

PRELIMINARY OFFICIAL STATEMENT DATED JULY 25, 2018

RENEWALS

BOND ANTICIPATION NOTES

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Village, under existing statutes and court decisions and assuming continuing compliance with certain tax certifications described herein, (i) interest on the Notes is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Notes is not treated as a preference item in calculating the alternative minimum tax under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed for taxable years beginning prior to January 1, 2018. In addition, in the opinion of Bond Counsel to the Village, under existing statutes, interest on the Notes is exempt from personal income taxes of New York State and its political subdivisions, including The City of New York. See "Tax Matters" herein.

The Village will designate the Notes as "qualified tax-exempt obligations" pursuant to the provision of Section 265(b)(3) of the Code.

VILLAGE OF PORT JEFFERSON SUFFOLK COUNTY, NEW YORK (the "Village")

\$1,200,000

BOND ANTICIPATION NOTES – 2018 (the "Notes")

Dated Date: August 16, 2018

Maturity Date: August 16, 2019

Security and Sources of Payment: The Notes are general obligations of the Village of Port Jefferson, Suffolk County, New York (the "Village"), and will contain a pledge of the faith and credit of the Village for the payment of the principal thereof and interest thereon and, unless paid from other sources, the Notes are payable from ad valorem taxes which may be levied upon all the taxable real property within the Village, subject to certain statutory limitations imposed by Chapter 97 of the New York Laws of 2011, as amended (the "Tax Levy Limit Law"). (See "Tax Levy Limit Law," herein).

Prior Redemption: The Notes will not be subject to redemption prior to their maturity.

Form and Denomination: At the option of the purchaser, the Notes may be either registered to the purchaser or registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC") as book-entry notes. Those Notes issued in book-entry form will be registered in the name of Cede & Co. as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as the Securities Depository for the Notes. A single note certificate will be delivered to the purchaser for those Notes bearing the same rate of interest and CUSIP number in the aggregate principal amount awarded to such purchaser at such interest rate. Individual purchases of any Notes issued in book-entry form may be made only in book-entry form in denominations of \$5,000 or integral multiples thereof. Noteholders will not receive certificates representing their respective ownership interests in any Notes issued in book-entry form. (See "Book-Entry System" herein).

Payment: Payment of the principal of and interest on any Notes issued in book-entry form will be made by DTC Participants and Indirect Participants in accordance with standing instructions and customary practices. Payment will be the responsibility of the DTC Participants or Indirect Participants and not of DTC or the Village, subject to any statutory and regulatory requirements as may be in effect from time to time. Principal and interest payments on any book-entry Notes shall be payable at the office of the Village Clerk. See "Book-Entry System" herein. Payment of the principal of and interest on the Notes registered to the Purchaser will be payable in lawful money of the United States of America (Federal Funds) at such bank or trust company located and authorized to do business in the State of New York as may be selected by the successful bidder.

Proposals for the Notes will be received at 11:00 A.M. (Prevailing Time) on August 7, 2018 at the office of Munistat Services, Inc., 12 Roosevelt Avenue, Port Jefferson Station, New York 11776.

The Notes are offered subject to the final approving opinion of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel, and certain other conditions. It is expected that delivery of the Notes will be made on or about August 16, 2018 in New York, New York, or as otherwise agreed to by the Village and the purchaser.

THIS OFFICIAL STATEMENT IS IN A FORM "DEEMED FINAL" BY THE VILLAGE FOR THE PURPOSES OF SECURITIES AND EXCHANGE COMMISSION RULE 15c2-12 (THE "RULE"). FOR A DESCRIPTION OF THE VILLAGE'S AGREEMENT TO PROVIDE CONTINUING DISCLOSURE FOR THE NOTES, AS DESCRIBED IN THE RULE, SEE "DISCLOSURE UNDERTAKING" HEREIN.

**VILLAGE OF PORT JEFFERSON
IN THE TOWN OF BROOKHAVEN
SUFFOLK COUNTY, NEW YORK**

121 West Broadway
Port Jefferson, New York 11777
Telephone: 631/473-4740
Fax: 631/476-0672

BOARD OF TRUSTEES

Margot Garant, Mayor

Bruce D'Abramo
Stanley Loucks

Laurence LaPointe
Bruce Miller

Robert Juliano, Village Administrator/Clerk
Denise Mordente, Village Treasurer

Village Attorney

Brian Egan, Esq.

* * *

BOND COUNSEL

Hawkins Delafield & Wood LLP
New York, New York

* * *

MUNICIPAL ADVISOR

MUNISTAT SERVICES, INC.

Municipal Finance Advisory Service

12 Roosevelt Avenue
Port Jefferson Station, N.Y. 11776
(631) 331-8888

E-mail: info@munistat.com
Website: <http://www.munistat.com>

No dealer, broker, salesman or other person has been authorized by the Village to give any information or to make any representations, other than those contained in this Official Statement and if given or made, such other information or representations must not be relied upon as having been authorized by the Village. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Notes by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained by the Village from sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Village since the date hereof.

TABLE OF CONTENTS

	Page
THE NOTES.....	1
DESCRIPTION OF THE NOTES	1
OPTIONAL REDEMPTION	1
BOOK-ENTRY SYSTEM.....	1
AUTHORIZATION AND PURPOSE	3
SECURITY AND SOURCE OF PAYMENT	3
MARKET MATTERS AFFECTING FINANCINGS OF THE MUNICIPALITIES OF THE STATE	3
REMEDIES UPON DEFAULT	4
MUNICIPAL BANKRUPTCY.....	5
FINANCIAL CONTROL BOARDS.....	6
NO PAST DUE DEBT	7
THE VILLAGE.....	7
DESCRIPTION	7
GENERAL INFORMATION	7
GOVERNMENT.....	8
EMPLOYEES	8
ECONOMIC AND DEMOGRAPHIC INFORMATION	8
POPULATION TRENDS.....	8
SELECTED WEALTH AND INCOME INDICATORS	8
SELECTED LISTING OF MAJOR EMPLOYERS IN THE VILLAGE	9
UNEMPLOYMENT RATE STATISTICS	9
INDEBTEDNESS OF THE VILLAGE.....	9
CONSTITUTIONAL REQUIREMENTS.....	9
STATUTORY PROCEDURE	10
COMPUTATION OF DEBT LIMIT AND CALCULATION OF NET DEBT CONTRACTING MARGIN.....	11
DEBT SERVICE REQUIREMENTS - OUTSTANDING BONDS	12
CAPITAL LEASE PAYABLE.....	12
DETAILS OF SHORT-TERM INDEBTEDNESS OUTSTANDING	12
AUTHORIZED BUT UNISSUED INDEBTEDNESS	12
CAPITAL PROJECT PLANS.....	13
TREND OF OUTSTANDING DEBT	13
CALCULATION OF ESTIMATED OVERLAPPING AND UNDERLYING INDEBTEDNESS.....	13
DEBT RATIOS	13
FINANCES OF THE VILLAGE.....	14
INDEPENDENT AUDIT	14
<i>Fund Structure and Accounts.....</i>	<i>14</i>
<i>Basis of Accounting.....</i>	<i>14</i>
INVESTMENT POLICY	14
BUDGETARY PROCEDURES.....	15
FINANCIAL OPERATIONS	15

TABLE OF CONTENTS - CONTINUED

	Page
REVENUES	15
<i>Real Property Taxes</i>	15
<i>State Aid</i>	15
THE STATE COMPTROLLER’S FISCAL STRESS MONITORING SYSTEM AND OSC COMPLIANCE REVIEWS.....	16
EXPENDITURES	16
EMPLOYEE PENSION SYSTEM	17
PAYMENTS TO THE RETIREMENT SYSTEMS	18
OTHER POST EMPLOYMENT BENEFITS	18
TAX INFORMATION	19
REAL PROPERTY TAXES.....	19
TAX COLLECTION PROCEDURE	19
TAX LEVY LIMIT LAW	19
TAX LIMIT	20
TAX LEVIES AND TAX RATES.....	20
SELECTED LISTING OF LARGE TAXABLE PROPERTIES	20
LONG ISLAND POWER AUTHORITY TAX CERTIORARI.....	21
LITIGATION.....	21
TAX MATTERS	21
OPINION OF BOND COUNSEL	21
CERTAIN ONGOING FEDERAL TAX REQUIREMENTS AND CERTIFICATIONS.....	21
CERTAIN COLLATERAL FEDERAL TAX CONSEQUENCES.....	22
ORIGINAL ISSUE DISCOUNT	22
NOTE PREMIUM.....	22
INFORMATION REPORTING AND BACKUP WITHHOLDING	22
MISCELLANEOUS	23
LEGAL MATTERS.....	23
DISCLOSURE UNDERTAKING	23
DISCLOSURE COMPLIANCE HISTORY	23
RATING.....	24
MUNICIPAL ADVISOR.....	24
ADDITIONAL INFORMATION	24
APPENDIX A: FINANCIAL INFORMATION	
APPENDIX B: AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MAY 31, 2017	
APPENDIX C: FORM OF BOND COUNSEL OPINION	
APPENDIX D: FORM OF UNDERTAKING TO PROVIDE NOTICES OF EVENTS	

OFFICIAL STATEMENT

Relating to

VILLAGE OF PORT JEFFERSON SUFFOLK COUNTY, NEW YORK

\$1,200,000 BOND ANTICIPATION NOTES – 2018 (the “Notes”)

This Official Statement, including the cover page and appendices thereto, has been prepared by the Village and presents certain information relating to the Village's \$1,200,000 Bond Anticipation Notes – 2018 (the “Notes”). All quotations from and summaries and explanations of provisions of the Constitution and laws of the State of New York (the “State”) and acts and proceedings of the Village contained herein do not purport to be complete and are qualified in their entirety by reference to the official compilations thereof and all references to the Notes and the proceedings of the Village relating thereto are qualified in their entirety by reference to the definitive form of the Notes and such proceedings.

THE NOTES

Description of the Notes

The Notes are general obligations of the Village. The Village has pledged its faith and credit for the payment of the principal of and interest on the Notes and, unless paid from other sources, the Notes are payable from ad valorem taxes which may be levied upon all the taxable real property within the Village, subject to certain statutory limitations imposed by the Tax Levy Limit Law. (See “*Tax Levy Limit Law*” herein).

The Notes will be dated and will mature, without the option of prior redemption, as indicated on the cover page hereof.

Paying agent fees, if any, for those Notes registered to the purchaser will be paid by the purchaser(s).

The Village Clerk will act as Fiscal Agent for any Notes issued in book-entry form and the purchaser(s) may serve as paying agent for the Notes registered in the name of the purchaser(s). Paying agent fees, if any, will be paid by the purchaser(s). The Village's contact information is as follows: Denise Mordente, Village Treasurer, Village of Port Jefferson, 121 West Broadway, Port Jefferson, New York 11777, Phone (631) 473-4740, Fax (631) 476-0672 and email: treasurer@portjeff.com.

Optional Redemption

The Notes will not be subject to redemption prior to their maturity.

Book-Entry System

DTC will act as securities depository for any Notes issued as book-entry notes. Such Notes will be issued as fully-registered securities, 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 note certificate will be issued and deposited with DTC for each maturity of the Notes.

DTC 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 provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 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 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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”). Standard & Poor’s assigns a rating of “AA+” to DTC. 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 and www.dtc.org.

Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC’s records. The ownership interest of each actual purchaser of each Note (“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 Notes are to be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in the Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes 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 the Notes 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 Notes; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping accounts 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.

Beneficial Owners of the Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as redemptions, tenders, defaults, and proposed amendments to the Note documents. For example, Beneficial Owners of the Notes may wish to ascertain that the nominee holding the Notes for their benefit has agreed to obtain and transmit notices to the Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Notes unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer 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 Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Notes 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 Village 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 Village, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Village, 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.

Source: The Depository Trust Company, New York, New York.

DTC may discontinue providing its services as depository with respect to the Notes at any time by giving reasonable notice to the Village. Under such circumstances, in the event that a successor depository is not obtained, note certificates are required to be printed and delivered to the Noteowners. The Village may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In such event, note certificates will be printed and delivered to the Noteowners.

The information contained in the above section concerning DTC and DTC's book-entry system has been obtained from sample offering document language supplied by DTC, but the Village takes no responsibility for the accuracy thereof. In addition, the Village will not have any responsibility or obligation to participants, to indirect participants or to any beneficial owner with respect to: (i) the accuracy of any records maintained by DTC, any participant or any indirect participant; (ii) the payments by DTC or any participant or any indirect participant of any amount with respect to the principal of, or premium, if any, or interest on the Notes or (iii) any notice which is permitted or required to be given to Noteowners.

Authorization and Purpose

<u>Date of Authorization</u>	<u>Purpose</u>	<u>Amount Outstanding</u>	<u>Amount to be Paid</u>	<u>Amount to be Issued</u>
05/16/2016	Acquisition of Highway Equipment	\$455,000	\$105,000	\$350,000
05/16/2016	Acquisition of a Parcel of Real Property Located Between West Broadway and Barnum Avenue and Construction of a Parking Lot	525,000	100,000	425,000
05/16/2016	Construction of Improvements to Rocket Ship Park	500,000	75,000	<u>425,000</u>
Total:				<u><u>\$1,200,000</u></u>

Security and Source of Payment

Each Note when duly issued and paid for will constitute a contract between the Village and the holder thereof.

The Notes will be general obligations of the Village and will contain a pledge of the faith and credit of the Village for the payment of the principal thereof and the interest thereon. For the payment of such principal of and interest on the Notes, the Village has the power and statutory authorization to levy ad valorem taxes on all taxable real property in the Village, subject to certain statutory limitations imposed by the Tax Levy Limit Law. (See "*Tax Levy Limit Law*," herein).

Under the Constitution of the State, the Village is required to pledge its faith and credit for the payment of the principal of and interest on the Notes, and the State is specifically precluded from restricting the power of the Village to levy taxes on real estate for the payment of interest on or principal of indebtedness theretofore contracted. However, the Tax Levy Limit Law imposes a statutory limitation on the Village's power to increase its annual tax levy, unless the Village complies with certain procedural requirements to permit the Village to levy certain year-to-year increases in real property taxes. (See "*Tax Levy Limit Law*," herein).

MARKET MATTERS AFFECTING FINANCINGS OF THE MUNICIPALITIES OF THE STATE

The Village's credit rating could be affected by circumstances beyond the Village's control. Economic conditions such as the rate of unemployment and inflation, termination of commercial operations by corporate taxpayers and employers, as well as natural catastrophes, could adversely affect the assessed valuation of Village property and its ability to maintain fund balances and other statistical indices commensurate with its current credit rating. As a consequence, a decline in the Village's credit rating could adversely affect the market value of the Notes.

If and when an owner of any of the Notes should elect to sell a Note prior to its maturity, there can be no assurance that a market will have been established, maintained and continue in existence for the purchase and sale of any of those Notes. The market value of the Notes is dependent upon the ability of holder to potentially incur a capital loss if such Note is sold prior to its maturity.

There can be no assurance that adverse events including, for example, the seeking by another municipality in the State or elsewhere of remedies pursuant to the Federal Bankruptcy Act or otherwise, will not occur which might affect the market price of and the market for the Notes. In particular, if a significant default or other financial crisis should occur in the affairs of the State or any of its municipalities, public authorities or other political subdivisions thereby possibly further impairing the acceptability of obligations issued by those entities, both the ability of the Village to arrange for additional borrowing(s) as well as the market for and market value of outstanding debt obligations, including the Notes, could be adversely affected.

The Village is dependent in part upon financial assistance from the State in the form of State aid as well as grants and loans to be received ("State Aid"). The Village's receipt of State aid may be delayed as a result of the State's failure to adopt its budget timely and/or to appropriate State Aid to municipalities and school districts. Should the Village fail to receive all or a portion of the amounts of State Aid expected to be received from the State in the amounts and at the times anticipated, occasioned by a delay in the payment of such moneys the Village is authorized pursuant to the Local Finance Law ("LFL") to provide operating funds by borrowing in anticipation of the receipt of such uncollected State Aid, however, there can be no assurance that, in such event, the Village will have market access for any such borrowing on a cost effective basis. The elimination of or any substantial reduction in State Aid would likely have a materially adverse effect upon the Village requiring either a counterbalancing increase in revenues from other sources to the extent available or a curtailment of expenditures. (See also "*State Aid*" herein.)

Future amendments to applicable statutes whether enacted by the State or the United States of America affecting the treatment of interest paid on municipal obligations, including the Notes, for income taxation purposes could have an adverse effect on the market value of the Notes (see "*Tax Matters*" herein).

The enactment of the Tax Levy Limit Law, which imposes a tax levy limitation upon municipalities, school districts and fire districts in the State, including the Village, without providing exclusion for debt service on obligations issued by municipalities and fire districts, including the Village, may affect the market price and/or marketability for the Notes. (See "*Tax Levy Limit Law*" herein.)

Federal or State legislation imposing new or increased mandatory expenditures by municipalities, school districts and fire districts in the State, including the Village, could impair the financial condition of such entities, including the Village, and the ability of such entities, including the Village, to pay debt service on the Notes.

REMEDIES UPON DEFAULT

Neither the Notes, nor the proceedings with respect thereto, specifically provide any remedies which would be available to owners of the Notes should the Village default in the payment of principal of or interest on the Notes, nor do they contain any provisions for the appointment of a trustee to enforce the interests of the owners of the Notes upon the occurrence of any such default. Each Note is a general obligation contract between the Village and the owners for which the faith and credit of the Village are pledged and while remedies for enforcement of payment are not expressly included in the Village's contract with such owners, any permanent repeal by statute or constitutional amendment of a bond or note holder's remedial right to judicial enforcement of the contract should, in the opinion of Bond Counsel, be held unconstitutional.

Upon default in the payment of principal of or interest on the Notes, at the suit of the owner, a Court has the power, in proper and appropriate proceedings, to render judgment against the Village. The present statute limits interest on the amount adjudged due to contract creditors to nine per centum per annum from the date due to the date of payment. As a general rule, property and funds of a municipal corporation serving the public welfare and interest have not been judicially subjected to execution or attachment to satisfy a judgment. A Court also has the power, in proper and appropriate proceedings, to order payment of a judgment on such Notes from funds lawfully available therefor or, in the absence thereof, to order the Village to take all lawful action to obtain the same, including the raising of the required amount in the next annual tax levy. In exercising its discretion as to whether to issue such an order, the Court may take into account all relevant factors, including the current operating needs of the Village and the availability and adequacy of other remedies. Upon any default in the payment of the principal of or interest on a Note, the owner of such Note could, among other remedies, seek to obtain a writ of mandamus from a Court ordering the governing body of the Village to assess, levy and collect an *ad valorem* tax, upon all taxable property of the Village subject to taxation by the Village, sufficient to pay the principal of and interest on the Notes as the same shall come due and payable (and interest from the due date to date of payment) and otherwise to observe the covenants contained in the Notes and the proceedings with respect thereto all of which are included in the contract with the owners of the Notes. The mandamus remedy, however, may be impracticable and difficult to enforce. Further, the right to enforce payment of the principal of or interest on the Notes may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws and equitable principles, which may limit the specific enforcement of certain remedies.

In 1976, the New York Court of Appeals, the State's highest court, held in *Flushing National Bank v. Municipal Assistance Corporation for the City of New York*, 40 N.Y.2d 731 (1976), that the New York State legislation purporting to postpone the payment of debt service on New York City obligations was an unconstitutional moratorium in violation of the New York State constitutional faith and credit mandate included in all municipal debt obligations. While that case can be viewed as a precedent for protecting the remedies of holders of bonds or notes of the Village, there can be no assurance as to what a Court may determine with respect to future events, including financial crises as they may occur in the State and in municipalities of the State, that require the exercise by the State of its emergency and police powers to assure the continuation of essential public services. (See also, *Flushing National Bank v. Municipal Assistance Corporation for the City of New York*, 40 N.Y.2d 1088 (1977), where the Court of Appeals described the pledge as a direct Constitutional mandate.)

As a result of the Court of Appeals decision, the constitutionality of that portion of Title 6-A of Article 2 of the Local Finance Law enacted at the 1975 Extraordinary Session of the State legislature authorizing any county, city, town or village with respect to which the State has declared a financial emergency to petition the State Supreme Court to stay the enforcement against such municipality of any claim for payment relating to any contract, debt or obligation of the municipality during the emergency period, is subject to doubt. In any event, no such emergency has been declared with respect to the Village.

Pursuant to Article VIII, Section 2 of the State Constitution, the Village is required to provide an annual appropriation of monies for the payment of due and payable principal of and interest on indebtedness. Specifically, this constitutional provision states: "If at any time the respective appropriating authorities shall fail to make such appropriations, a sufficient sum shall be set apart from the first revenues thereafter received and shall be applied to such purposes. The fiscal officer of any county, city, town, village or school district may be required to set aside and apply such revenues as aforesaid at the suit of any holder of obligations issued for any such indebtedness." This constitutes a specific non-exclusive constitutional remedy against a defaulting municipality or school district; however, it does not apply in a context in which monies have been appropriated for debt service but the appropriating authorities decline to use such monies to pay debt service. However, Article VIII, Section 2 of the Constitution of the State also provides that the fiscal officer of any county, city, town, village or school district may be required to set apart and apply such revenues at the suit of any holder of any obligations of indebtedness issued with the pledge of the faith of the credit of such political subdivision. In *Quirk v. Municipal Assistance Corp.*, 41 N.Y.2d 644 (1977), the Court of Appeals described this as a "first lien" on revenues, but one that does not give holders a right to any particular revenues. It should thus be noted that the pledge of the faith and credit of a political subdivision in the State is a pledge of an issuer of a general obligation bond or note to use its general revenue powers, including, but not limited to, its property tax levy, to pay debt service on such obligations, but that such pledge may or may not be interpreted by a court of competent jurisdiction to include a constitutional or statutory lien upon any particular revenues. The Constitutional provision providing for first revenue set asides does not apply to tax anticipation notes, revenue anticipation notes or bond anticipation notes.

While the courts in the State have historically been protective of the rights of holders of general obligation debt of political subdivisions, it is not possible to predict what a future court might hold.

In prior years, certain events and legislation affecting a holder's remedies upon default have resulted in litigation. While courts of final jurisdiction have generally upheld and sustained the rights of holders of bonds or notes, such courts might hold that future events, including a financial crisis as such may occur in the State or in political subdivisions of the State, may require the exercise by the State or its political subdivisions of emergency and police powers to assure the continuation of essential public services prior to the payment of debt service.

MUNICIPAL BANKRUPTCY

The undertakings of the Village should be considered with reference, specifically, to Chapter IX of the Bankruptcy Act, 11 U.S.C. §401, et seq., as amended ("Chapter IX") and, in general, to other bankruptcy laws affecting creditors' rights and municipalities. Chapter IX permits any political subdivision, public agency or instrumentality that is insolvent or unable to meet its debts (i) to file a petition in a Court of Bankruptcy for the purpose of effecting a plan to adjust its debts provided such entity is authorized to do so by applicable state law; (ii) directs such a petitioner to file with the court a list of a petitioner's creditors; (iii) provides that a petition filed under such chapter shall operate as a stay of the commencement or continuation of any judicial or other proceeding against the petitioner; (iv) grants priority to debt owed for services or material actually provided within three (3) months of the filing of the petition; (v) directs a petitioner to file a plan for the adjustment of its debts; and (vi) provides that the plan must be accepted in writing by or on behalf of creditors holding at least two-thirds (2/3) in amount or more than one-half (1/2) in number of the listed creditors.

Bankruptcy proceedings by the Village could have adverse effects on holders of bonds or notes including (a) delay in the enforcement of their remedies, (b) subordination of their claims to those supplying goods and services to the Village after the initiation of bankruptcy proceedings and to the administrative expenses of bankruptcy proceedings and (c) imposition without their consent of a reorganization plan reducing or delaying payment of the Notes. The Bankruptcy Code contains provisions intended to ensure that, in any reorganization plan not accepted by at least a majority of a class of creditors such as the holders of general obligation bonds, such creditors will have the benefit of their original claim or the “indubitable equivalent”. The effect of these and other provisions of the Bankruptcy Code cannot be predicted and may be significantly affected by judicial interpretation.

Accordingly, enforceability of the rights and remedies of the owners of the Notes, and the obligations incurred by the Village, may become subject to Chapter IX and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor’s rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against public agencies in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the Notes to judicial discretion, interpretation and of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

The State has consented (see Title 6-A of the Local Finance Law) that any municipality in the State may file a petition with any United States district court or court of bankruptcy under any provision of the laws of the United States, now or hereafter in effect for the composition or adjustment of municipal indebtedness. However, it is noted that there is no record of any recent filings by a New York municipality. Since the New York City fiscal crisis in 1975, the State has legislated a finance control or review board and assistance corporations to monitor and restructure finance matters in addition to New York City, for the Cities of Yonkers, Troy and Buffalo and for the Counties of Nassau and Erie. Similar active intervention pursuant to State legislation to relieve fiscal stress for the Village in the future cannot be assured.

No current state law purports to create any priority for holders of the Notes should the Village be under the jurisdiction of any court, pursuant to the laws of the United States, now or hereafter in effect, for the composition or adjustment of municipal indebtedness.

The above references to the Bankruptcy Act are not to be construed as an indication that the Village is currently considering or expects to resort to the provisions of the Bankruptcy Act.

Financial Control Boards

Pursuant to Article IX Section 2(b)(2) of the State Constitution, any municipality in the State may request the intervention of the State in its “property, affairs and government” by a two-thirds vote of the total membership of its legislative body or on request of its chief executive officer concurred in by a majority of such membership. This has resulted in the adoption of special acts for the establishment of public benefit corporations with varying degrees of authority to control the finances (including debt issuance) of the Cities of Buffalo, Troy and Yonkers and the County of Nassau. The specific authority, powers and composition of the financial control boards established by these acts varies based upon circumstances and needs. Generally, the State legislature has granted such boards the power to approve or disapprove budget and financial plans and to issue debt on behalf of the municipality, as well as to impose wage and/or hiring freezes and in certain cases approve or disapprove collective bargaining agreements. Implementation is generally left to the discretion of the board of the public benefit corporation. Such a State financial control board was first established for New York City in 1975. In addition, upon the issuance of a certificate of necessity of the Governor reciting facts which in the judgment of the Governor constitute an emergency requiring enactment of such laws, with the concurrences of two-thirds of the members elected in each house of the State legislature, the State is authorized to intervene in the “property, affairs and governments” of local government units. This occurred in the case of the County of Erie in 2005. The authority of the State to intervene in the financial affairs of a local government is further supported by Article VIII, Section 12 of the Constitution which declares it to be the duty of the State legislature to restrict, subject to other provisions of the Constitution, the power of taxation, assessment, borrowing money and contracting indebtedness and loaning the credit of counties, cities, towns and villages so as to prevent abuses in taxation and assessment and in contracting indebtedness by them.

In 2013, the State established a new state advisory board to assist counties, cities, towns and villages in financial distress. The Financial Restructuring Board for Local Governments (the “FRB”), is authorized to conduct a comprehensive review of the finances and operations of any such municipality deemed by the FRB to be fiscally eligible for its services upon request by resolution of the municipal legislative body and concurrence of its chief executive. The FRB is authorized to make recommendations for, but cannot compel improvement of

fiscal stability, management and delivery of municipal services, including shared services opportunities and is authorized to offer grants and/or loans of up to \$5,000,000 through a Local Government Performance and Efficiency Program to undertake certain recommendations. If a municipality agrees to undertake the FRB recommendations, it will be automatically bound to fulfill the terms in order to receive the aid.

The FRB is also authorized to serve as an alternative arbitration panel for binding arbitration.

Although from time to time there have been proposals for the creation of a statewide financial control board with broad authority over local governments in the State, the FRB does not have emergency financial control board powers to intervene in the finances and operations of entities such as the public benefit corporations established by special acts as described above.

Several municipalities in the State are presently working with the FRB. The Village has not applied to the FRB and does not reasonably anticipate submission of a request to the FRB for a comprehensive review of its finances and operations. School districts and fire districts are not eligible for FRB assistance.

No Past Due Debt

No principal or interest payment on Village indebtedness is past due. The Village has never defaulted in the payment of the principal of and/or interest on any indebtedness.

THE VILLAGE

Description

The Village is located in the north-central portion of Suffolk County in the Town of Brookhaven, approximately 56 miles east of New York City. Its current population is estimated to be 7,795 according to the U.S. Bureau of Census and it encompasses a land area of approximately 3.1 square miles. Located on Long Island Sound, the Village's deep water harbor has made a significant contribution to its economy and to the quality of life of its residents. In addition to oil-docking facilities, the Village is the site of the Bridgeport-Port Jefferson Ferry, which provides cross-sound ferry service for both passengers and vehicles on a year-round basis; it is also the location of some of the largest marinas on the north shore of Suffolk County for pleasure boats, as well as boat yards, fishing vessels, restaurants and shopping. Residents find employment in the Village and in the surrounding area at such facilities as Mather Hospital, St. Charles Hospital, the State University at Stony Brook, Brookhaven National Laboratory or other private and governmental operations.

Incorporated in 1963, the Village provides a variety of services to its residents and property owners, including road maintenance and zoning and code enforcement. The Village also owns and operates the Port Jefferson Country Club, which includes an 18-hole golf course, tennis courts and a club house which is open for catering functions as well as private dining. The Village also maintains a beach on the north shore of Long Island Sound and parks for children as well as adults.

Rail transportation is provided by the Long Island Railroad, which has a branch line terminating in Port Jefferson. Highways include New York State Routes 25A (a major east-west artery) and 112, which leads to the Long Island Expressway (Interstate Route 495). Water service is provided by the Suffolk County Water Authority; sewer service is provided by the County of Suffolk, which also provides police protection. Gas and electric service is provided by National Grid and the PSEG Long Island, respectively and fire protection is provided by a local volunteer unit.

General Information

Subject to the provisions of the State Constitution, the Village operates pursuant to the Village Law, the Local Finance Law, other laws generally applicable to the Village, and any special laws applicable to the Village. Under such laws, there is no authority for the Village to have a charter, but pursuant to the Village Law and other laws generally applicable to home rule, the Village may from time to time adopt local laws.

The legislative power of the Village is vested in the Board of Trustees, which consists of five members, including the Mayor, who is the chief executive officer of the Village, elected for a term of two years. The four other members of the Board of Trustees are also elected to two-year terms, which terms are staggered such that two trustees are elected every year. All the members of Board of Trustees are elected at large and there is no limitation to the number of terms each may serve.

The Village Treasurer is appointed by the Mayor and approved by the Board of Trustees to a two-year term and is responsible for the overall financial operation of the Village. The Village Administrator/Clerk also serves as the Receiver of Taxes.

Government

Subject to the provisions of the State Constitution, the Village operates pursuant to the Village Law, the Local Finance Law, other laws generally applicable to the Village, and any special laws generally applicable to the Village. Under such laws, there is no authority for the Village to have a charter, but pursuant to the Village Law and other laws generally applicable to home rule, the Village may from time to time adopt local laws.

The legislative power of the Village is vested in the Board of Trustees, which consists of seven members, including the Mayor, who is the chief executive officer of the Village, each elected for a term of four years. Elections are held every two years. There is one elected Village Justice who serves a four-year term and one Assistant Village Justice who is appointed each year. The Village Clerk, Village Treasurer, Village Attorney, Village Assessor and other department heads are appointed by the Mayor with consent of the Board. All the Board members are elected at large and there is no limitation to the number of terms each may serve.

One independently governed school district, which relies on its own taxing powers granted by the State to raise revenues is located partially within the Village. The school district uses the Town of Brookhaven assessment roll as its basis for taxation of property located within the Village.

Employees

The Village provides services to its residents and business owners utilizing 48 full-time and approximately 145 part-time employees, most of whom are represented by CSEA whose contract expires on May 31, 2019.

ECONOMIC AND DEMOGRAPHIC INFORMATION

Population Trends

<u>Year</u>	<u>Village</u>	<u>Town of Brookhaven</u>	<u>Suffolk County</u>
1990	7,455	397,014	1,292,665
2000	7,837	448,248	1,419,369
2010	8,043	486,040	1,493,350
2016	7,795	486,596	1,492,583

Selected Wealth and Income Indicators

The information set forth below with respect to the Town, County and the State is included for information purposes only. It should not be implied from the inclusion of such data in this Official Statement that the Village is necessarily representative of the Town, County or the State.

	<u>Per Capita Money Income</u>			
	<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>2016^a</u>
Village of Port Jefferson	\$23,805	\$33,852	\$45,558	\$51,067
Town of Brookhaven	16,441	24,191	32,410	36,440
County of Suffolk	18,481	26,577	34,582	40,253
State of New York	16,501	23,389	30,948	35,534

	<u>Median Household Income</u>			
	<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>2016^a</u>
Village of Port Jefferson	\$54,620	\$65,119	\$98,355	\$98,864
Town of Brookhaven	47,074	62,475	81,937	89,268
County of Suffolk	49,128	65,288	91,104	92,933
State of New York	32,965	51,591	55,217	62,909

Source: U.S. Bureau of the Census.

a. Based on American Community Survey 5-Year estimates (2012-2016).

Selected Listing of Major Employers in the Village

<u>Name of Employer</u>	<u>Nature of Business</u>	<u>Number of Employees</u>
John T. Mather Hospital	Hospital	1,800
St. Charles Hospital	Hospital	1600
Verizon	Communication Services	325
Port Jefferson UFSD	Public Schools	220
National Grid	Power Plant	90

Unemployment Rate Statistics

Unemployment statistics are not available for the Village. The information set forth below with respect to the Town, County and the State is included for information purposes only. It should not be implied from the inclusion of such data in this Official Statement that the Village is necessarily representative of the Town, County or the State.

<u>Annual Averages:</u>	<u>Town of Brookhaven (%)</u>	<u>Suffolk County (%)</u>	<u>New York State (%)</u>
2013	6.5	6.5	7.7
2014	5.3	5.3	6.4
2015	4.8	4.8	5.3
2016	4.4	4.3	4.8
2017	4.5	4.5	4.7
2018 (4 Month Average)	4.4	4.9	4.9

Source: Department of Labor, State of New York

INDEBTEDNESS OF THE VILLAGE

Constitutional Requirements

The New York State Constitution limits the power of the Village (and other municipalities and school districts of the State) to issue obligations and to otherwise contract indebtedness. Such constitutional and statutory limitations include the following, in summary form, and are generally applicable to the Village and the Notes.

Purpose and Pledge. The Village shall not give or loan any money or property to or in aid of any individual or private corporation or private undertaking or give or loan its credit to or in aid of any of the foregoing or any public corporation.

The Village may contract indebtedness only for a Village purpose and shall pledge its faith and credit for the payment of principal of and interest thereon.

Payment and Maturity. Except for certain short-term indebtedness contracted in anticipation of taxes, or to be paid in one of the two fiscal years immediately succeeding the fiscal year in which such indebtedness was contracted, indebtedness shall be paid in annual installments commencing no later than two years after the date such indebtedness shall have been contracted and ending no later than the expiration of the periods of probable usefulness of the objects or purposes as determined by statute or weighted average maturity thereof; no installment may be more than fifty per centum in excess of the smallest prior installment, unless the Village has authorized the issuance of indebtedness having substantially level or declining annual debt service. The Village is required to provide an annual appropriation for the payment of interest due during the year on its indebtedness and for the amounts required in such year for amortization and redemption of its serial bonds and bond anticipation notes.

General. The Village is further subject to constitutional limitation by the general constitutionally imposed duty on the State Legislature to restrict the power of taxation, assessment, borrowing money, contracting indebtedness and loaning the credit of the Village so as to prevent abuses in the exercise of such powers; however, as has been noted under "*Security and Source of Payment*", the State Legislature is prohibited by a specific constitutional provision from restricting the power of the Village to levy taxes on real estate for the payment of interest on or principal of indebtedness theretofore contracted. However, the Tax Levy Limit Law imposes a statutory limitation on the Village's power to increase its annual tax levy, unless the Village complies with certain procedural requirements to permit the Village to levy certain year-to-year increases in real property taxes. (See "*Tax Levy Limit Law*," herein).

Statutory Procedure

In general, the State Legislature has authorized the power and procedure for the Village to borrow and incur indebtedness subject, of course, to the constitutional and statutory provisions set forth above. The power to spend money, however, generally derives from other law, including the Village Law and the General Municipal Law.

Pursuant to the Local Finance Law, the Village authorizes the incurrence of indebtedness by the adoption of a bond resolution approved by at least two-thirds of the members of the Board of Trustees, except in the event that the Village determines to subject the bond resolution to voter approval by mandatory referendum, in which case only a three-fifths vote is required.

The Local Finance Law also provides a twenty-day statute of limitations after publication of a bond resolution which, in effect, estops thereafter legal challenges to the validity of obligations authorized by such bond resolution except for alleged constitutional violations. The Village has complied with such procedure for the bond resolution authorizing the issuance of the Notes.

Each bond resolution usually authorizes the construction, acquisition or installation of the object or purpose to be financed, sets forth the plan of financing and specifies the maximum maturity of the bonds subject to the legal (Constitution, Local Finance Law and case law) restrictions relating to the period of probable usefulness with respect thereto.

Each bond resolution also authorizes the issuance of bond anticipation notes prior to the issuance of serial bonds. Statutory law in New York permits notes to be renewed each year provided that principal is amortized and provided that such renewals do not (with certain exceptions) extend more than five years beyond the original date of borrowing. However, notes issued in anticipation of the sale of serial bonds for assessable improvements are not subject to such five-year limit and may be renewed subject to annual reductions of principal for the entire period of probable usefulness of the purpose for which such notes were originally issued. (See "*Payment and Maturity*" under "*Constitutional Requirements*").

In addition, under each bond resolution, the Board of Trustees may delegate, and has delegated, power to issue and sell bonds and notes, to the Village Treasurer, the chief fiscal officer of the Village.

In general, the Local Finance Law contains similar provisions providing the Village with power to issue general obligation revenue anticipation notes, tax anticipation notes, deficiency notes and budget notes.

Debt Limit. The Village has the power to contract indebtedness for any Village purpose so long as the aggregate outstanding principal amount thereof shall not exceed seven per centum of the average full valuation of taxable real estate of the Village and subject to certain enumerated exclusions and deductions such as water and certain sewer facilities and cash or appropriations for current debt service. The constitutional and statutory method for determining the full valuation is by dividing the assessed valuation of taxable real estate by the respective equalization rates assigned to each assessment roll. Such equalization rates are the ratios which each of such assessed valuations bear to the respective full valuation of such year, as assigned by the New York State Office of Real Property Services. The State Legislature is required to prescribe the manner by which such ratios shall be determined. Average full valuation is determined by adding the full valuations for the most recently completed assessment roll and the four immediately preceding assessments rolls and dividing the resulting sum of such addition by five.

There is no constitutional limitation on the amount that may be raised by the Village by tax on real estate in any fiscal year to pay principal and interest on all indebtedness. However, the Tax Levy Limit Law, imposes a statutory limitation on the power of the Village to increase its annual tax levy. The amount of such increases is limited by the formulas set forth in the Tax Levy Limit Law. (See "*Tax Levy Limit Law*," herein).

The following pages set forth certain details with respect to the indebtedness of the Village.

Computation of Debt Limit and Calculation of Net Debt Contracting Margin
(As of July 25, 2018)

Fiscal Year Ending <u>May 31:</u>	Assessed <u>Valuation</u>	State Equal. <u>Rate (%)</u>	<u>Full Valuation</u>
2014	\$22,495,546	0.89	\$2,527,589,438
2015	22,594,949	0.92	2,455,972,717
2016	22,586,859	0.92	2,455,093,370
2017	22,600,253	0.94	2,404,282,234
2018	22,669,315	0.89	<u>2,547,114,045</u>
Total Five Year Full Valuation			\$12,390,051,804
Average Five Year Full Valuation			2,478,010,361
Debt Limit - 7% of Average Full Valuation			173,460,725
Inclusions:			
General Purpose Bonds			5,015,000
Bond Anticipation Notes			<u>1,480,000</u>
Total Inclusions			<u>6,495,000</u>
Exclusions:			
Appropriations			<u>505,000</u>
Total Exclusions			<u>505,000</u>
Total Net Indebtedness Before the Issuance of the Notes			<u>5,990,000</u>
The Notes			1,200,000
Less: BANs to be Redeemed by the Issuance of the Notes			<u>1,200,000</u>
Net Effect of the Notes			0
Total Net Indebtedness After the Issuance of the Notes			5,990,000
Net Debt Contracting Margin			<u><u>\$167,470,725</u></u>
Percent of Debt Contracting Margin Exhausted (%)			3.45

Debt Service Requirements - Outstanding Bonds^a

<u>Fiscal Year</u> <u>Ending May 31:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$475,000	\$126,476	\$601,476
2020	500,000	116,726	616,726
2021	500,000	106,631	606,631
2022	505,000	96,350	601,350
2023	535,000	84,013	619,013
2024	545,000	70,394	615,394
2025	540,000	55,663	595,663
2026	545,000	40,387	585,387
2027	545,000	24,075	569,075
2028	160,000	13,000	173,000
2029	165,000	6,600	171,600
	<u>\$5,015,000</u>	<u>\$740,315</u>	<u>\$5,755,315</u>

a. Does not include payments made to date.

Capital Lease Payable^a

<u>Fiscal Year</u> <u>Ending May 31:</u>	<u>Principal</u>
2019	\$232,020
2020	219,262
2021	84,030
2022	192,561
	<u>\$727,873</u>

a. Does not include payments made to date.

Details of Short-Term Indebtedness Outstanding

As of the date of this Official Statement, the Village has \$1,480,000 in bond anticipation notes outstanding. The proceeds of the Notes, along with available funds in the amount of \$280,000, will redeem such Notes.

Authorized but Unissued Indebtedness

As of the date of this Official Statement, the Village has no authorized but unissued debt outstanding.

Capital Project Plans

The Village is generally responsible for providing services as required to the residents on a Village-wide basis. The Village maintains a road system necessitating road resurfacing and improvements and sidewalk improvements and the acquisition of machinery and equipment from time to time. Additionally, although not a capital expense, such road system requires annual expenditures for snow removal as well as regular general operating maintenance expenses. In addition, the Village owns, operates, maintains and improves recreation facilities. In general, needs for capital funding for the above described projects for which the Village has the water and sewer responsibility are anticipated to continue and to be in approximately the same amounts as have prevailed in the past. With respect to new financing by the Village, bond authorizations are not anticipated to be substantially different than have generally prevailed in the past.

Trend of Outstanding Debt

	Fiscal Year Ending May 31:				
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Bonds	\$7,250,000	\$6,715,000	\$6,155,000	\$5,590,000	\$5,015,000
BAN's	<u>2,000,000</u>	<u>2,000,000</u>	<u>0</u>	<u>1,480,000</u>	<u>1,480,000</u>
Total Debt Outstanding	<u>\$9,250,000</u>	<u>\$8,715,000</u>	<u>\$6,155,000</u>	<u>\$7,070,000</u>	<u>\$6,495,000</u>

Calculation of Estimated Overlapping and Underlying Indebtedness

<u>Overlapping Units</u>	<u>Date of Report</u>	<u>Percentage Applicable (%)</u>	<u>Applicable Total Indebtedness</u>	<u>Applicable Net Indebtedness</u>
County of Suffolk	05/25/2018	1.14	\$26,449,190	\$14,367,444
Town of Brookhaven	04/13/2017	5.33	37,541,146	31,704,530
Port Jefferson UFSD	11/15/2017	92.50	<u>2,798,125</u>	<u>2,518,313</u>
Totals			<u>\$66,788,461</u>	<u>\$48,590,287</u>

Debt Ratios (As of July 25, 2018)

	<u>Amount</u>	<u>Per Capita^a</u>	<u>Percentage of Full Value (%)^b</u>
Total Direct Debt	\$ 6,495,000	\$ 833	0.255
Net Direct Debt	5,990,000	768	0.235
Total Direct & Applicable Total Overlapping Debt	73,283,461	9,401	2.877
Net Direct & Applicable Net Overlapping Debt	54,580,286	7,002	2.143

a. The current estimated population of the village is 7,795.

b. The full valuation of taxable real property in the Village for 2018-19 is \$2,547,114,045

FINANCES OF THE VILLAGE

Independent Audit

The financial statements of the Village are audited each year by an independent public accountant. The latest year for which an audited financial statement is available is the fiscal year ended May 31, 2017 and is attached hereto as Appendix B. The financial affairs of the Village are subject to periodic compliance review by the Office of the State Comptroller to ascertain whether the Village has complied with the requirements of various State and Federal statutes. As required by law, the Village also prepares an Annual Financial Report Update Document for submission to the State Comptroller. A summary of the operating results for the past five fiscal years is attached as Appendix A hereto.

Fund Structure and Accounts

The Village utilizes fund accounting to record and report its various service activities. A fund represents both a legal and an accounting entity which segregates the transactions of specific programs in accordance with special regulations, restrictions or limitations.

There are two basic fund types: (1) governmental funds that are used to account for basic services and capital projects; (2) fiduciary funds that account for assets held in a trustee capacity. Account groups, which do not represent funds, are used to record fixed assets and long-term obligations that are not accounted for in a specific fund.

The Village presently maintains the following governmental funds: General Fund, Water Sewer Funds, and the Capital Projects Fund. Fiduciary funds consist of a Trust and Agency Fund. There are no proprietary funds. Account groups are maintained for fixed assets and long-term debt.

Basis of Accounting

The Village's governmental funds are accounted for on a modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when they become susceptible to accrual - that is, when they become "measurable" and "available" to finance expenditures to the current period. Revenues which are susceptible to accrual include real property taxes, intergovernmental revenues (State and Federal aid) and operating transfers.

Expenditures are generally recognized under the modified accrual basis of accounting that is when the related fund liability is incurred. Exceptions to this general rule are (1) payments to employee retirement systems which are recorded in the General Long-Term Debt Account Group and recognized as an expenditure when due, and, (2) unmatured interest on general long-term debt which is recognized when due.

Investment Policy

Pursuant to State law, including Sections 10 and 11 of the General Municipal Law (the "GML"), the Village is generally permitted to deposit moneys in banks or trust companies located and authorized to do business in the State. All such deposits, including special time deposit accounts and certificates of deposit, in excess of the amount insured under the Federal Deposit Insurance Act, are required to be secured in accordance with the provisions of and subject to the limitations of Section 10 of the GML.

The Village may also temporarily invest moneys in: (1) obligations of the United States of America; (2) obligations guaranteed by agencies of the United States of America where the payment of principal and interest are guaranteed by the United States of America; (3) obligations of the State of New York; (4) with the approval of the New York State Comptroller, in tax anticipation notes or revenue anticipation notes issued by any municipality, school district, or district corporation, other than those notes issued by the Village, itself; (5) certificates of participation issued in connection with installment purchase agreements entered into by political subdivisions of the State pursuant to Section 109-b(10) of the GML; (6) obligations of a New York public benefit corporation which are made lawful investments for municipalities pursuant to the enabling statute of such public benefit corporation; or (7) in the case of moneys held in certain reserve funds established by the Village pursuant to law, in obligations of the Village.

All of the foregoing investments are required to be payable or redeemable at the option of the owner within such times as the proceeds will be needed to meet expenditures for purposes for which the moneys were provided and, in the case of obligations purchased with the proceeds of bonds or notes, shall be payable or redeemable in any event, at the option of the owner, within two years of the date of purchase. Unless registered or inscribed in the name of the Village, such instruments and investments must be purchased through, delivered to and held in custody of a bank or trust company in the State pursuant to a written custodial agreement as provided by Section 10 of the GML.

The Board of Trustees of the Village has adopted an investment policy and such policy conforms with applicable laws of the State governing the deposit and investment of public moneys. All deposits and investments of the Village are made in accordance with such policy.

Budgetary Procedures

The Mayor is responsible for the preparation and submission of the tentative annual budget to the Board. The Village Board reviews the tentative budget and prepares a preliminary budget and a public hearing is held thereon. Subsequent to the public hearing, revisions (if any) are made. The budget is then adopted by the Village Board as final for the year beginning June 1. The budget is not subject to referendum. Municipal law provides that no expenditures may exceed budgeted appropriations. Any revisions to the annual budget proposed to accommodate changes in departments or other programs must be adopted by resolution of the Village Board.

Financial Operations

The Village Treasurer functions as the chief fiscal officer as provided in Section 2.00 of the Local Finance Law; in this role, the Village Treasurer is responsible for the Village's accounting and financial reporting activities. In addition, the Mayor is also the Village's budget officer and prepares the annual tentative budget for submission to the Board of Trustees. Budgetary control during the year is the responsibility of the Village Treasurer. Pursuant to Section 30.00 of the Local Finance Law, the Village Treasurer has been authorized to issue or renew certain specific types of notes. As required by law, the Village Treasurer must execute an authorizing certificate which then becomes a matter of public record.

The Board of Trustees, as a whole, serves as the finance board of the Village and is responsible for authorizing, by resolution, all material financial transactions such as operating and capital budgets and bonded debt.

Village finances are operated primarily through the General Fund. All real property taxes and most of the other Village revenues are credited to this fund. Current operating expenditures are paid from this fund subject to available appropriations. Capital projects and selected equipment purchases are accounted for in special capital projects funds. The Village observes a June 1 - May 31 fiscal year for operating and reporting purposes.

Revenues

The Village receives most of its revenues from a real property tax on all non-exempt real property situated within the Village. Other Revenues include other Tax Items, Intergovernmental Charges, Departmental Income and Use of Money and Property. A summary of such revenues for the five most recently completed fiscal years and estimated revenues for the current fiscal year may be found in Appendix A. (See also "*Tax Levy Limit Law*" herein).

Real Property Taxes

See "*Tax Information*", herein.

State Aid

The Village receives financial assistance from the State. If the State should not adopt its budget in a timely manner, municipalities and school districts in the State, including the Village, may be affected by a delay in the payment of State aid. Additionally, if the State should experience difficulty in borrowing funds in anticipation of the receipt of State taxes in order to pay State aid to municipalities and school districts in the State, including the Village, in this year or future years, the Village may be affected by a delay in the receipt of State aid until sufficient State taxes have been received by the State to make State aid payments.

Based on the audited financial statements of the Village, the Village received approximately 5.89% of its total General Fund operating revenue in the form of State aid during the fiscal year ending May 31, 2017. There is no assurance, however, that State appropriations for aid to municipalities will continue, either pursuant to existing formulas or in any form whatsoever. The State is not constitutionally obligated to maintain or continue such aid and, in fact, the State has drastically reduced funding to municipalities and school districts in the last several years in order to balance its own budget.

Although the Village cannot predict at this time whether there will be any delays and/or reductions in State aid in the current year or in future fiscal years, the Village may be able to mitigate the impact of any delays or reductions by reducing expenditures, increasing revenues appropriating other available funds on hand, and/or by any combination of the foregoing.

Should the Village fail to receive State aid expected from the State in the amounts and at the times expected, occasioned by a delay in the payment of such monies, the Village is authorized by the Local Finance Law to provide operating funds by borrowing on account of the uncollected State aid.

The following table sets forth the percentage of the Village's General Fund revenue comprised of State aid for each of the fiscal years 2013 through 2017 and, as budgeted, for the fiscal years ending 2018 and 2019.

<u>Fiscal Year Ending May 31:</u>	<u>Total Revenue</u>	<u>State Aid</u>	<u>State Aid to Revenues (%)</u>
2013	\$9,019,237	\$529,575	5.87
2014	9,541,808	575,372	6.03
2015	9,681,849	436,060	4.50
2016	10,231,337	534,634	5.23
2017	10,345,861	609,254	5.89
2018 (Budgeted)	10,409,097	528,970	5.08
2019 (Budgeted)	10,642,146	534,646	5.02

Source: Audited financial statements (2013 through 2017), and adopted budget for fiscal years ending May 31, 2018 and 2019.

The State Comptroller's Fiscal Stress Monitoring System and OSC Compliance Reviews

The New York State Comptroller has reported that New York State's school districts and municipalities are facing significant fiscal challenges. As a result, the Office of the State Comptroller has developed a Fiscal Stress Monitoring System ("FSMS") to provide independent, objectively measured and quantifiable information to school districts and municipal officials, taxpayers and policy makers regarding the various levels of fiscal stress under which the State's school districts and municipalities are operating.

The fiscal stress scores are based on financial information submitted as part of each school ST-3 report filed with the State Education Department annually, and each municipality's annual report filed with the Office of the State Comptroller (OSC). Using financial indicators that include year-end fund balance, cash position and patterns of operating deficits, the system creates an overall fiscal stress score which classifies whether a school district or municipality is in "significant fiscal stress", in "moderate fiscal stress," as "susceptible to fiscal stress" or "no designation". Entities that do not accumulate the number of points that would place them in a stress category will receive a financial score but will be classified in a category of "no designation." This classification should not be interpreted to imply that the entity is completely free of fiscal stress conditions. Rather, the entity's financial information, when objectively scored according to the FSMS criteria, did not generate sufficient points to place them in one of the three established stress categories.

The most current applicable report of OSC designates the Village as "No Designation" (Fiscal Score: 9.6%) in 2017. More information on the FSMS may be obtained from the Office of the State Comptroller.

In addition, OSC helps local government officials manage government resources efficiently and effectively. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through its audits, which identify opportunities for improving operations and governance. The most recent audit was released on May 15, 2015. The Village was one of eleven local governments audited for a statewide report entitled "Parkland Alienation". The complete report, along with the District's response, may be found on the OSC's official website. Reference to this website implies no warranty of accuracy of information therein.

Expenditures

The major categories of expenditure for the Village are General Government Support, Public Safety, Culture and Recreation, Home & Community Services and Employee Benefits. A summary of the expenditures for the five most recently completed fiscal years and the estimated expenditures for the current fiscal year may be found in Appendix A.

Employee Pension System

Substantially all employees of the Village are members of the New York State and Local Employees' Retirement System ("ERS"). The Retirement System is a cost-sharing multiple public employee retirement system. The obligation of employers and employees to contribute and the benefits to employees are governed by the New York State Retirement System and Social Security Law (the "Retirement System Law"). The Retirement System offers a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death and disability benefits and optional methods of benefit payments. All benefits generally vest after five years of credited service, except for "Tier 6" employees, as discussed below, whose benefits vest after ten years or credited service. The Retirement System Law generally provides that all participating employers in the Retirement System are jointly and severally liable for any unfunded amounts. Such amounts are collected through annual billings to all participating employers. Generally, all employees, except certain part-time employees, participate in the Retirement System. The Retirement System is non-contributory with respect to members hired prior to July 27, 1976. All members hired on or after July 27, 1976 and before January 1, 2010 must contribute three percent of their gross annual salary towards the costs of retirement programs until they attain ten years in the Retirement System, at such time contributions become voluntary. On December 10, 2009, then Governor Paterson signed into law the creation of a new Tier 5, which is effective for new ERS employees hired on or after January 1, 2010. New ERS employees in Tier 5 contribute 3% of their salaries. There is no provision for these contributions to cease for Tier 5 employees after a certain period of service.

Pension reform legislation changed the billing cycle for employer contributions to the ERS retirement system to match budget cycles of the Village. Under the previous method, the Village was not provided with required payment until after the budget was implemented. Under the reforms implemented, the employer contribution for a given fiscal year is based on the value of the pension fund on the prior April 1, instead of the following April 1. As a result, the Village is notified of and can include the actual cost of the employer contribution in its budget. Legislation also required a minimum payment of 4.5% of payroll each year, including years in which investment performance of the fund would make a lower employer contribution possible.

In addition, the pension payment date for all local governments was changed from December 15 to February 1 and permits the legislative body of a municipality to establish a retirement contribution reserve fund for the purpose of financing retirement contributions in the future. The New York State Retirement System has advised the Village that municipalities can elect to make employer contribution payments in the December or the following February, as required. If such payments are made in the December prior to the scheduled payment date in February, such payments may be made at a discount amount.

On March 16, 2012, Governor Cuomo signed into law the new Tier 6 pension program, effective for new ERS employees hired after April 1, 2012. The Tier 6 legislation provides for increased employee contribution rates of between 3% and 6%, an increase in the retirement age from 62 years to 63 years, a readjustment of the pension multiplier, and a change in the time period for final average salary calculation from 3 years to 5 years. Tier 6 employees will vest in the system after ten years of employment and will continue to make employee contributions throughout employment.

Due to significant capital market declines in the past, the State's Retirement System portfolio has experienced negative investment performance and severe downward trends in market earnings. As a result of the foregoing, the employer contribution rate for the State's Retirement System continues to be higher than the minimum contribution rate established in the past. The State calculates contribution amounts based upon a five-year rolling average. As a result, contribution rates are expected to remain higher than the minimum contribution rates set by past legislation. To mitigate the expected increases in the employer contribution rate, various forms of legislation has been enacted that would permit local governments to borrow a portion of their required payments from the State pension plan.

The Village has decided not to amortize any pension contributions.

The Village is required to contribute an actuarially determined rate. The following table sets forth the contributions for the five most recently completed fiscal years.

Payments to the Retirement Systems

<u>Fiscal Year</u> <u>Ending May 31:</u>	<u>ERS</u>
2014	\$516,134
2015	483,165
2016	609,452
2017	464,513
2018	472,952
2019 (Budgeted)	532,500

Other Post Employment Benefits

The Village provides post-retirement healthcare benefits to various categories of former employees. These costs may be expected to rise substantially in the future. Accounting rules now require governmental entities, such as the Village, to account for post-retirement health care benefits as its accounts for vested pension benefits. GASB Statement No. 45 ("GASB 45") described below requires such accounting.

OPEB refers to "other post-employment benefits," meaning benefits other than pension benefits. OPEB consists primarily of health care benefits, and may include other benefits such as disability benefits and life insurance. Before GASB 45, OPEB costs were generally accounted for and managed as current expenses in the year paid and were not reported as a liability on governmental financial statements.

GASB 45 requires municipalities and school districts to account for OPEB liabilities in the same manner as they already account for pension liabilities. It requires them to adopt the actuarial methodologies used for pensions, with adjustments for the different characteristics of OPEB and the fact that most municipalities and school districts have not set aside any funds against this liability. Unlike GASB Statement No. 27, which covers accounting for pensions, GASB 45 does not require municipalities or school districts to report a net OPEB obligation at the start.

Under GASB 45, based on actuarial valuation, an annual required contribution ("ARC") is determined for each municipality or school district. The ARC is the sum of (a) the normal cost for the year (the present value of future benefits being earned by current employees) plus (b) amortization of the unfunded accrued liability (benefits already earned by current and former employees but not yet provided for), using an amortization period of not more than 30 years. If a municipality or school district contributes an amount less than the ARC, a net OPEB obligation will result, which is required to be recorded as a liability on its financial statements.

GASB 45 does not require that the unfunded liability actually be amortized nor that it be advance funded, only that the municipality or school district account for its unfunded accrued liability and compliance in meeting its ARC. The Village presents its financial statements under a comprehensive statutory basis of accounting in accordance with principles prescribed by the Office of the State Comptroller ("OSC") of the State of New York.

Should the Village required to fund its unfunded actuarial accrued OPEB liability, it could have a material adverse impact upon the Village's finances and could force the Village to reduce services, raise taxes or both. At the present time, however, there is no current or planned requirements for the Village to partially fund its actuarial accrued OPEB liability. At this time, New York State has not developed guidelines for the creation and use of irrevocable trusts for the funding of OPEB. As a result, the Village has decided to continue funding the expenditure on a pay-as-you-go basis.

Actuarial Valuation are required every two years for OPEB plans with more than two hundred members, or every three years if there are less than two hundred members. Additional information about GASB 45 and other accounting rules applicable to municipalities and school districts may be obtained from GASB.

TAX INFORMATION

Real Property Taxes

The Village derives its power to levy an ad valorem real property tax from the Constitution of the State. The Village's power to levy real property taxes, other than for debt service and certain other purposes, is limited by the State Constitution to two percent of the five-year average full valuation of taxable property of the Village. See "Tax Limit" herein. The State Board of Real Property Services annually establishes State Equalization Rates for all localities in the State, which are determined by statistical sampling of market sales/assessment studies. The equalization rates are used in the calculation and distribution of certain State aids and are used by many localities in the calculation of debt contracting and real property taxing limitations.

The following table sets forth the percentage of the Village's General Fund revenue (excluding other financing sources) comprised of real property taxes for each of the fiscal years 2013 through 2017, and budgeted for 2018 and 2019.

<u>Fiscal Year</u> <u>Ending May 31:</u>	<u>Total</u> <u>Revenue</u>	<u>Property</u> <u>Taxes</u>	<u>Property</u> <u>Taxes to</u> <u>Revenues (%)</u>
2013	\$ 9,019,236	\$5,620,398	62.32
2014	9,541,808	5,821,138	61.01
2015	9,681,849	6,309,996	65.17
2016	10,231,337	6,539,947	63.92
2017	10,345,861	6,458,420	62.43
2018 (Budgeted)	10,409,097	6,518,628	62.62
2019 (Budgeted)	10,642,146	6,648,999	62.48

Source: Audited financial statements (2013 through 2017), and adopted budget for fiscal years ending May 31, 2018 and 2019.

The real property taxes collected by the Village in future years may be adversely affected by pending tax certiorari proceedings by LIPA and NG. (See, "*Long Island Power Authority Tax Certiorari*", herein).

Tax Collection Procedure

Tax payments are due on June 1st each year and are payable without penalty up to and including July 1. Penalties for tax delinquencies are imposed at the rate of 5% for the balance of July and an additional percentage (which is set by the State each year and in recent years has approximated 1%) for each month or fraction of thereof thereafter. In March of each year tax liens are sold at auction pursuant to proceedings set forth in the Real Property Tax Law. Consequently, there are usually no uncollected taxes at the end of the fiscal year.

Tax Levy Limit Law

Prior to the enactment of Chapter 97 of the Laws New York of 2011 (the "Tax Levy Limit Law") on June 24, 2011, all the taxable real property within the Village had been subject to the levy of ad valorem taxes to pay the bonds and notes of the Village and interest thereon without limitation as to rate or amount. However, the Tax Levy Limit Law, as amended, imposes a tax levy limitation upon the Village for any fiscal year commencing after January 1, 2012 continuing through June 15, 2020, as extended, or later as provided in the Tax Levy Limit Law, without providing an exclusion for debt service on obligations issued by the Village. As a result, the power of the Village to levy real estate taxes on all the taxable real property within the Village to pay the bonds and notes of the Village and interest thereon is subject to statutory limitations set forth in Tax Levy Limit Law.

The following is a brief summary of certain relevant provisions of Tax Levy Limit Law. The summary is not complete and the full text of the Tax Levy Limit Law should be read in order to understand the details and implications thereof. The Tax Levy Limit Law imposes a limitation on increases in the real property tax levy of the Village, subject to certain exceptions. The Tax Levy Limit Law permits the Village to increase its overall real property tax levy over the tax levy of the prior year by no more than the "Allowable Levy Growth Factor", which is the lesser of one and two-one hundredths or the sum of one plus the Inflation Factor; provided, however that in no case shall the levy growth factor be less than one. The "Inflation Factor" is the quotient of: (i) the average of the 20 National Consumer Price Indexes determined by the United States Department of Labor for the twelve-month period ending six months prior to the start of the coming fiscal year minus the average of the National Consumer Price Indexes determined by the United States Department of Labor for the twelve-month period ending six months prior to the start of the prior fiscal year, divided by: (ii) the average of the National Consumer Price Indexes determined by the United States Department of Labor for the twelve-month period ending six months prior to the start of the prior fiscal year, with the result expressed as a decimal to four places. The Village is required to calculate its tax levy limit for the upcoming year in accordance with the provision above and provide all relevant information to the New York State Comptroller prior to adopting its budget. The

Tax Levy Limit Law sets forth certain exclusions to the real property tax levy limitation of the Village, including exclusions for certain portions of the expenditures for retirement system contributions and tort judgments payable by the Village. The Village Board is authorized to adopt a budget that exceeds the tax levy limit for the coming fiscal year, only if the Village Board first enacts, by a vote of at least sixty percent of the total voting power of the governing board of the Village, a local law to override such limit for such coming fiscal year.

The Tax Levy Limit Law does not contain an exception from the levy limitation for the payment of debt service on either outstanding general obligation bonds or notes of the Village or such indebtedness incurred after the effective date of the Tax Levy Limit Law. As such, there can be no assurances that the Tax Levy Limit Law will not come under legal challenge for violating (i) Article VIII, Section 12 of the State Constitution for not providing an exception for debt service on obligations issued prior to the enactment of the Tax Levy Limit Law, (ii) Article VIII, Section 10 of the State Constitution by effectively eliminating the exception for debt service to general real estate tax limitations, and (iii) Article VIII, Section 2 of the State Constitution by limiting the pledge of its faith and credit by a municipality or school district for the payment of debt service on obligations issued by such municipality or school district.

Tax Limit

The Constitution limits the amount that may be raised by the Village ad valorem tax levy on real estate in any fiscal year to two per centum (2%) of the five-year average full valuation of taxable real estate of the Village plus (1) the amounts required for principal and interest on all capital indebtedness, and (2) current appropriations for certain capital purposes. The tax limit for the Village for the 2017-2018 fiscal year is as follows;

Five-year Average Full Valuation	\$2,476,458,406
Tax Limit - 2% thereof	49,529,168
Tax Levy for General Village Purposes	6,361,010
Less: Exclusions	<u>0</u>
Tax Levy Subject to Tax Limit	\$6,361,010
Constitutional Tax Margin	<u><u>\$43,168,158</u></u>

Tax Levies and Tax Rates

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
General	\$5,828,884	\$6,110,341	\$6,217,225	\$6,305,189	\$6,361,010
Taxes Rate per \$1,000 of Assessed Valuation	\$2.38	\$2.59	\$2.70	\$2.75	\$2.81

Selected Listing of Large Taxable Properties 2017-2018 Assessment Roll

<u>Name</u>	<u>Type</u>	<u>Assessed Valuation</u>
National Grid	Utility	\$10,674,850
North Shore Professional Realty	Commercial	166,115
Crest Hill LLC	Commercial	71,107
Northville Industries	Commercial	85,420
Belle Terre Equities c/o Fairfield	Commercial	78,200
Belle Height LLC	Commercial	75,600
Barnum Equities	Commercial	<u>60,000</u>
	Total ^a	<u><u>\$11,211,292</u></u>

a. Represents 49.61% of the most recently available Total Taxable Assessed Valuation.

LONG ISLAND POWER AUTHORITY TAX CERTIORARI

The Long Island Power Authority (LIPA) and National Grid (NG) have initiated tax certiorari proceedings to challenge the property tax assessment of the power plant located in the Village. The results of such a challenge could have a considerable adverse impact on the Village's residential property taxes. The Port Jefferson Power Plant currently pays \$3,026,133.82 in taxes to the Village. The plant's assessed valuation represents approximately 47.09% of the total assessed valuation of the Village. A reduction on the taxes paid by LIPA/NG would cause a shift in the tax burden to the Village's residential tax base and could impact future budgets. The impact would be contingent upon the amount of LIPA/NG's property tax assessment reduction. The Village continues to contest the proceeding and is of the opinion that a negotiated compromise on future assessments will be achieved.

LITIGATION

In common with other villages, the Village from time to time receives notices of claim and is party to litigation. In the opinion of the Village Attorney, unless otherwise set forth herein and apart from matters provided for by applicable insurance coverage, there are no significant claims or actions pending in which the Village has not asserted a substantial and adequate defense, nor which, if determined against the Village, would have an adverse material effect on the financial conditions of the Village. (See, "*Long Island Power Authority Tax Certiorari*," herein).

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Village, under existing statutes and court decisions and assuming continuing compliance with certain tax certifications described herein, (i) interest on the Notes is excluded from gross income for Federal income tax purposes pursuant to Section 103 of Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Notes is not treated as a preference item in calculating the alternative minimum tax under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed for taxable years beginning prior to January 1, 2018. The Tax Certificate of the Village (the "Tax Certificate"), which will be delivered concurrently with the delivery of the Notes will contain provisions and procedures relating to compliance with applicable requirements of the Code. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Village in connection with the Notes, and Bond Counsel has assumed compliance by the Village with certain ongoing provisions and procedures set forth in the Tax Certificate relating to compliance with applicable requirements of the Code to assure the exclusion of interest on the Notes from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel to the Village, under existing statutes, interest on the Notes is exempt from personal income taxes of New York State and its political subdivisions, including The City of New York.

Bond Counsel expresses no opinion as to any other federal, state or local tax consequences arising with respect to the Notes, or the ownership or disposition thereof, except as stated above. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action thereafter taken or not taken, any fact or circumstance that may thereafter come to its attention, any change in law or interpretation thereof that may thereafter occur, or for any other reason. Bond Counsel expresses no opinion as to the consequence of any of the events described in the preceding sentence or the likelihood of their occurrence. In addition, Bond Counsel expresses no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel regarding federal, state or local tax matters, including, without limitation, exclusion from gross income for federal income tax purposes of interest on the Notes.

Certain Ongoing Federal Tax Requirements and Certifications

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Notes in order that interest on the Notes be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Notes, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government. Noncompliance with such requirements may cause interest on the Notes to become included in gross income for federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Village, in executing the Tax Certificate, will certify to the effect that the Village will comply with the provisions and procedures set forth therein and that it will do and perform all acts and things necessary or desirable to assure the exclusion of interest on the Notes from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral federal income tax matters with respect to the Notes. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of a Note. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Notes.

Prospective owners of the Notes should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for federal income tax purposes. Interest on the Notes may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

“Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a Note (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity (a note with the same maturity date, interest rate, and credit terms) means the first price at which at least 10 percent of such maturity was sold to the public, i.e., a purchaser who is not, directly or indirectly, a signatory to a written contract to participate in the initial sale of the Notes. In general, the issue price for each maturity of Notes is expected to be the initial public offering price set forth in this Official Statement. Bond Counsel further is of the opinion that, for any Notes having OID (a “Discount Note”), OID that has accrued and is properly allocable to the owners of the Discount Notes under Section 1288 of the Code is excludable from gross income for federal income tax purposes to the same extent as other interest on the Notes.

In general, under Section 1288 of the Code, OID on a Discount Note accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Note. An owner's adjusted basis in a Discount Note is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Discount Note. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Note even though there will not be a corresponding cash payment.

Owners of Discount Notes should consult their own tax advisors with respect to the treatment of original issue discount for federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Notes.

Note Premium

In general, if an owner acquires a note for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the note after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “note premium” on that note (a “Premium Note”). In general, under Section 171 of the Code, an owner of a Premium Note must amortize the note premium over the remaining term of the Premium Note, based on the owner's yield over the remaining term of the Premium Note, determined based on constant yield principles (in certain cases involving a Premium Note callable prior to its stated maturity date, 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 note). An owner of

a Premium Note must amortize the note premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the note premium allocable to that period. In the case of a tax-exempt Premium Note, if the note premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Note may realize a taxable gain upon disposition of the Premium Note even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Note should consult their own tax advisors regarding the treatment of note premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of note premium on, sale, exchange, or other disposition of Premium Notes.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest on tax-exempt obligations, including the Notes. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Note through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Notes from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Notes under federal or state law or otherwise prevent beneficial owners of the Notes from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Notes.

Prospective purchasers of the Notes should consult their own tax advisors regarding the foregoing matters.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Notes will be subject to the final approving opinion of the law firm of Hawkins Delafield & Wood LLP, Bond Counsel to the Village with respect to the Notes, which will be available at the time of delivery of the Notes, substantially as set forth in Appendix C.

DISCLOSURE UNDERTAKING

In order to assist the purchasers of the Notes in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"), the Village will execute an Undertaking to Provide Notices of Events, the form of which is attached hereto as "APPENDIX D".

Disclosure Compliance History

On July 31, 2013, the Village filed a material event notice regarding the status of the ratings of the bond insurers on various bonds issued by the Village. Since the fall of 2008, there have been in excess of 25 rating actions on bond insurers reported by Moody's, Standard & Poor's and Fitch. Due to widespread knowledge of the downgrades to such bond insurers, material event notices were not filed pursuant to every rating action.

On December 8, 2014, the Village filed a material event notice for the failure to file the audited financial statements for fiscal years ending May 31, 2010 and May 31, 2011 within 180 days following the end of each respective fiscal year. The 2010 audit was filed 123 days late on March 30, 2011 and the 2011 audit was filed 47 days late on January 13, 2012.

On June 2, 2016, the Village filed a material event notice for failure to file their audited financial statements for the fiscal year ended May 31, 2015 in a timely manner. The May 31, 2015 audited financial statements have since been filed.

In accordance with prior continuing disclosure undertakings agreements of the Village, the Village filed the Statement of Annual Financial and Operating Information and the unaudited Annual Financial Report Update Document for the fiscal year ending May 31, 2012, 3 days late on November 30, 2012. The audited financial statements of the Village for fiscal year ending May 31, 2012, were later filed 122 days late on September 30, 2013.

All of the outstanding bonds of the Village were issued pursuant to a “Limited Disclosure Undertaking”. The 2012 Refunding Bonds of the Village were also issued with a “Limited Disclosure Undertaking”. Such bonds required the Village to file its audits (or unaudited financial statements) and budgets, for each fiscal year.

RATING

The Notes are not rated. The Village has applied to Moody’s Investors Service (“Moody’s”), 7 WTC at 250 Greenwich Street, New York, NY, Phone: (212) 553-4055 and Fax: (212) 298-6761, for a rating on the Bonds. Such application is pending at this time. This rating reflects only the view of such rating agency and an explanation of the significance of such rating should be obtained from the respective rating agency. There can be no assurance that such rating will not be revised or withdrawn, if in the judgement of agency circumstances so warrant. Any change or withdrawal of such rating may have an adverse effect on the market price and the availability of a secondary market for the outstanding bonds and notes of the Village.

MUNICIPAL ADVISOR

Munistat Services, Inc. (the “Municipal Advisor”), is a Municipal Advisor, registered with the Securities and Exchange Commission and the Municipal Securities Rulemaking Board. The Municipal Advisor serves as independent municipal advisor to the Village on matters relating to debt management. The Municipal Advisor is a municipal advisory and consulting organization and is not engaged in the business of underwriting, marketing, or trading municipal securities or any other negotiated instruments. The Municipal Advisor has provided advice as to the plan of financing and the structuring of the Notes and has reviewed and commented on certain legal documents, including this Official Statement. The advice on the plan of financing and the structuring of the Notes was based on materials provided by the Village and other sources of information believed to be reliable. The Municipal Advisor has not audited, authenticated, or otherwise verified the information provided by the Village or the information set forth in this Official Statement or any other information available to the Village with respect to the appropriateness, accuracy, or completeness of disclosure of such information and no guarantee, warranty, or other representation is made by the Municipal Advisor respecting the accuracy and completeness of or any other matter related to such information and this Official Statement.

ADDITIONAL INFORMATION

Additional information may be obtained upon request from the office of Denise Mordente, Village Treasurer, Village of Port Jefferson, 121 West Broadway, Port Jefferson, New York 11777, Phone (631) 473-4740, Fax (631) 476-0672 and email: treasurer@portjeff.com, or from the office of Munistat Services, Inc., 12 Roosevelt Avenue, Port Jefferson Station, New York 11776, telephone number 631/331-8888 and website: <http://www.munistat.com>.

Munistat Services, Inc. may place a copy of this Official Statement on its website at www.munistat.com. Unless this Official Statement specifically indicates otherwise, no statement on such website is included by specific reference or constitutes a part of this Official Statement. Munistat Services, Inc. has prepared such website information for convenience, but no decisions should be made in reliance upon that information. Typographical or other errors may have occurred in converting original source documents to digital format, and neither the Village nor Munistat Services, Inc. assumes any liability or responsibility for errors or omissions on such website. Further, Munistat Services, Inc. and the Village disclaim any duty or obligation either to update or to maintain that information or any responsibility or liability for any damages caused by viruses in the electronic files on the website. Munistat Services, Inc. and the Village also assume no liability or responsibility for any errors or omissions or for any updates to dated website information.

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be, in fact, realized. This Official Statement is not to be construed as a contract or agreement between the Village and the original purchasers or owners of any of the Notes.

The preparation and distribution of this Official Statement has been authorized by various resolutions of the Village which delegates to the Village Treasurer the power to sell and issue the Notes.

By: s/s DENISE MORDENTE
Village Treasurer
Village of Port Jefferson
Port Jefferson, New York

July , 2018

APPENDIX A

FINANCIAL INFORMATION

Statement of Revenues, Expenditures and Fund Balances
General Fund

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Revenues:					
Real Property Taxes	\$ 5,620,398	\$ 6,067,660	\$ 6,309,996	\$ 6,539,947	\$ 6,458,420
Other Tax Items			23,950	31,857	21,419
Non-Property Tax Items			334,451	344,168	344,736
Interest & Penalties	15,059	30,306			
Utilities Gross Receipts Tax	164,228	177,019			
Snow removal Charges	13,858	30,000			
Franchises	152,113	162,637			
Departmental Income	1,463,363	1,540,179	1,607,979	1,849,942	1,756,891
Intergovernmental Charges			30,000		
Use of Money and Property	109,168	79,902	77,791	42,630	53,239
Licenses & Permits	153,752	210,584	130,351	212,023	347,133
Fines & Forfeitures	433,065	482,361	475,462	544,528	482,665
Sale of Property & Compensation for Loss	89,287	42,635	73,322	51,175	12,298
Interfund Revenue	80,000		80,000	80,000	
State Aid	529,574	492,891	463,060	534,634	609,254
Federal Aid	181,003	88,659	60,670		
Miscellaneous	14,368	56,976	14,817	433	259,806
Total Revenues	<u>9,019,236</u>	<u>9,461,809</u>	<u>9,681,849</u>	<u>10,231,337</u>	<u>10,345,861</u>
Expenditures:					
General Government Support	2,116,176	2,016,330	2,052,439	2,051,907	2,009,088
Public Safety	604,280	657,621	769,497	880,246	934,056
Health	521,745	536,460	572,400	572,400	621,415
Transportation	1,600,534	1,653,225	1,608,910	1,578,693	1,960,831
Economic Assistance and Opportunity			69,644	72,773	52,420
Culture and Recreation	1,025,654	1,000,438	1,031,781	1,041,965	1,018,449
Home and Community Services	217,073	221,967	322,596	368,157	329,828
Employee Benefits	1,444,140	1,555,296	1,648,444	1,874,142	1,949,708
Debt Service	729,559	729,368	871,964	888,387	849,844
Total Expenditures	<u>8,259,161</u>	<u>8,370,705</u>	<u>8,947,675</u>	<u>9,328,670</u>	<u>9,725,639</u>
Other Financing Sources (Uses):					
Proceeds From:					
Transfers In				164,313	565,556
Transfers Out	(664,687)	(1,073,996)	(719,632)	(473,138)	(1,187,916)
Total Other Financing Sources (Uses)	<u>(664,687)</u>	<u>(1,073,996)</u>	<u>(719,632)</u>	<u>(308,825)</u>	<u>(622,360)</u>
Excess (Deficiency) of Revenues & Other Financing Sources Over Expenditures & Other Uses	95,388	17,108	14,542	593,842	(2,138)
Fund Balance Beginning of Year	<u>1,167,279</u>	<u>1,262,667</u>	<u>1,279,775</u>	<u>1,294,316</u>	<u>1,888,158</u>
Fund Balance End of Year	\$ <u>1,262,667</u>	\$ <u>1,279,775</u>	\$ <u>1,294,316</u>	\$ <u>1,888,158</u>	\$ <u>1,886,020</u>

Source: Audited Annual Financial Reports of the Village (2013-2017)

NOTE: This Schedule NOT audited.

**Statement of Revenues, Expenditures and Fund Balances
Country Club**

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Revenues:					
Departmental Income	\$ 1,761,365	\$ 1,760,042	\$ 1,769,022	\$ 1,709,032	\$ 1,802,383
Intergovernmental Charges					190
Use of Money and Property	5,466	2,119	1,630	837	13,966
Miscellaneous	<u>109,996</u>	<u>5,835</u>	<u>4,603</u>		
Total Revenues	<u>1,876,827</u>	<u>1,767,996</u>	<u>1,775,255</u>	<u>1,709,869</u>	<u>1,816,539</u>
Expenditures:					
General Government Support					
Culture and Recreation	1,454,685	1,504,680	1,205,854	1,275,974	1,279,060
Employee Benefits	259,007	294,749	287,332	274,028	253,031
Debt Service			<u>143,402</u>	<u>162,471</u>	<u>147,676</u>
Total Expenditures	<u>1,713,692</u>	<u>1,799,429</u>	<u>1,636,588</u>	<u>1,712,473</u>	<u>1,679,767</u>
Other Financing Sources (Uses):					
Proceeds From:					
Transfers In					57,457
Transfers Out	<u>(140,475)</u>	<u>(173,295)</u>	<u>(680,819)</u>	<u>(177,655)</u>	<u>(178,943)</u>
Total Other Financing Sources (Uses)	<u>(140,475)</u>	<u>(173,295)</u>	<u>(680,819)</u>	<u>(177,655)</u>	<u>(121,486)</u>
Excess (Deficiency) of Revenues & Other Financing Sources Over Expenditures & Other Uses	22,660	(204,728)	(542,152)	(180,259)	15,286
Fund Balance Beginning of Year	<u>750,349</u>	<u>773,009</u>	<u>568,281</u>	<u>26,129</u>	<u>(154,130)</u>
Fund Balance End of Year	<u>\$ 773,009</u>	<u>\$ 568,281</u>	<u>\$ 26,129</u>	<u>\$ (154,130)</u>	<u>\$ (138,844)</u>

Source: Audited Annual Financial Reports of the Village (2013-2017)

NOTE: This Schedule NOT audited.

Statement of Revenues, Expenditures and Fund Balances
Capital Projects

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Revenues:					
BAN Redeemed From Appropriation	\$	\$	\$	\$	\$
State Aid	146,002	829,405		114,731	596,048
Federal Aid				1,832,526	274,659
Miscellaneous	<u>40,000</u>	<u>23,750</u>	<u>86,996</u>		<u>132,661</u>
Total Revenues	<u>186,002</u>	<u>853,155</u>	<u>86,996</u>	<u>1,947,257</u>	<u>1,003,368</u>
Expenditures:					
General Government Support			150,009		
Public Safety			10,250		
Transportation	2,736,811	6,545,899	1,178,931	2,533,646	1,870,984
Culture and Recreation			927,119		
Home and Community Services	10,605				
Debt Service				2,000,000	
Total Expenditures	<u>2,747,416</u>	<u>6,545,899</u>	<u>2,266,309</u>	<u>4,533,646</u>	<u>1,870,984</u>
Other Financing Sources (Uses):					
Proceeds From:					
Proceeds from Serial Bonds	0	2,000,000	1,400,451	2,199,732	1,497,652
Transfers In	797,275	1,247,291		486,480	1,199,746
Transfers Out					(455,900)
Total Other Financing Sources (Uses)	<u>797,275</u>	<u>3,247,291</u>	<u>1,400,451</u>	<u>2,686,212</u>	<u>2,241,498</u>
Excess (Deficiency) of Revenues & Other Financing Sources Over Expenditures & Other Uses	(1,764,139)	(2,445,453)	(778,862)	99,823	1,373,882
Fund Balance Beginning of Year	<u>4,863,634</u>	<u>3,099,495</u>	<u>654,042</u>	<u>(124,820)</u>	<u>(24,997)</u>
Fund Balance End of Year	\$ <u>3,099,495</u>	\$ <u>654,042</u>	\$ <u>(124,820)</u>	\$ <u>(24,997)</u>	\$ <u>1,348,885</u>

Source: Audited Annual Financial Reports of the Village (2013-2017)

NOTE: This Schedule NOT audited.

Balance Sheet-General Fund
Fiscal Year Ending May 31:

	<u>2016</u>	<u>2017</u>
Assets:		
Cash		
Unrestricted	\$ 1,184,792	\$ 688,110
Receivables		
Taxes Receivable		85,119
Other Receivables	88,476	152,567
Due from Other Funds	2,388,553	3,632,730
Prepaid Expenses		3,616
	<u>\$ 3,661,821</u>	<u>\$ 4,562,142</u>
Total Assets:		
Liabilities:		
Accounts Payable	\$ 134,250	\$ 192,517
Accrued Liabilities	224,681	153,202
Due to Other Funds	1,331,502	2,108,947
Due to Employees' Retirement System	69,074	71,609
Collections in Advance		65,576
Deferred Inflows of Resources	14,156	84,271
	<u>1,773,663</u>	<u>2,676,122</u>
Total Liabilities and Deferred Revenues		
Fund Balance:		
Nonspendable Fund Balance		3,616
Assigned	567,740	475,411
Unassigned	1,320,418	1,406,993
	<u>1,888,158</u>	<u>1,886,020</u>
Total Fund Balance		
Total Liabilities and Fund Balance	<u>\$ 3,661,821</u>	<u>\$ 4,562,142</u>

Source: Audited Annual Financial Report of the Village (2016-2017)

Budget Summary
Fiscal Year Ending May 31:

	<u>2018-19</u>	<u>2017-18</u>
Revenues:		
Appropriated Fund Balance	\$ 273,500	\$ 273,500
Real Property Taxes	6,648,999	6,518,628
Non-Property Tax	355,000	355,000
Departmental Income	940,000	855,000
Culture and Recreation	987,000	987,000
Use of Money & Property	67,000	55,000
Licenses & Permits	270,000	270,000
Fines & Forfeitures	550,000	550,000
Sale of Prop & Comp for Loss	7,500	7,500
Miscellaneous	8,500	8,500
State Aid	<u>534,646</u>	<u>528,970</u>
 Total:	 <u>\$ 10,642,146</u>	 <u>\$ 10,409,097</u>
Expenses:		
General Government Support	\$ 2,276,679	\$ 2,215,025
Public Safety	1,031,373	995,213
Health	581,499	581,499
Transportation	1,921,668	1,921,668
Culture & Recreation	1,316,820	1,246,021
Home & Community Services	385,350	363,850
Employee Benefits	2,115,400	2,090,059
Interfund Transfer	302,744	425,000
Debt Service	<u>710,613</u>	<u>570,763</u>
	 <u>\$ 10,642,146</u>	 <u>\$ 10,409,097</u>

Source: Adopted Budgets of the Village.

VILLAGE OF PORT JEFFERSON
APPENDIX B
AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED MAY 31, 2017

NOTE: SUCH FINANCIAL REPORT AND OPINIONS WERE
PREPARED AS OF THE DATE THEREOF AND HAVE NOT
BEEN REVIEWED AND/OR UPDATED IN CONNECTION
WITH THE PREPARATION AND DISSEMINATION OF
THIS OFFICIAL STATEMENT



FINANCIAL STATEMENTS
(Regulatory Basis)
with Independent Auditor's Reports
May 31, 2017

INCORPORATED VILLAGE OF PORT JEFFERSON
May 31, 2017

Table of Contents

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS (REGULATORY BASIS)	
Balance Sheet - All Fund Types and Account Groups	4
Statement of Revenues, Expenditures and Changes in Fund Balance - All Fund Types	5
Notes to Financial Statements	6
OTHER SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	22
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	25
Schedule of Findings and Responses	27

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Incorporated Village of Port Jefferson
Port Jefferson, New York

Report on Financial Statements

We have audited the accompanying financial statements (regulatory basis) of the Incorporated Village of Port Jefferson (Village), as of and for the year ended May 31, 2017, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the New York State Office of the State Comptroller, as described in Note 1, to meet the reporting requirements of New York State. Management is also responsible for 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditor's 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 opinions.

our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Incorporated Village of Port Jefferson's basic financial statements. The other supplementary information on pages 22 through 24 is presented for purposes of additional analysis and is not a required part of the financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2017, on our consideration of the Incorporated Village of Port Jefferson's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Incorporated Village of Port Jefferson's internal control over financial reporting and compliance.

Cullen & Danowski, LLP

November 27, 2017

INCORPORATED VILLAGE OF PORT JEFFERSON
BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
May 31, 2017

	Governmental Fund Types				Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)	
	Special Revenue					Non-Current Governmental			
	General	Community Development	Country Club	Capital Projects	Trust & Agency	Assets	Liabilities	2017	2016
ASSETS									
Cash									
Unrestricted	\$ 688,110	\$ 1,572	\$ 448,291	\$ 1,299,339	\$ 1,067,095	\$	\$	\$ 3,504,407	\$ 2,267,724
Restricted				293,404				293,404	537,877
Accounts receivable	152,567	51,746	47,991					252,304	173,315
Taxes receivable	85,119							85,119	848
Due from state and federal				1,239,544				1,239,544	666,122
Due from other funds	3,632,730		355,386	3,242,222	158,455			7,388,793	5,621,978
Prepays	3,616							3,616	-
Capital assets						57,970,828		57,970,828	57,970,828
Provisions to be made in future budgets							8,416,285	8,416,285	9,572,026
Total Assets	4,562,142	53,318	851,668	6,074,509	1,225,550	57,970,828	8,416,285	79,154,300	76,810,718
DEFERRED OUTFLOWS OF RESOURCES									
Pension						817,291		817,291	1,716,317
Total Assets and Deferred Outflows of Resources	\$ 4,562,142	\$ 53,318	\$ 851,668	\$ 6,074,509	\$ 1,225,550	\$58,788,119	\$ 8,416,285	\$ 79,971,591	\$ 78,527,035
LIABILITIES									
Accounts payable	\$ 192,517	\$	\$ 52,021	\$ 840,274	\$ 15,723	\$	\$	\$ 1,100,535	\$ 422,095
Accrued liabilities	153,202		53,002					206,204	250,899
Due to other funds	2,108,947	48,038	867,783	3,885,350	478,675			7,388,793	5,621,978
Bonds payable							5,590,000	5,590,000	6,155,000
Due to employees' retirement system	71,609		7,956					79,565	77,611
Compensated absences payable							441,801	441,801	443,007
Capital lease payable							962,809	962,809	868,814
Collections in advance	65,576		9,750					75,326	22,656
Other liabilities					731,152			731,152	1,163,594
Net pension liability - proportionate share							1,188,211	1,188,211	1,850,744
Total Liabilities	2,591,851	48,038	990,512	4,725,624	1,225,550	-	8,182,821	17,764,396	16,876,398
DEFERRED INFLOWS OF RESOURCES									
Unavailable revenue	84,271							84,271	-
Pension							233,464	233,464	254,461
Total Deferred Inflows of Resources	84,271	-	-	-	-	-	233,464	317,735	254,461
FUND BALANCE									
Investment in non-current governmental assets						58,788,119		58,788,119	59,687,145
Nonspendable: Prepays	3,616							3,616	-
Restricted: Unspent bond proceeds				293,404				293,404	-
Assigned:									
Appropriated fund balance	273,500							273,500	360,000
Unappropriated fund balance	201,911			1,055,481				1,257,392	207,740
Unassigned: Fund balance (deficit)	1,406,993	5,280	(138,844)					1,273,429	1,141,291
Total Fund Balances (Deficit)	1,886,020	5,280	(138,844)	1,348,885	-	58,788,119	-	61,889,460	61,396,176
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 4,562,142	\$ 53,318	\$ 851,668	\$ 6,074,509	\$ 1,225,550	\$58,788,119	\$ 8,416,285	\$ 79,971,591	\$ 78,527,035

For the Year Ended May 31, 2017

REVENUES

Real property taxes

Other tax items

Non-property tax items

Departmental income

Use of money and property

Licenses and permits

Fines and forfeitures

Sale of property and compensation for loss

Miscellaneous

Interfund revenues

State aid

Federal aid

Total Revenues

General government support

Public safety

Health

Transp

Economic oppo

Culture and recreation

Home and community services

Employee benefits

Debt service
Business and industry

Principal

Interest

Total F

Total Expenditures

Excess / (Deficiency) of Revenues Over Expenditures

Proceeds of obligations

BANs redeemed from a

Operating transfers in

Operating transfers out

Total Other Sources (Uses)

Excess / (Deficiency) of Revenues and Other

Sources Over Expenditures and Other Uses

Fund Balance (Deficit) - Beginning of Year

Fund Balance (Deficit) - End of Year

INCORPORATED VILLAGE OF PORT JEFFERSON
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The financial statements of the Incorporated Village of Port Jefferson (Village), as of and for the year ended May 31, 2017, have been prepared in accordance with the financial reporting provisions of the New York State Office of the State Comptroller, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing GAAP for governmental units. The financial statements of the Village have been prepared using only the modified accrual basis of accounting. This method differs from GAAP, which requires the preparation of additional financial statements using the accrual basis of accounting. The accrual basis financial statements require the capitalization and depreciation of property and equipment and the recording of long-term liabilities. Under the modified accrual basis of accounting, property and equipment are recorded as an expenditure when purchased and the proceeds of long-term debt are reported as other financing sources and the payment of long-term debt and other long-term liabilities are recognized to the extent that the liabilities mature during the year. In addition, GAAP requires the financial statements to be prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. GASB 34 financial statements require the presentation of government-wide financial statements and management's discussion and analysis. The accounting practices used to prepare these financial statements do not require compliance with GASB 34.

The significant accounting policies of the Village are described below:

a) Financial Reporting Entity

The Village is governed by Municipal Law and other general laws of the State of New York. The Board of Trustees is the legislative body responsible for overall operations, the Mayor serves as chief executive officer and the Treasurer serves as chief fiscal officer.

The following basic services are provided:

General support, public safety, health, transportation, economic opportunity and development, culture and recreation, and home and community service.

The financial reporting entity consists of (a) the primary government, which is the Village, (b) organizations, which are determined to be includable in the financial reporting entity based on legal standing, fiscal dependence and financial accountability, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete as set forth by GASB. Based on the application of these criteria, there are no other entities that would be included in the Village's reporting entity.

b) Basis of Presentation

The accounts of the Village are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. These funds and account groups are based upon the requirements of GAAP for local governmental units as prescribed by the GASB, as well as the financial reporting provisions of the New York State Office of the State Comptroller. The operations of each fund are accounted for within a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues, and expenditures.

INCORPORATED VILLAGE OF PORT JEFFERSON
NOTES TO FINANCIAL STATEMENTS
(Continued)

Governmental resources are allocated to and accounted for in individual funds segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The various funds are grouped in the financial statements in the following fund types and account groups:

i) Governmental Fund Types

Governmental funds are those through which most governmental functions are financed. The acquisition, use and balances of expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus of the governmental funds is based upon the determination of financial position and changes in financial position. The following are the Village's governmental fund types:

(1) General Fund - the general fund is the principal operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund.

(2) Special Revenue Funds – are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Community Development Fund – This fund is used to account for community development block grants received from the U.S. Department of Housing and Urban Development (HUD) passed through Suffolk County.

Country Club Fund – This fund is used to account for the activities relating to the country club. The country club is self-supporting through membership fees and user charges.

(3) Capital Projects Fund - the capital projects fund is used to account for and report financial resources to be used for the acquisition, construction or renovation of major capital facilities or equipment.

ii) Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the Village in a trustee or custodial capacity.

Trust and Agency Fund - Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Funds held by the Village represent various guarantee deposits.

iii) Account Groups

Account groups are used to establish accounting control and accountability for the Village's general capital assets and general long-term obligations. The account groups are not "funds". They are accounting entities, not fiscal entities, and are concerned only with the measurement of financial position and not with the results of operations.

(1) Non-Current Governmental Assets—is used to account for land, construction in progress, buildings and improvements, and machinery and equipment owned by the Village. Also included are deferred outflows of resources related to pensions.

(2) Non-Current Governmental Liabilities—is used to account for all long-term debt and other obligations of the Village. Also included are deferred inflows of resources related to pensions.

INCORPORATED VILLAGE OF PORT JEFFERSON
NOTES TO FINANCIAL STATEMENTS
(Continued)

c) Measurement Focus and Basis of Accounting

The fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when measurable and available. The Village considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, pension costs, claims and judgments and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

d) Use of Estimates

The preparation of financial statements in conformity with a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

e) Cash

Cash consists of cash on hand, demand deposits and short-term investments with original maturities of three months or less.

Certain cash balances are restricted by various legal and contractual obligations, such as legal reserves and debt agreements.

f) Receivables

Receivables are shown net of allowance for uncollectible amounts, if any. However, no allowance for uncollectible amounts has been provided since it is believed that such allowance would not be material.

g) Interfund Transactions

The operations of the Village include transactions between funds. These transactions may be temporary in nature, such as with interfund borrowings. The Village typically loans resources between funds for the purpose of providing cash flow. These interfund receivables and payables are expected to be repaid within one year. Permanent transfers of funds include the transfer of expenditures and revenues to provide financing or other services.

The governmental funds report all interfund transactions as originally recorded. Interfund receivables and payables are netted on the accompanying Balance Sheet when it is the Village's practice to settle these amounts at a net balance based upon the right of legal offset.

A detailed disclosure by individual fund for interfund receivables, payables, transfers in and transfers out is provided subsequently in these Notes to Financial Statements.

INCORPORATED VILLAGE OF PORT JEFFERSON
NOTES TO FINANCIAL STATEMENTS
(Continued)

h) Capital Assets

Capital assets are recorded at cost as expenditures in the respective funds when purchased. Donated items are valued at acquisition value when given. Capital assets are accounted for in the non-current governmental assets account group and are removed when an asset is sold or retired.

No depreciation has been provided on capital assets nor has interest in capital assets construction in progress been capitalized.

	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Land	\$ 500	N/A
Land improvements	500	10-40 Years
Building and building improvements	500	10-40 Years
Furniture and equipment	500	3-10 Years
Construction in progress	500	N/A

i) Deferred Outflows of Resources

Deferred outflows of resources represents a consumption of net position that applies to a future reporting period and so will not be recognized as an outflow of resources (expense) until that time. Deferred outflows of resources, in the non-current governmental assets account group, relates to ERS and consists of the Village's proportionate share of changes in the collective net pension liability not included in collective pension expense and the Village's contributions to ERS subsequent to the measurement date.

j) Deferred Inflows of Resources

Deferred inflows of resources represents an acquisition of net position that applies to a future reporting period and so will not be recognized as an inflow of resources (revenue) until that time. The Village has two items that qualify for reporting in this category. First is deferred revenues reported in the general fund when resources are received by the Village before it has a legal claim to them and consist primarily of real property taxes received before the period for which the real property taxes are levied. These amounts are classified as deferred inflows of resources. In subsequent periods, when the Village has legal claim to the resources, the deferred revenues are recognized as revenues. The second item is related to ERS and consists of the Village's proportionate share of changes in the collective net pension liability not included in collective pension expense.

k) Vacation and Sick Leave and Compensatory Absences

Village employees are granted vacation and sick leave and earn compensatory absences in varying amounts. In the event of termination or upon retirement, an employee is entitled to payment for accumulated vacation and sick leave and unused compensatory absences at various rates subject to certain maximum limitations.

l) Employee Benefits – Pension Plans

Eligible Village employees participate in the New York State and Local Employees' Retirement System.

INCORPORATED VILLAGE OF PORT JEFFERSON
NOTES TO FINANCIAL STATEMENTS
(Continued)

m) Postemployment Benefits

In addition to providing pension benefits, the Village provides health insurance coverage and survivor benefits for certain retired employees and their survivors. Certain Village employees may become eligible for these benefits if they reach normal retirement age while working for the Village. Health care benefits and survivors benefits are provided through an insurance company whose premiums are based on the benefits paid during the year. The Village recognizes the cost of providing benefits by recording its share of insurance premiums as an expenditure as the liabilities for premiums mature (come due for payment).

n) Collections in Advance

Collections in advance are reported when resources are received by the Village before it has a legal claim to them as when charges for services monies are received in advance from payers, such as advance payments for golf outings received from payers prior to the date of the outing. These amounts are recorded as liabilities in the financial statements. The liabilities are removed and revenues are recognized in subsequent periods when the Village has a legal claim to the resources.

o) Short-Term Debt

The Village may issue Bond Anticipation Notes (BANs) in anticipation of proceeds from the subsequent sale of bonds. These notes are recorded as current liabilities of the funds that will actually receive the proceeds from the issuance of the notes. State law requires the BANs issued for capital purposes be converted to long-term financing within five years after the original issue date.

p) Fund Balance

The governmental fund statements report fund balance classifications according to the relative strength of spending constraints placed on the purpose for which resources can be used as follows:

Nonspendable – Consists of amounts that are inherently nonspendable in the current period either because of their form or because they must be maintained intact. Nonspendable fund balance relates to the prepaids.

Restricted – Consists of amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation. Fund balance classified as restricted by the Village include the following:

Unspent Bond Proceeds

Unspent bond proceeds are recorded as restricted fund balance because they are subject to external constraints contained in the bond agreement. These restricted funds are accounted for in the capital projects fund.

Assigned – Consists of amounts that are subject to a purpose constraint that represents an intended use established by the Village's Board of Trustees. The purpose of the assignment must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the residual amount of fund balance. Assigned fund balance includes an amount appropriated to partially fund the subsequent year's budget.

INCORPORATED VILLAGE OF PORT JEFFERSON
NOTES TO FINANCIAL STATEMENTS
(Continued)

Unassigned – represents the residual classification for the Village's general fund and could report a surplus or deficit. In funds other than the general fund, the unassigned classification is used only to report a deficit fund balance resulting from overspending of available resources.

Fund Balance Classification

Any portion of fund balance may be applied or transferred for a specific purpose either by voter approval if required by law or by formal action of the Board of Trustees if voter approval is not required. Amendments or modification to the applied or transferred fund balance must also be approved by formal action of the Board of Trustees.

The Board of Trustees shall retain the authority to assign fund balance.

In circumstances where an expenditure is incurred for a purpose for which amounts are available in multiple fund balance classifications (e.g., expenditures related to reserves) the expenditure is to be spent first from the restricted fund balance to the extent appropriated by either budget vote or board approved budget revision and then from the assigned fund balance to the extent that there is an assignment and then from the unassigned fund balance.

q) Real Property Taxes

Real property taxes are levied no later than May 15th and become a lien on June 1st. The Village collects its own taxes. Taxes are collected during the month of June without penalty. A 5% penalty is assessed on taxes paid after July 1, and an additional 1% is assessed each month on taxes paid after July. Unpaid Village taxes are collected through tax lien sales.

r) Total Columns on Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

2. Stewardship, Compliance and Accountability

a) Budget Policies

The Village's budget policies are as follows:

The Village's administration submits a tentative budget to the Board of Trustees for their review. The tentative budget includes proposed expenditures and the proposed means of financing for the general fund.

A public hearing is held on the final draft of the tentative budget by April 15th. After completion of the budget hearing, the Board of Trustees may further change the tentative budget. Such budget, as so revised, shall be adopted by resolution no later than May 1st.

All subsequent modifications of the budget must be approved by the Board of Trustees.

INCORPORATED VILLAGE OF PORT JEFFERSON
NOTES TO FINANCIAL STATEMENTS
(Continued)

Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances) that may be incurred. Appropriations authorized for the year are increased by the amount of encumbrances carried forward from the prior year. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year. Appropriations authorized for the current year can be funded by the planned use of specific reserves, and can be increased by budget amendments approved by the Board of Trustees as a result of selected new revenue sources not included in the original budget (when permitted by law) and by the appropriation of fund balances. These supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted.

Budgets are adopted on the basis of the financial reporting provisions of the New York State Office of the State Comptroller, to comply with the filing requirements of the Village's Annual Financial Report Update Document.

b) Over Expenditure of Certain Appropriations

Certain general fund appropriations were over expended. The general fund budget in total was not over expended.

c) Country Club Fund

The country club fund has an unassigned fund balance deficit of \$138,844. This will be funded through membership dues and assessments.

The Village had supplemental appropriations of \$25,462, which were funded by unanticipated revenue.

3. Detail Notes on All Funds and Account Groups

a) Assets

i) Deposits with Financial Institutions and Investments

The Village's investment policies are governed by State statutes and Village policy. Resources must be deposited in Federal Deposit Insurance Corporation (FDIC) insured commercial banks or trust companies located within the state. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements and obligations of New York State or its localities. Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance. Obligations that may be pledged as collateral are obligations of the United States and its Agencies and obligations of New York State and its municipalities. Investments are stated at fair value.

Custodial credit risk is the risk that in the event of a bank failure, the Village may be unable to recover deposits or collateral securities that are in possession of an outside agency. GASB directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are either:

- A. Uncollateralized,
- B. Collateralized by securities held by the pledging financial institution, or
- C. Collateralized by securities held by the pledging financial institution's trust department or agent but not in the Village's name.

INCORPORATED VILLAGE OF PORT JEFFERSON
NOTES TO FINANCIAL STATEMENTS
(Continued)

The Village's aggregate bank balances were covered by FDIC insurance or fully collateralized by securities pledged on the Village's behalf at year end.

The Village did not have any investments at year end or during the year.

ii) Interfund Transactions

Interfund balances at May 31, 2017 and interfund transfers for the year ended May 31, 2017 are as follows:

	Interfund		Interfund	
	Receivable	Payable	Transfers In	Transfers Out
General	\$ 3,632,730	\$ 2,108,947	\$ 565,556	\$ 1,187,916
Community Development		48,038		
Country Club	355,386	867,783	57,457	178,943
Capital Projects	3,242,222	3,885,350	1,199,746	455,900
Trust & Agency	158,455	478,675		
Total	<u>\$ 7,388,793</u>	<u>\$ 7,388,793</u>	<u>\$ 1,822,759</u>	<u>\$ 1,822,759</u>

The Village transferred funds to the capital projects fund in accordance with the adopted general fund budget and funds from the country club to the general fund and capital projects fund to fund country club projects.

iii) Accounts Receivable

Accounts receivable at May 31, 2017 consisted of the following:

Fund	Description	Amount
General	Concessions	\$ 104,719
	Parking meter funds	9,823
	Ambulance charges	21,602
	Village center rental	16,423
		<u>152,567</u>
Community Development	Due from Suffolk County	51,746
Country Club	Various member fees	<u>47,991</u>
Total		<u>\$ 252,304</u>

iv) Due from State and Federal

The Village is owed \$839,544 in Federal Emergency Management Aid for storm damages in the capital projects fund, and owed \$400,000 in New York State aid for a project at the Village's east beach.

INCORPORATED VILLAGE OF PORT JEFFERSON
NOTES TO FINANCIAL STATEMENTS
(Continued)

v) Changes in Capital Assets

A summary of changes in capital assets is as follows:

	Balance May 31, 2016	Additions	Deletions	Balance May 31, 2017
Land	\$ 32,416,618	\$	\$	\$ 32,416,618
Buildings	17,599,156			17,599,156
Machinery & Equipment	7,955,054			7,955,054
Total	<u>\$ 57,970,828</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 57,970,828</u>

b) Liabilities

i) Collections in Advance

Collections in advance at May 31, 2017 consisted of the following:

General Fund	
Real property taxes	\$ 22,320
Summer camp	<u>43,256</u>
Total General Fund	65,576
Country Club Fund - Golf outings	<u>9,750</u>
	<u>\$ 75,326</u>

ii) Pension Plan - New York State and Local Employees' Retirement System

Plan Description

The Village participates in the New York State and Local Employees' Retirement System (ERS). This system is a cost-sharing, multiple-employer, defined benefit pension plan. The ERS provides retirement and disability benefits, annual cost of living increases, and death benefits to plan members and beneficiaries.

Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law. The net position of the ERS is held in the New York State Common Retirement Fund (the Fund), which was established to hold all net assets and record changes in plan net position allocated to the ERS. As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as the trustee of the fund and is the administrative head of the ERS. Once a public employer elects to participate in the ERS, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The Village also participates in the Public Employees' Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The ERS is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided may be found at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Employees' Retirement System, 110 State Street, Albany, NY 12244.

INCORPORATED VILLAGE OF PORT JEFFERSON
NOTES TO FINANCIAL STATEMENTS
(Continued)

Funding Policy

Plan members who joined the system before July 27, 1976, are not required to make contributions. Those joining on or after July 27, 1976, and before January 1, 2010, with less than ten years of credited services are required to contribute 3% of their salary. Those joining on or after January 1, 2010 and before April 1, 2012, are required to contribute 3% of their salary throughout active membership. Those joining on or after April 1, 2012, are required to contribute between 3% and 6% dependent on their salary throughout active membership. Employers are required to contribute at an actuarially determined rate based on covered salaries paid. The Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions for the ERS' fiscal year ended March 31st, and employer contributions are either paid by the prior December 15th less a 1% discount or by the prior February 1st. The Village paid 100% of the required contributions as billed by the ERS for the current year and each of the two preceding years.

The Village's share of the required contributions, based on covered payroll paid for the Village's year ended May 31st, for the current year and two preceding years was:

	<u>Required Contribution</u>
2017	\$ 464,513
2016	483,165
2015	516,134

iii) Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At May 31, 2017, the Village reported the following liability for its proportionate share of the net pension liability for ERS, which was measured as of March 31, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation. The Village's proportion of the net pension liability was based on a projection of the Village's long-term share of contributions to ERS relative to the projected contributions of all participating members, actuarially determined. This information was provided by the ERS in reports provided to the Village.

Measurement date	March 31, 2017
Village's proportionate share of the net pension liability	\$ (1,188,211)
Village's portion of the Plan's total net pension liability	0.0115309%
Change in proportion since the prior measurement date	-

INCORPORATED VILLAGE OF PORT JEFFERSON
NOTES TO FINANCIAL STATEMENTS
(Continued)

At May 31, 2017, the Village reported deferred outflows and inflows of resources related to the ERS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 29,775	\$ 180,437
Changes of assumptions	405,936	
Net difference between projected and actual earnings on pension plan investments	237,334	
Changes in proportion and differences between the Village's contributions and proportionate share of contributions	64,681	53,027
Village's contributions subsequent to the measurement date	79,565	
Total	<u>\$ 817,291</u>	<u>\$ 233,464</u>

Village contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending May 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized as follows:

Year Ending	Amount
2018	\$ 224,138
2019	224,138
2020	213,865
2021	<u>(157,879)</u>
	<u>\$ 504,262</u>

Actuarial Assumptions

The total pension liability as of the measurement date was determined by using an actuarial valuation as noted in the table below, with update procedures used to roll forward the total pension liability to the measurement date. The actuarial valuations used the following actuarial assumptions:

Measurement date	March 31, 2017
Actuarial valuation date	April 1, 2016
Inflation	2.5%
Salary increases	3.8%
Investment rate of return (net of investment expense, including inflation)	7.0%
Cost of living adjustments	1.3%

INCORPORATED VILLAGE OF PORT JEFFERSON
NOTES TO FINANCIAL STATEMENTS
(Continued)

Annuitant mortality rates are based on April 1, 2010 – March 31, 2015 System's experience with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014. The actuarial assumptions used in the April 1, 2016 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

The long-term expected rate of return on pension plan investments was determined in accordance with Actuarial Standard of Practice (ASOP) No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*. ASOP No. 27 provides guidance on the selection of an appropriate assumed investment rate of return. Consideration was given to expected future real rates of return (expected returns, net of pension plan investment expense and inflation) for each major asset class, as well as historical investment data and plan performance.

The target allocation and best estimates of the arithmetic real rates of return for each major asset class are summarized below:

	Target Allocation	Long-term Expected Rate of Return
Measurement date		March 31, 2017
Asset type		
Domestic equity	36.0%	4.55%
International equity	14.0%	6.35%
Real estate	10.0%	5.80%
Alternative investments	18.0%	4.00-7.75%
Bonds and mortgages	17.0%	1.31%
Cash	1.0%	-0.25%
Inflation indexed bonds	4.0%	1.50%
	100.0%	

Discount Rate

The discount rate used to calculate the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based upon the assumptions, the ERS' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Asset/Liability to the Discount Rate Assumption

The following presents the Village's proportionate share of the net pension asset/(liability) calculated using the discount rate of 7.0%, as well as what the Village's proportionate share of the net pension asset/(liability) would be if it were calculated using a discount rate that is 1 percentage point lower (6.0%) or 1 percentage point higher (8.0%) than the current rate:

	1% Decrease (6.0)%	Current Assumption (7.0)%	1% Increase (8.0)%
Village's proportionate share of the net pension asset (liability)	\$ (3,794,910)	\$ (1,188,211)	\$ 1,015,748

INCORPORATED VILLAGE OF PORT JEFFERSON
NOTES TO FINANCIAL STATEMENTS
(Continued)

Pension Plan Fiduciary Net Position

The components of the current-year net pension liability of the employers as of the measurement date, were as follows:

Measurement date	March 31, 2017
	<i>(Dollars in Thousands)</i>
Employers' total pension liability	\$ (177,400,586)
Plan fiduciary net position	<u>168,004,363</u>
Employers' net pension liability	<u>\$ (9,396,223)</u>
Ratio of plan fiduciary net position to the employers' total pension liability	94.70%

Payables to the Pension Plan

Employer contributions are paid annually based on the ERS' fiscal year, which ends on March 31st. Accrued retirement contributions as of May 31, 2017, represent the projected employer contribution for the period of April 1, 2017 through May 31, 2017 based on paid ERS covered wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of May 31, 2017 amounted to \$79,565 of employer contributions. Employee contributions are remitted monthly.

iv) Postemployment Benefits

The Village paid \$140,580 in postemployment benefits for retirees that ranged between fourteen and sixteen retirees. The amount paid is included in employee benefits in the Statement of Revenues, Expenditures and Changes in Fund Balances – All Fund Types.

v) Short-term debt

Transactions in short-term debt for the year are summarized below:

	Maturity	Effective Interest Rate	Balance May 31, 2016	Issued	Redeemed	Balance May 31, 2017
BAN	8/17/2017	2.25%	<u>\$</u>	<u>\$ 1,480,000</u>	<u>\$ (1,480,000)</u>	<u>\$</u>

The BAN was issued to finance the purchase of various equipment, construction of Rocketship Park, and purchase of property at Barnum Avenue.

INCORPORATED VILLAGE OF PORT JEFFERSON
NOTES TO FINANCIAL STATEMENTS
(Continued)

vi) Long-Term Liabilities

The following is a summary of changes in long-term debt for the year ended May 31, 2017:

	Balance May 31, 2016	Additions	Reductions	Balance May 31, 2017	Amounts Due Within One Year
<u>Long-term debt:</u>					
Bonds payable	\$ 6,155,000	\$	\$ (565,000)	\$ 5,590,000	\$ 575,000
Capital lease payable	868,814	93,995		962,809	234,936
<u>Other long-term liabilities:</u>					
Compensated absences	443,007		(1,206)	441,801	
	<u>\$ 7,466,821</u>	<u>\$ 93,995</u>	<u>\$ (566,206)</u>	<u>\$ 6,994,610</u>	<u>\$ 809,936</u>

The general fund has typically been used to liquidate long-term liabilities. Additions and reductions to compensated absences are shown net since it is impractical to separately determine these amounts. The maturity of compensated absences is not determinable.

Bonds Payable

Bonds payable is comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at May 31, 2017
Serial bond - refunding	2/28/2010	1/15/2018	2.00-5.00%	\$ 100,000
Serial bond - roadway	10/12/2011	10/1/2026	2.00-3.00%	3,825,000
Serial bond - club irrigation & course improvements	12/18/2013	12/15/2028	2.00-4.00%	1,665,000
				<u>\$ 5,590,000</u>

The following is a summary of maturing debt service requirements for bonds payable:

Fiscal Year Ending May 31,	Principal	Interest	Total
2018	\$ 575,000	\$ 140,975	\$ 715,975
2019	475,000	126,475	601,475
2020	500,000	116,725	616,725
2021	500,000	106,631	606,631
2022	505,000	96,350	601,350
2023-2027	2,710,000	274,531	2,984,531
2028-2029	325,000	19,600	344,600
	<u>\$ 5,590,000</u>	<u>\$ 881,287</u>	<u>\$ 6,471,287</u>

Interest on long-term debt for the year was \$154,275.

INCORPORATED VILLAGE OF PORT JEFFERSON

NOTES TO FINANCIAL STATEMENTS

(Continued)

Capital Lease Payable

The Village has leases for Village vehicles and various club equipment, and accounts for the leases as capital leases. The following is a schedule of future minimum lease payments under capital leases with the present value of net minimum lease payments:

Total minimum lease payments	\$ 1,047,810
Less: Amounts representing interest	<u>(85,001)</u>
Present value of minimum lease payments	<u>\$ 962,809</u>

Scheduled maturities of future minimum lease payments at May 31, 2017, are as follows:

<u>Fiscal Year Ending May 31,</u>	<u>Amount</u>
2018	\$ 234,936
2019	232,020
2020	219,262
2021	84,030
2022	<u>192,561</u>
	<u>\$ 962,809</u>

vii) Debt Limits

The Village's outstanding serial bonds payable represent approximately 4% of the Village's debt limit at May 31, 2017.

4. Commitments and Contingencies

a) Risk Management

The Village is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; injuries to employees; errors and omissions; natural disasters, etc. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

b) Litigation

As of the end of the fiscal year, the Village was named as a party in a damages seeking lawsuit, captioned Grobe v. Incorporated Village of Port Jefferson. The Village had filed a counterclaim. This case was dismissed in July 2017.

INCORPORATED VILLAGE OF PORT JEFFERSON
NOTES TO FINANCIAL STATEMENTS
(Continued)

c) **Certiorari Proceedings**

From time to time, the Village is involved in certiorari proceedings under which taxpayers seek reduction in the assessed value of property upon which taxes are measured. A reduction in assessed valuation may result in a refund of real property taxes previously paid by the claimant. It is not possible to estimate the amount of refunds, if any, that the Village may be required to make for taxes collected through May 31, 2017, which could affect future operating budgets of the Village.

The most significant certiorari proceeding is a challenge brought by National Grid and the Long Island Power Authority to challenge the Village's assessment of the power plant located in the Village. The Village is vigorously contesting the utilities' authority to commence the challenge proceedings and are unable to evaluate the likelihood outcome of this matter at the current time.

5. SUBSEQUENT EVENTS

The Village has evaluated subsequent events through the date of the auditor's report, which is the date the financial statements were available to be issued. No significant events were identified that would require adjustment of or disclosure in the financial statements, except for the following:

Issuance of BANs

On August 17, 2017, the Village issued bond anticipation notes in the amount of \$1,480,000, which are due on August 17, 2018 and bear interest at a rate of 2.25%.

INCORPORATED VILLAGE OF PORT JEFFERSON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended May 31, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Real Property Taxes	\$ 6,467,225	\$ 6,467,225	\$ 6,458,420	\$ (8,805)
Interest and Penalties	34,000	34,000	21,419	(12,581)
Non-Property Tax Items				
Utilities gross receipts tax	180,000	180,000	160,014	(19,986)
Franchise fees	175,000	175,000	184,722	9,722
Total Non-Property Tax Items	355,000	355,000	344,736	(10,264)
Departmental Income				
Safety inspection fees	40,000	40,000	61,259	21,259
Health	294,000	294,000	289,442	(4,558)
Parking meter fees	440,000	465,462	479,074	13,612
Village center, concessions, rink & park fees	958,500	958,500	909,491	(49,009)
Zoning and planning board fees	45,000	45,000	17,625	(27,375)
Total Departmental Income	1,777,500	1,802,962	1,756,891	(46,071)
Use of Money and Property	52,000	52,000	53,239	1,239
Licenses and Permits	255,000	255,000	347,133	92,133
Fines and Forfeitures	550,000	550,000	482,665	(67,335)
Sale of Property and Compensation for Loss				
Sale of equipment	7,500	7,500	5,004	(2,496)
Insurance recoveries	-	-	7,294	7,294
Total Sale of Property and Compensation for Loss	7,500	7,500	12,298	4,798
Miscellaneous	5,000	5,000	259,806	254,806
Interfund Revenues	40,000	40,000	-	(40,000)
Total Local Sources	9,543,225	9,568,687	9,736,607	167,920
State sources				
Per capita	33,302	33,302	33,302	-
Mortgage tax	260,000	260,000	322,520	62,520
Other government aid	-	-	8,270	8,270
Consolidated highway aid	185,668	185,668	245,162	59,494
Total State Aid	478,970	478,970	609,254	130,284
Total Revenues	10,022,195	10,047,657	10,345,861	298,204
OTHER FINANCING SOURCES				
Operating Transfers In	169,313	169,313	565,556	396,243
Total Revenues and Other Financing Sources	10,191,508	10,216,970	10,911,417	\$ 694,447
APPROPRIATED FUND BALANCE				
Prior years' surplus	360,000	360,000		
Total Revenues, Other Financing Sources and Appropriated Fund Balance	\$ 10,551,508	\$ 10,576,970		

INCORPORATED VILLAGE OF PORT JEFFERSON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Continued)
For the Year Ended May 31, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
EXPENDITURES				
General Government Support				
Board of trustees	\$ 31,000	\$ 31,230	\$ 31,230	\$ -
Village justice	199,960	200,948	169,556	31,392
Mayor	22,500	22,500	20,879	1,621
Treasurer	463,578	423,971	376,833	47,138
Clerk	397,130	416,143	428,673	(12,530)
Law	120,000	143,189	143,189	-
Engineer	138,255	138,255	134,641	3,614
Elections	5,500	2,264	1,658	606
Building	186,950	194,220	184,941	9,279
Unallocated insurance	420,000	410,000	428,224	(18,224)
Assessment	27,750	30,986	30,986	-
Special items	107,340	107,340	58,278	49,062
Total General Government Support	2,119,963	2,121,046	2,009,088	111,958
Public Safety				
Traffic control	30,000	30,744	30,744	-
Managed parking	170,404	196,635	199,230	(2,595)
Police	492,911	490,868	483,527	7,341
Safety inspection	210,374	215,795	220,555	(4,760)
Total Public Safety	903,689	934,042	934,056	(14)
Health				
Registrar	1,800	1,800	-	1,800
Ambulance	583,850	581,282	621,415	(40,133)
Total Health	585,650	583,082	621,415	(38,333)
Transportation				
Street maintenance	1,336,305	1,431,918	1,511,825	(79,907)
Snow removal	200,000	154,890	131,676	23,214
Street lighting	268,582	340,601	317,330	23,271
Sidewalks	90,000	90,000	-	90,000
Total Transportation	1,894,887	2,017,409	1,960,831	56,578
Economic Opportunity and Development				
Programs for the aging	67,700	67,700	52,420	15,280
Culture and Recreation				
Playground, recreation and youth programs	845,005	848,499	730,348	118,151
Parks	344,699	344,775	288,101	56,674
Total Culture and Recreation	1,189,704	1,193,274	1,018,449	174,825
Home and Community Services				
Drainage	50,000	2,025	1,085	940
Planning	263,125	263,125	209,404	53,721
Environmental	48,000	55,975	51,963	4,012
Refuse and garbage	138,000	138,000	67,376	70,624
Total Home and Community Services	499,125	459,125	329,828	129,297

INCORPORATED VILLAGE OF PORT JEFFERSON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Continued)
For the Year Ended May 31, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
EXPENDITURES				
Employee Benefits				
State retirement	\$ 570,000	\$ 497,077	\$ 417,724	\$ 79,353
Social security and Medicare	275,300	275,300	256,323	18,977
Worker's compensation	248,000	248,000	213,069	34,931
Life insurance	4,000	7,413	7,413	-
Unemployment insurance	20,000	22,024	22,024	-
Disability insurance	5,000	580	580	-
Hospital and medical insurance	965,000	963,982	967,149	(3,167)
Accrued leave	15,000	65,426	65,426	-
Total Employee Benefits	<u>2,102,300</u>	<u>2,079,802</u>	<u>1,949,708</u>	<u>130,094</u>
Debt Service				
Principal	594,390	595,529	680,692	(85,163)
Interest	169,100	167,961	169,152	(1,191)
Total Debt Service	<u>763,490</u>	<u>763,490</u>	<u>849,844</u>	<u>(86,354)</u>
Total Expenditures	<u>10,126,508</u>	<u>10,218,970</u>	<u>9,725,639</u>	<u>493,331</u>
OTHER USES				
Operating transfers out	<u>425,000</u>	<u>358,000</u>	<u>1,187,916</u>	<u>(829,916)</u>
Total Expenditures and Other Uses	<u>\$ 10,551,508</u>	<u>\$ 10,576,970</u>	<u>10,913,555</u>	<u>\$ 493,331</u>
Net Change in Fund Balance			(2,138)	
Fund Balance - Beginning of Year			<u>1,888,158</u>	
Fund Balance - End of Year			<u>\$ 1,886,020</u>	

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Trustees
Incorporated Village of Port Jefferson
Port Jefferson, New York

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Incorporated Village of Port Jefferson (Village), as of and for the year ended May 31, 2017, and the related notes to financial statements, as listed in the table of contents, which collectively comprise the Village's basic financial statements and have issued our report thereon dated November 27, 2017 in which we expressed an adverse opinion on the financial statements in accordance with U.S. generally accepted accounting principles, a disclaimer of opinion on the non-current governmental assets account group, and an unmodified opinion on the regulatory basis of accounting for each governmental and fiduciary fund and the non-current governmental liabilities account group. As described more fully in Note 1, the Incorporated Village of Port Jefferson has prepared these financial statements in accordance with the financial reporting provisions of the New York State Office of the State Comptroller, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Incorporated Village of Port Jefferson's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Incorporated Village of Port Jefferson's internal control. Accordingly, we do not express an opinion on the effectiveness of the Incorporated Village of Port Jefferson's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charges with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings and Responses as items 2015-001 and 2016-001, to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Incorporated Village of Port Jefferson's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to the Board of Trustees and management of the Incorporated Village of Port Jefferson in a separate letter dated November 27, 2017.

Incorporated Village of Port Jefferson's Response to Findings

Incorporated Village of Port Jefferson's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Incorporated Village of Port Jefferson's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cullen & Danowski, LLP

November 27, 2017

INCORPORATED VILLAGE OF PORT JEFFERSON

Schedule of Findings and Responses

For the Year Ended May 31, 2017

FINANCIAL STATEMENTS FINDING

Material Weaknesses

2015-001 Capital Assets

Criteria: The financial reporting provisions of the New York State Office of the State Comptroller requires complete and accurate records of capital assets.

Condition: The Village's capital assets records are incomplete.

Cause: The Village failed to develop procedures for accounting for capital assets.

Effect: The inadequacy of capital assets accounting records weakens the Village's control and accountability over the Village's capital assets, and resulted in a disclaimer of opinion on the non-current governmental assets account group on the independent auditors' report accompanying the financial statements.

Recommendation: The Village should have complete and accurate capital assets records to provide control and accountability over the Village's capital assets, and to be in compliance with the financial reporting provisions of the New York State Office of the State Comptroller.

Management's Response: The Village will develop procedures for accounting for capital assets.

2016-001 Maintenance of Accounting Records

Criteria: The Village must exercise control over the maintenance of its accounting records. The maintenance of its accounting records includes ensuring that all activity is properly reflected in the general ledger.

Condition: The Village did not have an employee with the expertise to maintain the general ledger. As a result, we proposed audit adjustments that were necessary to properly reflect the current year activity, all of which were accepted and recorded by the Village.

Cause: The Village did not have an individual who was properly trained to be responsible for recording all financial activity and maintaining the general ledger.

Effect: The adjusting journal entries proposed by the auditor, which were accepted and recorded by the Village had a significant impact on the financial statements.

Recommendation: We recommend that the Village review its financial processes to ensure that all activity is properly recorded in the general ledger.

Management's Response: The Village will ensure that the individual responsible for the maintenance of accounting records receives the proper training.

APPENDIX C

FORM OF BOND COUNSEL OPINION

Hawkins Delafield & Wood LLP

7 WORLD TRADE CENTER

250 GREENWICH STREET
NEW YORK, NY 10007
WWW.HAWKINS.COM

August 17, 2017

The Board of Trustees of the
Village of Port Jefferson,
in the County of Suffolk, New York

Ladies and Gentlemen:

We have acted as Bond Counsel to the Village of Port Jefferson (the “Village”), in the County of Suffolk, a municipal corporation of the State of New York, and have examined a record of proceedings relating to the authorization, sale and issuance of the \$1,200,000 Bond Anticipation Note-2018 (the “Note”), dated and delivered on the date hereof.

In such examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity with originals of all documents submitted to us as copies thereof.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Notes are valid and legally binding general obligations of the Issuer for which the Issuer has validly pledged its faith and credit and, unless paid from other sources, all the taxable real property within the Issuer is subject to the levy of ad valorem real estate taxes to pay the Notes and interest thereon, subject to certain statutory limitations imposed by Chapter 97 of the New York Laws of 2011, as amended. The enforceability of rights or remedies with respect to such Notes may be limited by bankruptcy, insolvency or other laws affecting creditors’ rights or remedies heretofore or hereafter enacted.

2. Under existing statutes and court decisions and assuming continuing compliance with certain tax certifications described herein, (i) interest on the Notes is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) interest on the Notes is not treated as a preference item in calculating the alternative minimum tax under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed for taxable years beginning prior to January 1, 2018.

The Code establishes certain requirements which must be met subsequent to the issuance of the Notes in order that the interest on the Notes be and remain excluded from gross income for federal income tax purposes under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of proceeds of

the Notes, restrictions on the investment of proceeds of the Notes prior to expenditure and the requirement that certain earnings be rebated to the federal government. Noncompliance with such requirements may cause the interest on the Notes to become subject to federal income taxation retroactive to the date of issuance thereof, irrespective of the date on which such noncompliance occurs or is ascertained.

On the date of issuance of the Notes, the Issuer will execute a Tax Certificate relating to the Notes containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Certificate, the Issuer represents that it will comply with the provisions and procedures set forth therein and that it will do and perform all acts and things necessary or desirable to assure that the interest on the Notes will, for federal income tax purposes, be excluded from gross income.

In rendering the opinion in this paragraph 2, we have relied upon and assumed (i) the material accuracy of the Issuer's representations, statements of intention and reasonable expectations, and certifications of fact contained in the Tax Certificate with respect to matters affecting the status of the interest on the Notes, and (ii) compliance by the Issuer with the procedures and representations set forth in the Tax Certificate as to such tax matters.

3. Under existing statutes, interest on the Notes is exempt from personal income taxes of New York State and its political subdivisions, including The City of New York.

We express no opinion as to any other federal, state or local tax consequences arising with respect to the Notes, or the ownership or disposition thereof, except as stated in paragraphs 2 and 3 above. We render our opinion under existing statutes and court decisions as of the date hereof, and assume no obligation to update, revise or supplement our opinion to reflect any action hereafter taken or not taken, any fact or circumstance that may hereafter come to our attention, any change in law or interpretation thereof that may hereafter occur, or for any other reason. We express no opinion as to the consequence of any of the events described in the preceding sentence or the likelihood of their occurrence. In addition, we express no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel regarding federal, state or local tax matters, including, without limitation, exclusion from gross income for federal income tax purposes of interest on the Notes.

We give no assurances as to the adequacy, sufficiency or completeness of the Preliminary Official Statement and/or Official Statement relating to the Notes or any proceedings, reports, correspondence, financial statements or other documents, containing financial or other information relative to the Issuer, which have been or may hereafter be furnished or disclosed to purchasers of ownership interests in the Notes.

Very truly yours,

APPENDIX D

FORM OF UNDERTAKING TO PROVIDE NOTICES OF EVENTS

UNDERTAKING TO PROVIDE NOTICES OF EVENTS

Section 1. Definitions

“EMMA” shall mean the Electronic Municipal Market Access System implemented by the MSRB.

“GAAP” shall mean generally accepted accounting principles as in effect from time to time in the United States.

“Holder” shall mean any registered owner of the Securities and any beneficial owner of Securities within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934.

“Issuer” shall mean the Village of Port Jefferson, in the County of Suffolk, a municipal corporation of the State of New York.

“MSRB” shall mean the Municipal Securities Rulemaking Board established in accordance with the provisions of Section 15B(b)(1) of the Securities Exchange Act of 1934.

“Purchaser” shall mean the financial institution referred to in the Certificate of Determination, executed by the Village Treasurer as of August 17, 2017.

“Rule 15c2-12” shall mean Rule 15c2-12 under the Securities Exchange Act of 1934, as amended through the date of this Undertaking, including any official interpretations thereof. “Securities” shall mean the Issuer’s \$1,200,000 Bond Anticipation Note-2018, dated August 16, 2018, maturing on August 16, 2019, and delivered on the date hereof.

Section 2. Obligation to Provide Notices of Events. (a) (a) The Issuer hereby undertakes, for the benefit of Holders of the Securities, to provide or cause to be provided either directly or through Munistat Services, Inc., 12 Roosevelt Avenue, Port Jefferson Station, New York 11776 to the Electronic Municipal Market Access (“EMMA”) System implemented by the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of such Board contemplated by the Undertaking, in a timely manner, not in excess of ten (10) business days after the occurrence of any such event, notice of any of the following events with respect to the Securities:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults, if material;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on credit enhancements reflecting financial difficulties;

- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) 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 of determinations with respect to the tax status of the Securities, or other events affecting the tax status of the Securities;
- (7) modifications to rights of Securities holders, if material;
- (8) Bond calls, if material, and tender offers;
- (9) defeasances;
- (10) release, substitution, or sale of property securing repayment of the Securities, if material;
- (11) rating changes;
- (12) bankruptcy, insolvency, receivership or similar event of the Issuer;

Note to clause (12): For the purposes of the event identified in clause (12) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer;

- (13) the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, 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
- (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Nothing herein shall be deemed to prevent the Issuer from disseminating any other information in addition to that required hereby in the manner set forth herein or in any other manner. If the Issuer disseminates any such additional information, the Issuer shall have

no obligation to update such information or include it in any future materials disseminated hereunder.

(c) Nothing herein shall be deemed to prevent the Issuer from providing notice of the occurrence of certain other events, in addition to those listed above, if the Issuer determines that any such other event is material with respect to the Securities; but the Issuer does not undertake to commit to provide any such notice of the occurrence of any event except those events listed above.

Section 3. Remedies. If the Issuer shall fail to comply with any provision of this Undertaking, then any Holder of Securities may enforce, for the equal benefit and protection of all Holders similarly situated, by mandamus or other suit or proceeding at law or in equity, this Undertaking against the Issuer and any of the officers, agents and employees of the Issuer, and may compel the Issuer or any such officers, agents or employees to perform and carry out their duties under this Undertaking; provided that the sole and exclusive remedy for breach of this Undertaking shall be an action to compel specific performance of the obligations of the Issuer hereunder and no person or entity shall be entitled to recover monetary damages hereunder under any circumstances. Failure to comply with any provision of this Undertaking shall not constitute an event of default on the Securities.

Section 4. Parties in Interest. This Undertaking is executed to assist the Purchaser to comply with (b)(5) of the Rule and is delivered for the benefit of the Holders. No other person shall have any right to enforce the provisions hereof or any other rights hereunder.

Section 5. Amendments. Without the consent of any holders of Securities, the Issuer at any time and from time to time may enter into any amendments or changes to this Undertaking for any of the following purposes:

- (a) to comply with or conform to any changes in Rule 15c2-12 (whether required or optional);
- (b) to add a dissemination agent for the information required to be provided hereby and to make any necessary or desirable provisions with respect thereto;
- (c) to evidence the succession of another person to the Issuer and the assumption of any such successor of the duties of the Issuer hereunder;
- (d) to add to the duties of the Issuer for the benefit of the Holders, or to surrender any right or power herein conferred upon the Issuer;
- (e) to cure any ambiguity, to correct or supplement any provision hereof which may be inconsistent with any other provision hereof, or to make any other provisions with respect to matters or questions arising under this Undertaking which, in each case, comply with Rule 15c2-12 or Rule 15c2-12 as in effect at the time of such amendment or change;

provided that no such action pursuant to this Section 5 shall adversely affect the interests of the Holders in any material respect. In making such determination, the Issuer shall rely upon an opinion of nationally recognized bond counsel.

Section 6. Termination. This Undertaking shall remain in full force and effect until such time as all principal, redemption premiums, if any, and interest on the Securities shall have been paid in full or the Securities shall have otherwise been paid or legally defeased in accordance with their terms. Upon any such legal defeasance, the Issuer shall provide notice of such defeasance to the EMMA System. Such notice shall state whether the Securities have been defeased to maturity or to redemption and the timing of such maturity or redemption.

Section 7. Undertaking to Constitute Written Agreement or Contract. This Undertaking shall constitute the written agreement or contract for the benefit of Holders of Securities, as contemplated under Rule 15c2-12.

Section 8. Governing Law. This Undertaking shall be governed by the laws of the State of New York determined without regard to principles of conflict of law.

IN WITNESS WHEREOF, the undersigned has duly authorized, executed and delivered this Undertaking as of August 16, 2018.

VILLAGE OF PORT JEFFERSON, NEW YORK

By _____
Village Treasurer