



ANNUAL
REPORT
2016

LAACO, LTD. 2016 ANNUAL REPORT

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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.otcm Markets.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	Carla L. Grose
VICE PRESIDENT	John R. Wolff
VICE PRESIDENT	Fred G. Zepeda
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 (Effective December 1, 2016)
	Christopher J. Harrer
	John K. Hathaway
	Steven K. Hathaway
	Thomas S. Hathaway
	Charles E. Michaels
	Barbara H. Wolff (Retired December 31, 2016)
GENERAL PARTNER OF LAACO, LTD.	The Los Angeles Athletic Club, Inc.

Your Company achieved new financial highs in 2016. This gratifying performance is the result of strategic programs that were conceived and implemented during the last several years – and that continue today, with the goal of supporting further growth in the future. These multi-year initiatives include the geographic expansion of our self-storage business, capital improvements to our legacy Los Angeles Athletic Club, and a heightened company-wide focus on branding and employee training. They have been carried out by people at all levels of our Company, and their successful efforts have distinguished us in the quality of both our facilities and our customer service.

Consolidated 2016 revenue rose to \$77 million, an 8% increase over 2015, while consolidated net income was up 6%, to \$20 million. Notably, all regions of our Storage West business, as well as our legacy private club business, contributed to these gains.

At year-end 2016, Storage West operated 52 self-storage facilities (including two facilities co-owned with a partner). Our facilities are located in Phoenix, Arizona; Southern California; Las Vegas, Nevada; and our newest area of expansion, Houston, Texas. Economic conditions in all of our market areas were favorable, allowing us to attract new customers and to increase rental rates throughout our portfolio.

A key differentiator for Storage West is our efforts to establish and maintain meaningful connections with our customers – who at year end numbered over 29,000. Each of these customers has had at least one personal interaction with our staff when they rented their unit, but in most cases we have multiple contacts with them. Each of these is an opportunity to distinguish our brand by meeting or surpassing their expectations. We emphasize high customer service standards in our training and performance reviews, including in the quarterly training sessions we conducted during 2016 for all Storage West

facility managers and field staff, as well as our Call Center agents. Investing in the skills and professionalism of our workforce enables us to operate more efficiently and serve our customers more effectively, demonstrating the Storage West value proposition.

We have complemented these personnel measures with marketing strategies aimed at broadening the appeal and reach of Storage West in the regions we serve. This included emphasizing the Storage West “Here for You” tagline, as well as the ongoing rollout of the new Storage West logo on signage at our facilities. We supported these efforts with a stepped-up Web presence, including active social media engagement. Our improved performance in attracting and retaining customers were the tangible results of these activities.

All Storage West metrics showed increases in 2016. Average same-store rent per occupied square foot climbed 4%, to \$15.16. Our occupancy increased by one percent to 88%. Overall our Storage Operations team generated an exceptional 6% increase in same-store operating income compared to the prior year. (We define same-stores as facilities that have been operating for two full years as of December 31. Same-store 2016 results include 47 self-storage facilities, but excludes co-owned facilities and RV space.)

During 2016 we emphasized our capital expansion program to support our long-established goal of steadily growing our Storage West business. As in prior years, we evaluated a number of operating self-storage facilities available for purchase. But with many qualified buyers competing for the few quality products on the market, we determined that the cost of these acquisitions was too high. Instead we concentrated on our development program, which now includes a robust pipeline of projects. At the peak of activity during the year we had eight ground-up projects in various stages of development and construction in Houston and Phoenix.

These are multi-year projects, all of which are expected to open by the end of 2018.

As previously announced, we have placed a priority on establishing a market presence for Storage West in the Houston area. Our initial foray into that region began with the 2012 acquisition of a single operating storage facility. That purchase provided us with a platform to survey the area and understand the opportunities there. Since that time we have built five storage facilities, opening two in 2015, one in 2016, and two during the first quarter of 2017. As I write this, we are in the final stages of building an additional storage facility in Houston, which is scheduled to open in mid-2017. With the completion of these projects we will have a portfolio of seven Storage West facilities distributed in communities throughout the greater Houston area. (Because they are so new, these self-developed facilities are not included in our “same-store” results.)

Our operations in Houston have benefitted from the region’s improving economy and a customer demographic that is responsive to our product. Our expansion will yield important operational economies of scale as we spread expenses such as advertising and management activities over a larger number of facilities.

The Phoenix area is a current focus of our expansion activity. The region’s healthy economy and affordable land prices make development of new Storage West facilities an attractive option. The thirteen facilities we own in this market have performed well in the past several years. During 2016 we performed pre-development work and construction on four new facilities on parcels of land that we have purchased or that are under contract. One of those projects will open in 2017, and the other three are scheduled to come on line in 2018.

In addition to developing new Storage West facilities, we are updating and upgrading some of our

older facilities. An example of this strategy is the major renovation and additions to our Scottsdale, AZ, facility, about which we reported to you last year. This project has been quite successful. In mid-2016 we completed a major refurbishment of our 1970’s-era storage property in Orange, California. This added 30,000 square feet of new, rentable space to increase revenue for Storage West’s important Southern California region.

During 2016 your Company invested \$20.5 million in Storage West construction. This capital expansion program has been financed with a combination of debt and cash flow from operations. In December we completed the draw-down on our \$25 million commercial loan that was negotiated in 2014 to parallel our development program. Following our past practice, this loan is hedged with various products to control interest rate exposure. Our \$20 million working credit line was extended in September 2016 for an additional two years.

Visitors to Downtown Los Angeles cannot fail to notice the robust development in the center city. This area has been our headquarters for 136 years, beginning with The Los Angeles Athletic Club. During our long history we have seen the downtown area experience numerous booms and busts, expansions and recessions. This makes it particularly gratifying to participate in the remarkable up-cycle that is now underway, supported by mass transit and an influx of new businesses and Millennial residents.

Your Company owns three contiguous parcels of land in the center of downtown: The Los Angeles Athletic Club Building and two adjacent parking facilities. New developments nearby include housing, retail, restaurant, hotel and entertainment venues; they are part of the changes that are making Downtown an increasingly attractive place to shop, visit and live.

Last year we reported on the positive results at The

Los Angeles Athletic Club, which is operated by a wholly owned subsidiary of your Company. A 9% increase in membership and increased uses of the Club's facilities, resulting in part from the rejuvenation of the area, produced satisfying increases in revenue and net income. Multi-year capital improvements to the building and its facilities continue to progress. These improvements are aimed at invigorating customer interest and adding long-term value to this distinguished property.

In addition to membership increases at The Los Angeles Athletic Club, membership at California Yacht Club in Marina del Rey also increased slightly in 2016, resulting in modest increases in net income at that subsidiary.

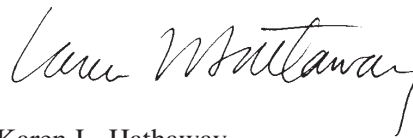
Like many companies, we are following the various business tax reform measures that are being considered in Congress. In addition to measures that would apply generally to businesses (such as elimination of certain business deductions, additional favorable expense rules, etc.), some proposals could specifically affect partnerships, such as ours, that pass pre-tax income directly to owners. The details of these reform measures will undoubtedly evolve over the coming months; during this period we will remain attentive to the subject, and will appropriately voice our concerns.

At year's end, we honored Barbara H. Wolff, a long-serving member of the Board of your company's Managing General Partner. Mrs. Wolff retired from the Stability LLC Board of Managing Members after serving for a remarkable 35 years. Her tenure began with service on the Board of Directors of your Company's predecessor, LAACO Incorporated, and included such transformative events as the formation of Storage West. We are deeply grateful for her service.

Earlier in the year, Stability LLC elected Jennifer Bayer to its Board of Managing Members.

Your Company is fortunate to have people at all levels who are dedicated to helping it succeed each day, every year and through the decades. The combined workforce of your Company and its subsidiaries is over 500 people. They perform more than 100 different job functions, in four states and dozens of communities. What they share in common is a pride in achieving new milestones that build on our Company's longstanding mission of creating enduring value through stewardship, quality, service and performance.

We are also grateful for the many unitholders who have witnessed and supported the evolution of our Company over the years. We are pleased that your Company's accomplishments during 2016 demonstrated the validity of our conservative and strategic focus on building value over the long term.



Karen L. Hathaway
President and Managing Partner

FINANCIAL HIGHLIGHTS

	2016	2015	2014	2013	2012
Operating Data:					
Revenues	\$77,039,000	\$71,526,000	\$65,470,000	\$61,203,000	\$57,015,000
Operating income	20,621,000	18,831,000	16,275,000	14,911,000	13,749,000
Other income (expense)	(416,000)	155,000	4,882,000	(1,072,000)	(1,236,000)
Net income	20,205,000	18,986,000	21,157,000	13,839,000	12,513,000
Balance Sheet Data:					
Investment in storage properties at cost	\$285,209,000	\$264,687,000	\$246,279,000	\$232,898,000	\$231,068,000
Total assets	259,211,000	234,392,000	220,296,000	206,935,000	206,110,000
Total liabilities	76,491,000	57,647,000	47,840,000	45,763,000	49,173,000
Partners' capital	182,720,000	176,745,000	172,456,000	161,172,000	156,937,000
Cash Flows Data:					
Net cash provided by operating activities	\$28,170,000	\$25,804,000	\$21,616,000	\$22,604,000	\$18,887,000
Cash distributions to partners	13,588,000	13,622,000	11,073,000	9,554,000	8,073,000
Per Unit Data:					
Net income	\$ 118.97	\$ 111.49	\$ 124.20	\$ 81.07	\$ 72.84
Cash distributions to partners	80.00	80.00	65.00	56.00	47.00
Partners' capital at end of year—historical basis	1,077.05	1,039.85	1,012.59	945.99	915.70

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 and operation of clubs and real estate, including difficulties in acquiring, developing, remodeling, constructing, integrating or managing acquired self-storage properties; risks associated with the affects of downturns in the national or local economies in which we invest in or operate, including delays in development and decreased revenues, and the economic health of our customers; the impact of storage competition which could affect rents, occupancy levels and other aspects of operations; customer and employee related claims; environmental risks and various hazards, such as earthquakes, hurricanes, flooding, windstorms, environmental contamination, and fires; difficulties in managing information technology, or system failures, or the disruption of operations through security breaches; the impact of adverse governmental actions or changes in tax, real estate and zoning, licensing, leasing or regulatory environment and compliance including adverse changes in tax law, such as the taxation of publicly traded partnerships, or a failure to qualify as a partnership for tax purposes, or other changes in taxes or corporate or personal tax rates which could increase expenses and reduce profitability and cash flows; and difficulties in raising capital at a reasonable cost, which would 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.



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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, 2016 and 2015, 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, 2016 and 2015, 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.

GRANT THORNTON LLP

Los Angeles, California
March 31, 2017

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2016	2015
ASSETS		
CURRENT ASSETS:		
Cash	\$ 9,181,000	\$ 2,933,000
Accounts receivable, less allowance for doubtful accounts (2016 - \$414,000; 2015 - \$427,000)	1,751,000	1,525,000
Inventories	292,000	326,000
Prepaid expenses and other current assets	1,642,000	1,987,000
TOTAL CURRENT ASSETS	12,866,000	6,771,000
Property and equipment, net	230,119,000	212,355,000
Investment in joint ventures	2,374,000	2,470,000
Other assets	13,852,000	12,796,000
TOTAL ASSETS	\$259,211,000	\$234,392,000
LIABILITIES AND PARTNERS' CAPITAL		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 8,873,000	\$ 8,017,000
Payroll, sales and local taxes	1,394,000	1,111,000
Prepaid dues, rentals and deposits	3,372,000	3,345,000
Credit line payable	–	7,000,000
Notes payable, current portion	2,160,000	1,160,000
TOTAL CURRENT LIABILITIES	15,799,000	20,633,000
Other long-term liabilities	11,172,000	10,334,000
Notes payable, net of current portion	49,520,000	26,680,000
TOTAL LIABILITIES	76,491,000	57,647,000
Commitments and contingencies – see notes		
Partners' capital: 169,648 and 169,972 units outstanding, respectively	182,720,000	176,745,000
TOTAL LIABILITIES AND PARTNERS' CAPITAL	\$259,211,000	\$234,392,000

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,	
	2016	2015
REVENUES		
Real property investments and rentals	\$52,612,000	\$48,759,000
Club operations	24,427,000	22,767,000
	77,039,000	71,526,000
COST AND EXPENSES		
Operating expenses	46,959,000	44,476,000
Cost of goods sold	1,941,000	1,831,000
Depreciation and amortization	7,518,000	6,388,000
	56,418,000	52,695,000
OPERATING INCOME	20,621,000	18,831,000
OTHER INCOME (EXPENSE)		
Gain (loss) on sale of assets	115,000	(66,000)
Joint venture income	659,000	601,000
Interest expense, net	(579,000)	(303,000)
Unrecovered development costs	(283,000)	—
Income tax expense attributable to subsidiaries	(328,000)	(77,000)
	(416,000)	155,000
NET INCOME	20,205,000	18,986,000
OTHER COMPREHENSIVE LOSS		
Unrealized loss on interest rate hedges	(15,000)	(902,000)
TOTAL COMPREHENSIVE INCOME	\$20,190,000	\$18,084,000
NET INCOME PER UNIT	\$118.97	\$111.49
WEIGHTED AVERAGE PARTNERSHIP UNITS OUTSTANDING	169,839	170,288



CONSOLIDATED STATEMENTS OF CHANGES IN PARTNERS' CAPITAL

	For the years ended December 31,	
	2016	2015
Balance at beginning of year	\$176,745,000	\$172,456,000
Net income	20,205,000	18,986,000
Cash distributions to partners	(13,588,000)	(13,622,000)
Partner contribution	—	375,000
Partnership unit repurchases	(798,000)	(754,000)
Units issued under incentive equity plan	171,000	206,000
Other comprehensive income:		
Unrealized loss on interest rate hedges	(15,000)	(902,000)
Balance at end of year	\$182,720,000	\$176,745,000

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended December 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$20,205,000	\$18,986,000
Adjustments to reconcile net income to net cash provided by operating activities:		
(Gain) loss on sale of assets	(115,000)	66,000
Joint venture income	(659,000)	(601,000)
Unrecovered development costs	283,000	—
Depreciation and amortization	7,518,000	6,388,000
Incentive equity based compensation accrual	210,000	176,000
Deferred tax (benefit) expense	(97,000)	86,000
(Increase) decrease in accounts receivable, net	(226,000)	47,000
Decrease (increase) in prepaid expenses and other current assets	413,000	(272,000)
Increase in other assets	(1,079,000)	(605,000)
Increase in accounts payable, accrued expenses and other current liabilities	842,000	748,000
Increase in other long-term liabilities	875,000	785,000
NET CASH PROVIDED BY OPERATING ACTIVITIES	28,170,000	25,804,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for property and equipment	(25,303,000)	(24,878,000)
Proceeds from sale of property and equipment	172,000	1,180,000
Distributions from joint ventures	755,000	685,000
NET CASH USED IN INVESTING ACTIVITIES	(24,376,000)	(23,013,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term borrowing	25,000,000	—
Payment of debt issuance costs	—	(208,000)
Repayment of notes payable	(1,160,000)	(1,160,000)
Net (repayments) borrowings under credit line	(7,000,000)	7,000,000
Cash distributions to partners	(13,588,000)	(13,622,000)
Partnership unit repurchases	(798,000)	(754,000)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	2,454,000	(8,744,000)
NET INCREASE (DECREASE) IN CASH	6,248,000	(5,953,000)
CASH:		
Beginning of year	2,933,000	8,886,000
End of year	\$ 9,181,000	\$ 2,933,000
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	\$ 619,000	\$ 400,000
Cash paid for income taxes	303,000	330,000
Supplemental disclosures of non-cash activities:		
Unrealized loss on interest rate hedges	\$ (15,000)	\$ (902,000)
Units issued under incentive equity plan	171,000	206,000

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, 2016, the Partnership had direct and indirect equity interests in 52 operating self-storage facilities under the “Storage West” registered trade name in Southern California, Arizona, Nevada and Texas. In addition, four facilities were under construction and two owned parcels were in pre-construction development in Texas and Arizona. 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, 2016, 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, 2016 and 2015 was \$183,000 and \$166,000, respectively. In 2016, the Company determined that its redevelopment plans for a self-storage facility in California were no longer feasible. As a result of this decision, certain previously incurred development costs for this project were written off, resulting in one-time impairment charges of \$283,000. No impairment charges were recognized in 2015. 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 2016 and 2015.

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, 2016 and 2015, respectively.

REVENUE RECOGNITION

Revenue on real property investments, store rentals and slip rentals is recognized on a straight-line basis over the applicable rental period. The majority of our 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 monthly club membership fees are recognized as earned. Revenue from club registration fees is recognized when payment is received. Other club revenues, consisting primarily of guest room rentals and food and beverage sales, are generally recognized as services are performed. Taxes assessed on sales by various governmental 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 \$1,430,000 and \$1,236,000 in advertising expense for the years ended December 31, 2016 and 2015, 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, 2016 and 2015, 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 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, 2016 and 2015, respectively. Interest and penalties related to uncertain tax positions will be recognized in income tax expense when incurred. As of December 31, 2016 and 2015, 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, 2016 and 2015 was \$(1,548,000) and \$(1,533,000), respectively.

NET INCOME PER PARTNERSHIP UNIT

Net income per partnership unit is based on 169,839 and 170,288 weighted average units outstanding during 2016 and 2015, respectively.

SUBSEQUENT EVENTS

The Company has evaluated subsequent events through March 31, 2017, the date this Annual Report was issued.

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," which is intended to increase the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. A lessee will be required to recognize on the balance sheet the assets and liabilities of leases with lease terms of more than 12 months. Accounting by lessors will remain largely unchanged from current U.S. generally accepted accounting principles. The amendments in this update are effective for the Company as of January 1, 2019. Early application of this update is permitted. The Company is currently assessing the impact of this update on our consolidated financial statements.

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 \$615,000 and \$597,000 for the years ended December 31, 2016 and 2015, respectively. At December 31, 2016 and 2015, the Company had not yet paid \$111,000 and \$117,000, 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	
	2016	2015	2016	2015
Real property investments and rentals	\$53,750,000	\$49,563,000	\$19,579,000	\$18,710,000
Club operations (a)	24,427,000	22,767,000	626,000	276,000
Less intercompany transactions (b)	(1,138,000)	(804,000)	—	—
	\$77,039,000	\$71,526,000	\$20,205,000	\$18,986,000

(a) The 2016 and 2015 net income for club operations is after income tax expense of \$328,000 and \$77,000, 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	
	2016	2015	2016	2015	2016	2015
Real property investments and rentals	\$245,509,000	\$221,801,000	\$23,066,000	\$19,180,000	\$6,798,000	\$5,836,000
Club operations	13,702,000	12,591,000	2,237,000	5,698,000	720,000	552,000
	\$259,211,000	\$234,392,000	\$25,303,000	\$24,878,000	\$7,518,000	\$6,388,000

PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2016 and 2015, consist of the following:

	2016	2015
Land	\$ 85,264,000	\$ 82,016,000
Buildings and improvements	195,955,000	186,374,000
Furniture and equipment	33,585,000	30,675,000
Construction in progress	19,048,000	10,622,000
	333,852,000	309,687,000
Less accumulated depreciation and amortization	(103,733,000)	(97,332,000)
	\$230,119,000	\$212,355,000

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, 2016 and 2015, the Company’s investment was \$2,374,000 and \$2,470,000, respectively, in these joint ventures. As of December 31, 2016 and 2015 total assets (unaudited) of these two joint ventures were \$4,938,000 and \$5,109,000, respectively. For the year ended December 31, 2016 and 2015, total revenues and net income (unaudited) for these two joint ventures were \$2,338,000 and \$2,209,000 and \$1,318,000 and \$1,202,000, respectively.

The Company’s pro rata portion of joint venture income was \$659,000 for the year ended December 31, 2016 and \$601,000 for the year ended December 31, 2015. 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 2018. 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, 2015, the Company had \$7 million outstanding under the credit line at an average interest rate of 1.41%, and was in compliance with all covenants. In December 2016, the Company repaid all outstanding borrowings under the credit line with proceeds from its \$25 million draw-down mortgage note.

NOTES PAYABLE

Notes payable at December 31, 2016 and 2015, consists of the following:

	2016	2015
Mortgage notes payable	\$51,680,000	\$27,840,000
Less current portion	(2,160,000)	(1,160,000)
	\$49,520,000	\$26,680,000

In December 2014, the Company entered into a \$29 million, ten-year mortgage note payable with a bank, proceeds of which were used principally to repay other mortgage notes payable. Interest is at a variable rate based on the Libor rate plus 1.25% (1.87% at December 31, 2016). Principal and interest payments are due monthly with any unpaid principal and interest due December 2024.

The Company has two interest rate hedging agreements with the bank to effectively hedge the interest rate of this mortgage note:

The first hedge agreement is an interest rate corridor/cap agreement transferred from a mortgage note repaid in December 2014. This agreement had a notional amount at December 31, 2016 of \$3,479,000 and effectively hedges the variable rate debt at different thresholds through November 2019. 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 will pay interest at 5.25%. If the Libor rate is between 6% and 12%, the Company will pay variable interest rates based on Libor minus .75%. If the Libor rate is greater than 12%, the Company will pay interest at 11.25%.

The second hedge agreement is an interest rate swap agreement that commenced in December 2016 for the remaining 8 year term of the mortgage note payable. This agreement had a notional amount at December 31, 2016 of \$23,201,000 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, and used a portion of the proceeds to repay outstanding borrowings under the credit line. Interest is a variable rate based on the Libor rate plus 1.25% (1.96% at December 31, 2016). Principal and interest payments are due monthly with any unpaid principal and interest due December 2024. The Company had no outstanding amounts under this note payable as of December 31, 2015.

The Company has four 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 \$15,000,000 at December 31, 2016. This agreement effectively hedges the interest rate at different thresholds beginning December 2016. If the Libor rate is less than 4%, the Company will continue to pay a variable interest 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 a variable interest rate 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 \$5,000,000 at December 31, 2016 and effectively fixes the interest rate of the variable rate debt at 3.745%.

The third and fourth hedge agreements are on the last \$5 million of the draw-down note and were entered into in January 2016. The Company has an interest rate cap agreement that places a cap of 4% on the Libor

rate from December 2016 through December 2018, resulting in an interest rate that will not exceed 5.25%. The Company has a forward-start interest rate swap agreement commencing December 2018 for the remaining 6 year term of the draw-down note payable. This agreement effectively fixes the interest rate of the variable rate debt at 3.37%.

The mortgage note payable, draw-down mortgage note payable and the forward-start swap agreements are collateralized by six self-storage properties with a total net book value of \$21,477,000 at December 31, 2016.

The scheduled repayments of notes payable outstanding at December 31, 2016, are summarized as follows:

2017	\$ 2,160,000
2018	2,160,000
2019	2,160,000
2020	2,160,000
2021	2,160,000
thereafter	40,880,000
	<hr/>
	\$51,680,000

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, 2016, the Company had six interest rate hedging agreements to manage its exposure to interest rates on its outstanding variable rate debt:

- (a) Under the terms of two interest rate corridor/cap agreements and one interest rate 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 4.00%.
- (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, 2016 and 2015, the

Company recorded a liability of \$1,245,000 and \$1,219,000, respectively, as the fair value of the interest rate swaps, which amounts are included in “other long-term liabilities.” At December 31, 2016 and 2015, the Company recorded an asset of \$163,000 and \$187,000, 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, 2016 and 2015, 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, 2016. The notional value at December 31, 2016 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	\$23,201,000	4.02%	12/19/24	\$(1,143,000)
Interest rate swap agreement	5,000,000	3.74%	12/19/24	(153,000)
Interest rate swap agreement	5,000,000	3.37%	12/19/24	51,000
				\$(1,245,000)
Interest rate corridor/cap agreement	\$ 3,479,000		11/01/19	\$ 2,000
Interest rate corridor/cap agreement	15,000,000		12/19/24	161,000
Interest rate cap agreement	5,000,000		12/3/18	—
				\$ 163,000

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, 2016 and 2015. 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, 2016				
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	–	\$(1,245,000)	–	\$(1,245,000)
Interest rate corridor/cap agreements	–	163,000	–	163,000
Grantor trust	\$3,081,000	–	–	3,081,000

At Fair Value as of December 31, 2015				
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	–	\$(1,219,000)	–	\$(1,219,000)
Interest rate corridor/cap agreements	–	187,000	–	187,000
Grantor trust	\$2,981,000	–	–	2,981,000

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 and cap agreement 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 2016 and 2015 ranged from 3.15% - 4.75%, and 3.36% - 6.37%, 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, 2016) for use in its operations. The Company did not borrow additional amounts against the policies in 2016 and 2015. As of December 31, 2016, the Company has the capacity to borrow an additional \$4,962,000 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, 2016 and 2015, the fair value of trust assets totaled \$3,081,000 and \$2,981,000, 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, 2016	2015
Cash surrender value of life insurance	\$10,302,000	\$ 9,286,000
Grantor trust assets	3,081,000	2,981,000
Less policy loans	(21,000)	(21,000)
	\$13,362,000	\$12,246,000
Deferred benefits	\$9,503,000	\$8,622,000

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 2016 and 2015, total Company matching contributions to the Plans were \$325,000 and \$304,000, respectively.

UNIT REPURCHASE PROGRAM

The Managing General Partner of the Partnership has authorized the repurchase of up to \$8 million of Partnership units through April 18, 2017. During 2016 and 2015, the Partnership repurchased 424 and 475 units, respectively, for total consideration of \$798,000 and \$754,000, respectively. As of December 31, 2016, a total of 6,759 units have been repurchased for total consideration of \$7,423,000. An additional 64 units have been repurchased in 2017 for total consideration of \$132,000. 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, 2016, a total of 500 units have been issued under the plan and there are 2,451 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 2015, officers of the Company were awarded 100 units of the Partnership as a grant and certain of these officers acquired 35 additional units of the Partnership in lieu of a portion of their cash management bonus. All 135 units awarded in March under the plan were valued at the fair market value of the Partnership units on the date of grant (\$1,525 per unit), were fully vested and are subject to certain restrictions on transfer of the units. The Company accrued total compensation expense of \$206,000 in 2014 for the units issued in March 2015.

In March 2016, officers of the Company were awarded 100 units of the Partnership as a grant. All 100 units awarded under the plan were valued at the fair market value of the Partnership units on the date of grant (\$1,710 per unit), were fully vested and are subject to certain restrictions on transfer of the units. The Company accrued total compensation expense of \$171,000 in 2015 for the units issued in March 2016.

In March 2017, officers of the Company were awarded 100 units of the Partnership as a grant. All 100 units awarded under the plan were valued at the fair market value of the Partnership units on the date of grant (\$2,060 per unit), were fully vested and are subject to certain restrictions on transfer of the units. The Company accrued total compensation expense of \$206,000 in 2016 for the units issued in March 2017.

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, 2016, under noncancelable leases with terms of one year or longer for each of the five succeeding years are: 2017–\$1,398,000; 2018–\$1,150,000; 2019–\$1,083,000; 2020–\$583,000; 2021–\$33,000. The Company leases certain real estate for its own use pursuant to long-term operating leases. Rental expense for 2016 and 2015 was \$1,564,000 and \$1,502,000, respectively, of which \$1,298,000 and \$1,262,000, 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, 2016) plus a percentage rent payment based on the gross revenues of California Yacht Club. Total minimum annual rental commitments are: 2017–\$1,099,000; 2018–\$975,000; 2019–\$862,000; 2020–\$856,000; 2021–\$856,000; and later years–\$428,000.

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, 2016, the subsidiaries recognized income tax expense of \$(328,000) consisting of a current provision of \$(425,000) and a deferred benefit of \$97,000. For the year ended December 31, 2015, the subsidiaries recognized income tax expense of \$(77,000) consisting of a current benefit of \$9,000 and a deferred provision of \$(86,000).

A reconciliation of the subsidiaries' income tax expense at statutory rates to the recognized income tax expense for the years ended December 31, 2016 and 2015, is as follows:

	2016	2015
Statutory income tax expense	\$(324,000)	\$(120,000)
State income tax expense, net of federal benefit	(23,000)	(15,000)
State tax credits	(4,000)	39,000
Other	23,000	19,000
Income tax expense attributable to subsidiaries	\$(328,000)	\$ (77,000)

The tax effect of each type of temporary difference that gives rise to deferred tax assets and (liabilities) of the subsidiaries at December 31, 2016 and 2015, are as follows:

	2016	2015
Deferred tax assets:		
Accrued expenses	\$ 180,000	\$ 162,000
State tax credits	438,000	445,000
Other	53,000	54,000
	671,000	661,000
Deferred tax liabilities:		
Prepaid expenses	(163,000)	(172,000)
Depreciation	(784,000)	(854,000)
Deferred state taxes	(103,000)	(112,000)
Net deferred tax liability	\$(379,000)	\$(477,000)

As of December 31, 2016, the subsidiaries have state tax credit carryforwards of approximately \$438,000 for California income tax purposes which will begin to expire in 2023.

CASH DISTRIBUTIONS PER UNIT:

For the year ended December 31, 2016		For the year ended December 31, 2015	
Distribution date	Per Unit	Distribution date	Per Unit
April 1, 2016	\$19.00	April 1, 2015	\$16.00
June 1, 2016	19.00	June 1, 2015	16.00
September 1, 2016	19.00	September 1, 2015	19.00
December 21, 2016	23.00	December 21, 2015	29.00
	\$80.00		\$80.00