BORGATA HOTEL CASINO & SPA

QUARTERLY REPORT

FOR THE QUARTER ENDED DECEMBER 31, 2017

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

OFFICE OF FINANCIAL INVESTIGATIONS
REPORTING MANUAL

BORGATA HOTEL CASINO & SPA
BALANCE SHEETS

AS OF DECEMBER 31, 2017 AND 2016

(UNAUDITED)
($ IN THOUSANDS)

Line (a)	Description (b)	Notes	2017 (c)	2016 (d)
	ASSETS:			
	Current Assets:			
1	Cash and Cash Equivalents	2,14	$64,234	$49,039
2	Short-Term Investments		0	0
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2017, $19,568; 2016, $19,630)	6	40,829	40,535
4	Inventories	2	3,656	4,203
5	Other Current Assets	14	5,852	19,013
6	Total Current Assets		114,571	112,790
7	Investments, Advances, and Receivables	2,4,14	644,650	649,214
8	Property and Equipment - Gross	7	1,393,438	1,377,421
9	Less: Accumulated Depreciation and Amortization	7	(86,567)	(27,129)
10	Property and Equipment - Net	7	1,306,871	1,350,292
11	Other Assets	14	498,853	503,232
12	Total Assets		$2,564,945	$2,615,528
	LIABILITIES AND EQUITY:			
	Current Liabilities:			
13	Accounts Payable		$4,012	$11,840
14	Notes Payable	10	0	0
	Current Portion of Long-Term Debt:			
15	Due to Affiliates		0	0
16	External	10	0	0
17	Income Taxes Payable and Accrued	2,12	2,320	15,171
18	Other Accrued Expenses	8	75,228	69,956
19	Other Current Liabilities	9	64,839	62,591
20	Total Current Liabilities		146,399	159,558
	Long-Term Debt:			
21	Due to Affiliates		0	0
22	External	10	0	0
23	Deferred Credits		0	0
24	Other Liabilities	11	1,335,600	1,349,137
25	Commitments and Contingencies	13	0	0
26	Total Liabilities		1,481,999	1,508,695
27	Stockholders', Partners', or Proprietor's Equity		1,082,946	1,106,833
28	Total Liabilities and Equity		$2,564,945	$2,615,528

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

BORGATA HOTEL CASINO & SPA
STATEMENTS OF INCOME

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2017 AND 2016

(UNAUDITED)
($ IN THOUSANDS)

Amended 6/20/2018

Line (a)	Description (b)	Notes	2017 (c)	2016 (d)
	Revenue:			
1	Casino	2	$790,097	$756,499
2	Rooms		118,659	119,782
3	Food and Beverage		147,490	146,631
4	Other		53,035	48,510
5	Total Revenue		1,109,281	1,071,422
6	Less: Promotional Allowances	2	258,515	237,450
7	Net Revenue		850,766	833,972
	Costs and Expenses:			
8	Casino		272,516	279,965
9	Rooms, Food and Beverage		82,096	85,181
10	General, Administrative and Other	2,16	239,665	224,079
11	Total Costs and Expenses		594,277	589,225
12	Gross Operating Profit		256,489	244,747
13	Depreciation and Amortization	7	71,878	67,890
	Charges from Affiliates Other than Interest:			
14	Management Fees			
15	Other			
16	Income (Loss) from Operations		184,611	176,857
	Other Income (Expenses):			
17	Interest Expense - Affiliates	10	0	(504)
18	Interest Expense - External	10	0	(26,378)
19	CRDA Related Income (Expense) - Net	14	(10,596)	(4,541)
20	Nonoperating Income (Expense) - Net	2	(32,417)	(46,447)
21	Total Other Income (Expenses)		(43,013)	(77,870)
22	Income (Loss) Before Taxes		141,598	98,987
23	Provision (Credit) for Income Taxes	2,12	10,754	8,243
24	Income (Loss) Before Extraordinary Items		130,844	90,744

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

BORGATA HOTEL CASINO & SPA
STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED DECEMBER 31, 2017 AND 2016

(UNAUDITED)
($ IN THOUSANDS)

Amended 6/20/2018

Line (a)	Description (b)	Notes	2017 (c)	2016 (d)
	Revenue:			
1	Casino	2	$183,341	$183,143
2	Rooms		26,887	27,169
3	Food and Beverage		34,204	33,384
4	Other		12,262	11,481
5	Total Revenue		256,694	255,177
6	Less: Promotional Allowances	2	60,514	57,721
7	Net Revenue		196,180	197,456
	Costs and Expenses:			
8	Casino		68,097	68,909
9	Rooms, Food and Beverage		19,297	20,006
10	General, Administrative and Other	2,16	63,573	52,113
11	Total Costs and Expenses		150,967	141,028
12	Gross Operating Profit		45,213	56,428
13	Depreciation and Amortization	7	15,689	24,107
	Charges from Affiliates Other than Interest:			
14	Management Fees			
15	Other			
16	Income (Loss) from Operations		29,524	32,321
	Other Income (Expenses):			
17	Interest Expense - Affiliates	10	0	(78)
18	Interest Expense - External	10	0	0
19	CRDA Related Income (Expense) - Net	14	(2,439)	(2,289)
20	Nonoperating Income (Expense) - Net	2	(20,047)	(26,983)
21	Total Other Income (Expenses)		(22,486)	(29,350)
22	Income (Loss) Before Taxes		7,038	2,971
23	Provision (Credit) for Income Taxes	2,12	1,033	(207)
24	Income (Loss) Before Extraordinary Items		6,005	3,178

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

BORGATA HOTEL CASINO & SPA
STATEMENTS OF CHANGES IN PARTNERS', PROPRIETOR'S OR MEMBERS' EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2017

(UNAUDITED)
($ IN THOUSANDS)

Line (a)	Description (b)	Notes	Contributed Capital (c)	Accumulated Earnings (Deficit) (d)	________ ________ ________ (e)	Total Equity (Deficit) (f)
1	**Balance, December 31, 2015..........**		$446,700	$8,985	$0	$455,685
2	Net Income (Loss) - 2016..........			90,744		90,744
3	Capital Contributions................		703,673			703,673
4	Capital Withdrawals..................					0
5	Partnership Distributions...........			(17,169)		(17,169)
6	Prior Period Adjustments..........					0
7	Distribution to Parent in					0
8	connection with REIT	1,3,4,5		(126,100)		(126,100)
9						0
10	**Balance, December 31, 2016..........**		1,150,373	(43,540)	0	1,106,833
11	Net Income (Loss) - 2017..........			130,844		130,844
12	Capital Contributions................					0
13	Capital Withdrawals..................					0
14	Partnership Distributions...........					0
15	Prior Period Adjustments..........					0
16	Distributions to Parent			(154,731)		(154,731)
17						0
18						0
19	**Balance, December 31, 2017..........**		$1,150,373	($67,427)	$0	$1,082,946

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

BORGATA HOTEL CASINO & SPA
STATEMENTS OF CASH FLOWS

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2017 AND 2016

(UNAUDITED)
($ IN THOUSANDS)

Line (a)	Description (b)	Notes	2017 (c)	2016 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		$203,292	$207,495
	CASH FLOWS FROM INVESTING ACTIVITIES:			
2	Purchase of Short-Term Investments		0	0
3	Proceeds from the Sale of Short-Term Investments		0	0
4	Cash Outflows for Property and Equipment...........................	7	(22,772)	(33,104)
5	Proceeds from Disposition of Property and Equipment...........	2, 7	41	7
6	CRDA Obligations	2, 11	(10,635)	(10,161)
7	Other Investments, Loans and Advances made.......................		0	0
8	Proceeds from Other Investments, Loans, and Advances		0	12,364
9	Cash Outflows to Acquire Business Entities...........................		0	0
10	....			
11	....			
12	Net Cash Provided (Used) By Investing Activities....................		(33,366)	(30,894)
	CASH FLOWS FROM FINANCING ACTIVITIES:			
13	Proceeds from Short-Term Debt	10	0	604,708
14	Payments to Settle Short-Term Debt......................................	10	0	(59,858)
15	Proceeds from Long-Term Debt	10	0	253,600
16	Costs of Issuing Debt...		0	0
17	Payments to Settle Long-Term Debt......................................	2, 10	0	(951,150)
18	Cash Proceeds from Issuing Stock or Capital Contributions...		0	0
19	Purchases of Treasury Stock..		0	0
20	Payments of Dividends or Capital Withdrawals......................		0	0
21	Call Premium - Repurchase of Long-Term Debt	10	0	(8,337)
22	Distrubutions to Parent	4, 5, 11	(154,731)	(17,169)
23	Net Cash Provided (Used) By Financing Activities...................		(154,731)	(178,206)
24	Net Increase (Decrease) in Cash and Cash Equivalents.............		15,195	(1,605)
25	Cash and Cash Equivalents at Beginning of Period...................		49,039	50,644
26	Cash and Cash Equivalents at End of Period.............................		$64,234	$49,039

Line	Description	Notes	2017	2016
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).......................................	2, 10	$0	$24,652
28	Income Taxes...	2, 12	$22,269	$1

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

BORGATA HOTEL CASINO & SPA
STATEMENTS OF CASH FLOWS

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2017 AND 2016

(UNAUDITED)

($ IN THOUSANDS)

Line (a)	Description (b)	Notes	2017 (c)	2016 (d)
	CASH FLOWS FROM OPERATING ACTIVITIES:			
29	Net Income (Loss)		$130,844	$90,744
30	Depreciation and Amortization of Property and Equipment	7	60,483	60,813
31	Amortization of Other Assets		11,395	7,077
32	Amortization of Debt Discount or Premium	10	0	1,973
33	Deferred Income Taxes - Current	2, 12	729	0
34	Deferred Income Taxes - Noncurrent	2, 12	0	(6,813)
35	(Gain) Loss on Disposition of Property and Equipment		1,459	9,318
36	(Gain) Loss on CRDA-Related Obligations		10,596	4,541
37	(Gain) Loss from Other Investment Activities		(38,181)	(8,954)
38	(Increase) Decrease in Receivables and Patrons' Checks		(294)	(2,199)
39	(Increase) Decrease in Inventories		547	415
40	(Increase) Decrease in Other Current Assets		(224)	32,511
41	(Increase) Decrease in Other Assets		(560)	3,913
42	Increase (Decrease) in Accounts Payable		(3,618)	4,585
43	Increase (Decrease) in Other Current Liabilities		30,667	7,425
44	Increase (Decrease) in Other Liabilities		(551)	60
45	Loss on Early Retirement of Debt	10	0	2,086
46				
47	Net Cash Provided (Used) By Operating Activities		$203,292	$207,495

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Line (a)	Description (b)	Notes	2017 (c)	2016 (d)
	ACQUISITION OF PROPERTY AND EQUIPMENT:			
48	Additions to Property and Equipment	7	($22,772)	($33,104)
49	Less: Capital Lease Obligations Incurred			
50	Cash Outflows for Property and Equipment		($22,772)	($33,104)
	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.

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

BORGATA HOTEL CASINO & SPA
SCHEDULE OF PROMOTIONAL EXPENSES AND ALLOWANCES

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2017
(UNAUDITED)
($ IN THOUSANDS)

		Promotional Allowances		Promotional Expenses	
Line (a)	**Description (b)**	**Number of Recipients (c)**	**Dollar Amount (d)**	**Number of Recipients (e)**	**Dollar Amount (f)**
1	Rooms	640,969	$74,065	0	$0
2	Food	1,549,638	37,480	1,255,200	12,552
3	Beverage	6,066,946	19,718	0	0
4	Travel	0	0	14,704	3,676
5	Bus Program Cash	0	0	0	0
6	Promotional Gaming Credits	3,548,858	88,721	0	0
7	Complimentary Cash Gifts	718,968	17,974	0	0
8	Entertainment	133,391	5,336	910	91
9	Retail & Non-Cash Gifts	38,666	1,933	27,980	6,995
10	Parking	0	0	0	0
11	Other	79,516	13,288	1,560,022	2,505
12	Total	12,776,952	$258,515	2,858,816	$25,819

*Promotional Allowances - Other includes $2,384K of Spa comps, $350K of Comp room incidentals, ($139K) change in Slot dollars earned but not redeemed and $10,693K in other promotional allowances.

FOR THE THREE MONTHS ENDED DECEMBER 31, 2017

		Promotional Allowances		Promotional Expenses	
Line (a)	**Description (b)**	**Number of Recipients (c)**	**Dollar Amount (d)**	**Number of Recipients (e)**	**Dollar Amount (f)**
1	Rooms	149,359	$17,284	0	$0
2	Food	358,027	8,869	311,700	3,117
3	Beverage	1,433,957	4,661	0	0
4	Travel	0	0	3,776	944
5	Bus Program Cash	0	0	0	0
6	Promotional Gaming Credits	838,964	20,974	0	0
7	Complimentary Cash Gifts	138,297	3,457	0	0
8	Entertainment	30,684	1,228	210	21
9	Retail & Non-Cash Gifts	8,989	449	6,604	1,651
10	Parking	0	0	0	0
11	Other	19,131	3,592	413,821	1,355
12	Total	2,977,408	$60,514	736,111	$7,088

*Promotional Allowances - Other includes $574K of Spa comps, $77K of Comp room incidentals, ($651K) change in Slot dollars earned but not redeemed and $3,592K in other promotional allowances.

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

BORGATA HOTEL CASINO & SPA
STATEMENT OF CONFORMITY, ACCURACY, AND COMPLIANCE

FOR THE QUARTER ENDED DECEMBER 31, 2017

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.

4/2/2018
Date

Hugh Turner

Vice President of Finance
Title

007833-11
License Number

On Behalf of:

BORGATA HOTEL CASINO & SPA
Casino Licensee

Marina District Development Company, LLC and Subsidiary

(A Wholly-Owned Subsidiary of Marina District Development Holding Co., LLC)

Notes to Consolidated Financial Statements
(Unaudited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Marina District Development Company LLC, a New Jersey limited liability company ("MDDC"), is the parent of Marina District Finance Company, Inc., a New Jersey corporation ("MDFC"). MDFC is a 100% owned finance subsidiary of MDDC, which had fully and unconditionally guaranteed MDFC's securities. Unless otherwise indicated or required by the context, the term the "Company" refers to MDDC and MDFC. Marina District Development Holding Company ("MDDHC") is the sole member of MDDC.

MDDC was incorporated in July 1998 and has been operating since July 3, 2003. MDFC was incorporated in 2000 and has been a wholly-owned subsidiary of MDDC since its inception. The Company developed, owns and operates Borgata Hotel Casino and Spa, including The Water Club at Borgata (collectively, "Borgata"). Borgata is located on a 45.6-acre site at Renaissance Pointe in Atlantic City, New Jersey. Borgata is an upscale destination resort and gaming entertainment property.

Borgata was developed as a joint venture between Boyd Atlantic City, Inc. ("BAC"), a wholly owned subsidiary of Boyd Gaming Corporation ("Boyd"), and MAC, Corp. ("MAC"), a wholly owned subsidiary of MGM Resorts International ("MGM"). Prior to August 1, 2016, BAC and MAC were each 50% interest holders in MDDHC. On August 1, 2016 (the "Acquisition Date"), MGM completed its acquisition of BAC's interest in MDDHC (the "Acquisition").

MGM Growth Properties LLC ("MGP") is a publicly traded real estate investment trust ("REIT") that is controlled and consolidated by MGM. MGP is organized as an umbrella partnership REIT (commonly referred to as an UPREIT) and conducts its operations through its subsidiary, MGM Growth Properties Operating Partnership LP (the "Operating Partnership"). Immediately subsequent to the Acquisition, MDDC contributed its real property to a subsidiary of the Operating Partnership (the "Landlord"), which leased back the real property to a subsidiary of MGM (the "Tenant") (the "Contribution").

Both transactions closed on August 1, 2016, at which time MDDC became a consolidated subsidiary of MGM. The Company does not presently record a management fee to MGM.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and include the accounts of MDDC and MDFC.

All intercompany accounts and transactions have been eliminated.

As further described in Note 3, the Acquisition was accounted for using the acquisition method of accounting, which required that the assets purchased and the liabilities assumed all be reported in MGM's financial statements at their fair value, with any excess of net assets over the purchase price being reported as goodwill. The application of the acquisition method of accounting represented a push down of accounting basis to the Company, whereby it was also required to record the assets and liabilities at fair value as of the date of the Acquisition. This change in accounting basis resulted in the termination of the prior reporting entity and a corresponding creation of a new reporting entity. See Note 3 for further discussion of the Acquisition.

Cash and Cash Equivalents
Cash and cash equivalents include highly liquid investments with maturities of three months or less at their date of purchase, and are on deposit with high credit quality financial institutions. The carrying values of these instruments approximate their fair values due to their short maturities.

Cash and cash equivalents consist of the following:

	Year Ended December 31,	
	2017	**2016**
Unrestricted cash and cash equivalents	58,735,000	43,646,000
Restricted cash	5,499,000	5,393,000
Total cash and cash equivalents	**$ 64,234,000**	**$ 49,039,000**

Cash and cash equivalents at December 31, 2017 and 2016 included restricted cash of $5,499,000 and $5,393,000, respectively, consisting primarily of advance payments related to amounts restricted by regulation for online gaming purposes. These restricted cash balances are held by high credit quality financial institutions. The carrying value of these instruments approximates their fair value due to their short maturities.

Accounts Receivable, Net
Accounts receivable consist primarily of casino, hotel and other receivables. Accounts receivable are typically non-interest-bearing and are initially recorded at cost. Accounts are written off when management deems the account to be uncollectible. An estimated allowance for doubtful accounts is maintained to reduce our receivables to their estimated realizable amount. The allowance is estimated based on specific review of customer accounts and management's historical collection experience as well as current economic and business conditions. As a result, the net carrying value approximates fair value.

The activity comprising our allowance for doubtful accounts is as follows:

	Year Ended December 31,	
	2017	**2016**
Beginning Balance, January 1	$ 19,630,000	$ 19,540,000
Additions	3,296,000	2,517,000
Deductions	(3,358,000)	(2,427,000)
Ending Balance, December 31	**$ 19,568,000**	**$ 19,630,000**

Management does not believe that any significant concentration of credit risk existed as of December 31, 2017.

Inventories
Inventories consist primarily of food and beverage and retail items and are stated at the lower of cost or market. Cost is determined using the average cost method.

Property and Equipment
Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets or, for leasehold improvements, over the shorter of the asset's useful life or term of the lease.

The estimated useful lives of our major components of property and equipment are:

Building and improvements	10 through 40 years
Furniture and equipment	3 through 7 years

Gains or losses on disposals of assets are recognized as incurred using the specific identification method. Costs of major improvements are capitalized, while costs of normal repairs and maintenance are charged to expense as incurred.

We evaluate the carrying value of long-lived assets whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. For an asset that is to be disposed of, we recognize the asset at the lower of carrying value or fair market value, less costs of disposal, as estimated based on comparable asset sales, solicited offers, or a discounted cash flow model. For a long-lived asset to be held and used, we review the asset for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. We then compare the estimated undiscounted future cash flows of the asset to the carrying value of the asset. The asset is not impaired if the undiscounted future cash flows exceed its carrying value. If the carrying value exceeds the undiscounted future cash flows, then an impairment charge is recorded, typically measured using a discounted cash flow model, which is based on the estimated future results of the relevant reporting unit discounted using our weighted-average cost of capital and market indicators of terminal year free cash flow multiples. If an asset is under development, future cash flows include remaining construction costs. All resulting recognized impairment charges are recorded as operating expenses.

No property and equipment impairment charges were recorded during the years ended December 31, 2017 or 2016.

Capitalized Interest
Interest costs, primarily associated with our expansion projects, are capitalized as part of the cost of our constructed assets. Interest costs, which include commitment fees, letter of credit fees and the amortized portion of deferred financing fees, discounts and origination fees, are capitalized on amounts expended for the respective projects using our weighted-average cost of borrowing. Capitalization of interest will cease when the respective project, or discernible portions of the projects, are substantially complete. We amortize capitalized interest over the estimated useful life of the related asset. Capitalized interest was $0 and $239,000 for the years ended December 31, 2017 and 2016, respectively.

Investment in Unconsolidated Affiliate
As discussed in Note 5, the Company holds an investment in the Operating Partnership, an unconsolidated affiliate accounted for under the equity method. Under the equity method, carrying value is adjusted for the Company's share of investee earnings and losses, amortization of certain basis differences, as well as capital contributions to and distributions from the Operating Partnership. The Company classifies its share of income and losses as well as gains and impairments related to its investment in unconsolidated affiliate in income (loss) from unconsolidated affiliate.

The Company evaluates its investment in unconsolidated affiliate for impairment whenever events or changes in circumstances indicate that the carrying value of its investment may have experienced an "other-than-temporary" decline in value. If such conditions exist, the Company compares the estimated fair value of the investment to its carrying value to determine if an impairment is indicated and determines whether the impairment is "other-than-temporary" based on its assessment of all relevant factors, including consideration of the Company's intent and ability to retain its investment. No such conditions existed as of December 31, 2017.

The Company's ownership in the Operating Partnership constitutes continuing involvement. As a result, the Contribution described above does not qualify for sale-leaseback accounting. Accordingly, the contributed assets will remain on the Company's consolidated balance sheet and will continue to be depreciated over their remaining useful lives.

Gaming Taxes
We are subject to an annual tax assessment based on gross gaming revenues of 8% on our land-based gross gaming revenues and 15% on our online gross gaming revenues. These gaming taxes are recorded as a gaming expense in the consolidated statements of income. These taxes were $60,742,000 and $58,831,000 during the years ended December 31, 2017 and 2016, respectively.

CRDA Investments

Pursuant to the New Jersey Casino Control Act ("Casino Control Act"), as a casino licensee, the Company is assessed an amount equal to 1.25% of its land-based gross gaming revenues in order to fund qualified investments. This assessment is made in lieu of an Investment Alternative Tax (the "IAT") equal to 2.5% of land-based gross gaming revenues. The Casino Control Act also provides for an assessment of licensees equal to 2.5% of online gross gaming revenues, which is made in lieu of an IAT equal to 5.0% of online gross gaming revenues. Once the funds are deposited with the New Jersey Casino Reinvestment Development Authority ("CRDA"), qualified investments may be satisfied by: (i) the purchase of bonds issued by the CRDA at below market rates of interest; (ii) direct investment in CRDA-approved projects; or (iii) a donation of funds to projects as determined by the CRDA. According to the Casino Control Act, funds on deposit with the CRDA are invested by the CRDA and the resulting income is shared two-thirds to the casino licensee and one-third to the CRDA. Further, the Casino Control Act requires that CRDA bonds be issued at statutory rates established at two-thirds of market value.

In May 2016, pursuant to a provision contained within legislation enacted to address Atlantic City's fiscal matters commonly referred to as the PILOT (payment in lieu of taxes) law, any CRDA funds not utilized or pledged for direct investments, the purchases of CRDA bonds or otherwise contractually obligated, related to all funds received from the payment of the IAT going forward are allocated to the City of Atlantic City. The PILOT law directs that these funds be used for the purposes of paying debt service on bonds issued by the City of Atlantic City prior to and after the date of the PILOT law. These provisions expire as of December 31, 2026.

The Company is required to make quarterly deposits with the CRDA to satisfy its investment obligations. Previous to the enactment of the PILOT law effective May 27, 2016, the Company would record a charge to expense as of the date the obligation arose (i) pursuant to the respective underlying agreements for obligations with identified qualified investments and (ii) by applying a one-third valuation reserve to the obligations that are available to fund qualified investments to reflect the anticipated below market return on investment. The one-third valuation reserve was adjusted accordingly, if necessary, based on management's assessment of the ultimate recoverability of the deposit or when a qualified investment is identified.

For obligations that are deposited after the effective date of the PILOT law that were not previously utilized or pledged for direct investments, the purchases of CRDA bonds or otherwise contractually obligated, the Company recognizes a charge to expense for the total amount of the obligation.

On a prospective basis, the company records a charge to expense for 100% of the obligation amount as of the date the obligation arises. These expenses were $10,596,000 and $4,541,000 for the years ended December 31, 2017 and 2016, respectively.

Intangible Assets

The Company's indefinite-lived intangible assets include trademarks and trade names. The Company evaluates the recoverability of its indefinite-lived intangible assets annually, or more frequently whenever events or substantive changes in circumstances indicate that the assets might be impaired. The Company estimates the fair value of its indefinite-lived intangible assets primarily based on a discounted cash flow analysis. Trade names are valued using the relief-from-royalty method, which includes judgments about the value a market participant would be willing to pay in order to achieve the benefits associated with the trade name. If the estimated fair value of its indefinite-lived intangible assets were less than the carrying amount, the Company would recognize an impairment charge for the difference between the estimated fair value and the carrying value of the assets. The Company also evaluates the unit of account used to test for impairment of its indefinite-lived intangible assets periodically or whenever events or substantive changes in circumstances occur to ensure impairment testing is performed at an appropriate level.

Finite-lived intangible assets subject to amortization consist of customer relationships related to the Company's loyalty programs. These assets are amortized over their estimated useful lives.

Goodwill

Goodwill represents the excess of purchase price over fair market value of net assets acquired in business combinations. Goodwill must be reviewed for impairment at least annually and between annual test dates in certain circumstances. The Company performs its annual impairment test in the fourth quarter of each fiscal year. No impairments were indicated or recorded for the year ended December 31, 2017 or in the period from August 1, 2016 through December 31, 2016. The Company had no amounts recorded in goodwill prior to the Acquisition Date.

Goodwill is tested for impairment using a discounted cash flow analysis based on the estimated future results of the Company's reporting unit discounted using market discount rates and market indicators of terminal year capitalization rates, and a market approach that utilizes business enterprise value multiples based on a range of multiples from the Company's peer group. If the carrying value of the reporting unit exceeds its fair value, an indication of impairment exists and the Company must proceed to measure an impairment loss, if any. To measure an impairment loss, the implied fair value of a reporting unit's goodwill is compared to the carrying value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to its assets and liabilities and the amount remaining, if any, is the implied fair value of goodwill. If the implied fair value of goodwill is less than its carrying value then it must be written down to its implied fair value.

Loyalty Programs
We have established promotional programs to encourage repeat business from frequent and active customers. Members earn points based on gaming activity, and such points can be redeemed for a specified period of time, principally for restricted free play slot machine credits and complimentary goods and services. We accrue for earned points expected to be redeemed as a promotional allowance. The accruals are based on estimates and assumptions regarding the mix of restricted free play and complimentary goods and services expected to be redeemed and the costs of providing those benefits. Historical data is used to assist in the determination of the estimated accruals. The points accruals for our loyalty programs are included in other current liabilities on our consolidated balance sheets.

Long-Term Debt, Net
In connection with the transactions described above, the Company borrowed approximately $544,850,000 under certain bridge facilities (the "Bridge Facilities"), the proceeds of which were used to repay our outstanding term loans. The Bridge Facilities were subsequently contributed to the Operating Partnership, relieving the Company of its payment obligation under such facilities. Additionally, the company borrowed $59,858,000 under an MGM Intercompany Note, the proceeds of which were used to pay certain fees and taxes in connection with the transaction described above, as well as the extinguishment of the Company's outstanding Revolving Credit Facility. Total interest incurred in connection with the Intercompany Note was $504,000 for the year ending December 31, 2016. The Intercompany Note was paid in full during the fourth quarter of 2016. As a result, the Company did not have long term debt as of December 31, 2016.

Self-Insurance Reserves
We are self-insured for general liability costs up to certain amounts and are self-insured up to certain stop loss amounts for employee health coverage. We are currently self-insured with respect to each catastrophe related property damage claim, non-catastrophe related property damage claim, general liability claim, and non-union employee medical case, respectively. Insurance claims and reserves include accruals of estimated settlements for known claims, as well as accruals of estimates for claims incurred but not yet reported. In estimating these accruals, we consider historical loss experience and make judgments about the expected levels of costs per claim. Management believes the estimates of future liability are reasonable based upon our methodology; however, changes in health care costs, accident frequency and severity and other factors could materially affect the estimate for these liabilities. Certain of these claims represent obligations to make future payments; and therefore we discount such reserves to an amount representing the present value of the claims which will be paid in the future using a blended rate, which represents the inherent risk and the average payout duration. Self-insurance reserves are included in other accrued expenses on our consolidated balance sheets.

	December 31,	
	2017	**2016**
Beginning balance	$ 16,267,000	$ 13,538,000
Charged to costs and expenses	14,212,000	16,792,000
Payments made	(11,617,000)	(14,063,000)
Ending balance	**$ 18,862,000**	**$ 16,267,000**

Income Taxes
As a single member limited liability company, MDDC is treated as a disregarded entity for federal income tax purposes. As such, it is not subject to federal income tax and its income is treated as earned by its member, MDDHC. MDDHC is treated as a partnership for federal income tax purposes and federal income taxes are the responsibility of its members. In New Jersey, casino partnerships are subject to state income taxes under the Casino Control Act; therefore, MDDC, considered as a casino partnership, is required to record New Jersey state income taxes. In 2004, MDDC was granted permission by the state

of New Jersey, pursuant to a ruling request, to file a consolidated New Jersey corporation business tax return that includes MDDHC, MAC, BAC and MDFC. The amounts reflected in the consolidated financial statements are reported as if MDDC was taxed for state purposes on a stand-alone basis notwithstanding that MDDC files a consolidated New Jersey tax return as described above.

Subsequent to the Acquisition Date, MGM holds direct and indirect ownership by MGM of 100% of the members' interests in MDDHC. As a result of the Acquisition, MDDHC will file a final New Jersey consolidated return including BAC and report consolidated activity through the Acquisition Date. After the Acquisition Date, MDDHC and MDDC will join in filing a New Jersey consolidated casino return with MGM and certain of its subsidiaries.

MDDC, MAC and BAC are parties to a tax sharing agreement that provides for an allocation among the parties of taxes due in the consolidated New Jersey return for all periods through the date of the Acquisition. Under the terms of this agreement, current year tax attributes of the members are utilized prior to MDDC's separately determined net operating loss carryforward. Payments for the utilization of the current year member tax attributes will be remitted to the members of MDDHC under the tax sharing agreement. Subsequent to the Acquisition Date, MDDC is responsible for New Jersey taxes computed on a stand-alone basis and records a payable or receivable to MGM to the extent that its stand-alone New Jersey tax liability is greater than or less than the consolidated tax liability.

The amounts due to members are a result of the arrangements described above. A reconciliation of the components of the Company's stand-alone state income taxes payable is presented below:

	December 31,	
	2017	**2016**
Amounts payable to members of MDDHC	$ 7,388,000	$ 15,118,000
Amounts payable (receivable) – State	(5,068,000)	53,000
Income taxes payable	**$ 2,320,000**	**$ 15,171,000**

Casino Revenue and Promotional Allowances
Casino gaming revenue is the win from gaming activities. The retail value of accommodations, food and beverage, and other services furnished to hotel casino guests without charge is included in gross revenue and then deducted as promotional allowances. The estimated cost of providing such promotional allowances were $74,551,000 and $79,352,000 for the years ended December 31, 2017 and 2016, respectively, and is included in costs and expenses.

Advertising Expense
Direct advertising costs are expensed the first time such advertising appears. Advertising costs are included in general, administrative and other expenses on the consolidated statements of income and totaled $23,850,000 and $18,349,000 for the years ended December 31, 2017 and 2016, respectively.

Preopening Expenses
Certain costs of start-up activities were expensed as incurred. We expensed $1,430,000 and $565,000 for the years ended December 31, 2017 and 2016, respectively, which is included in nonoperating expense on the consolidated statements of income.

Concentration of Credit Risk
Financial instruments that subject the Company to credit risk consist of cash equivalents, accounts receivable and CRDA deposits. The Company's policy is to limit the amount of credit exposure to any one financial institution, and place investments with financial institutions evaluated as being creditworthy, or in short-term money market funds which are exposed to minimal interest rate and credit risk. The Company has bank deposits which may at times exceed federally-insured limits.

Concentrations of credit risk, with respect to gaming receivables, are limited through the Company's credit evaluation process. The Company issues markers to approved gaming customers only following credit checks and investigations of creditworthiness.

Certain Risks and Uncertainties

The Company's operations are dependent on its continued licensing by the state gaming commission. The loss of the Company's license could have a material adverse effect on future results of operations. The Company is dependent on geographically local markets for a significant number of its customers and revenues. If economic conditions in these areas deteriorate or additional gaming licenses are awarded in these markets, the Company's results of operations could be adversely affected. The Company is dependent on the economy of the United States, in general, and any deterioration in the national economic, energy, credit and capital markets could have a material adverse effect on future results of operations.

Use of Estimates

The preparation of financial statements in conformity with US GAAP 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASC 606, "Revenue from Contracts with Customers (Topic 606)" which outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. Under the standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods and services.

The Company adopted ASC 606 on a full retrospective basis, effective January 1, 2018, which will be reflected in future financial statements. The most significant impacts of adoption of the new accounting pronouncement are as follows:

- Promotional Allowances: The Company is no longer permitted to recognize revenues for goods and services provided to customers for free as an inducement to gamble as gross revenue with a corresponding offset to promotional allowances to arrive at net revenues, and accordingly the promotional allowances line item will be removed in future filings. The majority of such amounts previously included in promotional allowances will now offset casino revenues based on stand-alone selling price. This change will primarily result in a reclassification of revenue between revenue line items;

- Loyalty Accounting: Accounting for Express Comps granted under the M life Rewards program will be identified as separate performance obligations and recorded as a reduction in gaming revenues when earned at the retail value of such benefits owed to the customer (less estimated breakage) and an increase to the loyalty program liability representing outstanding performance obligations. Such amounts will be recognized as revenue in the line item of the corresponding good or service provided when the performance obligation is fulfilled.

- Gross versus Net Presentation: Mandatory service charges on food and beverage and hotel offerings and wide area progressive operator fees will be recorded gross, that is, the amount received from the customer will be recorded as revenue with the corresponding amount paid as an expense. These changes will primarily result in an increase in revenue with a corresponding increase in expense;

- Estimated Cost of Promotional Allowances: The Company will no longer reclassify the estimated cost of complimentaries provided to the gaming patron from other expense line items to the casino expense line item.

These changes, and other less significant adjustments that were required upon adoption, will not have an aggregate material impact on operating income, net income, or cash flows.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842),” (“ASU 2016-02”), which replaces the existing guidance in Accounting Standards Codification (“ASC”) 840, “Leases.” ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. ASU 2016-02 requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use (“ROU”) asset and a corresponding lease liability. For finance leases, the lessee would recognize interest expense and amortization of the ROU asset and for operating leases the lessee would recognize a straight-line total lease expense. The Company is currently assessing the impact the adoption of ASU 2016-02 will have on its consolidated financial statements and footnote disclosures. In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force),” (“ASU 2016-15”), effective for fiscal years beginning after December 15, 2017. ASU 2016-15 amends the guidance of ASC 230 on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of ASU 2016-15 is to reduce the diversity in practice that has resulted from the lack of consistent principles, specifically clarifying the guidance on eight cash flow issues. The adoption of ASU 2016-15 did not have a material effect on the Company’s consolidated financial statements and footnote disclosures.

In January 2017, the Company adopted ASU No. 2016-09, “Compensation – Stock Compensation (Topic 718),” (“ASU 2016-09”). ASU 2016-09 simplifies the accounting for share-based payment transactions, including the income tax consequences, accounting for forfeitures, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 has separate transition guidance for each element of the new standard. The adoption of ASU 2016-09 did not have a material effect on the Company’s consolidated financial statements and footnote disclosures.

In January 2017, the Company adopted ASU No. 2016-17, “Consolidation (Topic 810): Interests Held Through Related Parties that are Under Common Control,” (“ASU 2016-17”). The amendments affect the evaluation of whether to consolidate a VIE in certain situations involving entities under common control. Specifically, the amendments change the evaluation of whether an entity is the primary beneficiary of a VIE for an entity that is a single decision-maker of a variable interest by changing how an entity treats indirect interests in the VIE held through related parties that are under common control with the reporting entity. The guidance in ASU 2016-17 must be applied retrospectively to all relevant periods. The adoption of ASU 2016-17 did not have a material effect on the Company’s consolidated financial statements and footnote disclosures.

In January 2017, the Company early adopted ASU No. 2017-04, “Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment” (“ASU 2017-04”). ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating step two from the goodwill impairment test. Under the amended guidance, the Company will perform its annual goodwill impairment tests (and interim tests if any are determined to be necessary) by comparing the fair value of its reporting units with their carrying value, and an impairment charge, if any, will be recognized for the amount by which the carrying value exceeds the reporting unit’s fair value, not to exceed the total amount of goodwill allocated to that reporting unit. The adoption of ASU 2017-04 did not have a material effect on the Company’s consolidated financial statements and footnote disclosures.

A variety of proposed or otherwise potential accounting standards are currently being studied by standard-setting organizations and certain regulatory agencies. Because of the tentative and preliminary nature of such proposed standards, the Company has not yet determined the effect, if any, that the implementation of such proposed standards would have on the consolidated financial statements.

NOTE 3. ACQUISITION

On August 1, 2016, MGM completed the acquisition of Boyd’s ownership interest in the Company as discussed in Note 1.

As part of the purchase and sale agreement, MGM agreed to pay Boyd half of any net amount received or utilized by the Company as it relates to the Atlantic City property tax refund owed to the Company at the time of the transaction. On February 15, 2017, the Company, the Department of Community Affairs of the State of New Jersey and Atlantic City entered into an agreement wherein the Company was to be reimbursed $72,000,000 as settlement for property tax refunds in satisfaction of New Jersey Tax Court and Superior Court judgments totaling approximately $106,000,000, plus interest for the 2009-2012 tax years and the settlement of pending tax appeals for the tax years 2013-2015. Those pending tax appeals could potentially have resulted in Borgata being awarded additional refunds due amounting to approximately $65,000,000. In June 2017, Atlantic City and the State of New Jersey issued bonds and used the proceeds to pay the $72,000,000 settlement in full.

On June 8, 2017, Borgata received the $72,000,000 settlement. As required by the purchase and sale agreement for MGM to acquire Boyd's interest in Borgata in August 2016, the Company paid Boyd half of the settlement amount received by the Company, net of fees and expenses on June 12, 2017. As such, we recognized a gain of $36,000,000 which is included in nonoperating income.

As discussed in Note 2, the Company has recorded its assets and liabilities fair value at the date of the acquisition to reflect the push down of the accounting basis to the Company. The fair value of the equity interests of the Company was determined by the transaction price and equaled approximately $1.2 billion. The allocation of fair value has been finalized as of December 31, 2016 and, therefore, is reflected in the three month period ended December 31, 2016.

The following table sets forth the finalized allocation at December 31, 2016:

Current assets	$ 112,221,000
Property and equipment and other long-term assets	1,373,567,000
Goodwill	386,892,000
Trade name	83,000,000
Customer list	22,000,000
Current liabilities	(122,743,000)
Long-term debt	(583,187,000)
Deferred taxes	(12,124,000)
Other long-term obligations	(51,894,000)
	$ 1,207,732,000

The identifiable intangible assets of the Company were recognized at fair value. The trade name and customer relationship intangible assets did not have historical cost bases. The estimated fair values of the intangible assets were determined using methodologies under the income approach based on significant inputs that were not observable.

Unfavorable lease liability. The Company recognized a liability related to all of its ground leases except for the Surface Parking Lot Ground Lease (as defined in Note 13) for a total of approximately 11 acres of land. The Company recorded an unfavorable lease liability of $888,000 in Other current liabilities and $47,365,000 in Other liabilities for the excess contractual lease obligations over the market value of the leases, which will be amortized on a straight-line basis over the term of the lease contracts through December 2070. Both a market and income approach using Level 2 and Level 3 inputs were utilized to determine the fair value of these leases.

NOTE 4. CONTRIBUTION

Immediately subsequent to the Acquisition, MGM, MGP, the Operating Partnership and the Tenant completed the transfer of the real estate assets related to Borgata from MDDC to the Landlord. The real estate assets related to Borgata were leased to the Tenant via an amendment to the master lease agreement in place between these subsidiaries of the Operating Partnership and MGM (the "Master Lease"). As a result, the initial rent under the Master Lease increased by $100,000,000, $90,000,000 of which relates to the base rent for the initial term and the remaining $10,000,000 of which relates to the percentage rent. Following the closing of the Contribution, the base rent under the Master Lease is now $585,000,000 for the initial term and the percentage rent is $65,000,000, prorated for the remainder of the first lease year after the Contribution. The consideration that was paid by the Operating Partnership to MDDC consisted of 27,400,000 newly issued Operating Partnership units representing limited partner interests in the Operating Partnership and the assumption by the Landlord of the Operating Partnership of $544,900,000 of indebtedness from MDDC.

In connection with the transactions described above, the Company borrowed approximately $544,900,000 under certain bridge facilities (the "Bridge Facilities"), the proceeds of which were used to repay outstanding term loans. The Bridge Facilities were subsequently contributed to the Operating Partnership, relieving the Company of its payment obligation under such facilities.

Pursuant to the Master Lease by and between a subsidiary of MGM and the Landlord, the Tenant has leased the contributed real estate assets from the Landlord, and subleased them to their respective contributing entities, including the Company. This arrangement will be accounted for as a failed sale-leaseback. Accordingly, the contributed assets will remain on the Company's balance sheet, along with a finance liability representing the present value of the Company's future obligations under the Master Lease. See Note 11 for additional information related to the finance liability.

NOTE 5. INVESTMENT IN UNCONSOLIDATED AFFILIATE

In connection with the Contribution, the Company was issued 27,400,000 newly issued Operating Partnership units representing an 11.27% economic interest in the Operating Partnership. The Company's investment in the Operating Partnership is be accounted for under the equity method. The Company's share of income and losses from its equity method investment is included in nonoperating income on the consolidated statements of income.

Summarized balance sheet data and results of operations of the Operating Partnership are as follows:

	December 31,	
	2017	**2016**
Assets	$ 10,351,120,000	$ 9,506,740,000
Liabilities	$ 4,283,381,000	$ 3,898,479,000
Partners' capital	6,067,739,000	5,608,261,000
Total liabilities and partners' capital	**$ 10,351,120,000**	**$ 9,506,740,000**

	December 31,	
	2017	**2016**
Revenues	$ 765,695,000	$ 467,548,000
Expenses	412,910,000	313,774,000
Operating income	352,785,000	153,774,000
Interest expense and other non-operating expense	181,889,000	116,164,000
Provision for income taxes	4,906,000	2,264,000
Net income	**$ 165,990,000**	**$ 35,346,000**

NOTE 6. RECEIVABLES AND PATRONS' CHECKS

Receivables and patrons' checks consist of the following:

	Year Ended December 31,	
	2017	**2016**
Casino receivables (net of an allowance for doubtful accounts – 2017 $19,529,000 and 2016 $19,597,000)	$ 28,900,000	$ 27,885,000
Other (net of an allowance for doubtful accounts – 2017 $39,000 and 2016 $33,000)	11,929,000	12,650,000
Receivables and patrons' checks, net	**$ 40,829,000**	**$ 40,535,000**

NOTE 7. PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following:

	Year Ended December 31, 2017	Year Ended December 31, 2016
Land	$ 35,568,000	$ 35,568,000
Building and improvements	1,250,646,000	1,238,029,000
Furniture and equipment	103,236,000	88,424,000
Construction in progress	3,988,000	15,400,000
Total property and equipment	1,393,438,000	1,377,421,000
Less accumulated depreciation	86,567,000	27,129,000
Property and equipment, net	**$ 1,306,871,000**	**$ 1,350,292,000**

Depreciation expense was $60,483,000 and $60,813,000 during the years ended December 31, 2017 and 2016, respectively.

Construction in progress presented in the table above primarily relates to costs capitalized in conjunction with major improvements that have not yet been placed into service, and accordingly, such costs are not currently being depreciated.

NOTE 8. OTHER ACCRUED EXPENSES

Other accrued expenses consist of the following:

	Year Ended December 31, 2017	Year Ended December 31, 2016
Accrued payroll and related expenses	$ 22,370,000	$ 25,726,000
Accrued expenses and other liabilities	52,858,000	44,230,000
Other accrued expenses	**$ 75,228,000**	**$ 69,956,000**

NOTE 9. OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

	Year Ended December 31, 2017	Year Ended December 31, 2016
Casino related liabilities	$ 19,191,000	$ 19,298,000
REIT rent accrual (see Notes 2 and 4)	11,129,000	13,029,000
Financing liability – current (see Notes 4 and 11)	20,536,000	17,963,000
Due to related parties (see Notes 2 and 16)	811,000	864,000
Other	13,172,000	11,437,000
Other current liabilities	**$ 64,839,000**	**$ 62,591,000**

NOTE 10. LONG-TERM DEBT, NET

In connection with the transactions described above, the Company borrowed approximately $544,850,000 under certain bridge facilities (the "Bridge Facilities"), the proceeds of which were used to repay our outstanding term loans. The Bridge Facilities were subsequently contributed to the Operating Partnership, relieving the Company of its payment obligation under such facilities. Additionally, the company borrowed $59,858,000 under an MGM Intercompany Note, the proceeds of which were used to pay certain fees and taxes in connection with the transaction described above, as well as the extinguishment of the Company's outstanding Revolving Credit Facility. Total interest incurred in connection with the Intercompany Note was $504,000 for the year ending December 31, 2016. The Intercompany Note was paid in full during the fourth quarter of 2016. As a result, the Company did not have long term debt as of December 31, 2016.

Loss on Early Extinguishments of Debt
We incurred charges of $0 and $19,932,000 for the years ended December 31, 2017 and 2016, respectively, which included the call premium, deferred debt financing costs and discounts written off, in connection with our 2016 repayment of the 2018 and 2019 Incremental Term Loans in 2016.

NOTE 11. FINANCE LIABILITY

Pursuant to the Master Lease between the Tenant and the Landlord, the Tenant has leased the real estate assets contributed to the Operating Partnership from the Landlord and subleased them to their respective contributing entities, including the Company. The Master Lease has an initial lease term of ten years with the potential to extend the term for four additional five-year terms thereafter at the option of the Tenant. The Master Lease provides that any extension of its term must apply to all of the real estate under the Master Lease at the time of the extension. The Master Lease has a triple-net structure, which requires the Tenant to pay substantially all costs associated with the lease, including real estate taxes, insurance, utilities and routine maintenance, in addition to the rent. The Tenant's performance and payments under the Master Lease will be guaranteed by MGM. A default by the Tenant with regard to any property under the Master Lease or by MGM with regard to its guarantee will cause a default with regard to the entire portfolio covered by the Master Lease. The total financing obligation of the Company as of December 31, 2017 and 2016 is $1.3 billion.

Under the Master Lease, an event of default (as defined therein) will be deemed to occur upon certain events, including: (1) the failure by the Tenant to pay rent or other amounts when due or within certain grace or cure periods of the due date, (2) the failure by the Tenant to comply with the covenants set forth in the Master Lease in any material respect when due or within any applicable cure period, (3) certain events of bankruptcy or insolvency with respect to a Tenant or a guarantor, (4) the occurrence of a default under any guaranty of the Master Lease that is not cured within a certain grace period, (5) the loss or suspension of a material license beyond a certain grace period that causes cessation of gaming activity and would reasonably be expected to have a material adverse effect on the Tenant or the leased property and (6) the failure of MGM, on a consolidated basis with Tenant, to maintain an EBITDAR to rent ratio (as described in the Master Lease) of at least 1.10:1.00 for two consecutive test periods, beginning with the test periods ending December 31, 2016 and March 31, 2017. Upon an event of default under the Master Lease, the Landlord may, at its option (i) terminate the Master Lease, repossess any leased property, relet any leased property to a third party and require that the Tenant pay to the Landlord, as liquidated damages, the net present value of the rent for the balance of the term, discounted at the discount rate of the Federal Reserve Bank of New York at the time of award plus one percent (1%) and reducing such amount by the portion of the unpaid rent that the Tenant proves could be reasonably avoided, plus any other amount reasonably necessary to compensate the Landlord for the Tenant's failure to perform (or likely to result therefrom) in the ordinary course; (ii) with or without terminating the Master Lease, decline to terminate the Tenant's right to possession of the leased property and require that the Tenant pay to the Landlord rent and other sums payable pursuant to the Master Lease with interest calculated at the overdue rate provided for in the Master Lease with the Landlord permitted to enforce any other provision of the Master Lease or terminate the Tenant's right to possession of the leased property and seek any liquidated damages as set forth above; or (iii) seek any and all other rights and remedies available under law or in equity (but the remedies described in clauses (i) and (ii) above will be the Landlord's only monetary remedies).

The Company recorded a finance liability of approximately $1.3 billion equal to the sum of the present value of the future fixed payments over the 30 year lease term and the present value of the remaining book value of the assets at the end of the lease term at the acquisition date of August 1, 2016. The present value of the future fixed payments and remaining book value of the assets is measured by discounting the payments and the remaining book value of the property using MGM's incremental borrowing rate. As monthly lease payments are made, a portion of the payment will decrease the finance liability with the balance of the payment charged to interest expense using the effective interest method.

Future payments of the finance liability are as follows:

For the Year Ending December 31,	
2018	$ 20,536,000
2019	15,847,000
2020	18,952,000
2021	22,320,000
2022	16,769,000
Thereafter	1,210,555,000
Total finance liability	1,304,979,000
Less: current portion of finance liability (included in other current liabilities)	(20,536,000)
Finance liability – non-current (included in other liabilities)	**$ 1,284,443,000**

NOTE 12. INCOME TAXES

Provision for State Income Taxes

The provision for state income taxes is as follows:

	Year Ended December 31,	
	2017	**2016**
State		
Current	$ 10,069,000	$ 11,637,000
Deferred	685,000	(3,394,000)
Provision for state income taxes	**$ 10,754,000**	**$ 8,243,000**

The following table provides a reconciliation between the state statutory rate and the effective income tax rate where both are expressed as a percentage of income.

	Year Ended December 31,	
	2017	**2016**
Tax provision at state statutory rate	9.0%	9.0%
Accrued interest on uncertain tax benefits	(1.6)	-
Investment in MGP Operating Partnership	-	(0.8)
Other, net	0.2	0.2%
Effective state tax rate	**7.6%**	**8.4%**

Deferred Tax Assets and Liabilities
Deferred tax assets and liabilities are provided to record the effects of temporary differences between the tax basis of an asset or liability and its amount as reported in the consolidated balance sheets. These temporary differences result in taxable or deductible amounts in future years.

The components comprising the Company's net deferred state tax asset are as follows:

	Year Ended December 31,	
	2017	**2016**
Deferred state tax assets		
Reserve for employee benefits	$ 1,716,000	$ 1,744,000
Accrued gaming taxes	3,088,000	2,770,000
Provision for doubtful accounts	879,000	677,000
Accrued Expenses	1,095,000	1,288,000
Deferred Financing Liability	117,448,000	118,385,000
Other	4,463,000	4,326,000
Gross deferred state tax asset	128,689,000	129,190,000
Deferred state tax liabilities		
Property, Plant and Equipment	112,297,000	112,185,000
Intangible	5,149,000	4,872,000
Prepaid services and supplies	533,000	693,000
Gross deferred state tax liability	117,979,000	117,750,000
Net deferred state tax asset (included in other assets)	**$ 10,710,000**	**$ 11,440,000**

The Company used the remainder of its state income tax net operating loss during 2016.

The items comprising the deferred state income taxes as presented on the consolidated balance sheets are as follows:

	Year Ended December 31,	
	2017	**2016**
Non-current deferred income tax asset	$ 10,710,000	$ 11,440,000
Current deferred income tax asset	-	-
Net deferred state tax asset	**$ 10,710,000**	**$ 11,440,000**

Status of Examinations
The Company is subject to state taxation in New Jersey and its state tax returns are subject to examination for tax years ended on or after December 31, 2011. The statute of limitations for all remaining New Jersey income tax returns will expire over the period October 2017 through October 2021. As the Company is a partnership for federal income tax purposes, it is not subject to federal income tax.

NOTE 13. COMMITMENTS AND CONTIGNECIES

Commitments
Utility Contract
In 2005, we amended our executory contracts with a wholly-owned subsidiary of a local utility company, extending the end of the terms to 20 years from the opening of The Water Club. The utility company provides us with electricity and thermal energy (hot water and chilled water). Obligations under the thermal energy executory contract contain both fixed fees and variable fees based upon usage rates. The fixed fee components under the thermal energy executory contract are currently estimated at approximately $11,700,000 per annum. We also committed to purchase a certain portion of our electricity demand at essentially a fixed rate, which is estimated at approximately $1,700,000 per annum. Electricity demand in excess of the commitment is subject to market rates based on our tariff class.

Investment Alternative Tax
The New Jersey state law provides, among other things, for an assessment of licensees equal to 1.25% of land-based gross gaming revenues in lieu of an investment alternative tax equal to 2.5% of land-based gross gaming revenues and for an assessment of licensees equal to 2.5% of online gross gaming revenues in lieu of an IAT equal to 5.0% of online gross gaming revenues. Generally, we may satisfy 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 may be used to purchase bonds designated by the CRDA or, under certain circumstances, may be donated to the CRDA in exchange for credits against future CRDA investment obligations. CRDA bonds have terms up to fifty years and bear interest at below market rates.

See Note 2 and Note 17 for discussion related to the PILOT law.

Our CRDA obligations for the years ended December 31, 2017 and 2016 were $10,635,000 and $10,161,000, respectively. Due to management's assessment of deposits committed to existing agreements and the uncertainty of the ultimate recoverability of deposits that are available and uncommitted, valuation provisions of $10,596,000 and $4,541,000 were recorded during the years ended December 31, 2017 and 2016, respectively. Our deposits with the CRDA, net of valuation reserves, were $0 as of December 31, 2017 and 2016, respectively, and are included in investments, advances and receivables on our consolidated balance sheets.

Atlantic City Tourism District
As part of the State of New Jersey's plan to revitalize Atlantic City, a new law was enacted in February 2011 requiring that a tourism district (the "Tourism District") be created and managed by the CRDA. The Tourism District has been established to include each of the Atlantic City casino properties along with certain other tourism related areas of Atlantic City. The law requires that a public-private partnership be created between the CRDA and a private entity that represents existing and future casino licensees. The private entity, known as The Atlantic City Alliance (the "ACA"), has been established in the form of a not-for-profit limited liability company, of which MDDC is a member. The public-private partnership between the ACA and CRDA shall be for an initial term of five years and its general purpose shall be to revitalize the Tourism District. The law requires that a $5,000,000 contribution be made to this effort by all casinos prior to 2012 followed by an annual amount of $30,000,000 to be contributed quarterly by the casinos commencing January 1, 2012 for a term of five years. Each casino's share of the quarterly contributions will equate to a percentage representing its gross gaming revenue for each corresponding period compared to the aggregate gross gaming revenues for that period for all casinos. As a result, we will expense our pro rata share of the $155,000,000 as incurred.

The PILOT law also provides for the abolishment of the ACA effective as of January 1, 2015 and redirection of the $30,000,000 in ACA funds paid by the casinos for each of the years 2015 and 2016 under the Tourism District Law to the State of New Jersey for Atlantic City fiscal relief and further payments of $15,000,000 in 2017, $10,000,000 in 2018 and $5,000,000 for each year between 2019 and 2023 to Atlantic City. Pursuant to the PILOT law, the 2017 and 2016 ACA payments have been remitted to the State.

During the years ended December 31, 2017 and 2016, we incurred expenses of $4,662,000 and $8,474,000, respectively, for our pro rata share of these related contributions required under the PILOT law.

Leases
As of the date of the Acquisition, MDDC owned approximately 26 acres of land and all improvements thereon with respect to that portion of the property consisting of the Borgata hotel. In addition, MDDC, as lessee, entered into a series of ground leases for a total of approximately 20 acres of land on which our existing employee parking garage, public space expansion, rooms expansion, modified surface parking lot and outdoor pool and entertainment complex reside. All of these parcels were originally leased from MAC. Following the 2010 sale of several of the leased parcels by MAC to a third party, now only the surface parking lease is with MAC. The lease terms extend until December 31, 2070 with the exception of the surface parking lot lease which could be terminated by either party effective on the last day of the month that is three months after notice is given. As discussed in Note 4, in connection with the Contribution, the Landlord was assigned all the ground leases except for the Surface Parking Lot Ground Lease with terms that extend through 2070. The Company is responsible for the rent payments related to the ground leases through the term of Master Lease. See Note 11 for further discussion. The leases consist of:

- Lease and Option Agreement, dated as of January 16, 2002, as amended by the Modification of Lease and Option Agreement, dated as of August 20, 2004, and the Second Modification of Employee Parking Structure Lease and Option Agreement, dated March 23, 2010, for approximately 2 acres of land underlying the parking garage (the "Parking Structure Ground Lease");
- Expansion Ground Lease, dated as of January 1, 2005, as amended by the Modification of Expansion Ground Lease, dated March 23, 2010, for approximately 4 acres of land underlying the Public Space Expansion (the "Public Space Expansion Ground Lease");
- Tower Expansion & Additional Structured Parking Ground Lease Agreement, dated as of January 1, 2005, as amended by the Modification of Tower Expansion & Additional Structured Parking Ground Lease Agreement, dated February 20, 2010, and the Second Modification of Tower Expansion & Additional Structured Parking Ground Lease Agreement, dated March 23, 2010, for approximately 2 acres of land underlying the Rooms Expansion and 3 acres of land underlying a parking structure each (the "Rooms Expansion Ground Lease");
- Surface Lot Ground Lease, dated as of August 20, 2004, as amended by a letter agreement, dated April 10, 2009, a letter agreement dated September 21, 2009, the Modification of Surface Lot Ground Lease, dated March 23, 2010, and the Amendment to the Surface Lot Ground Lease dated November 7, 2013, for approximately 8 acres of land consisting of the surface parking lot (collectively, the "Surface Parking Lot Ground Lease"); and
- The Ground Lease Agreement, dated as of March 23, 2010, for approximately 1 acre of then undeveloped land. In 2016, we developed an outdoor pool and entertainment complex on the existing festival park area.

MDDC owns all improvements made on the leased lands during the term of each ground lease. Upon expiration of such term, ownership of such improvements reverts back to the landlord. Total rent incurred under the ground leases was $5,520,000 and $5,910,000 for the years ended December 31, 2017 and 2016, respectively. In addition, MDDC is responsible for all property taxes assessed on the leased properties. Total property taxes incurred for ground lease agreements were $8,670,000 for each of the years ended December 31, 2017 and 2016.

If during the term of the Parking Structure Ground Lease, the Rooms Expansion Ground Lease, the Public Space Expansion Ground Lease or the Ground Lease Agreement, the third party landlord ("Ground Lease Landlord") or any person associated with the Ground Lease Landlord is found by the NJCCC to be unsuitable to be associated with a casino enterprise and such person is not removed from such association in a manner acceptable to the NJCCC, then MDDC may, upon written notice to the Ground Lease Landlord, elect to purchase the leased land for the appraised value as determined under the terms of such ground leases, unless the Ground Lease Landlord elects, upon receipt of such notice, to sell the land to a third party, subject to the ground leases. If the Ground Lease Landlord elects to sell the land to a third party but is unable to do so within one year, then the Ground Lease Landlord must sell the land to MGP for the appraised value.

In addition, MGP has an option to purchase the land leased under the Parking Structure Ground Lease at any time during the term of that lease so long as it is not in default thereunder, at fair market value as determined in accordance with the terms of the Parking Structure Ground Lease. In the event that the land underlying the Surface Parking Lot Ground Lease is sold to a third party, MGP has the option to build a parking garage, if necessary, to replace the lost parking spaces on the land underlying the Ground Lease Agreement.

Pursuant to the Operating Agreement, MAC is responsible for its allocable share of expenses related to master plan and government improvements at Renaissance Pointe. The related amounts due from MAC for these types of expenditures incurred by us were $0 at December 31, 2017 and 2016. Reimbursable expenditures incurred were $887,000 and $486,000 for the years ended December 31, 2017 and 2016, respectively.

See Note 3 regarding the related unfavorable lease liability.

Future Minimum Lease Payments and Rental Income
Future minimum lease payments required under noncancelable operating leases (principally for land, see above and Note 16, *Related Party Transactions*) as of December 31, 2017 are as follows:

For the Year Ending December 31,	
2018	$ 7,750,000
2019	6,492,000
2020	6,444,000
2021	6,444,000
2022	6,402,000
Thereafter	305,268,000
Total	**$ 338,800,000**

For the years ended December 31, 2017 and 2016 total rent expense was $14,233,000 and $17,337,000 respectively, which were included in general, administrative and other in the consolidated statements of income.

Future minimum rental income, which is primarily related to retail and restaurant facilities located within our property, as of December 31, 2017 is as follows:

For the Year Ending December 31,	
2018	$ 2,146,000
2019	1,950,000
2020	1,950,000
2021	1,950,000
2022	1,950,000
Thereafter	4,088,000
Total	**$ 14,034,000**

For the years ended December 31, 2017 and 2016, total rent income was $3,569,000 and $3,096,000, respectively, which is recorded as other revenue in the consolidated statements of income.

Contingencies

Borgata property tax reimbursement agreement
On February 15, 2017, the Company, the Department of Community Affairs of the State of New Jersey and Atlantic City entered into an agreement wherein the Company was to be reimbursed $72,000,000 as settlement for property tax refunds in satisfaction of New Jersey Tax Court and Superior Court judgments totaling approximately $106,000,000, plus interest for the 2009-2012 tax years and the settlement of pending tax appeals for the tax years 2013-2015. Those pending tax appeals could potentially have resulted in Borgata being awarded additional refunds due amounting to approximately $65,000,000. In June 2017, Atlantic City and the State of New Jersey issued bonds and used the proceeds to pay the $72,000,000 settlement in full.

On June 8, 2017, Borgata received the $72,000,000 settlement. As required by the purchase and sale agreement for MGM to acquire Boyd's interest in Borgata in August 2016, the Company paid Boyd half of the settlement amount received by the Company, net of fees and expenses on June 12, 2017. As such, we recognized a gain of $36,000,000 which is included in nonoperating income.

On February 15, 2017, the Company, the Department of Community Affairs of the State of New Jersey and Atlantic City entered into an interim PILOT financial agreement, effective January 1, 2017. Under the PILOT agreement, commencing in 2017 and for a period of ten (10) years, Atlantic City casino gaming properties will be required to pay a prorated share of PILOT payments totaling $120,000,000 based on a formula that accounts for gaming revenues, the number of hotel rooms and the square footage of each casino gaming property. Commencing in 2018 and each year thereafter, the $120,000,000 base year aggregate payment may either increase to as high as $165,000,000 (based upon industry gross gaming revenue ("GGR") of between $3.0 billion and $3.4 billion) or decrease to a low of $90,000,000 (based upon industry GGR less than $1.8 billion) and further taking into account certain non-GGR revenue streams, with the base year $120,000,000 industry GGR set at between $2.2 billion and $2.6 billion. In years in which the industry PILOT payments do not increase based upon an increase in GGR above the base year or other bracketed amounts, PILOT payments will increase 2%.

On May 10, 2017, the Company, the Department of Community Affairs of the State of New Jersey and Atlantic City entered into an amended interim PILOT financial agreement, effective January 1, 2017, establishing our prorated share as $30,400,000 for calendar year 2017. For casinos whose PILOT payment exceeds their 2015 real estate tax assessment, they will receive a credit against the Investment Alternative Tax (“IAT”) for the first five (5) years. As our 2015 tax assessment was $29,087,000, we will receive quarterly reimbursements for payment amounts that are projected to cause us to exceed $29,087,000 annually.

The Company’s CRDA obligations for the years ended December 31, 2017 and 2016 were $10,658,000 and $10,212,000, respectively. Due to management’s assessment of deposits committed to existing agreements and the uncertainty of the ultimate recoverability of deposits that are available and uncommitted, valuation provisions of $ 10,596,000 and $4,541,000 were recorded for the years ended December 31, 2017 and 2016, respectively, and are included in investments, advances and receivables on the consolidated balance sheets.

On February 23, 2018, the Company, the Department of Community Affairs of the State of New Jersey and Atlantic City entered into an amended interim PILOT financial agreement, effective January 1, 2018, establishing our prorated share as $39,200,000 for calendar year 2018. For casinos whose PILOT payment exceeds their 2015 real estate tax assessment, they will receive a credit against the Investment Alternative Tax (“IAT”) for the first five (5) years. As our 2015 tax assessment was $29,087,000, we will receive quarterly reimbursements for payment amounts that are projected to cause us to exceed $29,087,000 annually.

Legal Matters
The Company is subject to various claims and litigation in the ordinary course of business. In management’s opinion, all pending legal matters are either adequately covered by insurance, or if not insured, will not have a material impact on the Company’s financial position, results of operations or cash flows.

NOTE 14. FAIR VALUE MEASUREMENTS

The authoritative accounting guidance for fair value measurements defines fair value, expands disclosure requirements around fair value and specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company’s market assumptions.

These inputs create the following fair value hierarchy:

- *Level 1*: Quoted prices for identical instruments in active markets.

- *Level 2*: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

- *Level 3*: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

As required by the guidance for fair value measurements, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Thus, assets and liabilities categorized as Level 3 may be measured at fair value using inputs that are observable (Levels 1 and 2) and unobservable (Level 3). Management’s assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of assets and liabilities and their placement within the fair value hierarchy levels.

Balances Measured at Fair Value

The following tables show the fair values of certain of our financial instruments.

	December 31, 2017			
	Balance	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 58,735,000	$ 58,735,000	$ -	$ -
Restricted Cash	5,499,000	5,499,000	-	-
CRDA investments, net	-	-	-	-

	December 31, 2016			
	Balance	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 43,646,000	$ 43,646,000	$ -	$ -
Restricted Cash	5,393,000	5,393,000	-	-
CRDA investments, net	-	-	-	-

The fair value of our cash and cash equivalents and restricted cash, classified in the fair value hierarchy as Level 1, is based on statements received from our banks at December 31, 2017 and December 31, 2016. The fair value of our CRDA deposits, classified in the fair value hierarchy as Level 3, is based on estimates of the realizable value applied to the balances on statements received from the CRDA at December 31, 2017 and December 31, 2016.

The following table summarizes the changes in fair value of the Company's Level 3 assets:

	Year Ended December 31,	
	2017	2016
Balance at January 1,	$ -	$ 6,867,000
Deposits	10,658,000	10,212,000
Included in earnings	(10,596,000)	(4,541,000)
Settlements	(62,000)	(12,538,000)
Ending balance at December 31,	**$ -**	**$ -**

NOTE 15. EMPLOYEE BENEFIT PLANS

The Company contributes to multi-employer pension defined benefit plans under terms of collective-bargaining agreements that cover its union-represented employees. These unions cover certain of its culinary, hotel and other trade workers. The Company is obligated to make defined contributions under these plans.

The significant risks of participating in multiemployer plans include, but are not limited to, the following:

- The Company may elect to stop participating in its multi-employer plans. As a result of such election, the Company may be required to pay a withdrawal liability based on the underfunded status of the plan, as applicable. Its ability to fund such payments would be based on the results of its operations and subject to the risk factors that impact its business. If any of these risks actually occur, its business, financial condition and results of operations could be materially and adversely affected and it could affect its ability to meet its obligations to the multiemployer plan.

- The Company may contribute assets to the multi-employer plan for the benefit of its covered employees that are used to provide benefits to employees of other participating employers.

- The Company may be required to fund additional amounts if other participating employers stop contributing to the multiemployer plan.

Contributions, based on wages paid to covered employees, totaled $9,968,000 and $9,436,000 during the years ended December 31, 2017 and 2016, respectively. These aggregate contributions were not individually significant to any of the respective plans. There were no significant changes that would affect the comparability of our employer contributions during the years ended December 31, 2017 and 2016. Our estimated share of unfunded vested liabilities related to certain multi-employer pension plans is approximately $321,400,000 as of January 1, 2017.

The Company has a retirement savings plan under Section 401(k) of the Internal Revenue Code covering its non-union employees. The plan allows employees to defer up to the lesser of the Internal Revenue Code prescribed maximum amount or 100% of their income on a pre-tax basis through contributions to the plan. The Company expensed its voluntary contributions to the 401(k) plan of $1,699,000 and $1,455,000 for the years ended December 31, 2017 and 2016, respectively.

NOTE 16. RELATED PARTY TRANSACTIONS

As discussed in Note 10, the Company borrowed approximately $59,858,000 under the Intercompany Note, the proceeds of which were used to pay certain fees and taxes in connection with the transaction described above, as well as the extinguishment of the Company's outstanding revolving credit facility. The Intercompany Note was repaid in full during the fourth quarter of 2016. Total interest incurred in connection with the Intercompany Note was $504,000 for the period from August 1, 2016 through December 31, 2016.

The Company does not pay a management fee to MGM. The Company is engaged in certain transactions with MGM and some of its wholly owned subsidiaries. Related party balances are non-interest bearing and are included in other current liabilities on the consolidated balance sheets. The amounts due to MGM at December 31, 2017 and 2016 were $811,000 and $864,000, respectively.

Surface Lot Ground Lease

The Company entered into a ground lease agreement with MAC for approximately 8 acres that provides the land on which our surface parking lot resides. The lease is on a month-to-month term and may be terminated by either party effective on the last day of the month that is three months after notice is given. Pursuant to the surface lot ground lease agreement, the lease payment is comprised of a de minimus monthly payment to the landlord and the property taxes, which are paid directly to the taxing authority. Property taxes incurred for the surface lot ground lease agreement were $1,071,000 and $1,071,000 for the years ended December 31, 2017 and 2016, respectively, which was included in general, administrative and other on the consolidated statements of income.

NOTE 17. SUBSEQUENT EVENTS

On February 23, 2018, Borgata, the Department of Community Affairs of the State of New Jersey and Atlantic City entered into an interim PILOT financial agreement, effective January 1, 2018. Under the PILOT agreement, commencing in 2018 and for a period of ten (10) years, Atlantic City casino gaming properties will be required to pay a prorated share of PILOT payments totaling $120,000,000 based on a formula that accounts for gaming revenues, the number of hotel rooms and the square footage of each casino gaming property. Commencing in 2018 and each year thereafter, the $120,000,000 base year aggregate payment may either increase to as high as $165,000,000 (based upon industry gross gaming revenue ("GGR") of between $3.0 billion and $3.4 billion) or decrease to a low of $90,000,000 (based upon industry GGR less than $1.8 billion) and further taking into account certain non-GGR revenue streams, with the base year $120,000,000 industry GGR set at between $2.2 billion and $2.6 billion. In years in which the industry PILOT payments do not increase based upon an increase in GGR above the base year or other bracketed amounts, PILOT payments will increase 2%. In February 2018, the Company signed an interim PILOT agreement with the State and the City related to payment of the first quarter 2018 PILOT payment. On February 23, 2018, the company made its first 2018 quarterly PILOT payment in the amount of $9,800,000 in accordance with the interim agreement. The final PILOT agreement is expected to be executed during 2018 and extend through 2026.

The Company has evaluated all events or transactions that occurred after December 31, 2017 through April 2, 2018, the date these consolidated financial statements were available to be issued. During this period, the Company did not identify any other subsequent events, the effects of which would require disclosure or adjustment to its financial position or results of operations as of and for the year ended December 31, 2017.

BORGATA HOTEL CASINO & SPA

ANNUAL FILINGS

FOR THE YEAR ENDED DECEMBER 31, 2017

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

OFFICE OF FINANCIAL INVESTIGATIONS
REPORTING MANUAL

BORGATA HOTEL CASINO & SPA

ANNUAL SCHEDULE OF RECEIVABLES AND PATRONS' CHECKS

FOR THE YEAR ENDED DECEMBER 31, 2017

(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..	$22,801		
2	Returned Patrons' Checks...	25,628		
3	Total Patrons' Checks..	48,429	$19,529	$28,900
4	Hotel Receivables..	3,541	39	$3,502
	Other Receivables:			
5	Receivables Due from Officers and Employees.............	24		
6	Receivables Due from Affiliates....................................	-		
7	Other Accounts and Notes Receivables..........................	8,403		
8	Total Other Receivables...	8,427		$8,427
9	Totals (Form DGE-205)...	$60,397	$19,568	$40,829

UNDEPOSITED PATRONS' CHECKS ACTIVITY		
Line (f)	**Description (g)**	**Amount (h)**
10	Beginning Balance (January 1)..	$ 19,226
11	Counter Checks Issued..	527,950
12	Checks Redeemed Prior to Deposit...	(381,981)
13	Checks Collected Through Deposits..	(119,872)
14	Checks Transferred to Returned Checks...	(22,522)
15	Other Adjustments..	
16	Ending Balance..	$22,801
17	"Hold" Checks Included in Balance on Line 16...	0
18	Provision for Uncollectible Patrons' Checks..	$ 3,296
19	Provision as a Percent of Counter Checks Issued...	0.6%

BORGATA HOTEL CASINO & SPA
ANNUAL EMPLOYMENT AND PAYROLL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2017

($ IN THOUSANDS)

Line	Department	Number of Employees	Salaries and Wages		
			Other Employees	Officers & Owners	Totals
(a)	(b)	(c)	(d)	(e)	(f)
	CASINO:				
1	Table and Other Games	1,620			
2	Slot Machines	92			
3	Administration	-			
4	Casino Accounting	222			
5	Simulcasting	19			
6	Other	31			
7	Total - Casino	1,984	$43,657	$1,089	$44,746
8	ROOMS	568	14,160		14,160
9	FOOD AND BEVERAGE	1,737	37,939		37,939
10	GUEST ENTERTAINMENT	255	4,611		4,611
11	MARKETING	206	8,056	1,089	9,145
12	OPERATION AND MAINTENANCE	269	10,213		10,213
	ADMINISTRATIVE AND GENERAL:				
13	Executive Office	23	306	2,178	2,484
14	Accounting and Auditing	73	2,779		2,779
15	Security	255	7,908		7,908
16	Other Administrative and General	126	6,914		6,914
	OTHER OPERATED DEPARTMENTS:				
17	Simulated Gaming	1	36		36
18	Spa	126	2,806		2,806
19	Barbershop/Salon	23	326		326
20	Retail	33	750		750
21	Transportation	129	2,525		2,525
22					0
23	TOTALS - ALL DEPARTMENTS	5,808	$142,986	$4,356	$147,342