BORGATA HOTEL CASINO & SPA

QUARTERLY REPORT

FOR THE QUARTER ENDED DECEMBER 31, 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 DECEMBER 31, 2018 AND 2017

(UNAUDITED)
($ IN THOUSANDS)

Line (a)	Description (b)	Notes	2018 (c)	2017 (d)	
	ASSETS:				
	Current Assets:				
1	Cash and Cash Equivalents	2	$79,620	$64,234	
2	Short-Term Investments		0	0	
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2018, $21,006; 2017, $19,568)	4	41,492	40,829	*
4	Inventories		3,980	3,656	
5	Other Current Assets		6,218	5,852	
6	Total Current Assets		131,310	114,571	*
7	Investments, Advances, and Receivables	2,4	624,700	644,650	
8	Property and Equipment - Gross	2,5	1,402,172	1,393,438	
9	Less: Accumulated Depreciation and Amortization	5	(138,864)	(86,567)	
10	Property and Equipment - Net	5	1,263,308	1,306,871	
11	Other Assets		494,858	498,853	
12	Total Assets		$2,514,176	$2,564,945	*
	LIABILITIES AND EQUITY:				
	Current Liabilities:				
13	Accounts Payable		$2,425	$4,012	
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	6,954	2,320	
18	Other Accrued Expenses	6	88,610	81,729	*
19	Other Current Liabilities	7,8	70,252	64,865	
20	Total Current Liabilities		168,241	152,926	*
	Long-Term Debt:				
21	Due to Affiliates		0	0	
22	External		0	0	
23	Deferred Credits		0	0	
24	Other Liabilities	8	1,318,561	1,335,600	
25	Commitments and Contingencies		0	0	
26	Total Liabilities		1,486,802	1,488,526	*
27	Stockholders', Partners', or Proprietor's Equity	2	1,027,374	1,076,419	*
28	Total Liabilities and Equity		$2,514,176	$2,564,945	*

* 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 TWELVE MONTHS ENDED DECEMBER 31, 2018 AND 2017

(UNAUDITED)
($ IN THOUSANDS)

Line (a)	Description (b)	Notes	2018 (c)	2017 (d)	
	Revenue:				
1	Casino	2	$451,300	$472,293	*
2	Rooms	2	153,812	166,727	*
3	Food and Beverage	2	160,630	167,986	*
4	Other	2	61,874	57,989	*
5	Net Revenue	2	827,616	864,995	*
	Costs and Expenses:				
6	Casino	2	201,422	198,771	*
7	Rooms, Food and Beverage	2	157,677	159,789	*
8	General, Administrative and Other	2,13	262,061	252,129	*
9	Total Costs and Expenses		621,160	610,689	*
10	Gross Operating Profit		206,456	254,306	*
11	Depreciation and Amortization	5	57,523	71,878	
	Charges from Affiliates Other than Interest:				
12	Management Fees		0	0	
13	Other		0	0	
14	Income (Loss) from Operations		148,933	182,428	*
	Other Income (Expenses):				
15	Interest Expense - Affiliates		0	0	
16	Interest Expense - External		0	0	
17	CRDA Related Income (Expense) - Net	2,3	(10,311)	(10,596)	
18	Nonoperating Income (Expense) - Net	2	(69,657)	(32,417)	
19	Total Other Income (Expenses)	10	(79,968)	(43,013)	
20	Income (Loss) Before Taxes		68,965	139,415	*
21	Provision (Credit) for Income Taxes	2,9	6,183	10,754	
22	Net Income (Loss)		$62,782	$128,661	*

* 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 DECEMBER 31, 2018 AND 2017

(UNAUDITED)
($ IN THOUSANDS)

Line (a)	Description (b)	Notes	2018 (c)	2017 (d)	
	Revenue:				
1	Casino	2	$109,090	$110,933	*
2	Rooms	2	33,835	35,971	*
3	Food and Beverage	2	35,615	38,858	*
4	Other	2	13,589	13,918	*
5	Net Revenue	2	192,129	199,680	*
	Costs and Expenses:				
6	Casino	2	49,128	49,827	*
7	Rooms, Food and Beverage	2	37,264	38,399	*
8	General, Administrative and Other	2,13	60,520	66,479	*
9	Total Costs and Expenses		146,912	154,705	*
10	Gross Operating Profit		45,217	44,975	*
11	Depreciation and Amortization	5	14,536	15,690	
	Charges from Affiliates Other than Interest:				
12	Management Fees		0	0	
13	Other		0	0	
14	Income (Loss) from Operations		30,681	29,285	*
	Other Income (Expenses):				
15	Interest Expense - Affiliates		0	0	
16	Interest Expense - External		0	0	
17	CRDA Related Income (Expense) - Net	2,3	(2,421)	(2,439)	
18	Nonoperating Income (Expense) - Net	2	(16,075)	(20,047)	*
19	Total Other Income (Expenses)	10	(18,496)	(22,486)	
20	Income (Loss) Before Taxes		12,185	6,799	*
21	Provision (Credit) for Income Taxes	2,9	1,152	1,033	*
22	Net Income (Loss)		$11,033	$5,766	*

* 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 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	($47,884)	*Restated	$1,102,489
2	Net Income (Loss) - 2017..........	2		128,661	*Restated	128,661
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	(73,954)	0	1,076,419
11	Net Income (Loss) - 2018..........			62,782		62,782
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			(111,827)		(111,827)
18						0
19	**Balance, December 31, 2018..........**		$1,150,373	($122,999)	$0	$1,027,374

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

BORGATA HOTEL CASINO & SPA
STATEMENTS OF CASH FLOWS

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2018 AND 2017

(UNAUDITED)
($ IN THOUSANDS)

Line (a)	Description (b)	Notes	2018 (c)	2017 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		$147,573	$203,292
	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...........................		(10,224)	(22,772)
5	Proceeds from Disposition of Property and Equipment..........		247	41
6	CRDA Obligations		(10,383)	(10,635)
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	....			
11	....			
12	Net Cash Provided (Used) By Investing Activities....................		(20,360)	(33,366)
	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	Distributions to Parent		(111,827)	(154,731)
22	....			
23	Net Cash Provided (Used) By Financing Activities..................		(111,827)	(154,731)
24	Net Increase (Decrease) in Cash and Cash Equivalents.............		15,386	15,195
25	Cash and Cash Equivalents at Beginning of Period...................		64,234	49,039
26	Cash and Cash Equivalents at End of Period............................		$79,620	$64,234

	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 TWELVE MONTHS ENDED DECEMBER 31, 2018 AND 2017

(UNAUDITED)

($ IN THOUSANDS)

Line (a)	Description (b)	Notes	2018 (c)	2017 (d)
	CASH FLOWS FROM OPERATING ACTIVITIES:			
29	Net Income (Loss)...		$62,782	$128,661
30	Depreciation and Amortization of Property and Equipment...		52,692	60,483
31	Amortization of Other Assets...		4,831	11,395
32	Amortization of Debt Discount or Premium..........................		0	0
33	Deferred Income Taxes - Current		0	729
34	Deferred Income Taxes - Noncurrent		(202)	0
35	(Gain) Loss on Disposition of Property and Equipment.........		936	1,459
36	(Gain) Loss on CRDA-Related Obligations...........................		10,311	10,596
37	(Gain) Loss from Other Investment Activities.......................		(21,191)	(38,181)
38	(Increase) Decrease in Receivables and Patrons' Checks		(663)	(294)
39	(Increase) Decrease in Inventories		(324)	547
40	(Increase) Decrease in Other Current Assets..........................		(366)	(224)
41	(Increase) Decrease in Other Assets.....................................		(634)	(560)
42	Increase (Decrease) in Accounts Payable..............................		(1,675)	(3,618)
43	Increase (Decrease) in Other Current Liabilities		42,268	32,850
44	Increase (Decrease) in Other Liabilities		(1,192)	(551)
45	....			
46	....			
47	Net Cash Provided (Used) By Operating Activities...................		$147,573	$203,292

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Line (a)	Description (b)	Notes	2018 (c)	2017 (d)
	ACQUISITION OF PROPERTY AND EQUIPMENT:			
48	Additions to Property and Equipment..................................		($10,224)	($22,772)
49	Less: Capital Lease Obligations Incurred..............................			
50	Cash Outflows for Property and Equipment.............................		($10,224)	($22,772)
	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.

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

BORGATA HOTEL CASINO & SPA
SCHEDULE OF PROMOTIONAL EXPENSES AND ALLOWANCES

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2018
(UNAUDITED)
($ IN THOUSANDS)

		Promotional Allowances		Promotional Expenses	
Line (a)	Description (b)	Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	619,678	$113,047	0	$0
2	Food	2,148,360	57,490	189,467	1,894
3	Beverage	5,809,371	18,880	0	0
4	Travel	0	0	15,177	3,794
5	Bus Program Cash	0	0	0	0
6	Promotional Gaming Credits	3,112,197	77,805	0	0
7	Complimentary Cash Gifts	1,174,420	29,361	0	0
8	Entertainment	177,941	7,118	872	87
9	Retail & Non-Cash Gifts	35,920	1,796	20,173	5,045
10	Parking	1,228,830	1,155	1,153,231	4,613
11	Other	413,922	9,671	451,305	3,751
12	Total	14,720,639	$316,323	1,830,225	$19,184

FOR THE THREE MONTHS ENDED DECEMBER 31, 2018

		Promotional Allowances		Promotional Expenses	
Line (a)	Description (b)	Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	139,733	$24,889	0	$0
2	Food	482,463	12,911	60,525	605
3	Beverage	1,329,331	4,320	0	0
4	Travel	0	0	3,217	804
5	Bus Program Cash	0	0	0	0
6	Promotional Gaming Credits	701,860	17,547	0	0
7	Complimentary Cash Gifts	304,923	7,624	0	0
8	Entertainment	34,318	1,373	398	40
9	Retail & Non-Cash Gifts	7,861	393	5,074	1,269
10	Parking	278,934	262	262,198	1,049
11	Other	90,039	1,028	121,669	965
12	Total	3,369,462	$70,347	453,081	$4,732

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

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

FOR THE QUARTER ENDED DECEMBER 31, 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.

4/1/2019
Date

Hugh Turner

VP of Finance
Title

007833-11
License Number

On Behalf of:

BORGATA HOTEL CASINO & SPA
Casino Licensee

Marina District Development Company, LLC

Borgata
HOTEL CASINO & SPA
An MGM Resorts Luxury Destination

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

Notes to 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. MDDHC is a wholly owned subsidiary of MGM Resorts International ("MGM").

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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation
The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

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

Cash and cash equivalents consist of the following:

	Year Ended December 31,	
	2018	**2017**
Unrestricted cash and cash equivalents	71,676,000	58,735,000
Restricted cash	7,944,000	5,499,000
Total cash and cash equivalents	**$ 79,620,000**	**$ 64,234,000**

Cash and cash equivalents at December 31, 2018 and 2017 included restricted cash of $7,944,000 and $5,499,000, respectively, consisting primarily of advance payments related to amounts restricted by regulation for online gaming purposes. These restricted cash balances are held by high credit quality financial institutions. The carrying value of these instruments approximates their fair value due to their short maturities.

Accounts Receivable, Net
Accounts receivable consist primarily of casino, hotel and other receivables, net of an allowance for doubtful accounts of $21,006,000 and $19,568,000 as of December 31, 2018 and 2017, respectively. Accounts receivable are typically non-interest-bearing and are initially recorded at cost. Accounts are written off when management deems the account to be

uncollectible. An estimated allowance for doubtful accounts is maintained to reduce our receivables to their estimated realizable amount. The allowance is estimated based on specific review of customer accounts and management's historical collection experience as well as current economic and business conditions. As a result, the net carrying value approximates fair value.

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

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

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

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

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

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

No property and equipment impairment charges were recorded during the periods presented herein.

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 and online sports related 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 and online sports related gross gaming revenues. The Casino Control Act also provides for an assessment of licensees equal to 2.5% of non-sports online gross gaming revenues, which is made in lieu of an IAT equal to 5.0% of non-sports 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 and, as a result of the PILOT law, records a charge to expense for 100% of the obligation amount as of the date the obligation arises.

Investment in Unconsolidated Affiliate

As discussed in Note 3, the Company holds an investment in MGM Growth Properties Operating Partnership LP (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" in the statements of operation.

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 during the years ended December 31, 2018 or 2017.

The Company's ownership in the Operating Partnership constitutes continuing involvement. As a result, the contribution and leaseback of the real estate assets described below 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.

Goodwill and Intangible Assets

Goodwill represents the excess of purchase price over fair market value of net assets acquired in business combinations. The Company's indefinite-lived intangible assets include trade names. Goodwill and indefinite-lived intangible assets must be reviewed for impairment at least annually and between annual test dates in certain circumstances. The Company performs its annual impairment test in the fourth quarter of each fiscal year. No impairments were indicated or recorded as a result of the annual impairment review for goodwill and indefinite-lived intangible assets in 2018 or 2017.

Accounting guidance provides entities the option to perform a qualitative assessment of goodwill and indefinite-lived intangible assets (commonly referred to as "step zero") in order to determine whether further impairment testing is necessary. In performing the step zero analysis the Company considers macroeconomic conditions, industry and market considerations, current and forecasted financial performance, entity-specific events, and changes in the composition or carrying amount of net assets of reporting units for goodwill. In addition, the Company takes into consideration the amount of excess of fair value over carrying value determined in the last quantitative analysis that was performed, as well as the period of time that has passed since the last quantitative analysis. If the step zero analysis indicates that it is more likely than not that the fair value is less than its carrying amount, the entity would proceed to a quantitative analysis.

Under the quantitative analysis, goodwill for relevant reporting units is tested for impairment using a discounted cash flow analysis based on the estimated future results of the Company's reporting units discounted using market discount rates and market indicators of terminal year capitalization rates, and a market approach that utilizes business enterprise value multiples based on a range of multiples from the Company's peer group. An impairment charge is recognized for the amount by which the carrying value exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to that reporting unit. Under the quantitative analysis, the trademarks and trade names are tested for impairment using the relief-from-royalty method, which includes judgments about the value a market participant would be willing to pay in order to achieve the benefits associated with the trade name. If the estimated fair value of its indefinite-lived intangible assets were less than the carrying amount, the Company would recognize an impairment charge for the difference between the estimated fair value and the carrying value of the assets.

Finite-lived intangible assets subject to amortization consist of customer list related to the Company's loyalty programs. These assets are amortized over their estimated useful lives and became fully amortized in 2018.

Revenue Recognition

The Company's revenue contracts with customers consist of casino wager, hotel room sales, food & beverage transactions, and other 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 transactions that include other goods and services provided by the Company to gaming patrons on a discretionary basis to incentivize gaming, the Company allocates revenue from the casino wager transaction to the good or service delivered based upon stand-alone selling price ("SSP"). Discretionary goods and services provided by the Company and supplied by third parties are recognized as an operating expense.

For casino wager transactions 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. The amount of incentives provided to gaming customers was $310,000,000 and $326,000,000 for the years ended December 31, 2018 and 2017, respectively. After allocating revenue to other goods and services provided as part of casino wager transactions, 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 goods 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 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 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 and beverage 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, and other 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 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 current liabilities" on the balance sheets.

The Company has outstanding loyalty program obligations of $11,421,000 and $9,460,000 as of December 31, 2018 and December 31, 2017, respectively.

Gaming Taxes

The Company is subject to an annual tax assessment of 8.5% based on its land-based sports gross gaming revenue; 8.0% based on its other land-based gross gaming revenues; 13.5% based on its online sports gross gaming revenue; and 15.0% based on its other online gross gaming revenues. These gaming taxes are recorded as a "Casino" expense in the statements of income. These taxes were $59,015,000 and $60,742,000 for the years ended December 31, 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.

MGM holds direct and indirect ownership of 100% of the members' interests in MDDHC. MDDHC and MDDC file a New Jersey consolidated casino return with MGM and certain of its subsidiaries. The amounts reflected in the 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 is responsible for New Jersey taxes computed on a stand-alone basis and records a payable or receivable to MGM and its subsidiaries 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:

	December 31,	
	2018	**2017**
Amounts payable to affiliates of MDDHC	$ 7,717,000	$ 7,388,000
Amounts payable (receivable) – State	(763,000)	(5,068,000)
Income taxes payable, net	$ 6,954,000	$ 2,320,000

Advertising Expense

Direct advertising costs are expensed the first time such advertising appears. Advertising costs are included in "General, Administrative and Other" on the statements of income and totaled $21,518,000 and $23,850,000 for the years ended December, 31 2018 and 2017, respectively.

Concentration of Credit Risk

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

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

Certain Risks and Uncertainties

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

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 is no longer permitted to recognize revenues for goods and services provided to customers for free as an inducement to gamble as gross revenue with a corresponding offset to promotional allowances to arrive at net revenues, and accordingly the promotional allowances line item 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). This change resulted in a decrease to retained earnings as of January 1, 2017 of approximately $4,345,000, as a result of the application of the standard and did not have a significant impact to earnings;

• Gross versus Net Presentation: Mandatory service charges on food and beverage and hotel offerings 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 incentives provided to the gaming patron from other expense line items to the casino expense line item. This change resulted in a reclassification of expense between expense line items.

These changes, and other less significant adjustments that were required upon adoption, did not have an aggregate material impact on operating income, net income, or cash flows. The impact to the Company's previously reported income statement line items for the year ended December 31, 2017 are as follows:

	Year Ended December 31, 2017
Revenues	
Casino	$ (317,804,000)
Rooms	48,068,000
Food and beverage	20,496,000
Other	4,954,000
Gross revenues	(244,286,000)
Promotional Allowances	258,515,000
Net revenues	14,229,000
Expenses	
Casino	(73,745,000)
Rooms, food and beverage	77,693,000
General, administrative and other	12,464,000
Total expenses	16,412,000
Net income	$ (2,183,000)

In February 2016, the FASB issued ASC 842 "Leases (Topic 842)", which replaces the existing guidance in Topic 840, "Leases", ("ASC 842"). 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 classify and account for its lease agreements as either finance or operating. Both finance 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 will recognize interest expense associated with the lease liability and depreciation expense associated with the ROU asset; and for operating leases, the lessee will recognize straight-line rent expense. The Company will adopt ASC 842 on January 1, 2019 utilizing the simplified transition method and accordingly will not recast comparative period financial information. The Company will elect the basket of transition practical expedients which includes not needing to reassess: (1) whether any expired or existing contracts are or contain leases, (2) the lease classification for any expired or existing leases, and (3) direct costs for any existing leases. The Company also currently expects that the most significant impacts will be the accounting for the Master Lease and the recognition of ROU assets and lease liabilities for operating leases that exist at the Company on the date of adoption with the most material of such leases, other than the Master Lease, being ground leases.

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.

NOTE 3. INVESTMENT IN UNCONSOLIDATED AFFILIATE

In 2016, MGM Resorts completed a series of transactions in which the real estate assets of the Company was ultimately transferred to the Operating Partnership in exchange for partnership units pursuant to a master contribution agreement. The Operating Partnership is controlled by MGM Growth Properties LLC (“MGP”), a publicly traded real estate investment trust (REIT).

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 income from unconsolidated affiliate in the statements of income. The Company has adjusted its investment balance to adjust for the impact of the failed sale-leaseback accounting discussed below and as of December 31, 2018, the basis difference between the Company’s investment balance and the Operating Partnership’s underlying equity was $8,325,000. The Company will continue to adjust its share of income and losses of the Operating Partnership to resolve this basis difference over the term of the Master Lease.

Pursuant to a master lease agreement (the “Master Lease”) by and between a subsidiary of MGM Resorts (the “Tenant”) and an indirect wholly-owned subsidiary of the Operating Partnership (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 8 for additional information related to the finance liability.

The Company’s ownership percentage in the Operating Partnership was diluted from 11.3% to 10.3% during 2017 as a result of the Operating Partnership’s equity offering and acquisition of the long-term leasehold interest and real property associated with MGM National Harbor.

In January 2019, MGP acquired the real property associated with the Empire City Casino's race track and casino ("Empire City") from MGM upon its acquisition of Empire City. Consideration included through the issuance of Operating Partnership units, which will dilute the Company’s ownership in the Operating Partnership. This dilution will be accounted for within 2019.

In January 2019, MGP completed an offering of 19.6 million of its Class A shares. In connection with the offering, the Operating Partnership issued 19.6 million Operating Partnership units to MGP, which will dilute the Company's ownership in the Operating Partnership. This dilution will be accounted for within 2019.

In March 2019, MGM Resorts and MGP entered into an amendment to the existing Master Lease with respect to investments made by MGM Resorts related to improvements at Park MGM and NoMad Las Vegas. The amendment provides an increase of rent under the Master Lease (which was allocated to Park MGM and NoMad Las Vegas under a sublease) and MGM Resorts received consideration, a portion of which was the issuance of Operating Partnership units to MGM Resorts, which will dilute the Company’s ownership in the Operating Partnership. This dilution will be accounted for within 2019.
Summarized balance sheet data and results of operations of the Operating Partnership are as follows:

	December 31,	
	2018	2017
Assets	$ 10,951,307,000	$ 10,351,120,000
Liabilities	$ 5,105,801,000	$ 4,283,381,000
Partners’ capital	5,845,506,000	6,067,739,000
Total liabilities and partners’ capital	$ 10,951,307,000	$ 10,351,120,000

	Year Ended December 31,	
	2018	2017
Revenues	$ 1,022,444,000	$ 765,695,000
Expenses	526,685,000	412,910,000
Operating income	475,759,000	352,785,000
Interest expense and other non-operating expense	220,222,000	181,889,000
Provision for income taxes	10,835,000	4,906,000
Net income	$ 244,702,000	$ 165,990,000

NOTE 4. RECEIVABLES AND PATRONS’ CHECKS

Receivables and patrons’ checks consist of the following:

	Year Ended December 31,	
	2018	2017
Casino receivables (net of an allowance for doubtful accounts – 2018 $20,937,000 and 2017 $19,529,000)	$ 31,585,000	$ 28,900,000
Other (net of an allowance for doubtful accounts – 2018 $69,000 and 2017 $39,000)	9,907,000	11,929,000
Receivables and patrons’ checks, net	**$ 41,492,000**	**$ 40,829,000**

NOTE 5. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consists of the following:

	Year Ended December 31,	
	2018	2017
Land	$ 35,568,000	$ 35,568,000
Building and improvements	1,249,890,000	1,250,646,000
Furniture and equipment	113,253,000	103,236,000
Construction in progress	3,461,000	3,988,000
Total property and equipment	1,402,172,000	1,393,438,000
Less accumulated depreciation	138,864,000	86,567,000
Property and equipment, net	**$ 1,263,308,000**	**$ 1,306,871,000**

Depreciation expense was $52,692,000 and $60,483,000 for the years ended December 31, 2018 and 2017, respectively.

NOTE 6. OTHER ACCRUED EXPENSES

Other accrued expenses consist of the following:

	Year Ended December 31,	
	2017	2016
Accrued payroll and related expenses	$ 25,345,000	$ 20,814,000
Accrued expenses and other liabilities	50,245,000	49,298,000
Self-insurance reserves	13,020,000	11,617,000
Other accrued expenses	**$ 88,610,000**	**$ 81,729,000**

NOTE 7. OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

	Year Ended December 31,	
	2018	2017
Casino related liabilities	$ 18,533,000	$ 19,191,000
Financing liability – current (see Note 8)	23,321,000	20,536,000
Due to related parties (see Notes 2 and 13)	15,284,000	11,966,000
Other	13,114,000	13,172,000
Other current liabilities	**$ 70,252,000**	**$ 64,865,000**

NOTE 8. FINANCE LIABILITY

Pursuant to the Master Lease between the Tenant and the Landlord, the Tenant has leased the real estate assets from the Landlord and subleased them to their respective contributing entities, including the Company. The Master Lease has an initial lease term of ten years with the potential to extend the term for four additional five-year terms thereafter at the option of the Tenant. The Master Lease provides that any extension of its term must apply to all of the real estate under the Master Lease at the time of the extension. The Master Lease has a triple-net structure, which requires the Tenant to pay substantially all costs associated with the lease, including real estate taxes, insurance, utilities and routine maintenance, in addition to the rent. The Tenant's performance and payments under the Master Lease will be guaranteed by MGM. A default by the Tenant with regard to any property under the Master Lease or by MGM with regard to its guarantee will cause a default with regard to the entire portfolio covered by the Master Lease. The total financing obligation of the Company was $1.3 billion as of December 31, 2018 and 2017.

At inception, the Company recorded a finance liability of $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. 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 Resort's incremental borrowing rate. As monthly lease payments are made, a portion of the payment will decrease the finance liability with the balance of the payment charged to interest expense using the effective interest method.

Future payments of the finance liability are as follows:

For the Year Ending December 31,	
2019	$ 23,321,000
2020	18,952,000
2021	22,320,000
2022	16,769,000
2023	15,329,000
Thereafter	1,195,226,000
Total finance liability	1,291,917,000
Less: current portion of finance liability (included in other current liabilities)	(23,321,000)
Finance liability – non-current (included in other liabilities)	**$ 1,268,596,000**

NOTE 9. INCOME TAXES

State income tax benefit (provision)

The provision for state income taxes is as follows:

	Year Ended December 31,	
	2018	**2017**
State		
Current	$ (6,385,000)	$ (10,069,000)
Deferred	202,000	(685,000)
State income tax benefit (provision)	**$ (6,183,000)**	**$ (10,754,000)**

On July 1, 2018, the State of New Jersey enacted legislation that generally provides for an incremental tax of 2.5% for years beginning on or after January 1, 2018 through December 31, 2019 and an incremental tax of 1.5% for years ending on or after January 1, 2020 through December 31, 2021. The Company increased its deferred tax asset by $424,000 to reflect the impact of the change in tax rate and recorded a corresponding income tax benefit in the period ended September 30, 2018.

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

	Year Ended December 31,	
	2017	**2016**
Tax provision at state statutory rate	11.5%	9.0%
Income not subject to state income tax	(3.5)	(1.6)
Other, net	1.0	0.2
Effective state tax rate	9.0%	7.6%

Deferred Tax Assets and Liabilities

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

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

	Year Ended December 31, 2018	2017
Deferred state tax assets		
Reserve for employee benefits	$ 1,609,000	$ 1,716,000
Accrued gaming taxes	1,778,000	3,088,000
Provision for doubtful accounts	1,212,000	879,000
Accrued Expenses	1,472,000	1,095,000
Deferred Financing Liability	117,294,000	117,448,000
Other	4,593,000	4,463,000
Gross deferred state tax asset	127,958,000	128,689,000
Deferred state tax liabilities		
Property, Plant and Equipment	111,156,000	112,297,000
Intangible	5,303,000	5,149,000
Prepaid services and supplies	587,000	553,000
Gross deferred state tax liability	117,046,000	117,979,000
Net deferred state tax assets (included in other assets)	**$ 10,912,000**	**$ 10,710,000**

Accounting for Uncertain Tax Positions

The impact of an uncertain income tax position on the income tax return is recognized as the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Accounting guidance, which is applicable to all income tax positions, provides direction on derecognition, classification, interest and penalties, accounting in interim periods and disclosure.

The Company recognizes interest related to unrecognized tax benefits in its income tax provision. The Company has no unrecognized tax benefits or related interest and penalties for the years ended December 31, 2018 and 2017. The Company does not anticipate any changes in unrecognized tax benefits over the next 12 month period.

Status of Examinations

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

NOTE 10. COMMITMENTS AND CONTIGENCIES

Investment Alternative Tax

The New Jersey state law provides, among other things, for an assessment of licensees equal to 1.25% of land-based and sports related gross gaming revenues in lieu of an investment alternative tax equal to 2.5% of land-based and sports related gross gaming revenues and for an assessment of licensees equal to 2.5% of non-sports online gross gaming revenues in lieu of an IAT equal to 5.0% of non-sports online gross gaming revenues. Generally, the Company may satisfy this investment obligation by investing in qualified eligible direct investments, by making qualified contributions or by depositing funds with the CRDA. Funds deposited with the CRDA may be used to purchase bonds designated by the CRDA or, under certain circumstances, may be donated to the CRDA in exchange for credits against future CRDA investment obligations. CRDA bonds have terms up to fifty years and bear interest at below market rates.

The Company's CRDA obligations for the years ended December 31, 2018 and 2017 were $10,384,000 and $10,634,000, respectively. Due to management's assessment of deposits committed to existing agreements and the uncertainty of the ultimate recoverability of deposits that are available and uncommitted, valuation provisions of $10,311,000 and $10,596,000 were recorded for the years ended December 31, 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 years ended December 31, 2018 and 2017.

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" in the statements of income.

PILOT Agreement
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%. 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 of the PILOT agreement. 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 for the years 2017 through 2021.

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.

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.

On February 11, 2019, 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, 2019, establishing our prorated share as $29,200,000 for calendar year 2019.

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

corresponding period compared to the aggregate gross gaming revenues for that period for all casinos. As a result, the Company will expense its pro rata share of the $155,000,000 as incurred.

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

During the years ended December 31, 2018 and 2017, the Company incurred expenses of $3,000,000 and $4,700,000, respectively, for its pro rata share of the contributions.

Leases
MDDC owns approximately 26 acres of land and all improvements thereon with respect to that portion of the property consisting of the Borgata hotel. In addition, MDDC, as lessee, entered into a series of ground leases for a total of approximately 20 acres of land on which the Company's existing employee parking garage, public space expansion, rooms expansion, modified surface parking lot and outdoor pool and entertainment complex reside. All of these parcels were originally leased from MAC, Corp. ("MAC"), a wholly owned subsidiary of MGM. Following the 2010 sale of several of the leased parcels by MAC to a third party, now only the surface parking lease is with MAC. The lease terms extend until December 31, 2070 with the exception of the surface parking lot lease which could be terminated by either party effective on the last day of the month that is three months after notice is given. The Landlord was assigned all the ground leases except for the Surface Parking Lot Ground Lease with terms that extend through 2070. The Company is responsible for the rent payments related to the ground leases through the term of Master Lease. See Note 8 for further discussion. The leases consist of:

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

MDDC owns all improvements made on the leased lands during the term of each ground lease. Upon expiration of such term, ownership of such improvements reverts back to the landlord. Total rent incurred under the ground leases was $5,671,000 and $5,641,000 for the years ended December 31, 2018 and 2017, respectively. In addition to the rent incurred under the ground leases, MDDC is responsible for the direct payment of all property taxes assessed on the leased properties. Total property taxes incurred for ground lease agreements were $8,600,000 for each of the years ended December 31, 2018 and 2017.

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

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

Pursuant to the Operating Agreement, MAC is responsible for its allocable share of expenses related to master plan and government improvements at Renaissance Pointe.

The Company recognized a liability related to all of its ground leases except for the Surface Parking Lot Ground Lease. The Company recorded an unfavorable lease liability of $1,000,000 in "Other Current Liabilities" and $47,000,000 in "Other Liabilities" on the balance sheets for the excess contractual lease obligations over the market value of the leases, which will be amortized on a straight-line basis over the term of the lease contracts through December 2070. Both a market and income approach using Level 2 and Level 3 inputs were utilized to determine the fair value of these leases.

Utility Contract

In 2005, the Company amended its executory contracts with a wholly-owned subsidiary of a local utility company, extending the end of the terms to May 31, 2028. The utility company provides Borgata with electricity and thermal energy (hot water and chilled water). Obligations under the thermal energy executory contract contain both fixed fees and variable fees based upon usage rates. The fixed fee components under the thermal energy executory contract are currently estimated at approximately $11,900,000 per annum. The Company also committed to purchase a certain portion of its electricity demand at essentially a fixed rate, which is estimated at approximately $1,700,000 per annum. Electricity demand in excess of the commitment is subject to market rates based on the Company's tariff class.

Future Minimum Lease Payments and Rental Income

Future minimum lease payments required under noncancelable operating leases (principally for land, see above and Note 13, Related Party Transactions) as of December 31, 2018 are as follows:

For the Year Ending December 31,	
2019	$ 20,752,000
2020	18,663,000
2021	18,613,000
2022	18,613,000
2023	18,613,000
Thereafter	326,293,000
Total	**$ 421,547,000**

Total rent expense was $13,500,000 and $14,200,000 for the year ended December 31, 2018 and 2017, respectively, which was included in "General, Administrative and Other" in the statements of income.

Future minimum rental income, which is primarily related to retail and restaurant facilities located within our property, as of December 31, 2018 is as follows:

For the Year Ending December 31,	
2019	$ 1,950,000
2020	1,950,000
2021	1,950,000
2022	1,950,000
2023	1,388,000
Thereafter	2,700,000
Total	**$ 11,888,000**

Total rent income was $3,000,000 and $3,500,000 for the years ended December 31, 2018 and 2017, respectively, which is recorded as "Other" revenue in the statements of income.

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. FAIR VALUE MEASUREMENTS

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

These inputs create the following fair value hierarchy:

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

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

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

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

Balances Measured at Fair Value
The fair value of cash and cash equivalents and restricted cash, classified in the fair value hierarchy as Level 1, is based on statements received from the Company's banks at December 31, 2018 and December 31, 2017. The fair value of the Company's CRDA deposits of $0, classified in the fair value hierarchy as Level 3, is based on estimates of the realizable value applied to the balances on statements received from the CRDA at December 31, 2018 and December 31, 2017.

There were no transfers between Level 1, Level 2 and Level 3 measurements during the years ended December 31, 2018 and 2017.

NOTE 12. EMPLOYEE BENEFIT PLANS

The Company currently participates in multiemployer pension plans in which the risks of participating differs from single-employer plans in the following aspects:

a) Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers;
b) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers;
c) If an entity chooses to stop participating in some of its multiemployer plans, the entity may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability; and
d) If the plan is terminated by withdrawal of all employers and if the value of the nonforfeitable benefits exceeds plan assets and withdrawal liability payments, employers are required by law to make up the insufficient difference.

The Company's participation in these plans is presented below.

		Pension Protection Act Zone Status (1)			Contributions by the Company *(in thousands)* (3)			Expiration Dates of Collective Bargaining
Pension Fund	EIN/Pension Plan Number	2017	2016	FIP/RP Status (2)	2018	2017	Surcharge Imposed	Agreements
Legacy Plan of the National Retirement Fund (NRF) (4)	13-6130178/001	Red	Red	Yes	$9,794	$9,416	Yes	2/29/2020

(1) The zone status is based on information that the Company received from the plan and is certified by the plan's actuary. Plans in the red zone are generally less than 65% funded (critical status) and plans in the green zone are at least 80% funded.
(2) Indicates plans for which a Financial Improvement Plan (FIP) or a Rehabilitation Plan (RP) is either pending or has been implemented.
(3) There have been no significant changes that affect the comparability of contributions, other than those for the UNITE HERE Retirement Fund ("UHF"), formally known as the Legacy Plan of the National Retirement Fund ("NRF") prior to January 1, 2018.
(4) In December 2017, the Pension Benefit Guaranty Corporation approved the spin-off of the UNITE HERE portion of the NRF to the plan of a newly-formed Legacy Plan of the UNITE HERE Retirement Fund. As a result of the spin-off, the pension liabilities as well as certain assets of the plan were transferred to the new Plan. The terms of the Plan are identical to the NRF. The spin-off was effective as of January 1, 2018.

Pursuant to its collective bargaining agreements referenced above, the Company also contributes to UNITE HERE Health (the "Health Fund"), which provides healthcare benefits to its active and retired members. The Company contributed $20,700,000 and $20,800,000 to the Health Fund in the years ended December 31, 2018 and 2017, respectively.

NOTE 13. 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 Payable to MGM Resorts International and affiliates on the balance sheets. The amounts due to MGM were $15,284,000 and $11,940,000 at December 31, 2018 and 2017, respectively.

Surface Lot Ground Lease

The Company entered into a ground lease agreement with MAC for approximately 8 acres that provides the land on which 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 incurred for the surface lot ground lease agreement were $1,000,000 for each of the years ended December 31, 2018 and 2017, which were included in “General, Administrative and Other” in the statements of income.

NOTE 14. SUBSEQUENT EVENTS

The Company has evaluated all events or transactions that occurred after December 31, 2018 through April 01, 2018, the date these financial statements were available to be issued. 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 and for the year ended December 31, 2018.

BORGATA HOTEL CASINO & SPA

ANNUAL FILINGS

FOR THE YEAR ENDED DECEMBER 31, 2018

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

OFFICE OF FINANCIAL INVESTIGATIONS
REPORTING MANUAL

BORGATA HOTEL CASINO & SPA

ANNUAL SCHEDULE OF RECEIVABLES AND PATRONS' CHECKS

FOR THE YEAR ENDED DECEMBER 31, 2018

(UNAUDITED)
($ IN THOUSANDS)

ACCOUNTS RECEIVABLE BALANCES				
Line (a)	**Description (b)**	**Account Balance (c)**	**Allowance (d)**	**Accounts Receivable (Net of Allowance) (e)**
	Patrons' Checks:			
1	Undeposited Patrons' Checks..................................	$21,382		
2	Returned Patrons' Checks....................................	31,140		
3	Total Patrons' Checks.......................................	52,522	$20,937	$31,585
4	Hotel Receivables...	2,359	69	$2,290
	Other Receivables:			
5	Receivables Due from Officers and Employees....	-		
6	Receivables Due from Affiliates..........................	-		
7	Other Accounts and Notes Receivables................	7,617		
8	Total Other Receivables....................................	7,617		$7,617
9	Totals (Form DGE-205)...	$62,498	$21,006	$41,492

UNDEPOSITED PATRONS' CHECKS ACTIVITY		
Line (f)	**Description (g)**	**Amount (h)**
10	Beginning Balance (January 1)..	$22,801
11	Counter Checks Issued..	523,182
12	Checks Redeemed Prior to Deposit...	(377,573)
13	Checks Collected Through Deposits..	(114,791)
14	Checks Transferred to Returned Checks..	(32,237)
15	Other Adjustments..	
16	Ending Balance..	$21,382
17	"Hold" Checks Included in Balance on Line 16...	0
18	Provision for Uncollectible Patrons' Checks...	$3,805
19	Provision as a Percent of Counter Checks Issued...	0.7%

BORGATA HOTEL CASINO & SPA
ANNUAL EMPLOYMENT AND PAYROLL REPORT
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018
($ IN THOUSANDS)

Line (a)	Department (b)	Number of Employees (c)	Salaries and Wages: Other Employees (d)	Salaries and Wages: Officers & Owners (e)	Salaries and Wages: Totals (f)
	CASINO:				
1	Table and Other Games	1,539			
2	Slot Machines	92			
3	Administration	0			
4	Casino Accounting	213			
5	Simulcasting	29			
6	Other	31			
7	Total - Casino	1,904	$44,576	$1,148	$45,724
8	ROOMS	535	14,395		14,395
9	FOOD AND BEVERAGE	1,670	37,731		37,731
10	GUEST ENTERTAINMENT	276	5,290		5,290
11	MARKETING	227	9,079	1,148	10,227
12	OPERATION AND MAINTENANCE	254	10,679		10,679
	ADMINISTRATIVE AND GENERAL:				
13	Executive Office	20	369	1,835	2,204
14	Accounting and Auditing	67	2,840		2,840
15	Security	250	8,544		8,544
16	Other Administrative and General	120	5,732		5,732
	OTHER OPERATED DEPARTMENTS:				
17	Simulated Gaming	0	104		104
18	Spa	115	2,618		2,618
19	Barbershot/Salon	21	336		336
20	Retail	33	777		777
21	Transportation	130	2,501		2,501
22					0
23	TOTALS - ALL DEPARTMENTS	5,622	$145,571	$4,131	$149,702