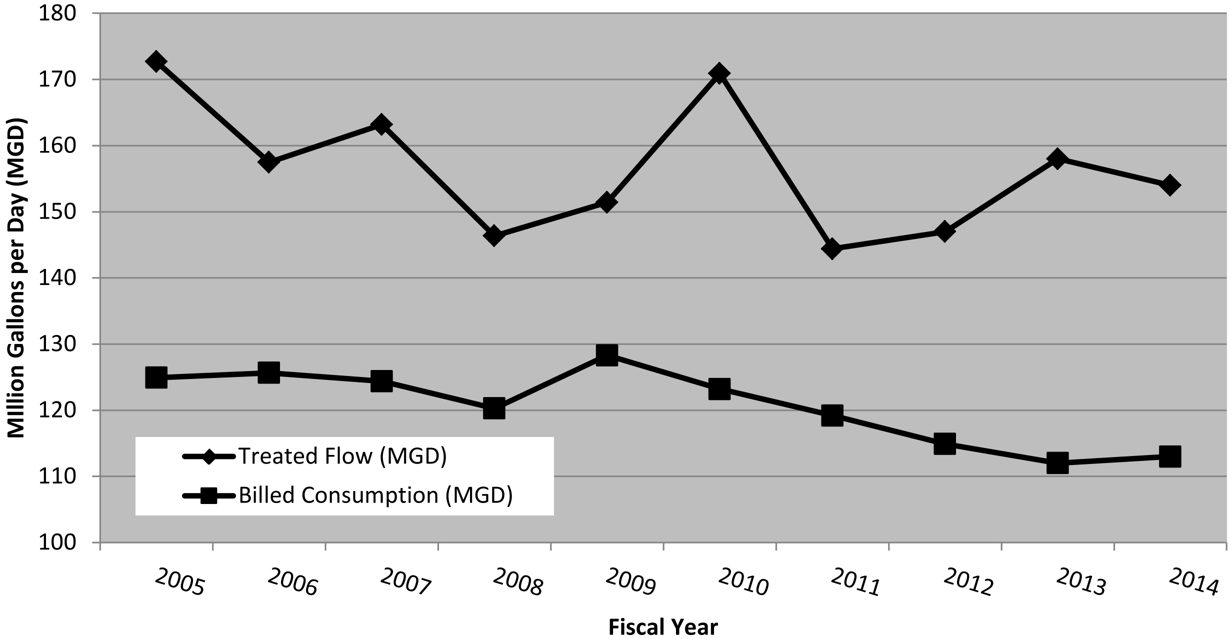
Customer	Type	2014 Amount	2014 Percent	2005 Amount	2005 Percent
Anheuser - Busch, Inc.	Brewery	$ 4,457	2.1%	$ 5,271	5.4%
U.S. Navy - Norfolk Naval Base	Military Facility	4,026	1.9%	1,811	1.8%
Smithfield Foods	Meat Processor	3,327	1.6%	2,347	2.4%
City of Norfolk	Municipality	1,686	0.8%	1,050	1.1%
Huntington Ingalls Industries (formerly Northrop Grumman Newport News/ Newport News Shipbuilding and Drydock)	Shipbuilding	1,661	0.8%	430	0.4%
Norfolk Redevelopment & Housing Authority	Housing Authority	1,479	0.7%	569	0.6%
Joint Expeditionary Base Little Creek - Fort Story (formerly U.S. Navy - Little Creek Amphibious Base)	Military Facility	1,384	0.7%	695	0.7%
Norfolk Naval Shipyard	Military Ship Repair	1,249	0.6%	424	0.4%
Fort Eustis	Military Facility	1,076	0.5%	-	-
Sentara Healthcare	Health Care Network	1,019	0.5%	-	-
U.S. Air Force - Langley Air Force Base	Military Facility	-	-	705	0.7%
City of Virginia Beach	Municipality	-	-	379	0.4%
Total		$ 21,364	10.2%	$ 13,681	13.9%

HAMPTON ROADS SANITATION DISTRICT
WASTEWATER TREATMENT CHARGES
TEN LARGEST EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO

Employer	Type	2014 Number of Employees	2014 Rank	2014 Percent of Regional Employment	2005 Number of Employees	2005 Rank	2005 Percent of Regional Employment
Naval Station Norfolk	Shipbuilding and repair	57,379	1	6.1%	65,000	1	11.4%
Huntington Ingalls Industries	Shipbuilding and repair	24,000	2	2.6%	20,500	2	3.6%
Joint Base Langley-Eustis	Military Facility	23,090	3	2.5%	19,198	3	3.4%
Sentara Healthcare	Health care network	20,000	4	2.1%	15,000	5	2.6%
Joint Expeditionary Base Little Creek - Fort Story	Military Facility	19,841	5	2.1%	10,428	7	1.8%
Oceana Naval Air Station	Military Facility	15,547	6	1.7%	16,961	4	3.0%
Norfolk Naval Shipyard	Military Facility	12,486	7	1.3%	7,600	7	1.3%
Virginia Beach Public Schools	Public schools	10,000	8	1.1%	10,515	6	1.8%
Riverside Health System	Health care network	7,050	9	0.8%	6,428	9	1.1%
Norfolk City Public Schools	Public schools	6,527	10	0.7%	5,599	10	1.0%
Total		138,541		14.8%	112,229		19.6%

Sources:
Hampton Roads Economic Development Alliance
Hampton Roads Statistical Digest
Confirmation with employers

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)
2005	173	125
2006	158	126
2007	163	124
2008	146	120
2009	151	128
2010	171	123
2011	144	119
2012	147	115
2013	158	112
2014	154	113

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

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
General Management											
General Manager	4	4	5	5	5	5	5	5	5	5	5
Human Resources	10	10	10	11	11	10	7	7	6	6	6
	14	14	15	16	16	15	12	12	11	11	11
Finance & Administration											
Accounting & Finance	10	10	10	10	10	10	10	10	10	10	10
Customer Information Service	69	68	69	69	69	63	61	58	59	59	59
Procurement	9	9	7	7	8	8	8	7	7	7	7
Support Staff	3	3	3	3	3	3	2	3	3	2	2
Total Finance & Administration	91	90	89	89	90	84	81	78	79	78	78
Information Services											
Information Technology	35	35	33	33	33	21	21	21	16	15	15
Support Staff	1	1	2	2	2	3	3	3	2	2	2
Total Information Services	36	36	35	35	35	24	24	24	18	17	17
Operations											
Army Base Treatment Plant	32	32	32	32	32	32	32	32	33	33	32
Atlantic Base Treatment Plant	33	33	32	32	32	33	33	33	33	33	33
Boat Harbor Treatment Plant	33	33	33	33	34	34	34	34	34	34	34
Ches.-Eliz. Treatment Plant	32	32	32	32	32	32	32	32	32	32	32
Interceptor System Maintenance	120	120	121	122	122	106	93	89	89	89	89
James River Treatment Plant	21	21	21	21	21	21	21	21	21	21	21
Maintenance Shops	86	86	86	86	86	81	78	78	76	74	70
Nansemond Treatment Plant	31	31	30	30	30	30	30	30	30	30	29
Virginia Initiative Plant	31	31	31	31	31	31	31	31	31	31	31
Williamsburg Treatment Plant	29	29	31	31	31	31	34	34	34	34	34
York River Treatment Plant	23	23	23	23	23	23	23	23	23	23	23
Middle Peninsula Division	17	17	17	17	15	15	15	13	12	12	13
Support Staff	25	25	24	24	24	24	30	30	37	36	33
Total - Operations	513	513	513	514	513	493	486	480	485	482	474
Engineering											
Design and Construction	19	19	17	15	15	15	14	14	14	14	14
Support Staff	14	14	14	14	14	14	13	13	3	4	4
Total - Engineering	33	33	31	29	29	29	27	27	17	18	18
Water Quality											
Industrial Waste (P3)	24	24	24	24	24	24	24	24	24	25	25
Technical Services	23	21	21	21	20	20	20	20	20	18	18
Laboratory	38	38	38	38	38	38	38	38	37	38	38
Support Staff	6	6	3	3	3	3	3	3	3	3	2
Total - Water Quality	91	89	86	86	85	85	85	85	84	84	83
Total Employees	778	775	769	769	768	730	715	706	694	690	681

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Other Supplemental Section

(Unaudited)

Photo Above: York River Treatment Plant This 15 MGD Seaford facility, placed in service in 1983, has received national awards for the design of its $60 million nutrient upgrade completed in 2011 and the implementation of the pioneering DEMON® sidestream treatment process.

HAMPTON ROADS SANITATION DISTRICT
SUMMARY OF PRIMARY BONDED DEBT SERVICE
June 30, 2014

(in thousands)

As of June 30,	Senior Bonds Principal	Senior Bonds Interest	Senior Bonds Debt Service	Subordinate Bonds Debt Service	Total Debt Service
2015	$ 18,017	$ 29,067	$ 47,084	$ 12,617	$ 59,701
2016	18,558	28,438	46,996	11,361	58,357
2017	15,279	27,864	43,143	9,229	52,372
2018	18,144	27,291	45,435	6,689	52,124
2019	19,138	26,587	45,725	6,690	52,415
2020	19,913	25,752	45,665	6,690	52,355
2021	20,722	24,876	45,598	6,202	51,800
2022	21,576	23,954	45,530	5,824	51,354
2023	22,476	22,979	45,455	5,605	51,060
2024	23,396	21,975	45,371	5,397	50,768
2025	24,387	20,900	45,287	5,397	50,684
2026	25,424	19,760	45,184	5,397	50,581
2027	26,506	18,582	45,088	5,318	50,406
2028	27,635	17,350	44,985	2,210	47,195
2029	28,835	16,047	44,882	2,160	47,042
2030	30,032	14,732	44,764	2,160	46,924
2031	30,420	13,362	43,782	1,495	45,277
2032	28,774	11,982	40,756	15	40,771
2033	28,020	10,615	38,635	15	38,650
2034	27,260	9,268	36,528	15	36,543
2035	28,295	7,844	36,139	15	36,154
2036	26,595	6,436	33,031	15	33,046
2037	27,840	5,038	32,878	15	32,893
2038	29,155	3,575	32,730	15	32,745
2039	14,595	2,044	16,639	15	16,654
2040	12,730	1,238	13,968	15	13,983
2041	4,800	815	5,615	15	5,630
2042	4,995	623	5,618	25,005	30,623
2043	5,190	424	5,614	-	5,614
2044	5,400	216	5,616	-	5,616
Totals	$ 634,107	$ 439,634	$ 1,073,741	$ 125,596	$ 1,199,337

HAMPTON ROADS SANITATION DISTRICT
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

(in thousands)	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with final Budget (over) under	Percent Variance
OPERATING BUDGET EXPENSES					
General Management	$ 2,346	$ 2,346	$ 2,243	$ 103	4.4%
Finance & Administration	11,385	11,285	10,489	796	7.1%
Information Services	9,649	9,449	8,489	960	10.2%
Operations	79,001	76,349	76,287	62	0.1%
Engineering	4,316	4,316	4,213	103	2.4%
Water Quality	10,791	10,791	10,542	249	2.3%
General	5,260	5,960	5,937	23	0.4%
Debt Service	59,994	59,994	53,670	6,324	10.5%
TOTAL	182,742	180,490	171,870	8,620	4.8%
IMPROVEMENT BUDGET EXPENSES					
Major Repairs and Replacements	6,982	10,680	6,382	4,298	40.2%
Improvements	2,516	9,974	1,497	8,477	85.0%
	9,498	20,654	7,879	12,775	61.9%
TOTAL	$ 192,240	$ 201,144	179,749	$ 21,395	10.6%
Add:					
Prior Year Major Repairs and Replacements carried over to current year			1,521		
Prior Year Improvements carried over to current year			3,358		
Unbudgeted Depreciation			42,761		
Unbudgeted Bad Debt Expense			1,641		
Capital Improvement Program items expensed			15,435		
Less:					
Capitalized items Major Repairs and Replacements			860		
Capitalized items Improvements			2,875		
Debt Service			53,670		
TOTAL OPERATING EXPENSES			$ 187,060		

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-14 was $182,742,039 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-14 was $9,498,000 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 $11,156,166 for billing software upgrades, treatment plant automation, and equipment and vehicle replacements resulted in a final budget of $20,654,166. All adjustments to the Annual Budget were approved from surplus fund balances or from transfers within or among departments.

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 of Section 3.12 of the Master Trust Indenture, dated December 1, 1993, and the Trust Agreement, dated March 1, 2008. 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 for the General Manager's review.

The HRSD Commission appoints a Finance Committee consist of two Commissioners. The two Commissioners 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 publically 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 subordinate 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.

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, however, 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 ten years. All operating budget amounts lapse at year-end. Specific improvement budget items may be carried over to subsequent years with the approval of the General Manager. The Commission annually adopts only the first year of the capital budget. HRSD's Commission separately approves all contracts that are awarded under the capital budget.

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HAMPTON ROADS SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND
DEBT SERVICE FOR OPERATIONS - ACTUAL TO BUDGET
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

(In thousands)	Actual	Amended Budget	Variance Favorable/ (Unfavorable)	Budget Variance Percentage
OPERATING REVENUE				
Wastewater treatment charges	$ 211,538	$ 207,575	$ 3,963	2%
Miscellaneous	3,643	2,540	1,103	43%
TOTAL REVENUES	215,181	210,115	5,066	2%
CURRENT EXPENDITURES				
General Management	2,243	2,346	103	4%
Finance & Administration	10,489	11,285	796	7%
Information Services	8,489	9,449	960	10%
Operations	76,287	76,349	62	0
Engineering	4,213	4,316	103	0
Water Quality	10,542	10,791	249	2%
Major Repairs & Replacements	9,023	20,654	11,631	56%
General	5,937	5,960	23	0%
TOTAL CURRENT EXPENDITURES	127,223	141,150	13,927	10%
EXCESS OF OPERATING REVENUES OVER EXPENDITURES	87,958	68,965	18,993	28%
NONOPERATING REVENUE (EXPENSE)				
Wastewater facility charges	6,640	5,000	1,640	33%
Investment income	1,674	1,700	(26)	(2%)
Bond interest subsidy	2,364	2,600	(236)	(9%)
Loss on disposal of capital assets	-	-	-	(100%)
TOTAL NONOPERATING REVENUE	10,678	9,300	1,378	15%
INCOME BEFORE CAPITAL CONTRIBUTIONS	98,636	78,265	20,371	26%
CAPITAL CONTRIBUTIONS				
State capital grants	13,888	-	13,888	100%
AMOUNT AVAILABLE FOR DEBT	112,524	78,265	34,259	44%
DEBT EXPENDITURES				
Principal & Interest	53,670	59,994	6,324	11%
TOTAL DEBT EXPENDITURES	53,670	59,994	6,324	11%
AMOUNT AVAILABLE TO REINVEST	$ 58,854	$ 18,271	$ 40,583	222%

HAMPTON ROADS SANITATION DISTRICT
OBJECTIVE CLASSIFICATION OF DEPARTMENTAL EXPENDITURES
FOR OPERATIONS - ACTUAL TO BUDGET
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

(in thousands)	General Management	Finance & Administration	Information Services	Operations
Personal Services	$ 1,413	$ 5,103	$ 2,630	$ 32,251
Fringe Benefits	471	2,131	916	13,307
Materials and Supplies	27	107	932	3,759
Transportation	48	79	35	1,031
Utilities	0	0	1,314	9,812
Chemicals	0	0	0	7,752
Contractual Services	129	2,952	2,602	7,775
Miscellaneous	155	117	60	600
General	0	0	0	0
	$ 2,243	$ 10,489	$ 8,489	$ 76,287
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, 2014

Engineering	Water Quality	General	Totals	Percent of Total	FY-2014 Budget	Variance Favorable/ (Unfavorable)
$ 2,847	$ 6,294	$ 0	$ 50,538	28	$ 50,562	$ 24
995	2,350	0	20,170	12	20,671	501
23	916	0	5,764	3	5,339	(425)
67	157	0	1,417	1	1,430	13
0	0	0	11,126	6	11,414	288
0	0	0	7,752	4	8,283	531
223	541	0	14,222	8	15,078	856
58	284	0	1,274	1	1,759	485
0	0	5,937	5,937	3	5,960	23
$ 4,213	$ 10,542	$ 5,937	118,200	66	120,496	2,296
			53,670	31	59,994	6,324
			$ 171,870	100	$ 180,490	$ 8,620

HAMPTON ROADS SANITATION DISTRICT
DEPARTMENTAL SUMMARY OF EXPENDITURES
ACTUAL TO BUDGET
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

(In thousands)	Actual	Amended Budget	Variance Favorable/ (Unfavorable)
GENERAL MANAGEMENT			
Personal Services	$ 1,413	$ 1,412	$ (1)
Fringe Benefits	471	480	9
Materials and Supplies	27	40	13
Transportation	48	40	(8)
Contractual Services	129	182	53
Miscellaneous	155	192	37
	2,243	2,346	103
FINANCE & ADMINISTRATION			
Personal Services	5,103	5,182	79
Fringe Benefits	2,131	2,225	94
Materials and Supplies	107	114	7
Transportation	79	116	37
Contractual Services	2,952	3,370	418
Miscellaneous	117	278	161
	10,489	11,285	796
INFORMATION SERVICES			
Personal Services	2,630	2,875	245
Fringe Benefits	916	1,022	106
Materials and Supplies	932	935	3
Transportation	35	48	13
Utilities	1,314	1,540	226
Contractual Services	2,602	2,909	307
Miscellaneous	60	120	60
	8,489	9,449	960
OPERATIONS			
Personal Services	32,251	31,885	(366)
Fringe Benefits	13,307	13,499	192
Materials and Supplies	3,759	3,287	(472)
Transportation	1,031	1,013	(18)
Utilities	9,812	9,874	62
Chemicals	7,752	8,283	531
Contractual Services	7,775	7,765	(10)
Miscellaneous	600	743	143
	76,287	76,349	62

HAMPTON ROADS SANITATION DISTRICT
DEPARTMENTAL SUMMARY OF EXPENDITURES
ACTUAL TO BUDGET
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Actual	Budget	Variance Favorable/ (Unfavorable)
ENGINEERING			
Personal Services	2,847	2,898	51
Fringe Benefits	995	1,050	55
Materials and Supplies	23	42	19
Transportation	67	52	(15)
Contractual Services	223	209	(14)
Miscellaneous	58	65	7
	4,213	4,316	103
WATER QUALITY			
Personal Services	6,294	6,310	16
Fringe Benefits	2,350	2,395	45
Materials and Supplies	916	921	5
Transportation	157	161	4
Contractual Services	541	643	102
Miscellaneous	284	361	77
	10,542	10,791	249
GENERAL			
Personal Services	478	393	(85)
Fringe Benefits	415	513	98
Materials and Supplies	30	90	60
Utilities	537	505	(32)
Contractual Services	1,205	1,124	(81)
Apprentice Program	347	328	(19)
Insurance	170	197	27
District Memberships	2,406	2,463	57
Miscellaneous	349	347	(2)
	5,937	5,960	23
TOTAL DEPARTMENTAL EXPENDITURES	$ 118,200	$ 120,496	$ 2,296

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HRSD

Cleaning wastewater every day for a better Bay.

1434 Air Rail Avenue
Virginia Beach, VA 23455
www.hrsd.com

The aerial images of HRSD's nine largest treatment plants featured on the dividers of this document were taken by Backus Aerial Photography in 2012, a year for which every HRSD plant earned a national award for perfect compliance with its environmental permits.

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APPENDIX B

CERTAIN DEFINITIONS

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

Definitions

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

"**Additional Bonds**" means Bonds, if any, issued by the District, subsequent to the issuance of the Series 2008 Bonds, pursuant to the Trust Agreement, including Additional Bonds issued in exchange for other such Additional Bonds or in replacement for mutilated, destroyed, stolen or lost Additional Bonds. The Series 2014 Bonds constitute Additional Bonds for purpose of the Trust Agreement.

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

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

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

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

"**Bonds**" means the Series 2003 Bonds, the Series 2008 Bonds, the Series 2009A Bonds, the Series 2009B Bonds, the Series 2011 Bonds, the Series 2012 Bonds, the Series 2014 Bonds, and any other Additional Bonds under the Trust Agreement, including such Bonds issued in exchange for other such Bonds and Bonds issued in replacement for and upon the cancellation of mutilated Bonds or in lieu of and in substitution for destroyed, stolen or lost Bonds.

"**Business Day**" means any day on which banks in the city in which the principal corporate trust office of the Trustee is located and in New York, New York are open for commercial banking purposes.

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

"**Commission**" means the Hampton Roads Sanitation District Commission, which is the governing body of the District.

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

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

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

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

"**Cross-over Refunded Indebtedness**" means Indebtedness refunded by Cross-over Refunding Indebtedness.

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

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

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

"**Debt Service Reserve Fund Requirement**" means (i) on the date of issuance of the Series 2014 Bonds zero (0) and (ii) during any Reserve Funding Period or at such other time as the District may elect to fund the Debt Service Reserve Fund, the least of (A) 100% of Maximum Annual Debt Service on the Senior Obligations, (B) 125% of Average Annual Debt Service and (C) 10% of the stated principal amount of the Senior Obligations; provided, however, that if the Senior Obligations have original issue discount or premium that exceeds 2% of the stated redemption price at maturity, the initial offering prices to the public will be used in lieu of the stated principal amount for purposes of the ten percent (10%) limitation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"**Hedged Fixed Rate**" means Hedged Fixed Rate as defined in the definition of Derivative Indebtedness.

"**Hedged Variable Rate**" means Hedged Variable Rate as defined in the definition of Derivative Indebtedness.

"**Holder**" means an owner of any Obligation issued in other than bearer form.

"**Income Available for Debt Service**" means to any period of 12 consecutive calendar months, the excess of revenues over expenses before depreciation, amortization and interest expense on Long-Term Indebtedness, as determined in accordance with generally accepted accounting principles consistently applied; provided, however, that (1) no determination thereof will take into account any gain or loss resulting from either the extinguishment of Indebtedness or the sale, exchange or other disposition of capital assets not made in the ordinary course of business, (2) revenues will include all wastewater facility charges, and (3) revenues will not include income from the investment of Qualified Escrow Funds to the extent that such income is applied to the payment of principal or interest on Long-Term Indebtedness which is excluded from the determination of Long-Term Debt Service Requirement.

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

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

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

"**Interest Payment Date**" means each date described as such in a Series Agreement.

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

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

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

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

"**Liquidity Ratio**" means the ratio determined by dividing (i) the sum of all cash, cash equivalents and marketable securities that do not constitute Restricted Funds held by the District for its various purposes, but not including cash, cash equivalents or securities which constitute proceeds of Indebtedness issued to finance capital improvements or funds held in the Bond Fund (or any similar sinking fund held by a trustee for the payment of Indebtedness) or the Debt Service Reserve Fund by (ii) Maximum Annual Debt Service. For the purposes of the preceding sentence, "Restricted Funds" means funds or other assets of the District the use of which is restricted or limited in such a way that such funds or other assets are not available for general purposes of the District, but does not include funds or assets designated, restricted or limited by the Commission for specific purposes where such designation, restriction or limitation may be changed at the discretion of the Commission.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Fiscal Year, is equal to or greater than 1.35 and the Long-Term Debt Service Coverage Ratio for each of the past two Fiscal Years is equal to or greater than 1.35.

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

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

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

"**Series 2008 Bonds**" or "**2008 Bonds**" means the District's Wastewater Revenue Bonds, Series 2008 issued in the initial aggregate principal amount of $223,170,000 and secured on parity with the Bonds and other Senior Obligations under the Trust Agreement.

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

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

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

"**Series 2011 Bonds**" means the District's Wastewater Revenue Bonds, Series 2011 issued in the initial aggregate principal amount of $45,705,000 and secured on parity with the Bonds and other Senior Obligations under the Trust Agreement.

"**Series 2012 Bonds**" means the District's Wastewater Revenue Bonds, Series 2012A issued in the initial aggregate principal amount of $130,480,000 and secured on parity with the Bonds and other Senior Obligations under the Trust Agreement.

"**Series Agreement**" means the supplemental trust agreement entered into or the resolution adopted by the Commission providing for the issuance of Bonds. A Series Agreement will include any Officer's Certificate delivered by a District Representative or Representatives to whom authority has been delegated by the terms of the Series Agreement to provide the details of such Bonds.

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

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

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

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

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

In the event (a) of any insolvency or bankruptcy proceedings, and any receivership, liquidation, reorganization, arrangement or other similar proceedings in connection therewith, relative to the District or to its Property, or in the event of any proceedings for voluntary liquidation, dissolution or other winding-up of the District whether or not involving insolvency or bankruptcy, (b) any Subordinated Indebtedness is declared or otherwise becomes due and payable before its expressed maturity because of the occurrence of an event of default occurring under the documents pursuant to which such Subordinated Indebtedness is issued; and such declaration has not been rescinded and annulled, or (c) any Event of Default under the Trust Agreement occurs and is continuing with respect to Senior Obligations and (1) written notice of such default has been given to the District and (2) judicial proceedings commenced in respect of such Event of Default within 180 days in the case of a default in payment of principal or interest on Senior Obligations and within 90 days in the case of any other default after the giving of such notice, then the Holders of Senior Obligations will be entitled to receive payment in full of all principal, premium and interest on all Senior Obligations before the Holders of the Subordinated Indebtedness are entitled to receive any payment on account of principal or interest upon the Subordinated Indebtedness, and to that end the Holders of Senior Obligations will be entitled to receive for application in payment thereof any payment or distribution of any kind or character, whether in cash or property or securities, which may be payable or deliverable in any such proceedings in respect of the Subordinated Indebtedness after giving effect to any concurrent payment or distribution in respect of such Senior Obligations.

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

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

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

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

"**Trust Agreement**" means the trust agreement entered into by and between Hampton Roads Sanitation District and The Bank of New York Mellon Trust Company, N.A., as Trustee, dated as of March 1, 2008, including any Series Agreement and any other trust agreement amendatory thereto or supplemental thereto.

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

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

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT

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

Establishment of Funds

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

Issuance Fund and Construction Fund

The Trust Agreement also requires that money in the Issuance Fund be applied to the payment of Issuance Costs incurred in connection with the issuance of the Bonds, to be financed from Bonds proceeds. Money in the Construction Fund will be applied to Capital Improvement Program Costs. Unexpended fund balances in the Issuance Fund and the Construction Fund will be applied as provided in the applicable Series Agreement. The Series Agreement for the Series 2014 Bonds provides any such unexpended fund balances are to be applied as directed by the District.

Bond Fund

The District will make payments directly to the Trustee for deposit in the Bond Fund in amounts sufficient to pay in full, when due, all Bonds issued under the Trust Agreement, together with the interest thereon. In the event the balance in the Bond Fund is insufficient for such purposes, upon notification by the Trustee, the District is to deliver to the Trustee an amount sufficient to cure the same. If such amount is insufficient, the Trustee is required to transfer to the Bond Fund the amount necessary to remedy the deficiency from the Debt Service Reserve Fund.

Debt Service Reserve Fund; Qualified Reserve Fund Substitute

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

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.

If, on any date of valuation, amounts held in the Debt Service Reserve Fund, including the interest earnings on such Fund, exceed the Debt Service Reserve Fund Requirement (including, but not limited to, the elimination of the Debt Service Reserve Fund Requirement upon the termination of a Reserve Funding Period and prior to the occurrence of another Reserve Funding Period), the excess shall be transferred by the Trustee, (i) to the Bond Fund or (ii) as directed by the District, if the District delivers the Trustee, a written statement setting forth the proposed use of such excess amounts, accompanied by an Opinion of Bond Counsel, addressed to the Trustee, to the effect that such proposed use will not cause the interest on the Bonds to be includable in the gross income of the owners thereof for purposes of federal income taxation.

Payment of Principal and Interest

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

Investment of Money

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

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

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

Valuation

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

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

Long-Term Debt Service Coverage Ratio

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

(b) If at any time the Long-Term Debt Service Coverage Ratio described in clause (a) above, as derived from the most recent Audited Financial Statements for the most recent Fiscal Year, is not met, the District covenants to retain an Independent Consultant within 30 days to make recommendations to increase the Long-Term Debt Service Coverage Ratio in the following Fiscal Year to the level required or, if in the opinion of the Independent Consultant the attainment of such level is impracticable, to the highest level attainable. Any Independent Consultant so retained will be required to submit such recommendations within 45 days after being retained. The District agrees that it will, to the extent permitted by law, follow the recommendations of the Independent Consultant. So long as an Independent

Consultant is retained and the District is required to follow such Independent Consultant's recommendations to the extent permitted by law, such covenant will be deemed to have been complied with even if the Long-Term Debt Service Coverage Ratio for the following Fiscal Year is below the required level; provided, however, that the revenues of the District shall not be less than the amount required to pay when due the total operating expenses of the District and to pay when due the debt service on all Indebtedness of the District for such Fiscal Year and further provided, however, that the District will not be required to retain an Independent Consultant to make recommendations described in this paragraph (b) more frequently than biennially.

Limitations on Indebtedness

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

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

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

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

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

Refunding Indebtedness), the Outstanding Long-Term Indebtedness to be refunded thereby will no longer be Outstanding.

(c) The District may also incur Short-Term Indebtedness as a Senior Obligation subject to the same tests that apply to the incurrence of Long-Term Indebtedness. Notwithstanding such limitation, the District may incur as a Senior Obligation from time to time and have outstanding at any one time Short-Term Indebtedness in an amount up to 10% of its Total Operating Revenues as reflected in the Financial Statements of the District for the most recent period of 12 consecutive months for which Financial Statements are available. Short-Term Indebtedness may be incurred as Subordinated Indebtedness without compliance with the tests that apply to the incurrence of Senior Indebtedness.

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

(e) For purposes of demonstrating compliance with the incurrence test described in paragraphs (a) or (b) herein, the District may (but is not required to) elect in the applicable Series Agreement to treat all or any Senior Obligations authorized in a Credit Facility, but not immediately issued or incurred under such Credit Facility, as subject to such incurrence test as of a single date, notwithstanding that none, or less than all, of the authorized principal amount of such Senior Obligations have been issued or incurred as of such date.

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

Limitation on Creation of Liens

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

“Permitted Liens” consist of the following:

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

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

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

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

(v) Any Lien that was existing on the date of authentication and delivery of the Series 2008 Bonds issued under the Trust Agreement; provided that no such Lien may be increased, extended, renewed or modified to apply to any Property of the District not subject to such Lien on such date or to secure Indebtedness not Outstanding on the date of issuance of the Series 2008 Bonds, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Lien under the Trust Agreement;

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

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

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

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

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

Designation of Funds

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

Covenants as of Maintenance of Properties

The District covenants in the Trust Agreement:

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

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

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

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

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

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

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

Insurance

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

(b) The District will engage an Independent Insurance Consultant to review the insurance requirements of the District (not less frequently than every five years) with the appropriate District personnel and provide a report of its findings to a District Representative. If the Independent Insurance Consultant makes recommendations for the increase, decrease or elimination of any coverage, the District will consider adjusting such coverage in accordance with such recommendations, subject to a good faith determination of the Commission that such recommendations are in the best interests of the District.

Notwithstanding anything described in this section to the contrary, the District will have the right, without giving rise to an Event of Default solely on such account, (i) to maintain insurance coverage below that most recently recommended by the Independent Insurance Consultant, if the District furnishes to the Trustee a report of the Independent Insurance Consultant to the effect that the insurance so provided affords the greatest amount of coverage available for the risk being insured against at rates which in the judgment of the Independent Insurance Consultant are reasonable in connection with reasonable and appropriate risk management, or (ii) to adopt alternative risk management programs which the Independent Insurance Consultant determines to be reasonable, including, without limitation, to self-insure in whole or in part individually or in connection with other institutions (but subject to the provisions described in subsection (c) of this section), to participate in programs of captive insurance companies, to participate with other wastewater treatment systems in mutual or other cooperative insurance programs or to participate in state or federal insurance programs, all as may be approved by the Independent Insurance Consultant as reasonable and appropriate risk management by the District.

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

Insurance and Condemnation Proceeds

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

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

Annual Budget

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

Events of Default

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

Remedies for Default

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

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

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

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

Restrictions upon Actions by Individual Holders

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

Notice of Default to Holders

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

Pro-Rata Application of Funds

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

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

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

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

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

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

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

Supplemental Trust Agreements without Consent of Holders

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

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

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

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

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

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

(f) to provide for the issuance of Bonds in bearer form, or

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

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

Modification of Trust Agreement with Consent of Holders

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

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

Defeasance

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

Otherwise, the Trust Agreement will continue to be and remain in full force and effect; provided, that, in the event Defeasance Obligations are deposited with and held by the Trustee or the Bond Registrar as provided for above, (i) the Trustee will nevertheless retain such rights, powers and privileges under the

Trust Agreement as may be necessary and convenient in respect of the Bonds for the payment of the principal and interest for which such Defeasance Obligations have been deposited, and (ii) the Bond Registrar will retain such rights, powers and privileges under the Trust Agreement as may be necessary and convenient for the registration, transfer and exchange of Bonds.

Removal of Trustee

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

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APPENDIX D

PROPOSED OPINION OF BOND COUNSEL

______ __, 2014

Hampton Roads Sanitation District Commission
Virginia Beach, Virginia

We have acted as bond counsel to Hampton Roads Sanitation District (a political subdivision of the Commonwealth of Virginia and herein sometimes called the "District") in connection with the issuance of the bonds described below. In such capacity, 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 the District, authorizing the execution and delivery of a Trust Agreement, dated as of March 1, 2008, as supplemented and amended, including as supplemented by the Sixth Supplemental Trust Agreement, dated as of November 1, 2014 (as so supplemented and amended, the "Trust Agreement"), by and between the District and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), and the issuance of

$111,345,000
HAMPTON ROADS SANITATION DISTRICT
Wastewater Revenue Bonds, Refunding Series 2014A

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

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

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

We have examined the law and such certified copies of proceedings and other documents and matters as we deemed necessary to render this opinion. In all examinations, we have assumed the genuineness of signatures on original documents and the conformity to original documents of all copies submitted to us as certified, conformed or photographic copies, and as to certificates of public officials, we have assumed the same to have been properly given and to be accurate. As to questions of fact material to our opinion we have relied upon representations of the District, certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same and without independent investigation.

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 of the District's Outstanding Bonds (as defined in the Trust Agreement) and pay certain expenses incurred in connection with the issuance of the Bonds.

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

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

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

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

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

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

The opinions herein expressed are dependent upon the sufficiency of the proceeds of the Bonds and other available funds invested and set aside in escrow to provide for the full and timely payment of the refunded bonds. In rendering these opinions we have relied upon the verification report of Bingham Arbitrage Rebate Services, Inc., including the schedules illustrating the sufficiency of the cash flow from the escrow for such purpose and those calculating the yield on the Bonds and the yield on the investments credited to the escrow for the refunded bonds.

Respectfully submitted,

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APPENDIX E

FORM OF
CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement"), dated as of November 1, 2014, is executed and delivered by Hampton Roads Sanitation District (the "District") in connection with the issuance by the District of its Wastewater Revenue Bonds, Refunding Series 2014A (the "Bonds"), pursuant to the provisions of a Trust Agreement, dated as of March 1, 2008, as amended and supplemented (the "Trust Agreement"), by and between the District and The Bank of New York Mellon Trust Company, N.A., as trustee. The proceeds of the Bonds are being used by the District to provide funds for its Capital Improvement Program and to refund certain outstanding Senior Bonds issued pursuant to the Trust Agreement. 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, as of the date of this Disclosure Agreement, 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 Bonds, or other material events affecting the tax status of the Bonds;

(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 Bonds, if material;

(xi) rating changes;

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

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

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

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

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

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

SECTION 3. Provision of Annual Reports.

A. The District shall, or shall cause the Dissemination Agent to, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Such Annual Report shall be filed on a date (the "Filing Date") that is not later than December 31 after the end of any Fiscal Year (commencing with its Fiscal Year ended June 30, 2014). 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) must be word-searchable except for non-textual elements) and shall be accompanied by identifying information as prescribed by the Repository.

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

HAMPTON ROADS SANITATION DISTRICT

By: ____

Director of Finance

EXHIBIT A

CONTENT OF ANNUAL REPORT
HAMPTON ROADS SANITATION DISTRICT

(a) **Financial Information**. Updated information including summary financial results, treatment charge collection rate, revenue collections from the District's largest customers, and a five-year comparison of revenues, expenses, debt service and debt service coverage ratios.

(b) **Debt Information**. Updated information including the debt service requirements of long-term indebtedness.

(c) **Operating Data.** Updated operating data including wastewater flows to the Wastewater System and its major treatment plants, the treatment capacities of its major treatment plants, total billed wastewater flows, and changes in rates and charges.

In general, the foregoing will include information as of the end of the most recent fiscal year or as of the most recent practicable date. Where information for the fiscal year just ended is provided, it may be preliminary and unaudited. Where information has historically been provided for more than a single period, comparable information will in general be provided for the same number of periods where valid and available. Where comparative demographic or economic information for the District and the United States as a whole is contemporaneously available and, in the judgment of the District, informative, such information may be included. Where, in the judgment of the District, an accompanying narrative is required to make data presented not misleading, such narrative will be provided.

EXHIBIT B

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

Re: HAMPTON ROADS SANITATION DISTRICT
WASTEWATER REVENUE BONDS, REFUNDING SERIES 2014A

CUSIP NOS.: 409327 GE7-GR8

Dated:

NOTICE IS HEREBY GIVEN that Hampton Roads Sanitation District has not provided an Annual Report [Audited Annual Financial Statements] as required by Section 3 of the Continuing Disclosure Agreement, which was entered into in connection with the above-named bonds, the proceeds of which were used to finance a portion of the District's capital improvement program. [The District anticipates that the Annual Report [Audited Annual Financial Statements] will be filed by ___________.]

Dated: ________________

HAMPTON ROADS SANITATION DISTRICT

By ____________________________________

APPENDIX F

THE DEPOSITORY TRUST COMPANY

The Depository Trust Company (DTC), the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provision of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at **www.dtcc.com**.

Purchases of Series 2014 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2014 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2014 Bond (the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2014 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2014 Bonds, except in the event that use of the book-entry system for the Series 2014 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2014 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2014 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2014 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2014 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial

Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Series 2014 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2014 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2014 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments on the Series 2014 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 District 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 District, 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 District, 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.