BORGATA HOTEL CASINO & SPA

QUARTERLY REPORT

FOR THE QUARTER ENDED JUNE 30, 2019

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 JUNE 30, 2019 AND 2018

(UNAUDITED)
($ IN THOUSANDS)

Line (a)	Description (b)	Notes	2019 (c)	2018 (d)
	ASSETS:			
	Current Assets:			
1	Cash and Cash Equivalents	2	$67,095	$61,907
2	Short-Term Investments		0	0
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts -2019, $22,149; 2018, $19,999	3	41,075	38,675
4	Inventories		4,140	4,414
5	Other Current Assets	2	12,670	11,344
6	Total Current Assets		124,980	116,340
7	Investments, Advances, and Receivables	2,4	614,170	636,733
8	Property and Equipment - Gross	2,5	121,112	1,395,298
9	Less: Accumulated Depreciation and Amortization	2,5	(59,753)	(112,751)
10	Property and Equipment - Net		61,359	1,282,547
11	Other Assets		1,781,194	498,130
12	Total Assets		$2,581,703	$2,533,750
	LIABILITIES AND EQUITY:			
	Current Liabilities:			
13	Accounts Payable		$3,740	$3,473
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	0	3,583
18	Other Accrued Expenses	6	95,861	88,184
19	Other Current Liabilities	7	99,372	73,881
20	Total Current Liabilities		198,973	169,121
	Long-Term Debt:			
21	Due to Affiliates		0	0
22	External		0	0
23	Deferred Credits		0	0
24	Other Liabilities	8	1,304,804	1,327,589
25	Commitments and Contingencies		0	0
26	Total Liabilities		1,503,777	1,496,710
27	Stockholders', Partners', or Proprietor's Equity	2	1,077,926	1,037,040
28	Total Liabilities and Equity		$2,581,703	$2,533,750

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 SIX MONTHS ENDED JUNE 30, 2019 AND 2018

(UNAUDITED)
($ IN THOUSANDS)

Line (a)	Description (b)	Notes	2019 (c)	2018 (d)
	Revenue:			
1	Casino	2	$218,676	$218,048
2	Rooms	2	67,454	74,503
3	Food and Beverage	2	73,803	80,091
4	Other	2	26,673	27,658
5	Net Revenue	2	386,606	400,300
	Costs and Expenses:			
6	Casino	2	100,537	97,380
7	Rooms, Food and Beverage	2	74,029	77,575
8	General, Administrative and Other	2, 10	116,916	127,288
9	Total Costs and Expenses		291,482	302,243
10	Gross Operating Profit		95,124	98,057
11	Depreciation and Amortization	5	9,095	28,877
	Charges from Affiliates Other than Interest:			
12	Management Fees		0	0
13	Other		0	0
14	Income (Loss) from Operations		86,029	69,180
	Other Income (Expenses):			
15	Interest Expense - Affiliates		0	0
16	Interest Expense - External		0	0
17	CRDA Related Income (Expense) - Net	2	(4,859)	(4,952)
18	Nonoperating Income (Expense) - Net	2	(33,389)	(36,090)
19	Total Other Income (Expenses)	4,8	(38,248)	(41,042)
20	Income (Loss) Before Taxes		47,781	28,138
21	Provision (Credit) for Income Taxes	2	(2,421)	2,214
22	Net Income (Loss)		$50,202	$25,924

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 JUNE 30, 2019 AND 2018

(UNAUDITED)
($ IN THOUSANDS)

Line (a)	Description (b)	Notes	2019 (c)	2018 (d)
	Revenue:			
1	Casino	2	$113,965	$110,327
2	Rooms	2	35,589	39,429
3	Food and Beverage	2	37,786	42,851
4	Other	2	14,636	15,252
5	Net Revenue	2	201,976	207,859
	Costs and Expenses:			
6	Casino	2	51,817	50,143
7	Rooms, Food and Beverage	2	37,935	40,774
8	General, Administrative and Other	2, 10	56,807	64,013
9	Total Costs and Expenses		146,559	154,930
10	Gross Operating Profit		55,417	52,929
11	Depreciation and Amortization	5	4,531	14,492
	Charges from Affiliates Other than Interest:			
12	Management Fees		0	0
13	Other		0	0
14	Income (Loss) from Operations		50,886	38,437
	Other Income (Expenses):			
15	Interest Expense - Affiliates		0	0
16	Interest Expense - External		0	0
17	CRDA Related Income (Expense) - Net	2	(2,476)	(2,535)
18	Nonoperating Income (Expense) - Net	2	(21,463)	(18,613)
19	Total Other Income (Expenses)	4,8	(23,939)	(21,148)
20	Income (Loss) Before Taxes		26,947	17,289
21	Provision (Credit) for Income Taxes	2	(4,557)	1,340
22	Net Income (Loss)		$31,504	$15,949

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, 2018
AND THE SIX MONTHS ENDED JUNE 30, 2019

(UNAUDITED)
($ IN THOUSANDS)

Line (a)	Description (b)	Notes	Contributed Capital (c)	Accumulated Earnings (Deficit) (d)	(e)	Total Equity (Deficit) (f)
1	**Balance, December 31, 2017..........**	2	$1,150,373	($73,954)		$1,076,419
2	Net Income (Loss) - 2018..........			62,782		62,782
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			(111,827)		(111,827)
9						0
10	**Balance, December 31, 2018..........**	2	1,150,373	(122,999)	0	1,027,374
11	Net Income (Loss) - 2019..........			50,202		50,202
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			(80,889)		(80,889)
18	Impact of ASC 842 adoption	2		81,239		81,239
19	**Balance, June 30, 2019..................**		$1,150,373	($72,447)	$0	$1,077,926

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 SIX MONTHS ENDED JUNE 30, 2019 AND 2018

(UNAUDITED)
($ IN THOUSANDS)

Line (a)	Description (b)	Notes	2019 (c)	2018 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		$73,751	$73,725
	CASH FLOWS FROM INVESTING ACTIVITIES:			
2	Purchase of Short-Term Investments			
3	Proceeds from the Sale of Short-Term Investments			
4	Cash Outflows for Property and Equipment...........................	5	(9,470)	(3,344)
5	Proceeds from Disposition of Property and Equipment..........		1	169
6	CRDA Obligations	2	(4,807)	(4,911)
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....................		(14,276)	(8,086)
	CASH FLOWS FROM FINANCING ACTIVITIES:			
13	Proceeds from Short-Term Debt			
14	Payments to Settle Short-Term Debt......................................			
15	Proceeds from Long-Term Debt			
16	Costs of Issuing Debt..			
17	Payments to Settle Long-Term Debt......................................			
18	Cash Proceeds from Issuing Stock or Capital Contributions...		0	0
19	Purchases of Treasury Stock..			
20	Payments of Dividends or Capital Withdrawals......................			
21	Distribution to Parent	4	(72,000)	(67,966)
22	....			
23	Net Cash Provided (Used) By Financing Activities..................		(72,000)	(67,966)
24	Net Increase (Decrease) in Cash and Cash Equivalents.............		(12,525)	(2,327)
25	Cash and Cash Equivalents at Beginning of Period...................		79,620	64,234
26	Cash and Cash Equivalents at End of Period............................		$67,095	$61,907

Line (a)	Description (b)	Notes	2019 (c)	2018 (d)
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....................................		$0	$0
28	Income Taxes..	2	$8,350	$1,750

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 SIX MONTHS ENDED JUNE 30, 2019 AND 2018

(UNAUDITED)

($ IN THOUSANDS)

Line (a)	Description (b)	Notes	2019 (c)	2018 (d)
	CASH FLOWS FROM OPERATING ACTIVITIES:			
29	Net Income (Loss)		$50,202	$25,924
30	Depreciation and Amortization of Property and Equipment	2,5	8,932	26,472
31	Amortization of Other Assets		163	2,405
32	Amortization of Debt Discount or Premium			
33	Deferred Income Taxes - Current			
34	Deferred Income Taxes - Noncurrent	2	459	(799)
35	(Gain) Loss on Disposition of Property and Equipment		1	1,029
36	(Gain) Loss on CRDA-Related Obligations		4,859	4,952
37	(Gain) Loss from Other Investment Activities		33,508	(13,616)
38	(Increase) Decrease in Receivables and Patrons' Checks		417	2,154
39	(Increase) Decrease in Inventories		(160)	(758)
40	(Increase) Decrease in Other Current Assets		(6,452)	(5,492)
41	(Increase) Decrease in Other Assets		(2,924)	(883)
42	Increase (Decrease) in Accounts Payable		1,447	(541)
43	Increase (Decrease) in Other Current Liabilities		(19,799)	33,339
44	Increase (Decrease) in Other Liabilities		307	(461)
45	Amortization of Operating Lease	2,8	2,791	0
46				
47	Net Cash Provided (Used) By Operating Activities		$73,751	$73,725

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Line	Description	Notes	2019	2018
	ACQUISITION OF PROPERTY AND EQUIPMENT:			
48	Additions to Property and Equipment	5	($9,470)	($3,344)
49	Less: Capital Lease Obligations Incurred			
50	Cash Outflows for Property and Equipment		($9,470)	($3,344)
	ACQUISITION OF BUSINESS ENTITIES:			
51	Property and Equipment Acquired			
52	Goodwill Acquired			
53	Other Assets Acquired - net			
54	Long-Term Debt Assumed			
55	Issuance of Stock or Capital Invested			
56	Cash Outflows to Acquire Business Entities		$0	$0
	STOCK ISSUED OR CAPITAL CONTRIBUTIONS:			
57	Total Issuances of Stock or Capital Contributions		$0	$0
58	Less: Issuances to Settle Long-Term Debt		0	0
59	Consideration in Acquisition of Business Entities		0	0
60	Cash Proceeds from Issuing Stock or Capital Contributions		$0	$0

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

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

BORGATA HOTEL CASINO & SPA
SCHEDULE OF PROMOTIONAL
EXPENSES AND ALLOWANCES

FOR THE SIX MONTHS ENDED JUNE 30, 2019
(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	286,497	$50,492	0	$0
2	Food	977,311	26,153	116,384	1,164
3	Beverage	2,671,373	8,682	0	0
4	Travel	0	0	8,296	2,074
5	Bus Program Cash	0	0	0	0
6	Promotional Gaming Credits	1,511,083	37,777	0	0
7	Complimentary Cash Gifts	720,419	18,010	0	0
8	Entertainment	59,646	2,386	606	60
9	Retail & Non-Cash Gifts	15,604	780	9,594	2,399
10	Parking	584,041	549	548,999	2,196
11	Other	169,133	4,320	188,303	933
12	Total	6,995,107	$149,149	872,182	$8,826

FOR THE THREE MONTHS ENDED JUNE 30, 2019

		Promotional Allowances		Promotional Expenses	
Line (a)	Description (b)	Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	147,818	$27,410	0	$0
2	Food	493,046	13,194	59,881	599
3	Beverage	1,299,852	4,224	0	0
4	Travel	0	0	4,012	1,003
5	Bus Program Cash	0	0	0	0
6	Promotional Gaming Credits	754,930	18,873	0	0
7	Complimentary Cash Gifts	381,146	9,529	0	0
8	Entertainment	32,795	1,312	342	34
9	Retail & Non-Cash Gifts	8,604	430	4,867	1,217
10	Parking	299,682	282	281,701	1,127
11	Other	86,615	1,994	93,856	441
12	Total	3,504,488	$77,248	444,659	$4,421

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

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

FOR THE QUARTER ENDED JUNE 30, 2019

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.

8/15/2019
Date

Hugh Turner

Vice President of Finance
Title

007833-11
License Number

On Behalf of:

BORGATA HOTEL CASINO & SPA
Casino Licensee

Marina District Development Company, LLC

(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:

	Six Months Ended June 30,	
	2019	**2018**
Unrestricted cash and cash equivalents	$ 61,144,000	$ 56,750,000
Restricted cash	5,951,000	5,157,000
Total cash and cash equivalents	**$ 67,095,000**	**$ 61,907,000**

Cash and cash equivalents at June 30, 2019 and 2018 included restricted cash of $5,951,000 and $5,157,000, 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.

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 4, 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 "Nonoperating Income (Expense) - Net" in the statements of income.

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 months ended June 30, 2019 or 2018.

Prior to January 1, 2019, the Company had adjusted its investment balance to account for the impact of the failed sale-leaseback accounting discussed in Note 8. As of January 1, 2019, the Company no longer adjusts its investment balance as the Master Lease, discussed below, is no longer accounted for a failed sale.

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 $14,975,000 and $13,923,000 during the three months ended June 30, 2019 and 2018, respectively, and $28,560,000 and $28,480,000 during the six months ended June 30, 2019 and 2018, 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 (receivable) payable is presented below:

	Six Months Ended June 30,	
	2019	**2018**
Amounts payable to affiliates of MDDHC	$ (578,000)	$ 7,539,000
Amounts payable (receivable) – State of New Jersey	(4,211,000)	(3,956,000)
Income taxes (receivable) payable, net	**$ (4,789,000)**	**$ 3,583,000**

The income tax receivable is included in "Other Current Assets" on the balance sheets.

Leases

The Company determines if an arrangement is or contains a lease at inception or modification of the arrangement. An arrangement is or contains a lease if there are identified assets and the right to control the use of an identified asset is conveyed for a period in exchange for consideration. Control over the use of the identified asset means the lessee has both the right to obtain substantially all of the economic benefits from the use of the asset and the right to direct the use of the asset.

For leases with terms greater than twelve months, operating lease right-of-use (ROU) assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. The operating lease ROU asset also includes any lease payments made. When available, the Company uses the rate implicit in the lease to discount lease payments to present value; however, most of the Company's leases do not provide a readily determinable implicit rate. Therefore, the Company uses its incremental borrowing rate to discount the lease payments based on the information available at commencement date. Many of the Company's leases include fixed rental escalation clauses that are factored into the determination of lease payments. Lease terms include options to extend or terminate the lease when it is reasonably certain that such option will be exercised. Lease expense for minimum lease payments is recognized on a straight-line basis over the expected lease term.

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU Update No. 2016-02, Leases (Topic 842) ("ASC 842"), which replaces the existing guidance in FASB ASC Topic 840, Leases. 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 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 adopted ASC 842 on January 1, 2019 utilizing the simplified transition method and accordingly did not recast comparative period financial information. The Company elected 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.

As a result of adoption, the Company re-evaluated the accounting for the Master Lease, as defined below. The Master Lease was previously accounted for as a failed sale-leaseback transaction under the previous accounting guidance since the Company's investment in the Operating Partnership constituted continuing involvement. Under ASC 842, the Company meets the sale-leaseback requirements primarily due to that continuing involvement no longer precludes a "passed sale." As a result, the Company de-recognized the finance liability relating to the Master Lease of $1,291,916,000 that existed as of January 1, 2019 as well as the real estate assets that are now considered sold under ASC 842 of $1,290,384,000. Further, the change in accounting reduced the Company's underlying basis of its investment in the Operating Partnership by $8,325,000 as of January 1, 2019. This net change was recorded to equity. Further, the new operating ROU assets and lease liabilities for the Master Lease, as well as for certain equipment that the Company leases from third parties resulted in operating ROU assets of $1,296,513,000 and operating lease liabilities of $1,296,513,000 as of January 1, 2019.

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. RECEIVABLES AND PATRONS' CHECKS

Receivables and patrons' checks consist of the following:

	Six Months Ended June 30,	
	2019	**2018**
Casino receivables (net of an allowance for doubtful accounts – 2019 $22,090,000 and 2018 $19,957,000)	$ 28,778,000	$ 28,625,000
Other (net of an allowance for doubtful accounts – 2019 $59,000 and 2018 $42,000)	12,297,000	10,050,000
Receivables and patrons' checks, net	**$ 41,075,000**	**$ 38,675,000**

NOTE 4. 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 "Nonoperating Income (Expense) – Net" in the statements of income. Prior to January 1, 2019, the Company had adjusted its investment balance to account for the impact of the failed sale-leaseback accounting discussed below and in Note 8 and as of December 31, 2018, for which the basis difference between the Company's investment balance and the Operating Partnership's underlying equity was $8,325,000.

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. Effective upon adoption of ASC 842 on January 1, 2019, this arrangement is accounted for as an operating lease. As of December 31, 2018, the contributed assets remained 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.

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 would dilute the Company's ownership in the Operating Partnership from 10.3% to 9.9%.

Further, in January 2019, MGP issued Class A shares concurrent to which the Operating Partnership issued shares to MGM. This diluted the Company's ownership in the Operating Partnership from 9.9% to 9.2%.

In March 2019, MGP paid $637,500,000 to MGM as a lease incentive and amended the master lease as it relates to certain improvements at Park MGM and paid such amount in the form of cash and Operating Partnership units. This diluted the Company's ownership in the Operating Partnership from 9.2% to 9.1%.

Subsequent to the quarter, on April 1, 2019, MGM purchased the operations of Northfield Park Associates LLC ("Northfield") from MGP with consideration of Operating Partnership Units, which the Operating Partnership ultimately redeemed. This increased the Company's ownership in the Operating Partnership from 9.1% to 9.4% and will be accounted for within the second quarter 2019 financial statements.

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

Six Months Ended June 30,

	2019	2018
Assets	$ 11,912,808,000	$ 10,270,065,000
Liabilities	$ 5,526,276,000	$ 4,295,762,000
Partners' capital	6,386,532,000	5,974,303,000
Total liabilities and partners' capital	**$ 11,912,808,000**	**$ 10,270,065,000**

	Six Months Ended June 30,	
	2019	**2018**
Revenues	$ 429,182,000	$ 436,229,000
Expenses	180,996,000	225,922,000
Operating income	248,186,000	210,307,000
Interest expense and other non-operating expense	126,477,000	101,585,000
Provision for income taxes	3,792,000	2,494,000
Net income	**$ 117,917,000**	**$ 106,228,000**

NOTE 5. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consists of the following:

	Six Months Ended June 30,	
	2019	**2018**
Land	$ -	$ 35,568,000
Building and improvements	15,851,000	1,249,684,000
Furniture and equipment	95,750,000	106,895,000
Construction in progress	9,511,000	3,151,000
Total property and equipment	121,112,000	1,395,298,000
Less accumulated depreciation	59,753,000	112,751,000
Property and equipment, net	**$ 61,359,000**	**$ 1,282,547,000**

Depreciation expense was $4,458,000 and $13,268,000 during the three months ended June 30, 2019 and 2018, respectively, and $8,932,000 and $26,472,000 for the six months ended June 30, 2019 and 2018, respectively.

NOTE 6. OTHER ACCRUED EXPENSES

Other accrued expenses consist of the following:

	Six Months Ended June 30,	
	2019	**2018**
Accrued payroll and related expenses	$ 26,865,000	$ 22,340,000
Accrued expenses and other liabilities	57,114,000	53,801,000
Self-insurance reserves	11,882,000	12,043,000
Other accrued expenses	**$ 95,861,000**	**$ 88,184,000**

NOTE 7. OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

	Six Months Ended June 30,	
	2019	**2018**
Casino related liabilities	$ 17,848,000	$ 17,766,000
Financing liability – current (see Note 2)	-	21,901,000
Due to related parties (see Notes 2 and 10)	31,143,000	17,463,000
Operating lease liability – current (see Note 2 and 8)	35,447,000	-
Other	14,934,000	16,751,000
Other current liabilities	**$ 99,372,000**	**$ 73,881,000**

NOTE 8. LEASES

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.

Prior to January 1, 2019, the Master Lease was accounted for as a failed sale lease-back and accordingly a finance obligation was recorded by the Company. Subsequent to January 1, 2019, the Master Lease qualified for a sale and classified as an operating lease. An operating lease liability was recorded equal to the sum of the present value of the future fixed payments over the remaining lease. The present value of the future fixed payments is measured by discounting the payments using the implicit rate within the Master Lease. As monthly lease payments are made, a portion of the payment will decrease the lease liability and ROU asset.

Lease expense for the Master Lease as well as various equipment that the Company leases from third parties under operating lease arrangements was $70,511,000 for the six months ended June 30, 2019.

Other information related to the Company's Master Lease and operating leases was as follows:

	Six Months Ended June 30, 2019
Operating Leases	
Operating lease ROU assets (Included in "Other Assets")	$ 1,284,035,000
Operating lease obligation – Short-term (Included in "Other Current Liabilities)	$35,447,000
Operating lease obligation – Long-term (Included in "Other Liabilities)	1,299,825,000
Total operating lease liabilities	$ 1,335,272,000

NOTE 9. COMMITMENTS AND CONTIGENCIES

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 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.

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 10. 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 “Other Current Liabilities” on the balance sheets. The amounts due from MGM were $31,143,000 and $17,463,000 at June 30, 2019 and 2018, respectively.

Surface Lot Ground Lease
The Company entered into a ground lease agreement with MAC, Corp., a wholly owned subsidiary of MGM, 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 $250,000 for each of the three month periods ended June 30, 2019 and 2018 and $500,000 for each of the six month periods ended June 30, 2019 and 2018, which were included in “General, Administrative and Other” in the statements of income.

NOTE 11. SUBSEQUENT EVENTS

The Company has evaluated all events or transactions that occurred after June 30, 2019. 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 six months ended June 30, 2019.