

**HARRAH'S RESORT, ATLANTIC CITY
QUARTERLY REPORT
FOR THE QUARTER ENDED DECEMBER 31, 2016**

**SUBMITTED TO THE
DIVISION OF GAMING ENFORCEMENT
OF THE
STATE OF NEW JERSEY**



**OFFICE OF FINANCIAL INVESTIGATIONS
REPORTING MANUAL**

HARRAH'S RESORT, ATLANTIC CITY

BALANCE SHEETS

AS OF DECEMBER 31, 2016 AND 2015

(UNAUDITED)

(\$ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2016 (c) | 2015 (d) |
|-------------|---|-------|-------------|-------------|
| | <u>ASSETS:</u> | | | |
| | Current Assets: | | | |
| 1 | Cash and Cash Equivalents..... | | \$28,082 | \$28,260 |
| 2 | Short-Term Investments..... | | | |
| 3 | Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2016, \$5,264; 2015, \$5,686)..... | 4 | 13,542 | 12,715 |
| 4 | Inventories | 2 | 1,509 | 1,353 |
| 5 | Other Current Assets..... | 5 | 7,541 | 2,183 |
| 6 | Total Current Assets..... | | 50,674 | 44,511 |
| 7 | Investments, Advances, and Receivables..... | 6 | 10,327 | 10,206 |
| 8 | Property and Equipment - Gross..... | 2,7 | 201,829 | 190,083 |
| 9 | Less: Accumulated Depreciation and Amortization..... | 2,7 | (21,504) | (14,552) |
| 10 | Property and Equipment - Net..... | 2,7 | 180,325 | 175,531 |
| 11 | Other Assets..... | 8 | 152,669 | 154,502 |
| 12 | Total Assets..... | | \$393,995 | \$384,750 |
| | <u>LIABILITIES AND EQUITY:</u> | | | |
| | Current Liabilities: | | | |
| 13 | Accounts Payable..... | | \$8,221 | \$7,308 |
| 14 | Notes Payable..... | | | |
| | Current Portion of Long-Term Debt: | | | |
| 15 | Due to Affiliates..... | | | |
| 16 | External..... | 10 | 1,014 | 3,364 |
| 17 | Income Taxes Payable and Accrued..... | | 0 | 0 |
| 18 | Other Accrued Expenses..... | 9 | 17,611 | 16,188 |
| 19 | Other Current Liabilities..... | | 2,566 | 2,820 |
| 20 | Total Current Liabilities..... | | 29,412 | 29,680 |
| | Long-Term Debt: | | | |
| 21 | Due to Affiliates..... | | | |
| 22 | External..... | 11 | 0 | 750 |
| 23 | Deferred Credits | | | |
| 24 | Other Liabilities..... | 12 | 322 | 46 |
| 25 | Commitments and Contingencies..... | 17 | | |
| 26 | Total Liabilities..... | | 29,734 | 30,476 |
| 27 | Stockholders', Partners', or Proprietor's Equity..... | 3 | 364,261 | 354,274 |
| 28 | Total Liabilities and Equity..... | | \$393,995 | \$384,750 |

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

HARRAH'S RESORT, ATLANTIC CITY

STATEMENTS OF INCOME

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016 AND 2015

(UNAUDITED)
(\$ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2016 (c) | 2015 (d) |
|-------------|--|-------|-------------|-------------|
| | Revenue: | | | |
| 1 | Casino..... | | \$354,743 | \$370,158 |
| 2 | Rooms..... | | 84,192 | 79,751 |
| 3 | Food and Beverage..... | | 88,599 | 92,589 |
| 4 | Other..... | | 26,204 | 26,363 |
| 5 | Total Revenue..... | | 553,738 | 568,861 |
| 6 | Less: Promotional Allowances..... | 2 | 134,973 | 144,830 |
| 7 | Net Revenue..... | | 418,765 | 424,031 |
| | Costs and Expenses: | | | |
| 8 | Casino..... | | 157,796 | 166,639 |
| 9 | Rooms, Food and Beverage..... | | 40,830 | 37,858 |
| 10 | General, Administrative and Other..... | | 101,034 | 96,808 |
| 11 | Total Costs and Expenses..... | | 299,660 | 301,305 |
| 12 | Gross Operating Profit..... | | 119,105 | 122,726 |
| 13 | Depreciation and Amortization..... | | 11,098 | 8,394 |
| | Charges from Affiliates Other than Interest: | | | |
| 14 | Management Fees..... | | | |
| 15 | Other..... | 3 | 33,243 | 37,984 |
| 16 | Income (Loss) from Operations..... | | 74,764 | 76,348 |
| | Other Income (Expenses): | | | |
| 17 | Interest Expense - Affiliates..... | | | |
| 18 | Interest Expense - External..... | | 29 | (128) |
| 19 | CRDA Related Income (Expense) - Net..... | 16 | (5,614) | (3,466) |
| 20 | Nonoperating Income (Expense) - Net..... | 13 | (403) | 710 |
| 21 | Total Other Income (Expenses)..... | | (5,988) | (2,884) |
| 22 | Income (Loss) Before Taxes | | 68,776 | 73,464 |
| 23 | Provision (Credit) for Income Taxes..... | 14 | 24,535 | 26,059 |
| 24 | Net Income (Loss)..... | | \$44,241 | \$47,405 |

The accompanying notes are an integral part of the financial statements.
Valid comparisons cannot be made without using information contained in the notes.

HARRAH'S RESORT, ATLANTIC CITY

STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED DECEMBER 31, 2016 AND 2015

(UNAUDITED)

(\$ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2016 (c) | 2015 (d) |
|-------------|--|-------|-------------|-------------|
| | Revenue: | | | |
| 1 | Casino..... | | \$87,963 | \$84,570 |
| 2 | Rooms..... | | 18,720 | 17,867 |
| 3 | Food and Beverage..... | | 20,112 | 20,667 |
| 4 | Other..... | | 6,361 | 6,111 |
| 5 | Total Revenue..... | | 133,156 | 129,215 |
| 6 | Less: Promotional Allowances..... | 2 | 35,067 | 33,153 |
| 7 | Net Revenue..... | | 98,089 | 96,062 |
| | Costs and Expenses: | | | |
| 8 | Casino..... | | 40,684 | 40,940 |
| 9 | Rooms, Food and Beverage..... | | 7,834 | 8,745 |
| 10 | General, Administrative and Other..... | | 25,104 | 24,632 |
| 11 | Total Costs and Expenses..... | | 73,622 | 74,317 |
| 12 | Gross Operating Profit..... | | 24,467 | 21,745 |
| 13 | Depreciation and Amortization..... | | 3,317 | 2,689 |
| | Charges from Affiliates Other than Interest: | | | |
| 14 | Management Fees..... | | | |
| 15 | Other..... | 3 | 7,421 | 9,256 |
| 16 | Income (Loss) from Operations..... | | 13,729 | 9,800 |
| | Other Income (Expenses): | | | |
| 17 | Interest Expense - Affiliates..... | | | |
| 18 | Interest Expense - External..... | | 107 | (56) |
| 19 | CRDA Related Income (Expense) - Net..... | 16 | (1,156) | (548) |
| 20 | Nonoperating Income (Expense) - Net..... | 13 | (63) | 57 |
| 21 | Total Other Income (Expenses)..... | | (1,112) | (547) |
| 22 | Income (Loss) Before Taxes | | 12,617 | 9,253 |
| 23 | Provision (Credit) for Income Taxes..... | 14 | 24,535 | 26,059 |
| 24 | Net Income (Loss)..... | | (\$11,918) | (\$16,806) |

The accompanying notes are an integral part of the financial statements.
Valid comparisons cannot be made without using information contained in the notes.

HARRAH'S RESORT, ATLANTIC CITY

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2015 AND THE TWELVE MONTHS ENDED DECEMBER 31, 2016

(UNAUDITED)
(\$ IN THOUSANDS)

| Line (a) | Description (b) | Notes | Common Stock | | Preferred Stock | | Additional Paid-In Capital (g) | (h) | Retained Earnings (Accumulated Deficit) (i) | Total Stockholders' Equity (Deficit) (j) |
|-------------|-------------------------------------|-------|---------------|---------------|-----------------|---------------|---|-----|---|--|
| | | | Shares (c) | Amount (d) | Shares (e) | Amount (f) | | | | |
| 1 | Balance, December 31, 2014..... | | 25 | \$25 | 0 | \$0 | \$1,130,528 | \$0 | (\$787,830) | \$342,723 |
| 2 | Net Income (Loss) - 2015..... | | | | | | | | 47,405 | 47,405 |
| 3 | Contribution to Paid-in-Capital.... | | | | | | | | | 0 |
| 4 | Dividends..... | | | | | | | | | 0 |
| 5 | Prior Period Adjustments..... | | | | | | | | | 0 |
| 6 | Equitization of Intercompany..... | 3 | | | | | (35,854) | | | (35,854) |
| 7 | ..... |  |  |  |  |  |  |  |  | 0 |
| 8 | ..... |  |  |  |  |  |  |  |  | 0 |
| 9 | ..... |  |  |  |  |  |  |  |  | 0 |
| 10 | Balance, December 31, 2015..... | | 25 | 25 | 0 | 0 | 1,094,674 | 0 | (740,425) | 354,274 |
| 11 | Net Income (Loss) - 2016..... | | | | | | | | 44,241 | 44,241 |
| 12 | Contribution to Paid-in-Capital.... | | | | | | | | | 0 |
| 13 | Dividends..... | | | | | | | | | 0 |
| 14 | Prior Period Adjustments..... | | | | | | | | | 0 |
| 15 | Equitization of Intercompany..... | 3 | | | | | (34,254) | | | (34,254) |
| 16 | ..... |  |  |  |  |  |  |  |  | 0 |
| 17 | ..... |  |  |  |  |  |  |  |  | 0 |
| 18 | ..... |  |  |  |  |  |  |  |  | 0 |
| 19 | Balance, December 31, 2016 | | 25 | \$25 | 0 | \$0 | \$1,060,420 | \$0 | (\$696,184) | \$364,261 |

The accompanying notes are an integral part of the financial statements.
Valid comparisons cannot be made without using information contained in the notes.

HARRAH'S RESORT, ATLANTIC CITY

STATEMENTS OF CASH FLOWS

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016 AND 2015

(UNAUDITED)

(\$ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2016 (c) | 2015 (d) |
|-------------|--|-------|-------------|-------------|
| 1 | CASH PROVIDED (USED) BY OPERATING ACTIVITIES.. | | \$17,543 | \$17,008 |
| | CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| 2 | Purchase of Short-Term Investments | | | |
| 3 | Proceeds from the Sale of Short-Term Investments | | | |
| 4 | Cash Outflows for Property and Equipment..... | | (13,286) | (5,439) |
| 5 | Proceeds from Disposition of Property and Equipment..... | | | |
| 6 | CRDA Obligations | | (4,435) | (4,769) |
| 7 | Other Investments, Loans and Advances made..... | | | |
| 8 | Proceeds from Other Investments, Loans, and Advances | | | |
| 9 | Cash Outflows to Acquire Business Entities..... | | 0 | 0 |
| 10 | ..... |  |  |  |
| 11 | ..... |  |  |  |
| 12 | Net Cash Provided (Used) By Investing Activities..... | | (17,721) | (10,208) |
| | CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| 13 | Proceeds from Short-Term Debt | | | |
| 14 | Payments to Settle Short-Term Debt..... | | | |
| 15 | Proceeds from Long-Term Debt | | | |
| 16 | Costs of Issuing Debt..... | | | |
| 17 | Payments to Settle Long-Term Debt..... | | | |
| 18 | Cash Proceeds from Issuing Stock or Capital Contributions... | | 0 | 0 |
| 19 | Purchases of Treasury Stock..... | | | |
| 20 | Payments of Dividends or Capital Withdrawals..... | | | |
| 21 | ..... |  |  |  |
| 22 | ..... |  |  |  |
| 23 | Net Cash Provided (Used) By Financing Activities..... | | 0 | 0 |
| 24 | Net Increase (Decrease) in Cash and Cash Equivalents..... | | (178) | 6,800 |
| 25 | Cash and Cash Equivalents at Beginning of Period..... | | 28,260 | 21,460 |
| 26 | Cash and Cash Equivalents at End of Period..... | | \$28,082 | \$28,260 |
| | CASH PAID DURING PERIOD FOR: | | | |
| 27 | Interest (Net of Amount Capitalized)..... | | \$151 | \$310 |
| 28 | Income Taxes..... | | | |

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

HARRAH'S RESORT, ATLANTIC CITY

STATEMENTS OF CASH FLOWS

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016 AND 2015

(UNAUDITED)
(\$ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2016 (c) | 2015 (d) |
|-------------|--|-------|-------------|-------------|
| | CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| 29 | Net Income (Loss)..... | | \$44,241 | \$47,405 |
| 30 | Depreciation and Amortization of Property and Equipment..... | | 10,484 | 7,780 |
| 31 | Amortization of Other Assets..... | | 614 | 614 |
| 32 | Amortization of Debt Discount or Premium..... | | | |
| 33 | Deferred Income Taxes - Current | | 0 | (8,385) |
| 34 | Deferred Income Taxes - Noncurrent | | | |
| 35 | (Gain) Loss on Disposition of Property and Equipment..... | | (5) | (57) |
| 36 | (Gain) Loss on CRDA-Related Obligations..... | 15 | 5,614 | 3,466 |
| 37 | (Gain) Loss from Other Investment Activities..... | | | |
| 38 | (Increase) Decrease in Receivables and Patrons' Checks | | (827) | (1,117) |
| 39 | (Increase) Decrease in Inventories | | (156) | 176 |
| 40 | (Increase) Decrease in Other Current Assets..... | | (5,358) | 437 |
| 41 | (Increase) Decrease in Other Assets..... | | 1,219 | 4,249 |
| 42 | Increase (Decrease) in Accounts Payable..... | | (692) | 494 |
| 43 | Increase (Decrease) in Other Current Liabilities | | (1,181) | 786 |
| 44 | Increase (Decrease) in Other Liabilities | | (953) | (3,201) |
| 45 | (Increase) Decrease in Other Receivables or Adv..... | | (35,936) | (35,198) |
| 46 | Impairment of Assets / Write Downs & Reserves..... | 13 | 479 | (441) |
| 47 | Net Cash Provided (Used) By Operating Activities..... | | \$17,543 | \$17,008 |

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

| | | | | |
|----|--|--|------------|-----------|
| | ACQUISITION OF PROPERTY AND EQUIPMENT: | | | |
| 48 | Additions to Property and Equipment..... | | (\$13,286) | (\$5,439) |
| 49 | Less: Capital Lease Obligations Incurred..... | | | |
| 50 | Cash Outflows for Property and Equipment..... | | (\$13,286) | (\$5,439) |
| | ACQUISITION OF BUSINESS ENTITIES: | | | |
| 51 | Property and Equipment Acquired..... | | | |
| 52 | Goodwill Acquired..... | | | |
| 53 | Other Assets Acquired - net | | | |
| 54 | Long-Term Debt Assumed..... | | | |
| 55 | Issuance of Stock or Capital Invested..... | | | |
| 56 | Cash Outflows to Acquire Business Entities..... | | \$0 | \$0 |
| | STOCK ISSUED OR CAPITAL CONTRIBUTIONS: | | | |
| 57 | Total Issuances of Stock or Capital Contributions..... | | \$0 | \$0 |
| 58 | Less: Issuances to Settle Long-Term Debt..... | | 0 | 0 |
| 59 | Consideration in Acquisition of Business Entities..... | | 0 | 0 |
| 60 | Cash Proceeds from Issuing Stock or Capital Contributions..... | | \$0 | \$0 |

The accompanying notes are an integral part of the financial statements.

HARRAH'S RESORT, ATLANTIC CITY
SCHEDULE OF PROMOTIONAL
EXPENSES AND ALLOWANCES

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016
(UNAUDITED)
(\$ IN THOUSANDS)

| Line (a) | Description (b) | Promotional Allowances | | Promotional Expenses | |
|-------------|----------------------------|--------------------------------|-------------------------|--------------------------------|-------------------------|
| | | Number of Recipients (c) | Dollar Amount (d) | Number of Recipients (e) | Dollar Amount (f) |
| 1 | Rooms | 970,362 | \$40,035 | 0 | \$0 |
| 2 | Food | 1,166,830 | 27,505 | 0 | 0 |
| 3 | Beverage | 9,995,975 | 19,992 | 0 | 0 |
| 4 | Travel | 0 | 0 | 67,768 | 13,825 |
| 5 | Bus Program Cash | 3,849 | 38 | 0 | 0 |
| 6 | Promotional Gaming Credits | 1,847,515 | 37,197 | 0 | 0 |
| 7 | Complimentary Cash Gifts | 108,963 | 5,540 | 0 | 0 |
| 8 | Entertainment | 23,425 | 786 | 1,684 | 211 |
| 9 | Retail & Non-Cash Gifts | 96,839 | 1,937 | 59,340 | 5,934 |
| 10 | Parking | 0 | 0 | 917,044 | 3,244 |
| 11 | Other | 54,810 | 1,943 | 161,316 | 4,033 |
| 12 | Total | 14,268,568 | \$134,973 | 1,207,152 | \$27,247 |

FOR THE THREE MONTHS ENDED DECEMBER 31, 2016

| Line (a) | Description (b) | Promotional Allowances | | Promotional Expenses | |
|-------------|----------------------------|--------------------------------|-------------------------|--------------------------------|-------------------------|
| | | Number of Recipients (c) | Dollar Amount (d) | Number of Recipients (e) | Dollar Amount (f) |
| 1 | Rooms | 241,366 | 9,972 | 0 | 0 |
| 2 | Food | 302,397 | 7,133 | 0 | 0 |
| 3 | Beverage | 2,409,674 | 4,819 | 0 | 0 |
| 4 | Travel | 0 | 0 | 15,206 | 2,987 |
| 5 | Bus Program Cash | 876 | 8 | 0 | 0 |
| 6 | Promotional Gaming Credits | 502,858 | 10,323 | 0 | 0 |
| 7 | Complimentary Cash Gifts | 27,259 | 1,303 | 0 | 0 |
| 8 | Entertainment | 10,334 | 333 | 781 | 98 |
| 9 | Retail & Non-Cash Gifts | 32,599 | 652 | 18,592 | 1,859 |
| 10 | Parking | 0 | 0 | 197,785 | 791 |
| 11 | Other | 14,226 | 524 | 46,848 | 1,171 |
| 12 | Total | 3,541,589 | \$35,067 | 279,212 | \$6,906 |

*No item in this category (Other) exceeds 5%.

HARRAH'S RESORT, ATLANTIC CITY STATEMENT OF CONFORMITY, ACCURACY, AND COMPLIANCE

FOR THE QUARTER ENDED DECEMBER 31, 2016

1. I have examined this Quarterly Report.
2. All the information contained in this Quarterly Report has been prepared in conformity with the Division's Quarterly Report Instructions and Uniform Chart of Accounts.
3. To the best of my knowledge and belief, the information contained in this report is accurate.
4. To the best of my knowledge and belief, except for the deficiencies noted below, the licensee submitting this Quarterly Report has remained in compliance with the financial stability regulations contained in N.J.S.A. 5:12-84a(1)-(5) during the quarter.

3/31/2017

Date



Joseph Lodise

Vice President of Finance

Title

008900-11

License Number

On Behalf of:

HARRAH'S RESORT, ATLANTIC CITY
Casino Licensee

HARRAH'S RESORT, ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
(Dollars in Thousands)

NOTE 1 - ORGANIZATION AND DESCRIPTION OF BUSINESS

Harrah's Atlantic City Holding, Inc. and Subsidiaries (the "Company", "Harrah's Atlantic City") is a wholly owned subsidiary of Caesars Entertainment Resort Properties ("CERP") which is a wholly owned subsidiary of Caesars Entertainment Corporation ("Caesars" or "CEC"). The Company operates a casino hotel resort located in the Marina District of Atlantic City, New Jersey, known as Harrah's Resort Atlantic City.

The Company operates in one industry segment and all significant revenues arise from its casino and supporting hotel operations. The Company is licensed to operate the facility by the New Jersey Division of Gaming Enforcement, (the "DGE") and is subject to rules and regulations established by the DGE. The Company's license is subject to resubmission every five years.

CEOC Chapter 11 Reorganization - As described in Note 1 of CEC's audited consolidated financial statements ("CEC's Note 1"), on January 15, 2015, CEOC and certain of its United States subsidiaries (the "Debtors") voluntarily filed for reorganization under Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code").

In addition, there is substantial doubt as to CEC's ability to continue as a going concern as CEC has limited unrestricted cash available to meet its financial commitments, CEC has made material future commitments to support CEOC's plan of reorganization, and CEC is a defendant in litigation related to CEOC transactions. The completion of the Merger with CAC is expected to allow CEC to fulfill its financial commitments in support of the Restructuring. However, if the Merger is not completed for any reason, CEC would still be liable for many of these obligations. In addition, although under the terms of the Restructuring, all related litigation is expected to be resolved, the outstanding litigation matters are only stayed pending CEOC's emergence from bankruptcy. Finally, CEC entered an agreement that provides access to funds to pay certain fees in support of the Restructuring. However, there are restrictions governing when and how the cash designated for this purpose can be used.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), which require the use of estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting periods. Management believes the accounting estimates are appropriate and reasonably stated; however, due to the inherent uncertainties in making these estimates, actual amounts could differ.

Principles of Consolidation - The accompanying consolidated financial statements include the account balances of Harrah's Atlantic City and its wholly-owned subsidiaries. As a result, all material intercompany transactions and balances have been eliminated in consolidation.

Cash and Cash Equivalents - Cash equivalents are highly liquid investments with original maturities of three months or less from the date of purchase and are stated at the lower of cost or market value.

Allowance for Doubtful Accounts - The Company reserves an estimated amount for receivables that may not be collected. The methodology for estimating the allowance includes using specific reserves and applying various percentages to aged receivables. Historical collection rates are considered, as are customer relationships, in determining specific allowances. As with many estimates management must make judgments about potential actions by third parties in establishing and evaluating the allowance for doubtful accounts.

Inventories - Inventories, which consist primarily of food, beverage, and operating supplies, are stated at the lower of average cost or market value.

Long-Lived Assets - The Company has significant capital invested in long-lived assets, and judgments are made in determining the estimated useful lives of assets and salvage values and if or when an asset (or asset group) has been impaired. The accuracy of these estimates affects the amount of depreciation and amortization expense recognized in the Company's financial results and whether the Company has a gain or loss on the disposal of an asset. The Company assigns lives to their assets based on their standard policy, which is established by management as representative of the useful life of each category of asset.

HARRAH'S RESORT, ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
(Dollars in Thousands)

The Company reviews the carrying value of their long-lived assets whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. The Company typically estimates its fair value of assets starting with a "Replacement Cost New" approach and then deducting appropriate amounts for both functional and economic obsolescence to arrive at fair value estimates. Other factors considered by management in performing this assessment may include current operating results, trends, prospects, and third-party appraisals, as well as the effect of demand, competition, and other economic, legal, and regulatory factors. In estimating expected future cash flows for determining whether an asset is impaired, assets are grouped at the lowest level of identifiable cash flows, which, for the Company, is the individual property. These analyses are sensitive to management assumptions and the estimates of the obsolescence factors, and changes in the assumptions and estimates, could have a material impact on the analysis and the consolidated financial statement schedules.

Additions to property and equipment are stated at cost. The Company capitalizes the costs of improvements that extend the life of the asset. The Company expenses maintenance and repair costs as incurred. Gains or losses on the disposition of property and equipment are recognized in the period of disposal. Interest expense is capitalized on internally constructed assets at the applicable weighted-average borrowing rates of interest. Capitalization of interest ceases when the project is substantially complete or construction activity is suspended for more than a brief period of time.

Depreciation is calculated using the straight-line method over the shorter of the estimated useful life of the asset or the related lease as follows:

Useful Lives

Land improvements 12 years

Buildings 20 to 40 years

Leasehold improvements 5 to 20 years

Furniture, fixtures, and equipment 2.5 to 20 years

Intangible Assets – The intangible assets represent a customer database with a recorded gross carrying value of \$4,352 as of December 31, 2016 and 2015, and accumulated amortization of \$1,843 and \$1,229 as of December 31, 2016 and 2015, respectively. The customer database had been determined to have a useful life of 13 years.

Impairment of Intangible Assets - Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principle market or, if none exists, the most advantageous market, for the specific asset or liability at the measurement date (referred to as the "exit price"). Fair value is a market-based measurement that should be determined based upon assumptions that market participants would use in pricing an asset or liability, including consideration of nonperformance risk.

We assess the inputs used to measure fair value using the three-tier hierarchy promulgated under GAAP. This hierarchy indicates the extent to which inputs used in measuring fair value are observable in the market.

- Level 1: Inputs include quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.
- Level 2: Inputs other than quoted prices included in Level 1 that are observable either directly or indirectly, including quoted prices for similar assets in active markets, quoted prices from identical or similar assets in inactive markets, and observable inputs such as interest rates and yield curves.
- Level 3: Inputs that are significant to the measurement of fair value that are not observable in the market and include management's judgments about assumptions market participants would use in pricing the asset or liability (including assumptions about risk).

HARRAH'S RESORT, ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
(Dollars in Thousands)

Our assessment of goodwill and other intangible assets for impairment includes an assessment using various Level 2 (EBITDA multiples and discount rate) and Level 3 (forecasted cash flows) inputs.

Fair Value of Financial Instruments - The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. The carrying amount of receivables and all current liabilities approximates fair value due to their short-term nature. After giving effect to their allowances, the Casino Reinvestment Development Authority ("CRDA") bonds and deposits approximately reflect their fair value based upon their below-market interest rates.

Revenue Recognition - Casino revenues are measured by the aggregate net difference between gaming wins and losses, with liabilities recognized for funds deposited by customers before gaming play occurs and for chips in the customers' possession. Food and beverage, rooms, and other operating revenues are recognized when services are performed. Advance deposits on rooms and advance ticket sales are recorded as customer deposits until services are provided to the customer. Sales taxes and other taxes collected from customers on behalf of governmental authorities are accounted for on a net basis and are not included in net revenues or operating expenses.

Casino Promotional Allowances - Casino promotional allowances consist of the retail value of complimentary food and beverages, accommodations, admissions and entertainment provided to casino patrons. Also included is the value of the coupons redeemed for cash at the property. The estimated costs of providing such complimentary services are classified as casino expenses in the accompanying statements of income. These costs consisted of the following at December 31:

| | <u>2016</u> | <u>2015</u> |
|----------------------------|------------------|-------------------|
| Food and Beverage | \$ 33,137 | \$ 34,807 |
| Rooms | 15,426 | 17,023 |
| Other | 3,629 | 4,122 |
| Other Cash Complimentary | 5,540 | 4,739 |
| Promotional Gaming Credits | <u>37,197</u> | <u>43,369</u> |
| | <u>\$ 94,929</u> | <u>\$ 104,060</u> |

Total Rewards Point Liability Program – Caesars' customer loyalty program, Total Rewards, offers incentives to customers who gamble at Caesars' casinos throughout the United States. Under the program, customers are able to accumulate, or bank, reward credits over time that they may redeem at their discretion under the terms of the program. The reward credit balance will be forfeited if the customer does not earn a reward credit over the prior six-month period. As a result of the ability of the customer to bank the reward credits, the expense of Reward Credits is accrued after consideration of estimated forfeitures (referred to as breakage), as they are earned. The estimated cost to provide reward credits is expensed at the property where they are earned and is included in casino expense on the accompanying consolidated statements of income. To arrive at the estimated cost associated with reward credits, estimates and assumptions are made regarding incremental marginal costs of the benefits, breakage rates and the mix of goods and services for which reward credits will be redeemed. The Company uses historical data to assist in the determination of estimated accruals. These amounts are recorded on Caesars' balance sheets with the incremental charges included in due from affiliates, net in the balance sheets. At December 31, 2016 and 2015, the accrued balance for the estimated cost of Total Rewards credit redemptions was \$3,361 and \$2,914 respectively.

In addition to Reward Credits, customers can earn points based on play that are redeemable in Non-Negotiable Reel Rewards ("NNRR"). The Company accrues the cost of NNRR, after consideration of estimated breakage, as they are earned. The cost is recorded as contra-revenue and included in casino promotional allowances on the accompanying Consolidated Statements of Income. At December 31, 2016 and 2015, the liability related to outstanding NNRR, which is based on historical redemption activity, were \$959 and \$897 respectively.

Gaming Tax – The Company remits weekly to the State of New Jersey a tax equal to eight percent of the gross gaming revenue, as defined. Gaming taxes paid to the State of New Jersey for the twelve months ended December 31, 2016 and 2015, which are included in cost of goods and services in the statement of income, were approximately \$28,615 and \$29,949 respectively.

Property Taxes - In 2015, the City of Atlantic City reduced assessments by approximately \$32,000. The City increased the property tax rate by approximately 12.8% and 2% for the years ending 2016 and 2015 respectively.

Income Taxes — The Company is included in the consolidated federal income tax return of Caesars and is included in the combined New Jersey income tax return for Caesars Entertainment Resorts Properties. Deferred income tax assets and liabilities

HARRAH'S RESORT, ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
(Dollars in Thousands)

represent the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income taxes are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in existing tax rates is recognized as an increase or decrease to the tax provision in the period that includes the enactment date. The Company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense.

Internet Gaming - Harrah's Resort Atlantic City did not have Internet gaming operations during 2016 or 2015.

NOTE 3 - RELATED PARTY TRANSACTIONS

The Company participates with Caesars and other Caesars subsidiaries in marketing, purchasing, insurance, employee benefit and other programs that are defined and negotiated by Caesars on a company-wide basis. The Company believes that participating in these consolidated programs is beneficial in comparison to the cost and terms for similar programs that it could negotiate on a standalone basis.

Cash Activity with CEC and Affiliates - The Company transfers cash in excess of its operating and regulatory needs to its parent on a daily basis. Cash transfers from the Company's parent are also made based upon the needs of the Company to fund daily operations, including accounts payable, payroll, and capital expenditures. No interest is charged on transfers made to or from the Company.

Equity Incentive Awards - Caesars maintains equity incentive award plans in which certain employees of the Company may be granted awards. Caesars allocates an appropriate amount of cost for these plans to each subsidiary where employees participate. The Company recognized \$516 and \$316 in equity incentive award expense for each of the years ended December 31, 2016 and 2015, respectively.

Employee Benefit Plans — Caesars maintains a defined contribution savings and retirement plan that allows employees to make pre-tax and after-tax contributions. Under the plan, participating employees may elect to contribute up to 50% of their eligible earnings (subject to IRS rules and regulations) and are eligible to receive a company match of up to \$600, which was reinstated in 2012. Participating employees become vested in matching contributions on a pro-rata basis over five years of credited service. The Company's contribution expense for each of the years ended December 31, 2016 and 2015 were \$551 and \$569 respectively and are included in the accompanying statements of income.

Caesars also maintains deferred compensation plans under which certain employees of the Company's management may defer a portion of their compensation. The expenses charged by Caesars to the Company for employees' participation in these programs are included in the administrative and other services charge discussed above.

Multiemployer Benefit Plans — Certain employees of the Company are covered by union sponsored, collectively bargained, health and welfare plans. The contributions and charges for these plans were \$13,827 and \$13,369 for the years ended December 31, 2016 and 2015, respectively, are included in Selling, General, and Administrative expenses in the accompanying statements of income.

The Company contributes to a number of multiemployer defined benefit pension plans under the terms of collective-bargaining agreements that cover its union-represented employees. The risks of participating in these multiemployer plans are different from a single-employer plan in the following aspects:

- a. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- c. If the Company chooses to stop participating in some of its multiemployer plans, the Company may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

HARRAH'S RESORT, ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
(Dollars in Thousands)

| <u>Pension Fund</u> | <u>EIN/Pension Plan Number</u> | <u>Pension Protection Act Zone Status (1)</u> | | <u>FIP/RP Status (2)</u> | <u>Contributions of CEOC on behalf of HACH (\$ in thousands)</u> | | <u>Surcharge Imposed</u> | <u>Expiration Date of Collective-Bargaining Agreement</u> |
|---|--------------------------------|---|-------------|--------------------------|--|-----------------|--------------------------|---|
| | | <u>2016</u> | <u>2015</u> | | <u>2016</u> | <u>2015</u> | | |
| Pension Plan of the UNITE HERE National Retirement Fund (4) | 13-6130178/001 | Red | Red | Yes | \$ 5,067 | \$ 4,922 | No | Various up to February 29, 2020 |
| Local 68 Engineers Union Pension Plan (3) | 51-0176618/001 | Yellow | Green | No | 476 | 454 | No | April 2017 |
| NJ Carpenters Pension Fund | 22-6174423/001 | Yellow | Yellow | Yes | 109 | 111 | No | April 2017 |
| Other funds | | | | | <u>111</u> | <u>77</u> | | |
| | | | | | <u>\$ 5,763</u> | <u>\$ 5,564</u> | | |

- (1) Represents the Pension Protection Act ("PPA") zone status for applicable plan year beginning January 1, except where noted otherwise.
- (2) Indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented.
- (3) Plan years begin July 1.
- (4) In 2015, the Pension Plan of the UNITE HERE National Retirement Fund voted to expel Caesars Entertainment and its participating subsidiaries from the plan.

The zone status is based on information that the Company received from the plan administrator and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are between 65% and less than 80% funded, and plans in the green zone are at least 80% funded. All plans detailed in the table above utilized extended amortization provisions to calculate zone status.

Administrative and Other Services - Pursuant to a shared services agreement, CEOC provides certain corporate and administrative services (including consulting, legal, marketing, information technology, accounting and insurance) to the Company and allocates the costs of these services to the companies. In May 2014, CES was formed, and the Members entered into the Omnibus License and Enterprise Services Agreement (see below). Certain of these corporate and administrative services are now provided by CES. The Company was charged \$33,243 and \$37,984 for these services for the twelve months ended December 31, 2016 and 2015 respectively. The fee is included in charges from affiliates in the accompanying statements of income.

Omnibus License and Enterprise Services Agreement - On May 20, 2014, CEOC, CERP, and Caesars Growth Properties Holdings, LLC ("CGPH") (the "Members" and each a "Member") entered into a services joint venture, Caesars Enterprise Services ("CES"). CES manages certain Enterprise Assets and the other assets it owns, licenses or controls, and employs certain of the corresponding employees and other employees who previously provided services to CEOC, CERP and CGPH, their affiliates and their respective properties and systems under each property's corresponding property management agreement. Corporate expenses that are not allocated to the property directly are allocated by CES to CEOC, CERP, and CGPH according to their allocation percentages. Operating expenses will be allocated to each Member with respect to their respective properties serviced by CES in accordance with historical allocation methodologies, subject to annual revisions and certain prefunding requirements.

Equitization of Intercompany Balances - During June 2013, the Company began the process to equitize certain intercompany balances with its parent and affiliates that were previously classified as a receivable/liability. The offset to this entry was Additional Paid in Capital. This is separately shown on the statements of changes in stockholders' equity.

HARRAH'S RESORT, ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
(Dollars in Thousands)

NOTE 4 – RECEIVABLES AND PATRONS’ CHECKS

Receivables and patrons’ checks as of December 31 consisted of the following:

| | <u>2016</u> | <u>2015</u> |
|---|------------------|------------------|
| Casino Receivables (Net of Allowance for Doubtful Accounts - 2016, \$4,430 & 2015, \$5,471) | \$ 5,585 | \$ 5,544 |
| Other (Net of Allowance for Doubtful Accounts- 2016, \$834 & 2015, \$215) | <u>7,957</u> | <u>7,171</u> |
| | <u>\$ 13,542</u> | <u>\$ 12,715</u> |

NOTE 5 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid Expenses and Other Current Assets as of December 31 consisted of the following:

| | <u>2016</u> | <u>2015</u> |
|--------------------------------------|-----------------|-----------------|
| Prepaid State Income Tax | \$ 533 | \$ 1,140 |
| Prepaid Taxes | 545 | 543 |
| Prepaid Marketing & Entertainment | 58 | 128 |
| Prepaid Other & Other Current Assets | 384 | 372 |
| Deposits Refundable | <u>6,021</u> | <u>-</u> |
| | <u>\$ 7,541</u> | <u>\$ 2,183</u> |

NOTE 6 - INVESTMENTS, ADVANCES AND RECEIVABLES

Investments, Advances and Receivables as of December 31 consisted of the following:

| | <u>2016</u> | <u>2015</u> |
|---|------------------|------------------|
| CRDA obligation deposit-Net of Valuation Allowance of \$832 and \$2,060 at December 31, 2016 and 2015, respectively | 3,737 | 4,119 |
| CRDA obligation bonds-Net of Valuation Allowance of \$6,361 and \$6,008 at December 31, 2016 and 2015, respectively | 6,130 | 5,127 |
| CRDA Investments, Net | - | 307 |
| Other | 460 | 653 |
| | <u>\$ 10,327</u> | <u>\$ 10,206</u> |

NOTE 7 – LAND, BUILDINGS AND EQUIPMENT

Land, Buildings and Equipment as of December 31 consisted of the following:

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|-------------------|
| Land and Land Improvements | \$ 57,640 | \$ 57,515 |
| Building and Improvements | 111,358 | 110,904 |
| Furniture Fixtures & Equipment | 20,780 | 19,621 |
| Construction in Progress | <u>12,051</u> | <u>2,043</u> |
| | 201,829 | 190,083 |
| Less: Accumulated Depreciation and Amortization | <u>(21,504)</u> | <u>(14,552)</u> |
| Land, Building and Equipment, Net | <u>\$ 180,325</u> | <u>\$ 175,531</u> |

HARRAH'S RESORT, ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
(Dollars in Thousands)

NOTE 8 - OTHER ASSETS

Other Assets as of December 31 consisted of the following:

| | <u>2016</u> | <u>2015</u> |
|-----------------------|-------------------|-------------------|
| Intangible Asstes | \$ 2,509 | \$ 3,123 |
| Deferred Income Taxes | 149,386 | 144,671 |
| Other | 774 | 6,708 |
| | <u>\$ 152,669</u> | <u>\$ 154,502</u> |

NOTE 9 - OTHER ACCRUED EXPENSES

Other Accrued Expenses as of December 31 consisted of the following:

| | <u>2016</u> | <u>2015</u> |
|--|------------------|------------------|
| Accrued Salaries, Wages and Benefits | \$ 4,252 | \$ 2,734 |
| Taxes Payable | 2,929 | 2,725 |
| Accrued City Wide Progressive Slot Liability | 146 | 94 |
| Accrued Interest, Long-term debt | 5 | 32 |
| Accrued CCC/DGE Casino License Fees | 448 | 945 |
| Accrued Utilities | 841 | 962 |
| Accrued Health and Welfare Union | 1,980 | 1,536 |
| Other Accrued Expenses | 7,010 | 7,160 |
| | <u>\$ 17,611</u> | <u>\$ 16,188</u> |

NOTE 10- SHORT-TERM DEBT

Short-term debt, due to other as of December 31 consisted of the following:

| | <u>2016</u> | <u>2015</u> |
|---|-----------------|-----------------|
| Current Portion of Capitalized Leases / Financing Obligations | 1,014 | 3,364 |
| | <u>\$ 1,014</u> | <u>\$ 3,364</u> |

NOTE 11 – LONG TERM DEBT

Long-term debt, due to others as of December 31 consisted of the following:

| | <u>2016</u> | <u>2015</u> |
|--|-------------|---------------|
| Capitalized Leases / Financing Obligations | - | 750 |
| | <u>\$ -</u> | <u>\$ 750</u> |

NOTE 12 - OTHER LIABILITIES

Other Liabilities as of December 31 consisted of the following:

| | <u>2016</u> | <u>2015</u> |
|-----------------------------------|---------------|--------------|
| Reported Claims | \$ - | \$ - |
| Executive Deferred Comp Liability | \$ 322 | \$ - |
| Other Long Term Liabilities | - | 46 |
| | <u>\$ 322</u> | <u>\$ 46</u> |

HARRAH'S RESORT, ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
(Dollars in Thousands)

NOTE 13 – NON-OPERATING INCOME (EXPENSE)

For the twelve months ended December 31, 2016 and 2015, Non-Operating Income (Expense) consisted of the following:

| | <u>2016</u> | <u>2015</u> |
|------------------------|-----------------|---------------|
| Interest Income | \$ 251 | \$ 166 |
| Asset Write-Off | - | 441 |
| Write Downs & Reserves | (479) | - |
| Other | (175) | 103 |
| | <u>\$ (403)</u> | <u>\$ 710</u> |

NOTE 14 – INCOME TAXES

The Company is included in the consolidated federal income tax return of Caesars and the combined New Jersey tax return for Caesars Entertainment Resort Properties.

The tax years that remain open for examination for Caesar's major jurisdictions are 2012 through 2014 for New Jersey due to our execution of New Jersey statute of limitations extensions. The tax years prior to 2012 are no longer subject to examination for U.S. tax purposes.

Significant components of the provision for income taxes for the years ended December 31, 2016 and 2015 are as follows:

| | <u>2016</u> | <u>2015</u> |
|--------------------------------------|------------------|------------------|
| Provision (benefit) for income taxes | | |
| Current: | | |
| Federal | \$ 27,498 | \$ 28,382 |
| State | 1,752 | 1,818 |
| | <u>29,250</u> | <u>30,200</u> |
| Deferred | (4,715) | (4,141) |
| Provision for income taxes | <u>\$ 24,535</u> | <u>\$ 26,059</u> |

The provision for income taxes for the years ended December 31, 2016 differ from the federal statutory rate of 35% primarily due to state income taxes, the impact of nondeductible expenses and federal tax credits.

The Company does not have a formal tax sharing agreement in place with its parent entity for federal income tax purposes. Therefore, Caesars reports all of the Company's federal income taxes of which the Company's portion was an expense of \$27,498 and an expense of \$28,382 in 2016 and 2015, respectively.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of the Company's deferred tax assets and liabilities as of December 31, 2016 and 2015 were as follows:

HARRAH'S RESORT, ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
(Dollars in Thousands)

| | 2016 | 2015 |
|---|------------|------------|
| Deferred tax assets: | | |
| Allowance for doubtful accounts | \$ 1,916 | \$ 2,070 |
| CRDA investment obligation | 5,237 | 5,555 |
| Tax credit carryovers | 2,820 | 2,302 |
| Depreciation and other property related items | 168,899 | 175,869 |
| Other | 733 | 108 |
| | 179,605 | 185,904 |
| Valuation Allowance | (7,569) | (7,569) |
| | 172,036 | 178,335 |
| Deferred tax liabilities: | | |
| Intangible assets | (892) | (1,107) |
| Debt costs | (21,759) | (32,557) |
| | (22,651) | (33,664) |
| Net deferred tax liability | \$ 149,385 | \$ 144,671 |

The Company does not have any New Jersey net operating loss (NOL) carryforwards as of December 31, 2016.

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing federal and state deferred tax assets. On the basis of this evaluation, as of December 31, 2016, a valuation allowance of \$7,569 has been recorded against the portion of the state deferred tax assets that are not more likely than not to be realized. The amount of the federal and state deferred tax assets considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased.

The Company had an unrecognized tax benefits balance of \$0 at December 31, 2016 and 2015. The Company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense. The ending balance of unrecognized tax benefits at December 31, 2016 was \$0.

It is reasonably possible that the unrecognized tax benefits liability will not change within the next 12 months. Audit outcomes and the timing of audit settlements are subject to significant uncertainty. Although we believe that adequate provision has been made for such issues, there is a possibility that the ultimate resolution of such issues could have an adverse effect on our earnings. Conversely, if these issues are resolved favorably in the future, the related provision would be reduced, thus having a favorable impact on earnings.

NOTE 15 — ATLANTIC CITY CONFERENCE CENTER

In June 2013, Caesars established, AC Conference NewCo, LLC ("NewCo") to construct and operate a new conference center (the "Project) adjacent to Harrah's Atlantic City. NewCo is a direct wholly owned subsidiary of AC Conference HoldCo, LLC, which is a direct wholly owned subsidiary of Caesars.

Also in June 2013, Caesars signed an agreement with the CRDA regarding a grant for financial assistance in the amount of \$45,000 million (the "Project Grant") wherein the CRDA will provide Caesars cash to help fund the construction of the Project. Under the Project Grant, Caesars is obligated to contribute to the CRDA the following:

- \$46,200 of Atlantic City Economic Development Investment Alternative Tax Obligation balances ("Existing Credits"), of which \$1,200 represents a 2.75% administrative fee,
- \$9,500 of CRDA Credits that the CRDA will use towards the construction of the CRDA's marketplace-style retail development project (the "Donation Credits"), and
- Land parcels with an appraised value of \$7,300 on which the CRDA's Marketplace Project will be developed (the Marketplace Parcels).

HARRAH'S RESORT, ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
(Dollars in Thousands)

The gross value of the credits and land parcels described above held by the Companies immediately prior to the transaction as follows:

| | |
|--|------------------|
| Existing Credits | |
| Harrah's Atlantic City Holding, Inc and Subsidiaries | \$ 23,400 |
| Bally's Park Place, Inc. | 10,600 |
| Boardwalk Regency Corporation | 7,000 |
| Ocean Showboat, Inc. and Subsidiaries | 5,200 |
| Total | <u>\$ 46,200</u> |
| | |
| Donation Credits | |
| Ocean Showboat, Inc. and Subsidiaries | <u>\$ 9,500</u> |
| | |
| Marketplace Parcels | |
| Bally's Park Place, Inc. | \$ 4,600 |
| Boardwalk Regency Corporation | 2,700 |
| Total | <u>\$ 7,300</u> |

In return for the above, the CRDA will deposit \$45,000 into a Project Fund from which Caesars can draw on a paripassu basis via reimbursements to NewCo based on amounts paid for the Project by NewCo. As of December 31, 2016, Caesars received \$43,057 in reimbursements from the Project Fund.

NOTE 16 – CASINO REINVESTMENT DEVELOPMENT AUTHORITY INVESTMENT

CRDA Investment Obligation — The New Jersey Casino Control Act provides, among other things, for an assessment of licenses equal to 1.25% of their gross gaming revenues in lieu of an investment alternative tax equal to 2.5% of gross gaming revenues. The Company previously satisfied this investment obligation by investing in qualified eligible direct investments, by making qualified contributions or by depositing funds with the CRDA. Funds deposited with the CRDA were used to purchase bonds designated by the CRDA or, under certain circumstances, used to donated to the CRDA in exchange for credits against future CRDA investment obligations. CRDA bonds have terms up to 50 years and bear interest at below-market rate. Effective May 27, 2016 the CRDA investment obligation of 1.25% of gross gaming revenues will be redirected to the City of Atlantic City to be used for debt service. The CRDA investment obligation will be reduced by previously pledged for bonds issued by the CRDA or otherwise contractually obligated Credit Agreements committed by the Authority.

In July 2016, the Company and Boardwalk Regency Corporation (BRC), Caesars Interactive Entertainment New Jersey LLC (CIE), Showboat Atlantic City Operating Company LLC and Bally's Park Place Inc.(BPP) (the Companies) entered into a Donation Credit agreement with the CRDA. The agreement provides that the Companies will donate their Investment Alternative Tax (IAT) funds on deposit with the CRDA, through the first quarter of 2016, in exchange for a donation credit of 50% to be used by the Companies for any nongaming eligible projects. The agreement also includes \$1,490 of reallocated IATs from the Grant Agreement for the Atlantic City Conference Center Project.

As of December 31 CRDA related assets were as follows:

| | | |
|--------------------------------------|-----------------|-----------------|
| | 2016 | 2015 |
| CRDA Bonds-net of amortized cost | \$ 6,130 | \$ 5,127 |
| Deposit - net reserves | 3,737 | 4,119 |
| Direct Investments - net of reserves | - | 307 |
| | <u>\$ 9,867</u> | <u>\$ 9,553</u> |

The CRDA related assets are held in deferred charges and other non-current assets in the consolidated balance sheets.

HARRAH'S RESORT, ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
(Dollars in Thousands)

The Company records charges to operations to reflect the estimated net realizable value of its CRDA investment. Charges to operations were \$5,614 and \$3,466 for the twelve months ended December 31, 2016 and 2015, respectively, and is included in CRDA related expenses, in the statement of income.

The funds on deposits are held in an interest-bearing account by the CRDA. Initial obligation deposits are marked down by approximately 33% to represent their fair value and eventual expected conversion into bonds by the CRDA. Once CRDA Bonds are issued we have concluded that the bonds are held-to-maturity since the Company has the ability and the intent to hold these bonds to maturity and under the CRDA, they are not permitted to do otherwise. As such the CRDA Bonds are measured at amortized cost. As there is no market for the CRDA Bonds, its fair value could only be determined based on unobservable inputs. Such inputs are limited to the historical carrying value of the CRDA Bonds that are reduced, consistent with industry practice, by 1/3 of their face value at the time of issuance to represent fair value. The Company accretes such discount over the remaining life of the bonds. Accretion for the twelve months ended December 31, 2016 and 2015 were \$99 and \$47 respectively, and is included in CRDA related expenses, in the statement of income.

After the initial determination of fair value, the Company will analyze the recoverability of the CRDA Bonds on a quarterly basis and its effect on reported amount based upon the ability and likelihood of bonds to be repaid. When considering recoverability of the CRDA Bonds, the Company considers the relative credit-worthiness of each bondholder, historical collection experience and other information received from the CRDA. If indications exist that the amount expected to be recovered is less than its carrying value, the asset will be written down to its expected realizable amount.

NOTE 17 – COMMITMENTS AND CONTINGENCIES

Litigation - The Company is involved in various legal proceedings relating to routine matters of its business. The Company believes that all the actions brought against it are without merit and will continue to vigorously defend against them. While any proceedings or litigation has an element of uncertainty, the Company believes that the final outcome of these matters, in the aggregate, is not likely to have a material adverse effect upon the Company's results of operations, financial position, or cash flows.

Atlantic City Alliance - All the Atlantic City casino properties (the "AC Industry") and the CRDA entered into an agreement with the Atlantic City Alliance (the "ACA") to provide funding to subsidize Atlantic City casino marketing. This agreement was signed on November 2, 2011 and is set to expire on December 31, 2016. The agreement provides that in exchange for funding, the ACA will create and implement a marketing plan for the AC Industry. As part of the agreement, the AC Industry provided an initial deposit of \$5,000 in December 2011 and will continue to pay \$30,000 annually until December 31, 2016. The Company's obligation was \$4,132 and \$4,844 for the twelve months ended December 31, 2016 and 2015, respectively.

NOTE 18 — SUBSEQUENT EVENTS

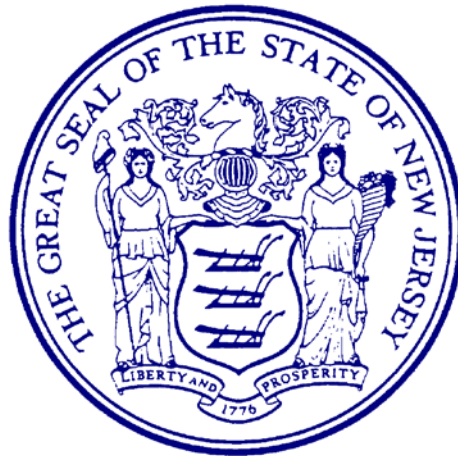
Interim Payment in Lieu of Taxes (PILOT) Financial Management - Beginning for calendar year 2017, each casino licensee entered into a 10-year financial agreement with the City of Atlantic City promising to make quarterly payments in lieu of real estate taxes. The Company will be responsible for the payments based on its share as referenced in the agreement and will be subject to lien provisions if the payments are not made. The total amount of the payment in lieu of property taxes owed to the City of Atlantic City for 2017 will total \$120,000. The Company paid its first quarterly obligation in February 2017.

HARRAH'S RESORT, ATLANTIC CITY

ANNUAL FILINGS

FOR THE YEAR ENDED DECEMBER 31, 2016

**SUBMITTED TO THE
DIVISION OF GAMING ENFORCEMENT
OF THE
STATE OF NEW JERSEY**



**OFFICE OF FINANCIAL INVESTIGATIONS
REPORTING MANUAL**

HARRAH'S RESORT, ATLANTIC CITY
ANNUAL SCHEDULE OF RECEIVABLES AND PATRONS' CHECKS
FOR THE YEAR ENDED DECEMBER 31, 2016

(UNAUDITED)
(\$ IN THOUSANDS)

| ACCOUNTS RECEIVABLE BALANCES | | | | |
|-------------------------------------|---|------------------------|------------------|--|
| Line (a) | Description (b) | Account Balance (c) | Allowance (d) | Accounts Receivable (Net of Allowance) (e) |
| | Patrons' Checks: | | | |
| 1 | Undeposited Patrons' Checks..... | \$4,694 | | |
| 2 | Returned Patrons' Checks..... | 5,321 | | |
| 3 | Total Patrons' Checks..... | 10,015 | \$4,430 | \$5,585 |
| 4 | Hotel Receivables..... | 4,428 | 834 | \$3,594 |
| | Other Receivables: | | | |
| 5 | Receivables Due from Officers and Employees.... | 11 | | |
| 6 | Receivables Due from Affiliates..... | | | |
| 7 | Other Accounts and Notes Receivables..... | 4,352 | | |
| 8 | Total Other Receivables..... | 4,363 | | \$4,363 |
| 9 | Totals (Form DGE-205)..... | \$18,806 | \$5,264 | \$13,542 |

| UNDEPOSITED PATRONS' CHECKS ACTIVITY | | |
|---|--|---------------|
| Line (f) | Description (g) | Amount (h) |
| 10 | Beginning Balance (January 1)..... | \$4,173 |
| 11 | Counter Checks Issued..... | 106,895 |
| 12 | Checks Redeemed Prior to Deposit..... | (65,411) |
| 13 | Checks Collected Through Deposits..... | (36,494) |
| 14 | Checks Transferred to Returned Checks..... | (4,469) |
| 15 | Other Adjustments..... | |
| 16 | Ending Balance..... | \$4,694 |
| 17 | "Hold" Checks Included in Balance on Line 16..... | 0 |
| 18 | Provision for Uncollectible Patrons' Checks..... | \$385 |
| 19 | Provision as a Percent of Counter Checks Issued..... | 0.4% |

HARRAH'S RESORT, ATLANTIC CITY ANNUAL EMPLOYMENT AND PAYROLL REPORT

AT DECEMBER 31, 2016

(\$ IN THOUSANDS)

| Line (a) | Department (b) | Number of Employees (c) | Salaries and Wages | | |
|-------------|----------------------------------|-------------------------------|------------------------|--------------------------|---------------|
| | | | Other Employees (d) | Officers & Owners (e) | Totals (f) |
| | CASINO: | | | | |
| 1 | Table and Other Games | 650 | | | |
| 2 | Slot Machines | 62 | | | |
| 3 | Administration | | | | |
| 4 | Casino Accounting | 99 | | | |
| 5 | Simulcasting | | | | |
| 6 | Other | 154 | | | |
| 7 | Total - Casino | 965 | \$22,507 | \$364 | \$22,871 |
| 8 | ROOMS | 536 | 12,818 | 211 | 13,029 |
| 9 | FOOD AND BEVERAGE | 1,058 | 20,097 | 0 | 20,097 |
| 10 | GUEST ENTERTAINMENT | 187 | 753 | 0 | 753 |
| 11 | MARKETING | 63 | 3,344 | 787 | 4,131 |
| 12 | OPERATION AND MAINTENANCE | 222 | 8,839 | 0 | 8,839 |
| | ADMINISTRATIVE AND GENERAL: | | | | |
| 13 | Executive Office | 3 | 71 | 1,006 | 1,077 |
| 14 | Accounting and Auditing | 2 | 155 | 0 | 155 |
| 15 | Security | 168 | 4,408 | 134 | 4,542 |
| 16 | Other Administrative and General | 166 | 8,670 | 0 | 8,670 |
| | OTHER OPERATED DEPARTMENTS: | | | | |
| 17 | Retail | 49 | 1,251 | 0 | 1,251 |
| 18 | Employee Cafeteria | 7 | 822 | 0 | 822 |
| 19 | | | | | 0 |
| 20 | | | | | 0 |
| 21 | | | | | 0 |
| 22 | | | | | 0 |
| 23 | TOTALS - ALL DEPARTMENTS * | 3,426 | \$83,735 | \$2,502 | \$86,237 |

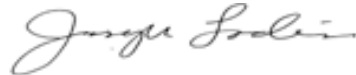
HARRAH'S RESORT, ATLANTIC CITY ANNUAL FILINGS STATEMENT OF CONFORMITY, ACCURACY AND COMPLIANCE

FOR THE YEAR ENDED DECEMBER 31, 2016

1. Under penalties provided by law, I declare that I have examined the Annual Filings (DGE-340, DGE-350, DGE-370 and DGE-380), and to the best of my knowledge and belief, all the information contained on those forms has been prepared in conformity with the Division's Annual Filings Instructions and Uniform Chart of Accounts, and the information contained on those forms is accurate.

3/31/2017

Date



Joseph Lodise

Vice President of Finance (008900-11)

Title (License Number)

On Behalf of:

HARRAH'S RESORT, ATLANTIC CITY

Casino Licensee