LAACO, LTD.

ANNUAL REPORT 2019

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LAACO, LTD. 2019 ANNUAL REPORT

About LAACO, Ltd.

LAACO, Ltd. is a California limited partnership. The Partnership acquires, develops, builds and manages Storage West self-storage facilities. Wholly owned subsidiaries of the Partnership own and operate The Los Angeles Athletic Club and California Yacht Club.

Financial information for LAACO, Ltd. is posted on the web site of OTC Markets Group, Inc. – an independent provider of financial information. To view this information, go to www.otcmarkets.com and enter our symbol "LAACZ." Future financial reports and news releases will be provided to OTC Markets Group for posting on this web site. Financial information for prior years of LAACO, Ltd. is available upon written request at the Partnership's principal offices.

LAACO, Ltd. Principal Offices	431 West Seventh Street Los Angeles, California 90014 (213) 622–1254
Registrar and Transfer Agent	Computershare 211 Quality Circle, Suite 210 College Station, TX 77845 800-522-6645 TTY for hearing impaired: 800-952-9245 www.computershare.com/investor
Independent Auditors	Grant Thornton LLP 515 South Flower Street, 7th Floor Los Angeles, California 90071 (213) 627-1717

Officers and General Partners of LAACO, Ltd.

President and Managing Partner	Karen L. Hathaway
Senior Vice President	John K. Hathaway
Senior Vice President	Steven K. Hathaway
Chief Financial Officer	Bryan J. Cusworth
Vice President, Secretary, General Counsel	Charles E. Michaels
Vice President	Glenda S. Aiello
Vice President	Carla L. Grose
Vice President	John R. Wolff

Managing General Partner of LAACO, Ltd.	Stability LLC
Managing Members of Stability LLC	Karen L. Hathaway, Chairman
	Frank G. Hathaway, Vice Chairman
	Jennifer L. Bayer
	Christopher J. Harrer
	John K. Hathaway
	Steven K. Hathaway
	Thomas S. Hathaway
	Charles E. Michaels
General Partner of LAACO, Ltd.	The Los Angeles Athletic Club, Inc.

2019 was another year of strong financial results and operating performance for LAACO. Your company's consolidated revenue rose by $3.8 million, or 4%, to $90.5 million, while net income increased by $1.4 million, or 6%, to $22.6 million.

These results reflect continuing growth in revenue and net income from Storage West, our self-storage business. Our portfolio now consists of 59 self-storage properties, including two that are co-owned with a third party, with a total of nearly 4.7 million rentable square feet of self-storage space.

Storage West operates 22 facilities in California, 17 in Arizona, 13 in Nevada and 7 in Texas. In 2019, all of our regions recorded gains in rent revenue and net operating income. These increases reflect both improved same-store sales and revenue generated by newer stores. (We define same stores as facilities open for at least two full years as of December 31, excluding RV space and the two co-owned properties. Three new facilities in Phoenix have not been open long enough to be included in our 2019 same-store figures.)

A significant contributor to the improvement in revenues resulted from recent enhancements to our Storage West revenue management system. Sophisticated dynamic pricing, a strategy that has been adopted by many industries, is at the core of our system now. We use a combination of technology and local market knowledge to adjust our rental rates in response to changes in consumer demand and competitors' pricing, with the goal of generating the highest yield from our available inventory.

Our dynamic pricing strategy proved successful, enabling us to improve same-store occupancy to 88%, compared to 85% in the prior year as adjusted to include newer stores. We accomplished this despite vigorous competition in all of our markets, and the inclusion in our 2019 results of four newer Houston-region stores that were still in lease-up. Even with slight downward adjustments in some rental rates to respond to competitive market conditions, we were able to maintain our portfolio's same-store average rent per occupied square foot at just over $16. Importantly, this pricing strategy enabled us to increase occupancy, resulting in a healthy 3.3% increase in same-store rent revenue over the prior year.

During the past five years we opened ten new self-storage facilities and significantly enlarged two others. This rapid pace of development, initially centered in Houston and then expanded into Phoenix, was a major factor in the growth of our company. We entered the Houston market by purchasing an existing self-storage facility there in 2012. After familiarizing ourselves with the area and its economic potential, we decided to establish a significant market presence for Storage West in that region. Around the middle of the decade, we also began to strengthen our established Phoenix-area portfolio by developing strategically located facilities in that region. This expansion drive culminated with the opening of our 59th Storage West facility during the first quarter of 2019.

Although we were among the first self-storage operators to aggressively grow our brand in the Houston and Phoenix regions after the Great Recession, other groups also saw the potential there and soon followed. Fueled by easy money chasing yield, an unprecedented building boom in the construction of self-storage properties has created challenges for established operators in these and other markets. Oversupply has resulted in highly competitive conditions for many of our facilities in Houston, Phoenix and elsewhere.

In 2019, we continued to look at growing our portfolio. However, we were cautious about the risks inherent in the lengthy process of land acquisition and facility development. We also found the costs of acquiring existing facilities to be too high.

As we were nearing completion of our ambitious program of building and opening ten new facilities in 2018, we saw the need to adjust our approach to respond to the emerging excess self-storage supply. We began to focus more intensively on leasing up our new facilities, expanding and refurbishing our existing facilities, and conducting other asset management activities, to ensure the best return on our existing investments. We carried that forward in 2019, and are continuing to give priority to optimizing performance at the facility level.

Key to our strategy for addressing the increased competition in our industry is to provide enhanced systems and support to our store managers and other customer-facing personnel. Our goal is to help them meet the challenges of leasing up our newer stores, operating in highly competitive neighborhoods, and fulfilling the expectations of the increasingly knowledgeable and selective storage customers we serve.

Among the steps we took in 2019 to give greater support to our stores was moving our marketing department from Phoenix to our Los Angeles headquarters, to increase opportunities for our marketing team to collaborate with senior management. We also created new positions to expand our data analytics capabilities, enabling us to know more about our customers – and know it more quickly. In addition, we invested in increased staffing to expand our employee training and talent management programs.

We also continued to maintain and enhance our physical facilities during the year, including an extensive program of maintenance, remodeling and expansion. Maintenance, while routine, is important to insure a welcoming customer experience. In larger projects, we completed planning and permitting for construction in Phoenix of a 100-unit new building on land we own at a very successful Storage West facility. We modernized offices and reception areas at four facilities in California and Nevada, and prepared to reconfigure one of our larger facilities in Southern California to upgrade the property and add capacity.

We are also investing in our legacy properties. In downtown Los Angeles, we began construction on street-front retail spaces and the façade of the Los Angeles Athletic Club building. LAACO owns the building, the majority of which is leased to our subsidiary corporation, The Los Angeles Athletic Club. The renovation will modernize leasable ground-floor retail space to attract quality tenants. The architecturally significant 12-story Beaux-Arts building, which opened in 1912, is a Los Angeles Historic-Cultural monument, so the restoration of the exterior is designed to enhance and preserve its historic character.

Other asset-management activity during the year included installation of a modern parking management system at our eight-story parking garage in Downtown Los Angeles, and negotiating a higher return to us on the lease-out of our adjacent surface parking lot. Discussions are ongoing with Los Angeles County officials about renewal of the long-term lease of another of our legacy holdings, California Yacht Club in Marina del Rey.

The three key elements in our operating approach are facilities, technology and people. We must of course offer well-run, clean and attractive self-storage structures in locations convenient to our customers. Modern systems like data analytics and dynamic pricing help us compete effectively in the marketplace, and the internet and social media have improved our ability to market to and communicate with our customers.

But it is our people, more than our buildings and technology, that differentiate Storage West and LAACO. Maximizing return from our real estate, marketing and systems depends on the people who are the face of Storage West in their local markets, our customer service and back office personnel, and the many dedicated employees in other parts of our organization. Our company's roots were in the hospitality industry, and from the outset our approach to the self-storage business was to see our customers as individuals with specific needs, and to train and trust our staff to engage with these customers on a human level. Our "Here for you" service program reflects these principles, and is a centerpiece of our business model. We believe that our focus on service distinguishes Storage West from our competition and is key to our success at customer acquisition and retention.

For well over a century, your company has followed a strategy of pursuing careful growth over time. This has resulted in a financially strong business with a valuable portfolio of well-located real estate. Our growth path has shifted as circumstances required. In recent decades, we purchased existing storage facilities when prices were right, while at other times ground-up development of storage facilities was a better strategy. We started in emerging and outlying areas, and expanded into established markets and redevelopment of inner-city parcels. We have grown organically through cash flow, modest debt, and profitable land trades, navigating through periods of recession and economic prosperity.

Each step had to meet a simple criterion: did it make financial sense. That is true today, and it will continue to be the basis for our decision-making in the future. Through this approach we aim to continue to strengthen LAACO and derive value for our owners. As always, we are grateful to you, our unitholders, for your ongoing approval and support.

Karen L. Hathaway
President and Managing Partner

FINANCIAL HIGHLIGHTS

	2019	2018	2017	2016	2015
Operating Data:					
Revenues	**$90,468,000**	$86,615,000	$81,097,000	$77,039,000	$71,526,000
Operating income	**23,818,000**	23,257,000	20,197,000	20,621,000	18,831,000
Other income (expense)	**(1,219,000)**	(2,023,000)	(690,000)	(416,000)	155,000
Net income	**22,599,000**	21,234,000	19,507,000	20,205,000	18,986,000
Balance Sheet Data:					
Investment in storage properties at cost	**$314,854,000**	$313,453,000	$299,513,000	$285,209,000	$264,687,000
Total assets	**274,237,000**	277,197,000	264,923,000	259,211,000	234,392,000
Total liabilities	**75,606,000**	83,387,000	77,486,000	76,491,000	57,647,000
Partners' capital	**198,631,000**	193,810,000	187,437,000	182,720,000	176,745,000
Cash Flows Data:					
Net cash provided by operating activities	**$32,383,000**	$32,296,000	$26,971,000	$28,170,000	$25,804,000
Cash distributions to partners	**15,749,000**	14,436,000	13,731,000	13,588,000	13,622,000
Per Unit Data:					
Net income	**$ 134.15**	$ 125.78	$ 115.08	$ 118.97	$ 111.49
Cash distributions to partners	**93.50**	85.50	81.00	80.00	80.00
Partners' capital at end of year–historical basis	**1,181.31**	1,149.99	1,109.29	1,077.05	1,039.85

Forward Looking Statements

This Annual Report contains forward looking statements within the meaning of federal securities laws. Statements other than historical facts should be considered as forward looking statements. Words such as "anticipate," "plan," "expect," "continue," "believe," and "aim" and other similar expressions identify forward looking statements that refer to plans and objectives for future operations, future financial performance, forecasts or other predictive statements. Such statements involve known and unknown risks, uncertainties, and other factors, which may cause actual results and the performance of the Company to be materially different from those expressed in the forward looking statements contained in this report.

You should consider risk factors that may impact the Company's future results, performance and cash flows, including, but not limited to: general risks associated with the ownership, management and operation of clubs, self-storage facilities and other real estate, including changes in demand and the impact of storage competition from new and existing self-storage and commercial facilities and/or other storage alternatives which could affect rents, occupancy levels and other aspects of operations; risks related to delays and cost overruns on development and remodeling projects; risks associated with economic uncertainty or unfavorable business conditions such as terrorism or war, or the threat of such; the affects of downturns in the national and local economies in which we invest in or operate, and the economic health of our customers; the potential liability and the impact of environmental contamination, natural disasters, public health risks, including the outbreak of COVID-19, climate changes, including rising sea levels, adverse weather, fires, floods, and hurricanes; adverse changes in laws and regulations governing taxes, real estate and zoning; a possible failure to qualify as a partnership for tax purposes, or challenges to the determination of taxable income, or other changes in taxes or personal tax rates which could increase expenses and reduce profitability and cash flows; the risk of increased taxes, including a potential 2020 California statewide ballot initiative or other measures that could remove the protections afforded by Proposition 13 and result in substantial increases in real estate taxes on commercial properties in California; the continued service and availability of key executives and managers; the impact of new laws and a changing regulatory environment, including consumer privacy and data protection; security breaches or a failure of our networks, systems or technology; adverse litigation and other legal related actions that may divert management's time and attention; and difficulties in raising capital at a reasonable cost which could impede the Company's ability to grow or reduce its access to credit markets.

We disclaim any obligation to publicly release any revisions to these statements that may reflect new estimates or circumstances after the date of this report, except where expressly required by law. Accordingly, you should use caution in relying on any forward looking statements to anticipate future results.

To the Managing General Partner
and Partners of LAACO, Ltd.

We have audited the accompanying consolidated financial statements of LAACO, Ltd. and subsidiaries (collectively, the "Company") which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income and comprehensive income, changes in partners' capital, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LAACO, Ltd. and subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Changes in accounting principles
As described in the Accounting Policies footnote in the financial statements, the Company has changed its method of accounting for leases in fiscal year 2019 due to the adoption of the new leasing standard. The Company adopted the new leasing standard using the modified retrospective approach. Our opinion is not modified with respect to this matter.

GRANT THORNTON LLP

Grant Thornton LLP

Los Angeles, California
March 31, 2020

Consolidated Balance Sheets

	December 31, 2019	2018
ASSETS		
Current Assets		
Cash	**$ 2,555,000**	$ 2,634,000
Accounts receivable, less allowance for doubtful accounts (2019 - $493,000; 2018 - $459,000)	**1,842,000**	2,087,000
Inventories	**425,000**	389,000
Prepaid expenses and other current assets	**1,409,000**	1,520,000
Total Current Assets	**6,231,000**	6,630,000
Property and equipment, net	**245,749,000**	248,438,000
Investment in joint ventures	**2,180,000**	2,234,000
Other assets	**20,077,000**	19,895,000
Total Assets	**$274,237,000**	$277,197,000

	2019	2018
LIABILITIES AND PARTNERS' CAPITAL		
Current Liabilities		
Accounts payable and accrued expenses	**$ 7,467,000**	$ 7,770,000
Payroll, sales and local taxes	**2,244,000**	2,100,000
Prepaid dues, rentals and deposits	**4,881,000**	4,703,000
Credit line payable	**–**	7,000,000
Notes payable, current portion	**2,160,000**	2,160,000
Total Current Liabilities	**16,752,000**	23,733,000
Other long-term liabilities	**15,814,000**	14,454,000
Notes payable, net of current portion	**43,040,000**	45,200,000
Total Liabilities	**75,606,000**	83,387,000
Commitments and contingencies – see notes		
Partners' capital: 168,145 and 168,532 units outstanding, respectively	**198,631,000**	193,810,000
Total Liabilities and Partners' Capital	**$274,237,000**	$277,197,000

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Income and Comprehensive Income

	For the years ended December 31, 2019	2018
Revenues		
Real property investments and rentals	**$64,678,000**	$61,416,000
Club operations	**25,790,000**	25,199,000
	90,468,000	86,615,000
Cost and Expenses		
Operating expenses	**54,507,000**	52,085,000
Cost of goods sold	**1,967,000**	1,932,000
Depreciation and amortization	**10,176,000**	9,341,000
	66,650,000	63,358,000
Operating Income	**23,818,000**	23,257,000
Other Income (Expense)		
Loss on sale of assets	**(239,000)**	(1,087,000)
Joint venture income	**790,000**	755,000
Interest expense, net	**(1,770,000)**	(1,755,000)
Income tax benefit attributable to subsidiaries	**–**	64,000
	(1,219,000)	(2,023,000)
Net Income	**22,599,000**	21,234,000
Other Comprehensive Income		
Unrealized (loss) gain on interest rate hedges	**(1,098,000)**	631,000
Total Comprehensive Income	**$21,501,000**	$21,865,000
Net Income per Unit	**$134.15**	$125.78
Weighted Average Partnership Units Outstanding	**168,456**	168,816

Consolidated Statements of Changes in Partners' Capital

	For the years ended December 31, 2019	2018
Balance at beginning of year	**$193,810,000**	$187,437,000
Net income	**22,599,000**	21,234,000
Cash distributions to partners	**(15,749,000)**	(14,436,000)
Partnership unit repurchases	**(1,165,000)**	(1,295,000)
Units issued under incentive equity plan	**234,000**	239,000
Other comprehensive income:		
Unrealized (loss) gain on interest rate hedges	**(1,098,000)**	631,000
Balance at end of year	**$198,631,000**	$193,810,000

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

	For the years ended December 31, 2019	2018
Cash Flows From Operating Activities:		
Net income	**$22,599,000**	$21,234,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on sale of assets	**239,000**	1,087,000
Joint venture income	**(790,000)**	(755,000)
Depreciation and amortization	**10,176,000**	9,341,000
Incentive equity based compensation accrual	**239,000**	234,000
Deferred tax benefit	**–**	(64,000)
Decrease (increase) in accounts receivable, net	**245,000**	(135,000)
Decrease in prepaid expenses and other current assets	**75,000**	308,000
Increase in other assets	**(1,016,000)**	(1,065,000)
(Decrease) increase in accounts payable, accrued expenses and other current liabilities	**(495,000)**	1,051,000
Increase in other long-term liabilities	**1,111,000**	1,060,000
Net Cash Provided by Operating Activities	**32,383,000**	32,296,000
Cash Flows From Investing Activities:		
Expenditures for property and equipment	**(7,256,000)**	(19,248,000)
Proceeds from sale of property and equipment	**23,000**	1,064,000
Distributions from joint ventures	**845,000**	815,000
Net Cash Used in Investing Activities	**(6,388,000)**	(17,369,000)
Cash Flows From Financing Activities:		
Repayment of notes payable	**(2,160,000)**	(2,160,000)
Net (repayments) borrowings under credit line	**(7,000,000)**	3,000,000
Cash distributions to partners	**(15,749,000)**	(14,436,000)
Partnership unit repurchases	**(1,165,000)**	(1,295,000)
Net Cash Used In Financing Activities	**(26,074,000)**	(14,891,000)
Net (Decrease) Increase in Cash	**(79,000)**	36,000
Cash:		
Beginning of year	**2,634,000**	2,598,000
End of year	**$ 2,555,000**	$ 2,634,000
Supplemental Cash Flow Information:		
Cash paid for interest	**$ 1,910,000**	$ 1,976,000
Supplemental disclosures of non-cash activities:		
Unrealized (loss) gain on interest rate hedges	**$ (1,098,000)**	$ 631,000
Units issued under incentive equity plan	**234,000**	239,000

The accompanying notes are an integral part of these consolidated financial statements.

NATURE OF OPERATIONS:

LAACO, Ltd. (the "Partnership") is a California limited partnership formed in December 1986. The Partnership's principal business activities include the acquisition, development, ownership and operation of self-storage facilities, which offer storage spaces for rent, usually on a month-to-month basis, for personal and business use. As of December 31, 2019, the Partnership had direct and indirect equity interests in 59 operating self-storage facilities under the "Storage West" registered trade name in Southern California, Arizona, Nevada and Texas. The Company also has one other parcel of land held for future development.

In addition, to a lesser extent, the Partnership has interests in other real estate activities. The Partnership owns land, buildings and marina facilities that are leased to two, wholly-owned subsidiaries of the Partnership: The LAAC Corp., which operates The Los Angeles Athletic Club ("LAAC") (a membership club consisting of athletic facilities, food and beverage operations and a 72-room hotel) and California Yacht Club Inc., which operates California Yacht Club (a membership club consisting of sports facilities, food and beverage operations and a 300-slip marina). At December 31, 2019, the Partnership also had interests in two parking facilities located adjacent to the LAAC building. The Partnership and its subsidiaries are collectively referred to as the "Company."

ACCOUNTING POLICIES:

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Partnership and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

INVENTORIES

Inventories, which consist primarily of self-storage merchandise, food and beverage and club merchandise, are stated at cost (first-in, first-out) which is not in excess of market.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation. Costs associated with the development, construction and improvement of property and equipment are capitalized. Interest and property taxes incurred during the construction period are also capitalized. Capitalized interest during the years ended December 31, 2019 and 2018 was $85,000 and $243,000, respectively. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the asset, which are generally 15 to 40 years for buildings and improvements and 3 to 7 years for furniture and equipment.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment whenever events or changes indicate that the carrying value of the assets may not be recoverable. The assessment is performed based on the undiscounted future net operating cash flows compared to the assets' net carrying values. If the net carrying value of the assets exceeds the future cash flows, an impairment loss would be recorded. There were no significant impairment charges incurred in 2019 and 2018.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments for disclosure purposes:

Grantor trust: The carrying amount for the grantor trust approximates its fair value due to the relatively short period to maturity of this investment.

Short- and long-term debt: The carrying amounts of the Company's notes payable approximate their fair value based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Interest rate hedge agreements: The fair value of the interest rate hedge agreements are the amounts at which they could be settled based on market data at December 31, 2019 and 2018, respectively.

Revenue Recognition

Revenue on storage spaces and store rentals is recognized on a straight-line basis over the applicable rental period. The majority of our storage customers rent under month-to-month rental agreements and revenue is recognized at the contracted rate for each month occupied. Revenue related to customers who sign longer period rental agreements is recognized ratably over the term of the rental period given appropriate consideration to any promotional rentals.

Revenue from our Club operations and other ancillary revenue is recognized as the respective performance obligations are satisfied, which results in recognizing the amount we expect to be entitled to for providing the goods or services. Payment terms typically align with when the goods or services are provided. Revenue from club membership dues and slip rentals is earned and recognized at the applicable rate for each month of membership or when the slip is occupied. Revenue from club registration fees is recognized upon approval of membership. Other club revenues, consisting of primarily guest room rentals, food and beverage sales and merchandise sales, is recognized when guest rooms are occupied or goods and services have been delivered at the point of sale. Taxes assessed on sales by various government authorities are not recognized in revenues.

Advertising Costs

The Company incurs advertising costs primarily attributable to online digital marketing campaigns, print media and other advertising which are expensed as incurred. The Company recognized $1,748,000 and $1,755,000 in advertising expense for the years ended December 31, 2019 and 2018, respectively.

Income Taxes

Under the Internal Revenue Code, in order to continue to be treated as a partnership for tax purposes, the Partnership must derive at least 90 percent of its total gross income from income related to real property, interest and dividends. For the fiscal years ended December 31, 2019 and 2018, the Partnership was in compliance with the gross income test, and no special measures are expected to be required to enable the Partnership to maintain its partnership status and associated tax treatment.

Effective January 1, 1998, the Company incorporated its club operations into wholly-owned subsidiaries. Under this structure, profits from the subsidiaries are taxed separately. The subsidiaries account for income taxes in accordance with Accounting Standards Codification ("ASC") Topic 740 "Income Taxes." The provisions for income taxes include amounts currently payable and amounts deferred to or from other years as a result of differences in the timing of income or expenses for financial reporting and tax purposes. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount that is more likely than not to be realized.

ASC Topic 740 also requires the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Topic 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. Based on our evaluation, we have concluded that there are no significant uncertain tax positions requiring recognition in our financial statements at December 31, 2019 and 2018, respectively.   Interest and penalties related to uncertain tax positions will be recognized in income tax expense when incurred. As of December 31, 2019 and 2018, the Company had no interest and penalties related to uncertain tax positions.

Comprehensive Income

Total comprehensive income represents net income, adjusted for unrealized gains and losses on interest rate hedges, as reflected on our Consolidated Statements of Income and Comprehensive Income. The accumulated other comprehensive loss at December 31, 2019 and 2018 was $(1,678,000) and $(581,000), respectively.

NET INCOME PER PARTNERSHIP UNIT

Net income per partnership unit is based on 168,456 and 168,816 weighted average units outstanding during 2019 and 2018, respectively.

SUBSEQUENT EVENTS

The Company has evaluated subsequent events through March 31, 2020, the date this Annual Report was issued.

The COVID-19 virus represents a potentially serious threat to the health and welfare of the American people, the Nation's economy and the operations of many businesses, including the Company's, particularly the Clubs segment of our business. Risks include the inability or unwillingness of customers to gather in large numbers, limitations on travel, members' perspectives on the safety of our facility and reduced consumer spending on discretionary items. Numerous governmental agencies are taking extraordinary protective measures to slow the spread of COVID-19, including prohibiting certain group events and gatherings, and mandating the closure of certain types of businesses. These events, depending on the severity and duration, could have an adverse impact on the Company, including but not limited to future revenues and net income, and the completion of certain projects, for which the outcome cannot be determined at this time.

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, "Leases (Topic 842)" which amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The standard requires a modified-retrospective approach to adoption and became effective for interim and annual periods beginning on January 1, 2019. In July 2018, FASB further amended this standard to allow for a new transition method that offers the option to use the effective date as the date of initial appliction and not adjust the comparative-period financial information. We adopted the new standard effective January 1, 2019, using the new transition method, recording a total of $3.7 million in right of use assets, reflected in "other assets", and substantially the same amount in lease liabilities, reflected in "other long-term liabilities", for leases where we are the lessee. The lease liabilities are recognized based on the present value of the remaining lease payments for each operating lease using each respective remaining lease term and a corresponding estimated incremental borrowing rate. We estimated the incremental borrowing rate primarily by reference to current rates on our line of credit as of January 1, 2019. We had no material amount of leases covered by the standard where we are the lessor (principally our storage leases) because substantially all of such leases are month to month. For leases where we are the lessee or the lessor, we applied (i) the package of practical expedients to not reassess prior conclusions related to contracts that are or that contain leases, lease classification and initial direct costs, (ii) the hindsight practical expedient to determine the lease term and in assessing impairment of the right of use assets, and (iii) the easement practical expedient to not assess whether existing or expired land easements that were not previously accounted for as leases under ASC 840 are or contain a lease under this new standard. In addition, for leases where we are the lessee, we also elected to (a) not apply the new standard to our leases with an original term of 12 months of less, and (b) not separate lease and associated non-lease components.

OTHER DISCLOSURES:

THE GENERAL PARTNERS

The managing general partner of the Partnership is Stability LLC (a Delaware limited liability company) and the general partner is The Los Angeles Athletic Club, Inc. Under the terms of the Partnership agreement, Stability LLC is paid general partner management fees of one percent of the aggregate annual amount of cash distributions made to holders of LAACO, Ltd. units and an additional one half of one percent of the gross revenues of the Partnership. The Partnership also reimburses Stability LLC for certain management, legal and administrative costs incurred by Stability LLC related to Partnership matters. Certain management, legal and administrative services are provided to Stability LLC at no charge. General partner management fees and reimbursement of expenses totaled $701,000 and $671,000 for the years ended December 31, 2019 and 2018, respectively. At December 31, 2019 and 2018, the Company had not yet paid $133,000 and $124,000, respectively, to Stability LLC which amounts are included in "accounts payable and accrued expenses" in the accompanying Consolidated Balance Sheets.

Business Segments

The Company has two principal business segments: real property investments and rentals, and club operations.

	Revenues		Net Income (Loss)	
	2019	2018	**2019**	2018
Real property investments and rentals	**$66,307,000**	$62,914,000	**$23,506,000**	$21,557,000
Club operations (a)	**25,790,000**	25,199,000	**(907,000)**	(323,000)
Less intercompany transactions (b)	**(1,629,000)**	(1,498,000)	**–**	–
	$90,468,000	$86,615,000	**$22,599,000**	$21,234,000

(a) The 2019 and 2018 net loss for club operations is after income tax benefit of $0 and $64,000, respectively.
(b) Intercompany transactions relate principally to real property rents charged by the Partnership to club operations and interest on intercompany borrowings by club operations.

	Assets		Capital Expenditures		Depreciation and Amortization	
	2019	2018	**2019**	2018	**2019**	2018
Real property investments and rentals	**$251,365,000**	$255,795,000	**$4,720,000**	$16,645,000	**$ 9,256,000**	$8,551,000
Club operations	**22,872,000**	21,402,000	**2,536,000**	2,603,000	**920,000**	790,000
	$274,237,000	$277,197,000	**$7,256,000**	$19,248,000	**$10,176,000**	$9,341,000

Property and Equipment

Property and equipment at December 31, 2019 and 2018, consist of the following:

	2019	2018
Land	**$ 85,246,000**	$ 85,256,000
Buildings and improvements	**243,108,000**	234,149,000
Furniture and equipment	**43,000,000**	41,316,000
Construction in progress	**2,417,000**	6,717,000
	373,771,000	367,438,000
Less accumulated depreciation	**(128,022,000)**	(119,000,000)
	$245,749,000	$248,438,000

Investment in Joint Ventures

The Partnership is the managing member of two limited liability companies (the "LLCs") formed in 2001. The other limited liability member of each LLC is an unrelated California real estate development company. That limited liability member contributed the land and other improvements to each LLC and, in exchange, received a 50% interest in the LLC based upon a formula and the fair value of the property, as set forth in the LLC agreements. The Company contributed cash to construct one self-storage facility for each LLC in exchange for its 50% interest. The Company operates and manages the facilities, and receives a management fee for its services. Major operating decisions affecting the LLCs require the agreement of both parties.

As of December 31, 2019 and 2018, the Company's investment was $2,180,000 and $2,234,000, respectively, in these joint ventures. As of December 31, 2019 and 2018, total assets (unaudited) of these two joint ventures were $4,601,000 and $4,708,000, respectively. For the year ended December 31, 2019 and 2018, total revenues and net income (unaudited) for these two joint ventures were $2,589,000 and $2,561,000 and $1,580,000 and $1,511,000, respectively.

The Company's pro rata portion of joint venture income was $790,000 for the year ended December 31, 2019 and $755,000 for the year ended December 31, 2018. The Company evaluates its joint venture arrangements under ASC Topic 810, "Consolidation," on an annual basis. The Company accounts for the joint venture arrangements under the equity method as they do not meet the criteria for consolidation.

CREDIT LINE

The Company has a $20 million uncollateralized credit line available for purchase, construction and improvement of self-storage facilities, repayment of existing debt and for short term working capital needs. The credit line, which accrues interest at Libor plus 1.00%, expires in September 2021. There are no commitment fees or loan points associated with this credit facility. The credit line agreement contains customary representations, warranties and events of default and requires the Company to comply with various affirmative and negative covenants including certain financial ratios such as, minimum EBITDA, minimum net worth, etc. At December 31, 2019, the Company was in compliance with all financial covenants. At December 2019 and 2018, the Company had $0 and $7 million, respectively, outstanding under the credit line.

NOTES PAYABLE

Notes payable at December 31, 2019 and 2018, consists of the following:

	2019	2018
Mortgage notes payable	**$45,200,000**	$47,360,000
Less current portion	**(2,160,000)**	(2,160,000)
	$43,040,000	$45,200,000

In December 2014, the Company entered into a $29 million, ten-year mortgage note payable with a bank. Interest is at a variable rate based on the Libor rate plus 1.25% (2.96% at December 31, 2019). Principal and interest payments are due monthly with any unpaid principal and interest due December 2024.

The Company has one interest rate swap agreement with the bank to effectively hedge the interest rate of this mortgage note. This swap agreement commenced in December 2016 for the remaining 8 year term of the mortgage note payable. This agreement had a notional amount at December 31, 2019 of $23,200,000 and effectively fixes the interest rate of the variable rate debt at 4.02%.

In December 2014, the Company also entered into a $20 million draw-down mortgage note payable with the same bank, which was increased to $25 million in August 2015. In December 2016, the Company borrowed the entire $25 million available under the draw-down mortgage note. Interest is at a variable rate based on the Libor rate plus 1.25% (2.96% at December 31, 2019). Principal and interest payments are due monthly with any unpaid principal and interest due December 2024.

The Company has three interest rate hedging agreements with the bank to effectively hedge the interest rate of this draw-down note:

> The first hedge agreement is an interest rate corridor/cap agreement with a notional amount of $13,200,000 at December 31, 2019. This agreement effectively hedges the interest rate at different thresholds beginning December 2016. If the Libor rate is less than 4%, the Company will pay variable interest rates based on Libor plus 1.25%. If the Libor rate is between 4% and 6%, the Company pays interest at 5.25%. If the Libor rate is between 6% and 8%, the Company will pay variable interest rates based on Libor minus .75%. If the Libor rate is greater than 8%, the Company will pay interest at 7.25%.
>
> The second hedge agreement is an interest rate swap agreement that commenced in December 2016 for the remaining 8 year term of the draw-down note payable. This agreement had a notional amount of $4,400,000 at December 31, 2019 and effectively fixes the interest rate of the variable rate debt at 3.74%.
>
> The third hedge agreement is an interest rate swap agreement that commenced December 2018 for the remaining 6 year term of the draw-down note payable. This agreement had a notional amount at December 31, 2019 of $4,400,000 and effectively fixes the interest rate of the variable rate debt at 3.37%.

The mortgage note payable, draw-down mortgage note payable and the swap agreements are collateralized by six self-storage properties with a total net book value of $20,531,000 at December 31, 2019.

The scheduled repayments of notes payable outstanding at December 31, 2019, are summarized as follows:

2020	$ 2,160,000
2021	2,160,000
2022	2,160,000
2023	2,160,000
2024	36,560,000
	$45,200,000

Derivative Financial Instruments

The Company follows the guidance under ASC Topic 815 "Derivatives and Hedging" in accounting for derivative instruments and hedging activities included in its consolidated financial statements.

Derivative financial instruments are recorded as either assets or liabilities on the balance sheet and re-measured at fair value at each reporting date. The fair value adjustments will affect either other comprehensive income or net income depending on whether the derivative instrument qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity.

In the normal course of business, the Company is exposed to the effect of interest rate changes. The Company limits these risks by following established risk management policies and procedures including the use of derivatives. For interest rate exposures, derivatives are used primarily to hedge against exposure to floating interest rates and manage the cost of borrowing obligations. The Company does not engage in any derivative instrument trading activity. Credit risk associated with the Company's derivatives is limited to the risk that a derivative counterparty will not perform in accordance with the terms of the contract. Exposure to counterparty credit risk is considered low because these agreements have been entered into with institutions with strong credit ratings, and they are expected to perform fully under the terms of the agreements.

The Company has entered into interest rate hedges to manage exposure to interest rates on all of its variable rate long-term debt. At December 31, 2019, the Company had four interest rate hedging agreements to manage its exposure to interest rates on its outstanding variable rate debt:

(a) Under the terms of an interest rate corridor/cap agreement, if the Libor rate exceeds 4%, the counterparty will be required to make monthly interest payments to the Company based on the level that Libor exceeds 4%.

(b) Under the terms of three interest rate swap agreements, the Company will make monthly fixed rate payments to the counterparty, calculated based on the notional amount at a fixed rate ranging from 3.37% to 4.02% while the counterparty is obligated to make monthly floating rate payments to the Company based on the Libor rate.

The notional amount of each of the outstanding interest rate hedge agreements is scheduled to decline over the related terms of the loan agreements consistent with the scheduled principal payments.

These interest rate hedge agreements are designated as cash flow hedges. At December 31, 2019 and 2018, the Company recorded a liability of $1,413,000 and $298,000, respectively, as the fair value of the interest rate swaps, which amounts are included in "other long-term liabilities." At December 31, 2019 and 2018, the Company recorded an asset of $10,000 and $65,000, respectively, as the fair value of the interest rate corridor/cap agreements, which amount is included in "other assets." The Company applies the hypothetical derivative method for testing effectiveness of these cash flow hedges. For the years ended December 31, 2019 and 2018, no derivative ineffectiveness was identified.

Changes in unrealized gains and losses of the interest rate hedge agreements are recognized as "other comprehensive income" and reflected in Partners' Capital. Any future ineffectiveness in the Company's derivative investments designated as cash flow hedges would be reported in earnings in the period it was recognized. The Company does not expect to reclassify any amounts from other comprehensive income to earnings within the next 12 months.

The following table summarizes the notional values, fair values and other characteristics of the Company's derivative financial instruments at December 31, 2019. The notional value at December 31, 2019 provides an indication of the extent of the Company's involvement in these instruments at that time, but does not represent exposure to credit, interest rate, or market risk.

	Notional Value	Rate	Maturity Date	Fair Value (Liability)/Asset
Interest rate swap agreement	$23,200,000	4.02%	12/19/24	$(1,146,000)
Interest rate swap agreement	4,400,000	3.74%	12/19/24	(168,000)
Interest rate swap agreement	4,400,000	3.37%	12/19/24	(99,000)
				$(1,413,000)
Interest rate corridor/cap agreement	$13,200,000		12/19/24	$10,000

Fair Value Measurements

The Company follows the guidance under ASC Topic 820, "Fair Value Measurements," which establishes a framework for measuring fair value by providing a standard definition of fair value as it applies to assets and liabilities. ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establishes a framework for measuring fair value. ASC Topic 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

> Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
>
> Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observed for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
>
> Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

ASC Topic 820 also expands disclosures about instruments measured at fair value.

The following tables set forth by level within the fair value hierarchy, the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2019 and 2018. As required by ASC Topic 820, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgement, and may affect the valuation of fair value of assets and liabilities and their placement within the fair value hierarchy levels.

At Fair Value as of December 31, 2019				
Recurring Fair Value Measurements	Quoted Prices in Active markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Interest rate swap agreements	–	$(1,413,000)	–	$(1,413,000)
Interest rate corridor/cap agreement	–	10,000	–	10,000
Grantor trust	$3,314,000	–	–	3,314,000

At Fair Value as of December 31, 2018				
Recurring Fair Value Measurements	Quoted Prices in Active markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Interest rate swap agreement	–	$(298,000)	–	$ (298,000)
Interest rate corridor/cap agreements	–	65,000	–	65,000
Grantor trust	$3,250,000	–	–	3,250,000

The interest rate swap agreements are valued at fair value based on dealer quotes using a discounted cash flow model. The interest rate corridor/cap agreements are valued at fair value based on market data inputs using the Black Scholes option pricing model. Each of these models reflect the contractual terms of the derivative instruments, including the period to maturity and debt repayment schedule, and market-based parameters such as interest rates and yield curves. These models do not require significant judgement, and the inputs are observable. Thus, the derivative instruments are classified within Level 2 of the valuation hierarchy. The Company does not intend to terminate any of the interest rate hedge agreements prior to their expiration dates. The grantor trust is valued at fair value based on quoted market prices for the securities held in the grantor trust and thus is classified within Level 1 of the valuation hierarchy.

Deferred Compensation

The Company maintains three nonqualified deferred compensation plans (collectively, the "Plans") into which certain members of management are eligible to defer a portion of their salary and management bonus. Two of the Plans were closed to new deferrals as of December 31, 2004. The third Plan allows deferrals beginning January 1, 2012. The amounts deferred under these Plans are credited with earnings based on crediting rates established annually by the Company in accordance with the Plans. The crediting rates for 2019 and 2018 ranged from 2.50% - 5.31%. and 2.61% - 5.01%, respectively. Under one of the Plans, the Company is also obligated to pay in certain cases a survivor benefit on the 15th anniversary of the commencement of retirement payments or the participant's death, if later. Although benefits under these Plans are obligations of LAACO, Ltd., the Company has purchased life insurance that is estimated to be sufficient to cover the distributions to be made under the Plans plus the cost of capital to the Company. The Company can borrow against the cash surrender value of certain of the life insurance policies at specified rates (5.05% at December 31, 2019) for use in its operations. The Company did not borrow additional amounts against the policies in 2019 and 2018. As of December 31, 2019, the Company has the capacity to borrow an additional $5.5 million against the cash surrender value of the life insurance policies.

The Company also has a grantor trust to provide additional security for obligations to be paid under one of the Plans. At December 31, 2019 and 2018, the fair value of trust assets totaled $3,314,000 and $3,250,000, respectively, which were invested in government securities. Grantor trust assets and cash surrender values, net of policy loans, are included in "other assets" and deferred benefits are included in "other long-term liabilities" on the accompanying Consolidated Balance Sheets.

	December 31, 2019	2018
Cash surrender value of life insurance	**$13,593,000**	$12,547,000
Grantor trust assets	**3,314,000**	3,250,000
Less policy loans	**(21,000)**	(21,000)
	$16,886,000	$15,776,000
Deferred benefits	**$12,374,000**	$11,239,000

INCENTIVE RETIREMENT PLANS

The Company sponsors two 401(k) Incentive Retirement Plans; one for eligible employees of LAACO, Ltd. and California Yacht Club, Inc. and the other for the employees of The LAAC Corp. In 2019 and 2018, total Company matching contributions to the Plans were $277,000 and $311,000, respectively.

UNIT REPURCHASE PROGRAM

The Managing General Partner of the Partnership has authorized the repurchase of up to $12.5 million of Partnership units through April 30, 2020. During 2019 and 2018, the Partnership repurchased 492 and 549 units, respectively, for total consideration of $1,165,000 and $1,295,000, respectively. As of December 31, 2019, a total of 8,577 units have been repurchased for total consideration of $11,491,000. An additional 125 units have been repurchased in 2020 for total consideration of $288,000. The Company retired 3,832 of the repurchased units, with the remaining repurchased units being held in treasury or reissued under the Equity Incentive Plan.

EQUITY INCENTIVE PLAN

In 2012, the Company adopted the LAACO, Ltd. Equity Incentive Plan which provides officers of the Company with awards of restricted and unrestricted limited partnership units of the Partnership. The maximum number of units that may be issued under the plan are equal to the number of units acquired after January 1, 2012, pursuant to the Unit Repurchase Program. As of December 31, 2019, a total of 815 units have been issued under the plan and there are 3,930 units that are still issuable under the plan. All units awarded under the plan are valued at the fair market value of the Partnership units on the date of grant.

In March 2018, officers of the Company were awarded 100 units of the Partnership as a grant and certain of these officers acquired 10 additional units of the Partnership in lieu of a portion of their cash management bonus. All 110 units awarded under the plan were valued at the fair market value of the Partnership units on the date of grant ($2,175 per unit), were fully vested and are subject to certain restrictions on transfer of the units. The Company accrued total compensation expense of $218,000 in 2017 for the units issued in March 2018.

In March 2019, officers of the Company were awarded 100 units of the Partnership as a grant and certain of these officers acquired 5 additional units of the Partnership in lieu of a portion of their cash management bonus. All 105 units awarded under the plan were valued at the fair market value of the Partnership units on the date of grant ($2,225 per unit), were fully vested and are subject to certain restrictions on transfer of the units. The Company accrued total compensation expense of $234,000 in 2018 for the units issued in March 2019.

In March 2020, officers of the Company were awarded 100 units of the Partnership as a grant and certain of these officers acquired 7 additional units of the Partnership in lieu of a portion of their cash management bonus. All 107 units awarded under the plan were valued at the fair market value of the Partnership units on the date of grant ($2,275 per unit), were fully vested and are subject to certain restrictions on transfer of the units. The Company accrued total compensation expense of $243,000 in 2019 for the units issued in March 2020.

Leases

The Company owns commercial properties (self-storage facilities, retail stores, and other properties) that it rents to tenants. The minimum future rental income as of December 31, 2019, under noncancelable leases with terms of one year or longer for each of the five succeeding years are: 2020–$1,324,000; 2021–$1,289,000; 2022–$1,314,000; 2023–$1,344,000; 2024–$1,288,000. The Company leases certain real estate for its own use pursuant to long-term operating leases. Rental expense for 2019 and 2018 was $1,697,000 and $1,665,000, respectively, of which $1,367,000 and $1,369,000, respectively, is for rent paid to the County of Los Angeles for a land lease on which the California Yacht Club building and marina facilities are constructed. The lease, which expires July 2022, requires monthly minimum rent payments ($74,000 at December 31, 2019) plus a percentage rent payment based on the gross revenues of California Yacht Club. Total minimum annual rental commitments are: 2020–$1,186,000; 2021–$1,195,000; 2022–$779,000; 2023–$116,000 and 2024–$0.

Other Commitments and Contingencies

The Company has certain contingent liabilities with respect to litigation, claims and contractual agreements arising from the ordinary course of business. In the opinion of management and based on consultation with legal counsel, such contingent liabilities will not result in any loss which would materially affect the Company's financial position, results of operations or cash flows. The Company maintains cash at various financial institutions in excess of federally insured limits; however, the Company believes it places its cash balances with quality financial institutions which limits its credit risks.

Income Tax Expense and Deferred Income Taxes

LAACO, Ltd., as a limited partnership, is not a taxable entity. As noted in Accounting Policies – Income Taxes, the Company's subsidiaries are corporations subject to federal and state income taxes. The subsidiaries account for income taxes in accordance with ASC Topic 740 "Income Taxes." The provision for income taxes include amounts currently payable and amounts deferred to or from other years as a result of differences in the timing of income or expenses for financial reporting and tax purposes. For the year ended December 31, 2019, the subsidiaries recognized no income tax provision or benefit. For the year ended December 31, 2018, the subsidiaries recognized an income tax benefit of $64,000.

A reconciliation of the subsidiaries' income tax expense at statutory rates to the recognized income tax provision or benefit for the years ended December 31, 2019 and 2018, is as follows:

	2019	2018
Statutory income tax benefit	**$190,000**	$ 81,000
State income tax benefit, net	**65,000**	27,000
State tax credits	**–**	4,000
Valuation allowance	**(205,000)**	–
Other	**(50,000)**	(48,000)
Income tax benefit attributable to subsidiaries	**$ –**	$ 64,000

The tax effect of each type of temporary difference that gives rise to deferred tax assets and (liabilities) of the subsidiaries at December 31, 2019 and 2018, are as follows:

	2019	2018
Deferred tax assets:		
Accrued expenses	**$ 177,000**	$ 159,000
State tax credits	**165,000**	425,000
Net operating loss carry forwards	**240,000**	52,000
Other	**161,000**	79,000
	743,000	715,000
Deferred tax liabilities:		
Prepaid expenses	**(175,000)**	(157,000)
Depreciation	**(708,000)**	(661,000)
Deferred state taxes	**(37,000)**	(74,000)
Net deferred tax liability	**$(177,000)**	$(177,000)

As of December 31, 2019, the subsidiaries have state net operating loss carryforwards and state tax credit carryforwards of approximately $1,500,000 and $165,000, respectively, for California income tax purposes which will begin to expire in 2023.

CASH DISTRIBUTIONS PER UNIT:

For the year ended December 31, 2019		For the year ended December 31, 2018	
Distribution date	**Per Unit**	Distribution date	Per Unit
April 1, 2019	**$23.00**	April 2, 2018	$20.00
June 3, 2019	**23.00**	June 4, 2018	20.00
September 4, 2019	**23.00**	September 4, 2018	21.00
December 20, 2019	**24.50**	December 21, 2018	24.50
	$93.50		$85.50