

**BORGATA HOTEL CASINO & SPA
QUARTERLY REPORT
FOR THE QUARTER ENDED SEPTEMBER 30, 2018**

**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 SEPTEMBER 30, 2018 AND 2017

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2018 (c)	2017 (d)
	<u>ASSETS:</u>			
	Current Assets:			
1	Cash and Cash Equivalents.....	2	\$65,987	\$52,877
2	Short-Term Investments.....		0	0
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2018, \$20,090; 2017, \$19,816	3	38,113	54,704
4	Inventories		4,275	4,034
5	Other Current Assets.....		7,948	8,888
6	Total Current Assets.....		116,323	120,503
7	Investments, Advances, and Receivables.....	2,4,5	633,678	643,537
8	Property and Equipment - Gross.....	2,4,6	1,398,269	1,392,552
9	Less: Accumulated Depreciation and Amortization.....	6	(125,564)	(74,586)
10	Property and Equipment - Net.....	6	1,272,705	1,317,966
11	Other Assets.....		496,706	502,520
12	Total Assets.....		\$2,519,412	\$2,584,526
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$3,258	\$4,062
14	Notes Payable.....		0	0
	Current Portion of Long-Term Debt:			
15	Due to Affiliates.....		0	0
16	External.....		0	0
17	Income Taxes Payable and Accrued.....	2	5,912	3,119
18	Other Accrued Expenses.....	7	89,092	77,022
19	Other Current Liabilities.....	8,9	66,846	65,734
20	Total Current Liabilities.....		165,108	149,937
	Long-Term Debt:			
21	Due to Affiliates.....		0	0
22	External.....		0	0
23	Deferred Credits		0	0
24	Other Liabilities.....	9	1,323,466	1,339,118
25	Commitments and Contingencies.....		0	0
26	Total Liabilities.....		1,488,574	1,489,055
27	Stockholders', Partners', or Proprietor's Equity.....	2	1,030,838	1,095,471
28	Total Liabilities and Equity.....		\$2,519,412	\$2,584,526

* Prior period balance restated to conform with ASC 606 (see Note 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 INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2018 (c)	2017 (d)	
	Revenue:				
1	Casino.....	2	\$342,210	\$361,360	*
2	Rooms.....	2	119,976	130,756	*
3	Food and Beverage.....	2	125,015	129,128	*
4	Other.....	2	48,285	44,071	*
5	Net Revenue.....	2	635,486	665,315	*
	Costs and Expenses:				
6	Casino.....	2	152,294	148,944	*
7	Rooms, Food and Beverage.....	2	120,413	121,390	*
8	General, Administrative and Other.....	2,11	201,541	185,647	*
9	Total Costs and Expenses.....		474,248	455,981	*
10	Gross Operating Profit.....		161,238	209,334	*
11	Depreciation and Amortization.....	6	42,987	56,189	
	Charges from Affiliates Other than Interest:				
12	Management Fees.....		0	0	
13	Other.....		0	0	
14	Income (Loss) from Operations.....		118,251	153,145	*
	Other Income (Expenses):				
15	Interest Expense - Affiliates.....		0	0	
16	Interest Expense - External.....		0	0	
17	CRDA Related Income (Expense) - Net.....	2	(7,890)	(8,157)	
18	Nonoperating Income (Expense) - Net.....	2,4,5	(53,581)	(12,370)	
19	Total Other Income (Expenses).....	10	(61,471)	(20,527)	
20	Income (Loss) Before Taxes		56,780	132,618	*
21	Provision (Credit) for Income Taxes.....	2	5,031	9,721	
22	Net Income (Loss).....		\$51,749	\$122,897	*

* Prior period balance restated to conform with ASC 606 (see Note 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 INCOME

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2018 (c)	2017 (d)	
	Revenue:				
1	Casino.....	2	\$124,162	\$126,511	*
2	Rooms.....	2	45,473	53,645	*
3	Food and Beverage.....	2	44,924	48,036	*
4	Other.....	2	20,627	17,738	*
5	Net Revenue.....	2	235,186	245,930	*
	Costs and Expenses:				
6	Casino.....	2	54,914	53,236	*
7	Rooms, Food and Beverage.....	2	42,838	43,791	*
8	General, Administrative and Other.....	2,11	74,253	68,164	*
9	Total Costs and Expenses.....		172,005	165,191	*
10	Gross Operating Profit.....		63,181	80,739	*
11	Depreciation and Amortization.....	6	14,110	17,321	
	Charges from Affiliates Other than Interest:				
12	Management Fees.....		0	0	
13	Other.....		0	0	
14	Income (Loss) from Operations.....		49,071	63,418	*
	Other Income (Expenses):				
15	Interest Expense - Affiliates.....		0	0	
16	Interest Expense - External.....		0	0	
17	CRDA Related Income (Expense) - Net.....	2	(2,938)	(3,018)	
18	Nonoperating Income (Expense) - Net.....	2,4,5	(17,491)	(9,311)	*
19	Total Other Income (Expenses).....		(20,429)	(12,329)	
20	Income (Loss) Before Taxes		28,642	51,089	*
21	Provision (Credit) for Income Taxes.....	2	2,817	4,342	
22	Net Income (Loss).....		\$25,825	\$46,747	*

* Prior period balance restated to conform with ASC 606 (see Note 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 CHANGES IN PARTNERS', PROPRIETOR'S OR MEMBERS' EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2017
AND THE NINE MONTHS ENDED SEPTEMBER 30, 2018

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	Contributed Capital (c)	Accumulated Earnings (Deficit) (d)	(e)	Total Equity (Deficit) (f)
1	Balance, December 31, 2016.....	2	\$1,150,373	(\$47,886)	*Restated	\$1,102,487
2	Net Income (Loss) - 2017.....	2		128,662	*Restated	128,662
3	Capital Contributions.....					0
4	Capital Withdrawals.....					0
5	Partnership Distributions.....					0
6	Prior Period Adjustments.....					0
7	Distribution to Parent in					0
8	connection with REIT			(154,731)		(154,731)
9						0
10	Balance, December 31, 2017.....	2	1,150,373	(73,955)	0	1,076,418
11	Net Income (Loss) - 2018.....			51,749		51,749
12	Capital Contributions.....					0
13	Capital Withdrawals.....					0
14	Partnership Distributions.....					0
15	Prior Period Adjustments.....					0
16	Distribution to Parent in					0
17	connection with REIT			(97,329)		(97,329)
18						0
19	Balance, September 30, 2018.....		\$1,150,373	(\$119,535)	\$0	\$1,030,838

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 NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2018 (c)	2017 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		\$115,793	\$161,921
	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.....		(6,296)	(20,593)
5	Proceeds from Disposition of Property and Equipment.....		169	41
6	CRDA Obligations		(7,447)	(7,618)
7	Other Investments, Loans and Advances made.....		0	0
8	Proceeds from Other Investments, Loans, and Advances		0	0
9	Cash Outflows to Acquire Business Entities.....		0	0
10		0	0
11		0	0
12	Net Cash Provided (Used) By Investing Activities.....		(13,574)	(28,170)
	CASH FLOWS FROM FINANCING ACTIVITIES:			
13	Proceeds from Short-Term Debt		0	0
14	Payments to Settle Short-Term Debt.....		0	0
15	Proceeds from Long-Term Debt		0	0
16	Costs of Issuing Debt.....		0	0
17	Payments to Settle Long-Term Debt.....		0	0
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	Distribution to Parent		(100,466)	(129,913)
22			
23	Net Cash Provided (Used) By Financing Activities.....		(100,466)	(129,913)
24	Net Increase (Decrease) in Cash and Cash Equivalents.....		1,753	3,838
25	Cash and Cash Equivalents at Beginning of Period.....		64,234	49,039
26	Cash and Cash Equivalents at End of Period.....		\$65,987	\$52,877
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....		\$0	\$0
28	Income Taxes.....		\$1,750	\$22,269

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 NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2018 (c)	2017 (d)
	CASH FLOWS FROM OPERATING ACTIVITIES:			
29	Net Income (Loss).....		\$51,749	\$122,897
30	Depreciation and Amortization of Property and Equipment.....		39,360	47,628
31	Amortization of Other Assets.....		3,627	8,561
32	Amortization of Debt Discount or Premium.....		0	0
33	Deferred Income Taxes - Current		0	0
34	Deferred Income Taxes - Noncurrent		(311)	(499)
35	(Gain) Loss on Disposition of Property and Equipment.....		1,013	1,352
36	(Gain) Loss on CRDA-Related Obligations.....		7,890	8,157
37	(Gain) Loss from Other Investment Activities.....		(14,955)	(26,311)
38	(Increase) Decrease in Receivables and Patrons' Checks		2,716	10,218
39	(Increase) Decrease in Inventories		(619)	169
40	(Increase) Decrease in Other Current Assets.....		(2,096)	2,940
41	(Increase) Decrease in Other Assets.....		(1,169)	(165)
42	Increase (Decrease) in Accounts Payable.....		(834)	(3,880)
43	Increase (Decrease) in Other Current Liabilities		29,893	(8,665)
44	Increase (Decrease) in Other Liabilities		(471)	(481)
45			0	0
46			0	0
47	Net Cash Provided (Used) By Operating Activities.....		\$115,793	\$161,921

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	ACQUISITION OF PROPERTY AND EQUIPMENT:			
48	Additions to Property and Equipment.....		(\$6,296)	(\$20,593)
49	Less: Capital Lease Obligations Incurred.....			
50	Cash Outflows for Property and Equipment.....		(\$6,296)	(\$20,593)
	ACQUISITION OF BUSINESS ENTITIES:			
51	Property and Equipment Acquired.....		\$0	\$0
52	Goodwill Acquired.....		0	0
53	Other Assets Acquired - net		0	0
54	Long-Term Debt Assumed.....		0	0
55	Issuance of Stock or Capital Invested.....		0	0
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.

**BORGATA HOTEL CASINO & SPA
SCHEDULE OF PROMOTIONAL
EXPENSES AND ALLOWANCES**

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018
(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	479,945	\$88,158	0	\$0
2	Food	1,665,897	44,579	128,942	1,289
3	Beverage	4,480,040	14,560	0	0
4	Travel	0	0	11,960	2,990
5	Bus Program Cash	0	0	0	0
6	Promotional Gaming Credits	2,410,337	60,258	0	0
7	Complimentary Cash Gifts	869,497	21,737	0	0
8	Entertainment	143,623	5,745	474	47
9	Retail & Non-Cash Gifts	28,059	1,403	15,099	3,776
10	Parking	949,896	893	891,033	3,564
11	Other	323,883	8,643	329,636	2,786
12	Total	11,351,177	\$245,976	1,377,144	\$14,452

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 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	176,689	\$33,641	0	\$0
2	Food	638,536	17,087	60,342	603
3	Beverage	1,692,434	5,500	0	0
4	Travel	0	0	3,701	925
5	Bus Program Cash	0	0	0	0
6	Promotional Gaming Credits	908,878	22,722	0	0
7	Complimentary Cash Gifts	346,010	8,650	0	0
8	Entertainment	82,071	3,283	281	28
9	Retail & Non-Cash Gifts	12,985	649	7,367	1,842
10	Parking	360,814	339	339,165	1,357
11	Other	106,569	2,575	112,813	728
12	Total	4,324,986	\$94,446	523,669	\$5,483

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

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

FOR THE QUARTER ENDED SEPTEMBER 30, 2018

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.

11/15/2018

Date



[Insert Name Here]

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 Condensed Consolidated Financial Statements (Unaudited)

NOTE 1. BUSINESS

Organization

Marina District Development Company, LLC, is a New Jersey limited liability company (“MDDC”) and 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. 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 condensed 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.

These condensed consolidated financial statements should be read in conjunction with the notes accompanying the quarterly report submitted for the quarter ended December 31, 2017.

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:

	September 30,	
	2018	2017
Unrestricted cash and cash equivalents	\$ 59,986,000	\$ 47,312,000
Restricted cash	6,001,000	5,565,000
Total cash and cash equivalents	\$ 65,987,000	\$ 52,877,000

Cash and cash equivalents at September 30, 2018 and 2017 included restricted cash of \$6,001,000 and \$5,565,000, respectively, primarily related to the balances of patrons' internet gaming accounts as of the previous day. Pursuant to N.J.A.C. 13:69O-1.3(j), we maintain separate New Jersey bank accounts to primarily ensure the security of funds held in patrons' internet gaming accounts. Restricted cash balances are on deposit with high credit quality financial institutions. The carrying values of these instruments approximate their fair values due to their short maturities.

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 deposits after May 27, 2016 that were not previously utilized or pledged for direct investments, the purchases of CRDA bonds or otherwise contractually obligated, the Company recognized a charge to expense for the total amount of the obligation.

On a prospective basis, the Company will record a charge to expense for 100% of the obligation amount as of the date the obligation arises.

Revenue recognition

The Company's revenue contracts with customers consist of casino wager, hotel room sales, food and beverage transactions, entertainment shows, and retail transactions.

The transaction price for a casino wager is the difference between gaming wins and losses ("net win"). In certain circumstances, the Company offers discounts on markers, which is estimated based upon historical business practice, and recorded as a reduction of casino revenue. The Company accounts for casino revenue on a portfolio basis given the similar characteristics of wagers by recognizing net win per gaming day versus on an individual wager basis.

For casino wager contracts that include complimentary goods and services provided by the Company to gaming patrons on a discretionary basis to incentivize gaming, the Company allocates revenue to the good or service delivered based upon stand-alone selling price (“SSP”). Discretionary complimentary services provided by the Company and supplied by third parties are recognized as an operating expense. The Company accounts for complimentary services on a portfolio basis given the similar characteristics of the incentives by recognizing redemption per gaming day.

For casino wager contracts that include incentives earned by customers under the Company’s loyalty programs, the Company allocates a portion of net win based upon the SSP of such incentive (less estimated breakage). This allocation is deferred and recognized as revenue when the customer redeems the incentive. When redeemed, revenue is recognized in the department that provides the goods or service. Redemption of loyalty incentives at third party outlets are deducted from the loyalty liability and amounts owed are paid to the third party, with any discount received recorded as other revenue. After allocating revenue to other goods and services provided as part of casino wager contracts, the Company records the residual amount to casino revenue.

The transaction price of rooms, food and beverage, and retail contracts is the net amount collected from the customer for such good and services. The transaction price for such contracts is recorded as revenue when the good or service is transferred to the customer over their stay at the hotel or when the delivery is made for the food & beverage and retail & other contracts. Sales and usage-based taxes are excluded from revenues. For some arrangements, the Company acts as an agent in that it arranges for another party to transfer goods and services, which primarily include certain of the Company’s entertainment shows as well as customer rooms arranged by online travel agents.

The Company also has other contracts that include multiple goods and services, such as packages that bundle food, beverage, or entertainment offerings with hotel stays and convention services. For such arrangements, the Company allocates revenue to each good or service based on its relative SSP. The Company primarily determines the SSP of rooms, food and beverage, entertainment, and retail goods and services based on the amount that the Company charges when sold separately in similar circumstances to similar customers.

Contract and Contract-Related Liabilities

There may be a difference between the timing of cash receipts from the customer and the recognition of revenue, resulting in a contract or contract-related liability. The Company generally has three types of liabilities related to contracts with customers: (1) outstanding chip liability, which represents the amounts owned in exchange for gaming chips held by a customer, (2) loyalty program obligations, which represents the deferred allocation of revenue relating to loyalty program incentives earned, as discussed above, and (3) customer advances and other, which is primarily funds deposited by customers before gaming play occurs (“casino front money”) and advance payments on goods and services yet to be provided such as advance ticket sales and deposits on rooms and convention space or for unpaid wagers. These liabilities are generally expected to be recognized as revenue within one year of being purchased, earned, or deposited and are recorded within other accrued expenses and other current liabilities on the Company’s balance sheets.

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, 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 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 September 30, 2018.

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 balance sheet and will continue to be depreciated over their remaining useful lives.

Gaming Taxes

The Company is subject to an annual tax assessment based on 8% on our land-based gross gaming revenues and 15% on our online gross gaming revenues. These gaming taxes are recorded as a casino expense in the statements of income. These taxes were \$16,673,000 and \$17,049,000 during the three months ended September 30, 2018 and 2017, respectively, and \$45,153,000 and \$46,608,000 during the nine months ended September 30, 2018 and 2017, respectively.

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.

Subsequent to the Acquisition Date, MGM holds direct and indirect ownership of 100% of the members' interests in MDDHC. As a result of the Acquisition, MDDHC filed a final New Jersey consolidated return including BAC and reported 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. The amounts reflected in the condensed 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.

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 affiliates 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:

	September 30,	
	2018	2017
Amounts payable to members of MDDHC	\$ 7,510,000	\$ 5,638,000
Amounts payable (receivable) – the State of New Jersey	(1,598,000)	(2,519,000)
Income taxes payable	\$ 5,912,000	\$ 3,119,000

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 the 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. The most significant impacts of adoption of the new accounting pronouncement were as follows:

- **Promotional Allowances:** The Company no longer recognizes 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 has been removed. The majority of such amounts previously included in promotional allowances now offset casino revenues based on an allocation of revenues to performance obligations using stand-alone selling price. This change resulted in a reclassification of revenue between revenue line items;
- **Loyalty Accounting:** As discussed within Revenue Recognition above, the outstanding performance obligations of the loyalty program liability are now recognized at retail value of such benefits owed to the customer (less estimated breakage). The initial application of the standard did not have a significant impact to other balance sheet accounts or earnings;
- **Gross versus Net Presentation:** Mandatory service charges on food and beverage and wide area progressive operator fees are recorded gross, that is, the amount received from the customer has been recorded as revenue with the corresponding amount paid as an expense. These changes resulted in an increase in revenue with a corresponding increase in expense;
- **Estimated Cost of Promotional Allowances:** The Company no longer reclassifies the estimated cost of complimentary provided to the gaming patron from other expense line items to the casino expense line item. This change resulted in a reclassification between expense line items.

In February 2016, the FASB issued ASC 842 “Leases (Topic 842),” which replaces the existing guidance in ASC 840, “Leases.” ASC 842 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. ASC 842 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 ASC 842 will have on its consolidated financial statements and footnote disclosures.

In January 2018, the Company adopted 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”). 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.

NOTE 3. RECEIVABLES AND PATRONS’ CHECKS

Receivables and patrons’ checks consist of the following:

	September 30,	
	2018	2017
Casino receivables, net of an allowance for doubtful accounts (2018 \$20,090,000 and 2017 \$19,816,000)	\$ 28,719,000	\$ 28,074,000
Other, net of an allowance for doubtful accounts (2018 \$74,000 and 2017 \$30,000)	9,394,000	11,108,000
Due from related parties (see notes 2 and 11)	-	15,522,000
Receivables and patrons’ checks, net	\$ 38,113,000	\$ 54,704,000

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 (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 was \$585,000,000 for the initial term and the percentage rent was \$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 is accounted for as a failed sale-leaseback. Accordingly, the contributed assets 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 9 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.

On September 11, 2017, MGP completed an offering of 13,225,000 of its Class A shares. As a result of the public offering, the Company's ownership percentage in the Operating Partnership was diluted from 11.27% to 10.68%. The Company recognized an adjustment of \$8,725,239 to increase its investment in unconsolidated affiliate and nonoperating income to reflect its new ownership interest in the underlying equity of the Operating Partnership, which increased as a result of the offering.

On October 5, 2017, MGP completed the purchase of the long-term leasehold interest and real property improvements associated with MGM National Harbor casino resort for consideration consisting of the assumption of \$425,000,000 of debt, \$462,500,000 of cash and the issuance of 9,800,000 Operating Partnership units to a subsidiary of MGM Resorts. As a result of the transaction, MGM Resorts' indirect ownership percentage in the Operating Partnership is 73.4% and the Company's ownership in the Operating partnership was diluted from 10.68% to 10.29%.

The Company's investment in the Operating Partnership has been accounted for under the equity method. The Company's share of income and losses from its equity method investment is included in nonoperating income (expense) on the statements of income. The Company has adjusted its investment balance and share of income and losses to adjust for the impact of the failed sale-leaseback accounting discussed in Note 4, and as of September 30, 2018, the basis difference between the Company's investment balance and the Operating Partnership's underlying equity was \$7,802,000. The Company will continue adjust its share of income and losses of the Operating Partnership to resolve this basis difference over the term of the Master Lease.

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

	<u>September 30,</u>	
	<u>2018</u>	<u>2017</u>
Assets	\$ 11,024,220,000	\$ 10,110,424,000
Liabilities	\$ 5,109,017,000	\$ 4,270,077,000
Partners' capital	5,915,203,000	5,840,347,000
Total liabilities & partners' capital	\$ 11,024,220,000	\$ 10,110,424,000

	<u>Nine months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Revenues	\$ 718,450,000	\$ 551,153,000
Expenses	373,354,000	279,586,000
Operating income	345,096,000	271,567,000
Less non-operating expenses, net	161,185,000	133,397,000
Provision for income taxes	7,760,000	3,903,000
Net Income	\$ 176,151,000	\$ 134,267,000

NOTE 6. PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following:

	<u>September 30,</u>	
	<u>2018</u>	<u>2017</u>
Land	\$ 35,568,000	\$ 35,568,000
Building and improvements	1,249,765,000	1,239,028,000
Furniture and equipment	109,231,000	94,867,000
Construction in progress	3,705,000	23,089,000
Total property and equipment	1,398,269,000	1,392,552,000
Less accumulated depreciation	125,564,000	74,586,000
Property and equipment, net	\$ 1,272,705,000	\$ 1,317,966,000

Depreciation expense was \$12,888,000 and \$14,482,000 during the three months ended September 30, 2018 and 2017, respectively, and \$39,360,000 and \$47,628,000 during the nine months ended September 30, 2018 and 2017, 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 7. OTHER ACCRUED EXPENSES

Other accrued expenses consist of the following:

	<u>September 30,</u>	
	<u>2018</u>	<u>2017</u>
Accrued payroll and related expenses	\$ 21,762,000	\$ 20,419,000
Accrued expenses and other liabilities	67,330,000	56,601,000
Other accrued expenses	\$ 89,092,000	\$ 77,020,000

NOTE 8. OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

	September 30,	
	2018	2017
Casino related liabilities	\$ 17,246,000	\$ 18,757,000
REIT rent accrual	10,897,000	14,679,000
Financing liability – current	22,604,000	19,874,000
Due to related parties (see notes 2 and 11)	3,919,000	-
Other	12,180,000	12,424,000
Other current liabilities	\$ 66,846,000	\$ 65,734,000

NOTE 9. FINANCE LIABILITY

Pursuant to the Master Lease 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. Except with respect to MGM National Harbor, 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 is 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 was \$1,295,384,000 and \$1,307,765,000 as of September 30, 2018 and 2017, respectively.

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 September 30, 2017 and December 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 as of September 30, 2018 are as follows:

For the Year Ending December 31,

2018	\$ 10,941,000
2019	15,847,000
2020	18,952,000
2021	22,320,000
2022	16,769,000
Thereafter	<u>1,210,555,000</u>
Total finance liability	1,295,384,000
Less: current portion of finance liability (included in other current liabilities)	<u>(22,604,000)</u>
Finance liability – non-current (included in other liabilities)	<u>\$ 1,272,780,000</u>

NOTE 10. COMMITMENTS AND CONTINGENCIES

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 received quarterly reimbursements for payment amounts that caused us to exceed \$29,087,000 annually.

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. 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 nine months ended September 30, 2018 and 2017 were \$7,898,000 and \$8,171,000, 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 \$7,890,000 and \$8,157,000 were recorded for the nine months ended September 30, 2018 and 2017, respectively, and are included in investments, advances and receivables on the balance sheets. There were no impairments related to CRDA investments for the nine months ending September 30, 2018 and 2017.

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 11. RELATED PARTY TRANSACTIONS

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 receivables and patrons' checks and other current liabilities on the balance sheets. The amount due to MGM was \$3,919,000 at September 30, 2018 and the amount due from MGM was \$15,522,000 at September 30, 2017.

Surface Lot Ground Lease

The Company entered into a ground lease agreement with MAC for approximately 8 acres that provides the land on which its 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 net of IAT refunds incurred for the surface lot ground lease agreement were \$712,000 for each of the nine month periods ended September 30, 2018 and 2017, which were included in general, administrative and other in the statements of income.

NOTE 12. SUBSEQUENT EVENTS

The Company has evaluated all events or transactions that occurred after September 30, 2018. During this period, the Company did not identify any subsequent events, the effects of which would require disclosure or adjustment to its financial position or results of operations as of the nine months ended September 30, 2018.