

**HARRAH'S RESORT, ATLANTIC CITY
QUARTERLY REPORT**

FOR THE QUARTER ENDED SEPTEMBER 30, 2017

**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 SEPTEMBER 30, 2017 AND 2016

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2017 (c)	2016 (d)
	<u>ASSETS:</u>			
	Current Assets:			
1	Cash and Cash Equivalents.....		\$19,462	\$19,646
2	Short-Term Investments.....			
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2017, \$4,348; 2016, \$5,196).....	4	19,469	12,666
4	Inventories	2	1,373	1,448
5	Other Current Assets.....	5	3,333	2,947
6	Total Current Assets.....		43,637	36,707
7	Investments, Advances, and Receivables.....	6	7,231	10,419
8	Property and Equipment - Gross.....	2,7	227,145	196,959
9	Less: Accumulated Depreciation and Amortization.....	2,7	(32,962)	(21,502)
10	Property and Equipment - Net.....	2,7	194,183	175,457
11	Other Assets.....	8	152,253	154,126
12	Total Assets.....		\$397,304	\$376,709
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$7,921	\$7,537
14	Notes Payable.....			
	Current Portion of Long-Term Debt:			
15	Due to Affiliates.....			
16	External.....	10	0	1,628
17	Income Taxes Payable and Accrued.....			
18	Other Accrued Expenses.....	9	16,115	20,070
19	Other Current Liabilities.....		2,001	1,933
20	Total Current Liabilities.....		26,037	31,168
	Long-Term Debt:			
21	Due to Affiliates.....			
22	External.....			
23	Deferred Credits			
24	Other Liabilities.....	11	304	346
25	Commitments and Contingencies.....	15		
26	Total Liabilities.....		26,341	31,514
27	Stockholders', Partners', or Proprietor's Equity.....	3	370,963	345,195
28	Total Liabilities and Equity.....		\$397,304	\$376,709

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 NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

(UNAUDITED)
(\$ IN THOUSANDS)

Amended April 2, 2018

Line (a)	Description (b)	Notes	2017 (c)	2016 (d)
	Revenue:			
1	Casino.....		\$273,182	\$266,780
2	Rooms.....		68,698	65,472
3	Food and Beverage.....		67,122	68,487
4	Other.....		20,434	19,843
5	Total Revenue.....		429,436	420,582
6	Less: Promotional Allowances.....	2	114,935	99,906
7	Net Revenue.....		314,501	320,676
	Costs and Expenses:			
8	Casino.....		126,875	117,112
9	Rooms, Food and Beverage.....		30,113	32,996
10	General, Administrative and Other.....		69,403	75,930
11	Total Costs and Expenses.....		226,391	226,038
12	Gross Operating Profit.....		88,110	94,638
13	Depreciation and Amortization.....		10,359	7,781
	Charges from Affiliates Other than Interest:			
14	Management Fees.....			
15	Other.....	3	25,995	25,822
16	Income (Loss) from Operations.....		51,756	61,035
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....			
18	Interest Expense - External.....		340	(78)
19	CRDA Related Income (Expense) - Net.....	14	(660)	(4,458)
20	Nonoperating Income (Expense) - Net.....	2, 12	2,187	(340)
21	Total Other Income (Expenses).....		1,867	(4,876)
22	Income (Loss) Before Taxes		53,623	56,159
23	Provision (Credit) for Income Taxes.....			
24	Net Income (Loss).....		\$53,623	\$56,159

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 SEPTEMBER 30, 2017 AND 2016

(UNAUDITED)
(\$ IN THOUSANDS)

Amended April 2, 2018

Line (a)	Description (b)	Notes	2017 (c)	2016 (d)
	Revenue:			
1	Casino.....		\$99,623	\$95,729
2	Rooms.....		26,726	25,483
3	Food and Beverage.....		25,078	24,838
4	Other.....		7,441	6,988
5	Total Revenue.....		158,868	153,038
6	Less: Promotional Allowances.....	2	42,393	36,374
7	Net Revenue.....		116,475	116,664
	Costs and Expenses:			
8	Casino.....		42,980	41,055
9	Rooms, Food and Beverage.....		11,562	12,081
10	General, Administrative and Other.....		23,965	26,120
11	Total Costs and Expenses.....		78,507	79,256
12	Gross Operating Profit.....		37,968	37,408
13	Depreciation and Amortization.....		3,793	3,052
	Charges from Affiliates Other than Interest:			
14	Management Fees.....			
15	Other.....	3	7,609	9,450
16	Income (Loss) from Operations.....		26,566	24,906
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....			
18	Interest Expense - External.....		4	9
19	CRDA Related Income (Expense) - Net.....	14	(486)	(1,191)
20	Nonoperating Income (Expense) - Net.....	2, 12	3,241	31
21	Total Other Income (Expenses).....		2,759	(1,151)
22	Income (Loss) Before Taxes		29,325	23,755
23	Provision (Credit) for Income Taxes.....			
24	Net Income (Loss).....		\$29,325	\$23,755

The accompanying notes are an integral part of the financial statements.
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HARRAH'S RESORT, ATLANTIC CITY

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016 AND THE NINE MONTHS ENDED SEPTEMBER 30, 2017

(UNAUDITED)
(\$ IN THOUSANDS)

Amended April 2, 2018

Line (a)	Description (b)	Notes	Common Stock		Preferred Stock		Additional Paid-In Capital (g)		Retained Earnings (Accumulated Deficit) (i)	Total Stockholders' Equity (Deficit) (j)
			Shares (c)	Amount (d)	Shares (e)	Amount (f)				
1	Balance, December 31, 2015.....		25	\$25	0	\$0	\$1,094,674	\$0	(\$740,425)	\$354,274
2	Net Income (Loss) - 2016.....								44,241	44,241
3	Contribution to Paid-in-Capital....									0
4	Dividends.....									0
5	Prior Period Adjustments.....									0
6	Equitization of Intercompany	3					(34,254)			(34,254)
7	.....									0
8	.....									0
9	.....									0
10	Balance, December 31, 2016.....		25	25	0	0	1,060,420	0	(696,184)	364,261
11	Net Income (Loss) - 2017.....								53,623	53,623
12	Contribution to Paid-in-Capital....									0
13	Dividends.....									0
14	Prior Period Adjustments.....									0
15	Equitization of Intercompany	3					(46,921)			(46,921)
16	.....									0
17	.....									0
18	.....									0
19	Balance, September 30, 2017		25	\$25	0	\$0	\$1,013,499	\$0	(\$642,561)	\$370,963

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 NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2017 (c)	2016 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		\$20,117	\$858
	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.....		(25,434)	(6,247)
5	Proceeds from Disposition of Property and Equipment.....			
6	CRDA Obligations		(3,303)	(3,225)
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.....		(28,737)	(9,472)
	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.....		(8,620)	(8,614)
25	Cash and Cash Equivalents at Beginning of Period.....		28,082	28,260
26	Cash and Cash Equivalents at End of Period.....		\$19,462	\$19,646
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....		\$15	\$137
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 NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

(UNAUDITED)
(\$ IN THOUSANDS)

Amended April 2, 2018

Line (a)	Description (b)	Notes	2017 (c)	2016 (d)
	CASH FLOWS FROM OPERATING ACTIVITIES:			
29	Net Income (Loss).....		\$53,623	\$56,159
30	Depreciation and Amortization of Property and Equipment...		9,898	7,320
31	Amortization of Other Assets.....		461	461
32	Amortization of Debt Discount or Premium.....			
33	Deferred Income Taxes - Current			
34	Deferred Income Taxes - Noncurrent			
35	(Gain) Loss on Disposition of Property and Equipment.....		(18)	(6)
36	(Gain) Loss on CRDA-Related Obligations.....	14	660	4,458
37	(Gain) Loss from Other Investment Activities.....			
38	(Increase) Decrease in Receivables and Patrons' Checks		(5,927)	49
39	(Increase) Decrease in Inventories		136	(95)
40	(Increase) Decrease in Other Current Assets.....		4,208	(764)
41	(Increase) Decrease in Other Assets.....		(45)	(85)
42	Increase (Decrease) in Accounts Payable.....		1,218	(381)
43	Increase (Decrease) in Other Current Liabilities		(3,075)	1,259
44	Increase (Decrease) in Other Liabilities		(18)	(929)
45	(Increase) Decrease in Other Receivables or Adv.....		(41,004)	(67,067)
46	Impairment of Assets / Write Downs & Reserves.....	12	0	479
47	Net Cash Provided (Used) By Operating Activities.....		\$20,117	\$858

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	ACQUISITION OF PROPERTY AND EQUIPMENT:			
48	Additions to Property and Equipment.....		(\$25,434)	(\$6,247)
49	Less: Capital Lease Obligations Incurred.....			
50	Cash Outflows for Property and Equipment.....		(\$25,434)	(\$6,247)
	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.....			
59	Consideration in Acquisition of Business Entities.....			
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 NINE MONTHS ENDED SEPTEMBER 30, 2017
(UNAUDITED)
(\$ IN THOUSANDS)

Amended April 2, 2018

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	755,908	\$33,507	0	\$0
2	Food	992,339	22,483	0	0
3	Beverage	7,746,472	15,493	0	0
4	Travel	0	0	54,225	10,642
5	Bus Program Cash	3,123	31	0	0
6	Promotional Gaming Credits	1,233,651	32,792	0	0
7	Complimentary Cash Gifts	113,657	5,694	0	0
8	Entertainment	34,989	1,260	1,617	202
9	Retail & Non-Cash Gifts	94,123	1,882	34,811	3,481
10	Parking	0	0	639,633	2,559
11	Other	49,462	1,793	151,298	3,782
12	Total	11,023,724	\$114,935	881,584	\$20,666

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2017

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	276,244	12,370	0	0
2	Food	377,747	8,142	0	0
3	Beverage	2,730,769	5,461	0	0
4	Travel	0	0	20,021	3,852
5	Bus Program Cash	723	7	0	0
6	Promotional Gaming Credits	464,609	12,557	0	0
7	Complimentary Cash Gifts	45,160	2,076	0	0
8	Entertainment	12,283	433	142	18
9	Retail & Non-Cash Gifts	33,877	677	11,194	1,119
10	Parking	0	0	237,426	950
11	Other	18,789	670	57,349	1,433
12	Total	3,960,201	\$42,393	326,132	\$7,372

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

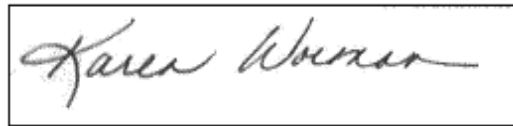
**HARRAH'S RESORT, ATLANTIC CITY
STATEMENT OF CONFORMITY,
ACCURACY, AND COMPLIANCE**

FOR THE QUARTER ENDED SEPTEMBER 30, 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.

3/20/2018

Date



Karen Worman

Vice President of Finance

Title

6320-11

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 unaudited quarterly financial statements for the quarter ended September 30, 2017 ("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"). On January 17, 2017, the Bankruptcy Court entered an order approving and confirming the Debtors' third amended joint plan of reorganization (the "Plan"). As described in CEC's Note 17, on October 6, 2017, the Debtors consummated their reorganization pursuant to the Plan.

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.

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

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

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 September 30, 2017 and 2016, and accumulated amortization of \$2,304 and \$1,690 as of September 30, 2017 and 2016, 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).

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.

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

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 as of September 30:

	<u>2017</u>	<u>2016</u>
Food and Beverage	\$ 26,025	\$ 24,480
Rooms	12,565	11,220
Other	4,116	2,463
Other Cash Complimentary	5,694	4,237
Promotional Gaming Credits	<u>32,792</u>	<u>26,874</u>
	<u>\$ 81,192</u>	<u>\$ 69,274</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. As of September 30, 2017 and 2016, the accrued balance for the estimated cost of Total Rewards credit redemptions was \$3,677 and \$3,078 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 September 30, 2017 and 2016, the liability related to outstanding NNRR, which is based on historical redemption activity, were \$1,028 and \$960 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 nine months ended September 30, 2017 and 2016, which are included in cost of goods and services in the statement of income, were approximately \$22,050 and \$21,504 respectively.

City of Atlantic City Real Property Tax and Interim Payment in Lieu of Taxes (PILOT) Financial Management - The City increased the property tax rate by approximately 12.8% for the year ending 2016. 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 respective quarterly obligations in February, May and August 2017. For calendar year 2017, the City decreased its property tax rate by approximately 11% for the properties not included in PILOT program. In September 2017, the Company settled the 2016 tax appeal with the City and the assessed value of the company was reduced by \$85,874. The \$3,315 credit received due to reduction in assessed value is included in Non-Operating Income in the statement of income.

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

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 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 2017 or 2016.

Seasonal factors - The Company's operations are subject to seasonal factors and, therefore, the results of operations for the three months ended September 30, 2017 are not necessarily indicative of the results of operations for the full year.

Omission of Disclosures - In accordance with the Financial Reporting guidelines provided by the Division of Gaming Enforcement, the Company has elected not to include certain disclosures, which have not significantly changed since filing the most recent Annual Report. Accordingly, the following disclosures have been omitted: Future Lease Obligations, Employee Benefits and certain Income Tax disclosures.

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.

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 \$25,995 and \$25,822 for these services for the nine months ended September 30, 2017 and 2016 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 September 30 consisted of the following:

	<u>2017</u>	<u>2016</u>
Casino Receivables (Net of Allowance for Doubtful Accounts - 2017, \$3,699 & 2016, \$4,527)	\$ 5,369	\$ 4,764
Other (Net of Allowance for Doubtful Accounts- 2017, \$649 & 2016, \$669)	14,100	7,902
	<u>\$ 19,469</u>	<u>\$ 12,666</u>

NOTE 5 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid Expenses and Other Current Assets as of September 30 consisted of the following:

	<u>2017</u>	<u>2016</u>
Prepaid State Income Tax	\$ 533	\$ 1,140
Prepaid Taxes	803	818
Prepaid Marketing & Entertainment	94	177
Prepaid Other & Other Current Assets	1,238	314
Prepaid Contracts / Utilities	665	498
	<u>\$ 3,333</u>	<u>\$ 2,947</u>

NOTE 6 - INVESTMENTS, ADVANCES AND RECEIVABLES

Investments, Advances and Receivables as of September 30 consisted of the following:

	<u>2017</u>	<u>2016</u>
CRDA obligation deposit-Net of Valuation Allowance of \$1,051 and \$965 at September 30, 2017 and 2016, respectively	910	4,758
CRDA obligation bonds-Net of Valuation Allowance of \$6,297 and \$5,948 at September 30, 2017 and 2016, respectively	6,321	5,153
Other	-	508
	<u>\$ 7,231</u>	<u>\$ 10,419</u>

NOTE 7 – LAND, BUILDINGS AND EQUIPMENT

Land, Buildings and Equipment as of September 30 consisted of the following:

	<u>2017</u>	<u>2016</u>
Land and Land Improvements	\$ 57,632	\$ 57,640
Building and Improvements	123,676	112,032
Furniture Fixtures & Equipment	42,978	21,557
Construction in Progress	2,859	5,730
	<u>227,145</u>	<u>196,959</u>
Less: Accumulated Depreciation and Amortization	<u>(32,962)</u>	<u>(21,502)</u>
Land, Building and Equipment, Net	<u>\$ 194,183</u>	<u>\$ 175,457</u>

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

NOTE 8 - OTHER ASSETS

Other Assets as of September 30 consisted of the following:

	<u>2017</u>	<u>2016</u>
Intangible Asstes	\$ 2,048	\$ 2,663
Deferred Income Taxes	149,386	144,671
Other	819	6,792
	<u>\$ 152,253</u>	<u>\$ 154,126</u>

NOTE 9 - OTHER ACCRUED EXPENSES

Other Accrued Expenses as of September 30 consisted of the following:

	<u>2017</u>	<u>2016</u>
Accrued Salaries, Wages and Benefits	\$ 3,217	\$ 3,517
Taxes Payable	2,387	3,397
Accrued City Wide Progressive Slot Liability	271	154
Accrued Interest, Long-term debt	-	9
Accrued CCC/DGE Casino License Fees	1,182	322
Accrued Utilities	901	898
Accrued Health and Welfare Union	1,693	1,941
Other Accrued Expenses	6,464	9,832
	<u>\$ 16,115</u>	<u>\$ 20,070</u>

NOTE 10- SHORT-TERM DEBT

Short-term debt, due to other as of September 30 consisted of the following:

	<u>2017</u>	<u>2016</u>
Current Portion of Capitalized Leases / Financing Obligations	-	1,628
	<u>\$ -</u>	<u>\$ 1,628</u>

NOTE 11 - OTHER LIABILITIES

Other Liabilities as of September 30 consisted of the following:

	<u>2017</u>	<u>2016</u>
Executive Deferred Comp Liability	\$ 304	\$ 346
Other Long Term Liabilities	-	-
	<u>\$ 304</u>	<u>\$ 346</u>

HARRAH'S RESORT, ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
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NOTE 12 – NON-OPERATING INCOME (EXPENSE)

For the nine months ended September 30, 2017 and 2016, Non-Operating Income (Expense) consisted of the following:

	<u>2017</u>	<u>2016</u>
Interest Income	\$ -	\$ 174
Demolition Costs	(1,148)	-
Write Downs & Reserves	-	(479)
2016 Property Tax Appeal Settlement	3,315	-
Other	20	(35)
	<u>\$ 2,187</u>	<u>\$ (340)</u>

NOTE 13 – 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).

The gross value of the credits and land parcels described above held by the Companies immediately prior to the transaction are 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 September 30, 2017, Caesars received \$43,375 in reimbursements from the Project Fund.

HARRAH'S RESORT, ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
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NOTE 14 – 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 donate 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 September 30 CRDA related assets were as follows:

	2017	2016
CRDA Bonds-net of amortized cost	\$ 6,321	\$ 5,153
Deposit - net reserves	910	4,758
	<u>\$ 7,231</u>	<u>\$ 9,911</u>

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

The Company records charges to operations to reflect the estimated net realizable value of its CRDA investment. Charges to operations were \$660 and \$4,458 for the nine months ended September 30, 2017 and 2016, 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 nine months ended September 30, 2017 and 2016 were \$107 and \$49 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.

HARRAH'S RESORT, ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
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NOTE 15 – 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 and the CRDA entered into an agreement with the Atlantic City Alliance (the "ACA") to provide funding to subsidize the Atlantic City market. This agreement was signed on November 2, 2011 and expired 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 paid \$30,000 annually until December 31, 2016. A new agreement effective 2017, as part of the PILOT program, requires the AC industry to provide \$15,000 in 2017, \$10,000 in 2018 and \$5,000 from 2019 thru 2023. The Company's obligation for 2017 is \$2,166. The company expensed \$1,625 and \$3,096 for the nine months ending September 30, 2017 and 2016.