

**Annual Report
For the fiscal year ended December 31, 2018**

CITY OF MCPHERSON, KANSAS

The operating data for the City of McPherson, Kansas (the “City”) for the fiscal year ended December 31, 2018, is attached as **Exhibit A**. The City’s audited financial statements for the fiscal year ended December 31, 2018, were previously filed on the Municipal Securities Rulemaking Board on June 14, 2019. Together, the attached operating data and previously filed audited financial statements constitute the City’s Annual Report, which is required by the City’s continuing disclosure obligations (collectively, the “Undertaking”) pursuant to Rule 15c2-12 under the Securities Exchange Act of 1934, as amended, for the securities listed on **Schedule 1**.

The information contained in this Annual Report is current as of December 31, 2018, or as otherwise indicated. Certain information in this Annual Report has been provided by third-party sources. Nothing contained in the Undertaking or this Annual Report is, or should be construed as, a representation by any person, including the City, that this Annual Report includes all of the information that may be material to a decision to invest in, hold or dispose of any of the securities listed on Schedule 1, or any other securities of the City. Nothing contained in this Annual Report obligates the City to update any of the financial information or operating data contained in this Annual Report.

For additional information, contact:

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CITY OF MCPHERSON, KANSAS

Date: July 24, 2019

Schedule 1

Related Securities

SERIES 136 of 2013 BONDS

Issuer: City of McPherson, Kansas
Issue Name: \$9,585,000 City of McPherson, Kansas General Obligation Refunding and Improvement Bonds, Series 136 of 2013
Date of Issuance: August 15, 2013

SERIES 137 of 2015 BONDS

Issuer: City of McPherson, Kansas
Issue Name: \$3,750,000 City of McPherson, Kansas General Obligation Refunding and Improvement Bonds, Series 137 of 2015
Date of Issuance: July 22, 2015

SERIES 138 of 2017 BONDS

Issuer: City of McPherson, Kansas
Issue Name: \$2,660,000 City of McPherson, Kansas General Obligation Refunding and Improvement Bonds, Series 138 of 2017
Date of Issuance: July 26, 2017

SERIES 139 of 2018 BONDS

Issuer: City of McPherson, Kansas
Issue Name: \$9,595,000 City of McPherson, Kansas General Obligation Bonds, Series 139 of 2018
Date of Issuance: November 1, 2018

Exhibit A

Operating data of the City for the fiscal year ended December 31, 2018

Sources of Revenue

The City finances its general operations through the local property tax levy, various other taxes, a variety of license and permit fees, and other miscellaneous sources as indicated below for the 2018 fiscal year:

<u>Source</u>	<u>Percent</u>
Local property tax	37.79%
Franchise fees	4.66%
Sales Tax	23.06%
License and permits	2.71%
Fines and penalties	2.57%
Payments made by utility enterprises	21.33%
Federal and State grants	0.00%
Miscellaneous	7.88%
<i>Total</i>	<i>100.00%</i>

Source: Clerk

Property Valuations

The determination of assessed valuation and the collection of property taxes for all political subdivisions in the state of Kansas is the responsibility of the various counties under the direction of state statutes. The McPherson County Appraiser's office determines the fair market value of all taxable property within McPherson County and the assessed valuation thereof that is to be used as a basis for the mill levy on property located in the City.

Property subject to ad valorem taxation is divided into two classes, real property and personal property. Real property is divided into seven subclasses; there are six subclasses of personal property. The real property (Class 1) subclasses are: (i) real property used for residential purposes including multi-family mobile or manufactured homes and the real property on which such homes are located, assessed at 11.5%, (ii) agricultural land, valued on the basis of agricultural income or productivity, assessed at 30%, (iii) vacant lots, assessed at 12%, (iv) real property, owned and operated by a not-for-profit organization not subject to federal income taxation, pursuant to Code §501, assessed at 12%, (v) public utility real property, except railroad real property, assessed at the average rate that all other commercial and industrial property is assessed, assessed at 33%, (vi) real property used for commercial and industrial purposes and buildings and other improvements located on land devoted to agricultural use, assessed at 25%, and (vii) all other urban and real property not otherwise specifically classified, assessed at 30%. Tangible personal property (Class 2) subclasses are: (i) mobile homes used for residential purposes, assessed at 11.5%, (ii) mineral leasehold interests, except oil leasehold interests, the average daily production from which is 5 barrels or less, and natural gas leasehold interests, the average daily production from which is 100 mcf or less, which shall be assessed at 25%, assessed at 30%, (iii) public utility tangible personal property, including inventories thereof, except railroad personal property, including inventories thereof, which shall be assessed at the average rate all other commercial and industrial property is assessed, assessed at 33%, (iv) all categories of motor vehicles not defined and specifically valued and taxed pursuant to law enacted prior to January 1, 1985, assessed at 30%, (v) commercial and industrial machinery and equipment which if its economic life is 7 years or more, shall be valued at its retail cost, when new, less seven-year straight-line depreciation, or which, if its economic life is less than 7 years, shall be valued at its retail cost when new, less straight-line depreciation over its economic life, except that, the value so obtained for such property, notwithstanding its economic life and as long as such property is being used, shall not be less than 20% of the retail cost

when new of such property, assessed at 25%, and (vi) all other tangible personal property not otherwise specifically classified, assessed at 30%. All property used exclusively for state, county, municipal, literary, educational, scientific, religious, benevolent and charitable purposes, farm machinery and equipment, merchants' and manufacturers' inventories, other than public utility inventories included in subclass (3) of class 2, livestock, and all household goods and personal effects not used for the production of income, shall be exempted from property taxation.

The Kansas Legislature (the "Legislature") reduced the applicable assessment rates on motor vehicles from 30% of market value to 20% of market value as of January 1, 2000.

The 2006 Legislature exempted from all property or ad valorem property taxes levied under the laws of the State all commercial, industrial, telecommunications and railroad machinery and equipment acquired by qualified purchase or lease after June 30, 2006 or transported into the State after June 30, 2006 for the purpose of expanding an existing business or creation of a new business.

The Legislature may from time to time adopt changes in the property tax system or method of imposing and collecting property taxes within the State. Taxpayers may also challenge the fair market value of property assigned by the county appraiser. The effects of such legislative changes and successful challenges to the appraiser's determination of fair market value could affect the City's property tax collections. If a taxpayer valuation challenge is successful, the liability of the City to refund property taxes previously paid under protest may have a material impact on the City's financial situation.

Assessed Valuation

The following table shows the assessed valuation of the taxable tangible property within the City for the following years:

Year	Assessed Valuation of Tangible Taxable		Motor Vehicles	Total
	Property			Valuation
2018 ¹	\$124,696,729		\$16,058,560	\$140,755,289
2017	124,572,983		15,591,152	140,164,135
2016	118,889,758		15,300,965	134,190,723
2015	113,327,272		15,268,006	128,595,278
2014	108,300,991		15,411,652	123,712,643

¹ Preliminary assessed valuation figures used for budgeting purposes.

Source: County Clerk

Tax Rates

The following table shows the City's mill levies by fund (per \$1000 of assessed valuation) for each of the years indicated and the current year:

Year	Employee				Library		
	General	Benefit	Library	G.O.	Misc.	Employee	Total
	Fund	Fund	Fund	Bonds	Funds	Benefits	Levy
2018/19	24.464	18.833	5.487	1.734	0.811	1.021	52.350
2017/18	23.543	15.405	5.374	5.693	0.646	1.007	51.668
2016/17	23.981	13.837	5.437	6.535	0.675	1.153	51.618
2015/16	20.335	16.310	5.511	7.507	0.707	1.200	51.570
2014/15	20.785	15.594	5.774	7.187	0.738	1.252	51.330

Source: County Clerk

Aggregate Tax Levies

The aggregate tax levies (per \$1000 assessed valuation) of the City and overlapping jurisdictions for the years indicated are included in the following table:

USD 418					
		McPherson	(Includes Rec Commission)	State	Total
Year	City	County			Levy
2018/19	52,350	31,414	56,381	1,500	141,645
2017/18	51,668	29,797	57,530	1,500	140,495
2016/17	51,618	30,158	55,653	1,500	138,929
2015/16	51,570	30,286	56,787	1,500	140,143
2014/15	51,330	30,197	57,000	1,500	140,027

Source: County Clerk

Tax Collection Record

The following table sets forth tax collection information for the City for the years indicated:

Year	Total Taxes Levied	Current Taxes Collected	
		Amount	Percentage
2018/19	\$6,546,727	\$6,370,774	97.31%
2017/18	6,342,511	6,308,241	99.46%
2016/17	6,164,182	5,818,657	99.88%
2015/16	5,865,717	5,748,071	97.99%
2014/15	5,931,881	5,751,459	96.96%

Source: County Clerk

Major Taxpayers

The following table sets forth the ten largest taxpayers in the City for taxes levied in the most recent tax collection period (2018/2019):

	Taxpayer	Assessed Valuation	Taxes Levied
1	Walmart Real Estate Trust	\$1,840,561	\$260,706.26
2	JKC LLC	1,508,597	213,685.26
3	North American Specialty	1,226,711	173,757.48
4	Kansas Gas Service – ONEOK	1,134,315	160,670.06
5	McPherson Lodging Inc.	969,238	137,287.72
6	Sagar Inc.	933,328	132,201.24
7	Love's Travel Stops	850,001	120,398.40
8	Paul Properties Terra Nova LLC	846,318	119,830.72
9	Borman Real Property Ptn.	840,348	119,031.10
10	City of McPherson	833,462	117,963.74

Source: County Clerk

Current Indebtedness of the Issuer

The following table sets forth as of December 31, 2018 of the Bonds all of the outstanding obligations of the Issuer:

GENERAL OBLIGATION BONDS

<u>Description of Indebtedness</u>	<u>Dated Date</u>	<u>Final Maturity</u>	<u>Original Principal Amount</u>	<u>Amount Outstanding</u>	<u>Exempt From Debt Limit</u>
G.O. Bonds, Series 135 of 2012	8/1/2012	8/1/1932	\$340,000	\$ 255,000	\$63,470
G.O. Refunding and Improvement Bonds, Series 136 of 2013	8/15/2013	8/1/1933	9,585,000	4,860,000	390,429
G.O. Refunding and Improvement Bonds, Series 137 of 2015	7/22/2015	8/1/2025	3,750,000	1,485,000	172,676
G.O. Refunding and Improvement Bonds, Series 138 of 2017	7/26/2017	8/1/1937	2,660,000	2,120,000	373,835
G.O. Bonds, Series 139 of 2018	11/1/2018	8/1/1930	9,595,000	9,595,000	5,635,000
	<i>Total</i>			\$18,315,000	\$6,635,410

TEMPORARY NOTES

<u>Description of Indebtedness</u>	<u>Dated Date</u>	<u>Final Maturity</u>	<u>Original Principal Amount</u>	<u>Amount Outstanding</u>	<u>Exempt From Debt Limit</u>
G.O Temporary Notes, Series A, 2017	12/1/2017	10/1/2019	\$2,600,000	\$2,600,000	\$1,141,395
	<i>Total</i>			\$2,600,000	\$1,141,395

REVENUE OBLIGATIONS

<u>Description of Indebtedness</u>	<u>Dated Date</u>	<u>Final Maturity</u>	<u>Original Principal Amount</u>	<u>Amount Outstanding</u>
Water System Refunding Bonds, Series 2012	7/5/2012	10/1/2027	\$11,085,000	\$7,340,000

Source: Clerk

Lease Obligations

In addition to the foregoing debt obligations, the City has entered into the following lease obligations. Lease obligations of the City constitute valid and binding obligations of the City in accordance with their terms subject to funds budgeted and appropriated for that purpose during the City's current budget year or funds made available from any lawfully operated revenue producing source as per K.S.A. 10-1116b.

<u>Purpose of Indebtedness</u>	<u>Dated Date</u>	<u>Final Payment Date</u>	<u>Original Principal Amount</u>	<u>Amount Outstanding</u>
Aerial Platform Fire Truck	2009	1/28/2020	\$886,722	\$201,819

Source: Clerk

State Loans

The City has entered into the below described loan agreements (collectively the “Loans”) with the Kansas Department of Health and Environment to finance improvements to the City’s wastewater treatment plan. The term of the Loans are 20 years and provide for approximately level annual debt service payments. The Loans are “draw-down” obligations with interest accruing on the advanced principal, which interest is payable on a semi-annual basis or at the option of the City, added as principal amount of the Loan. When the improvements are complete, the final principal amount of the Loan is adjusted and Loan repayment terms are re-amortized. The Loans are secured by a pledge of revenues of the City’s wastewater system and a pledge of the City’s unlimited ad valorem taxes levy.

Purpose of Indebtedness	Dated Date	Final Payment Date	Original Principal Amount	Amount Outstanding
UV Project	4/19/1999	9/1/2020	\$1,127,000	\$ 180,426
Wastewater System Improvements	10/6/2007	3/1/2029	11,346,393	6,877,911
2015 Wastewater Improvements	3/25/2015	9/1/1936	4,863,464	3,289,923
Total				\$10,348,260

Source: Clerk

Overlapping Indebtedness

The following table sets forth overlapping indebtedness as of December 31, 2018, and the percent attributable (on the basis of assessed valuation) to the City:

Taxing Jurisdiction	Assessed Valuation	Outstanding General Obligation Indebtedness	Percent Applicable to Issuer	Amount Applicable to Issuer
McPherson County	\$450,849,072	\$3,620,000	27.66%	\$1,001,292
USD No. 418	229,873,669	11,840,000	54.14%	6,410,176
Total				\$7,411,468

Source: County Clerk

Pension and Employee Retirement Plans

The City participates in the Kansas Public Employees Retirement System (“KPERS”) established in 1962, as an instrumentality of the State, pursuant to K.S.A. 74-4901 *et seq.*, to provide retirement and related benefits to public employees in Kansas. KPERS is governed by a board of trustees consisting of nine members, each of whom serve four-year terms. The board of trustees appoints an executive director to serve as the managing officer of KPERS and manage a staff to carry out daily operations of the system.

As of June 30, 2018, KPERS serves approximately 312,000 members and approximately 1,500 participating employers, including the State, school districts, counties, cities, public libraries, hospitals and other governmental units. KPERS administers the following three statewide, defined benefit retirement plans for public employees:

- (a) Kansas Public Employees Retirement System;
- (b) Kansas Police and Firemen’s Retirement System; and
- (c) Kansas Retirement System for Judges.

These three plans are separate and distinct with different membership groups, actuarial assumptions, experience, contribution rates and benefit options. The Kansas Public Employees Retirement System is the largest of the three plans, accounting for approximately 95% of the members. The Kansas Public Employees Retirement System is further divided into two separate groups, as follows:

(a) *State/School Group* — includes members employed by the State, school districts, community colleges, vocational-technical schools and educational cooperatives. The State of Kansas makes all employer contributions for this group, the majority of which comes from the State General Fund.

(b) *Local Group* — all participating cities, counties, library boards, water districts and political subdivisions are included in this group. Local employers contribute at a different rate than the State/School Group rate.

KPERS is currently a qualified, governmental, § 401(a) defined benefit pension plan, and has received IRS determination letters attesting to the plan's qualified status dated October 14, 1999 and March 5, 2001. KPERS is also a "contributory" defined benefit plan, meaning that employees make contributions to the plan. This contrasts it from noncontributory pension plans, which are funded solely by employer contributions. The City's employees currently annually contribute 6% of their gross salary to the plan if such employees are KPERS Tier 1 members (covered employment prior to July 1, 2009), KPERS Tier 2 members (covered employment on or after July 1, 2009), or KPERS Tier 3 members (covered employment on or after January 1, 2015).

The City's contribution varies from year to year based upon the annual actuarial valuation and appraisal made by KPERS, subject to legislative caps on percentage increases. The City's contribution was 8.39% of the employee's gross salary for calendar year 2018. The City's contribution is 8.89% of gross compensation for calendar year 2019. In addition, the City contributes 1% of the employee's gross salary for Death and Disability Insurance for covered employees.

According to the Valuation Report as of December 31, 2017 (the "2017 Valuation Report") the KPERS Local Group, of which the City is a member, carried an unfunded accrued actuarial liability ("UAAL") of approximately \$1.458 billion at the end of 2017. The amount of the UAAL in 2017 changed from the previous year's amount due to the factors discussed in the 2017 Valuation Report; such report also includes additional information relating to the funded status of the KPERS Local Group, including recent trends in the funded status of the KPERS Local Group. A copy of the 2017 Valuation Report is available on the KPERS website at kpers.org/about/reports.html. The City has no means to independently verify any of the information set forth on the KPERS website or in the 2017 Valuation Report, which is the most recent financial and actuarial information available on the KPERS website relating to the funded status of the KPERS Local Group. The 2017 Valuation Report sets the employer contribution rate for the period beginning January 1, 2020, for the KPERS Local Group, and KPERS' actuaries identified that an employer contribution rate of 8.61% of covered payroll would be necessary, in addition to statutory contributions by covered employees, to eliminate the UAAL by the end of the actuarial period set forth in the 2017 Valuation Report. The statutory contribution rate of employers currently equals the 2017 Valuation Report's actuarial rate. As a result, members of the Local Group are adequately funding their projected actuarial liabilities and the UAAL can be expected to diminish over time. The required employer contribution rate may increase up to the maximum statutorily allowed rate, which is 1.2% in fiscal year 2017 and thereafter.

The City has established membership in the Kansas Police and Fire Retirement System ("KP&F") for its police and fire personnel. KP&F is a division of and is administered by KPERS. Annual contributions are adjusted annually based on actuarial studies, subject to legislative caps on percentage increases. According to the 2017 Valuation Report, KP&F carried an UAAL of approximately \$859 million at the end of 2017. For the year beginning January 1, 2018, employees contributed 7.15% of their gross compensation and the City contributed 20.09% of employees' gross compensation. Beginning January 1, 2019, the City's contribution is 22.13% of gross compensation for calendar year 2019.