

**HARRAH'S CASINO HOTEL, ATLANTIC CITY
QUARTERLY REPORT**

FOR THE QUARTER ENDED SEPTEMBER 30, 2006

**SUBMITTED TO THE
CASINO CONTROL COMMISSION
OF THE
STATE OF NEW JERSEY**



**DIVISION OF FINANCIAL EVALUATION
REPORTING MANUAL**

HARRAH'S CASINO HOTEL, ATLANTIC CITY

BALANCE SHEETS

AS OF SEPTEMBER 30, 2006 AND 2005

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2006 (c)	2005 (d)
	<u>ASSETS:</u>			
	Current Assets:			
1	Cash and Cash Equivalents.....		\$31,316	\$41,001
2	Short-Term Investments.....		0	0
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2006, \$1,210 ; 2005, \$1,002).....		19,609	14,439
4	Inventories	2	1,268	1,201
5	Other Current Assets.....	4	8,069	5,768
6	Total Current Assets.....		60,262	62,409
7	Investments, Advances, and Receivables.....	5	605,707	594,491
8	Property and Equipment - Gross.....	2 & 6	961,233	860,228
9	Less: Accumulated Depreciation and Amortization.....	2 & 6	(362,519)	(327,679)
10	Property and Equipment - Net.....	2 & 6	598,714	532,549
11	Other Assets.....	7	4,659	7,008
12	Total Assets.....		\$1,269,342	\$1,196,457
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$13,148	\$5,816
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	25
18	Other Accrued Expenses.....	8	116,842	111,814
19	Other Current Liabilities.....		881	533
20	Total Current Liabilities.....		130,871	118,188
	Long-Term Debt:			
21	Due to Affiliates.....	9	650,000	650,000
22	External.....		0	0
23	Deferred Credits		2,157	2,517
24	Other Liabilities.....	10	41,057	41,338
25	Commitments and Contingencies.....			
26	Total Liabilities.....		824,085	812,043
27	Stockholders', Partners', or Proprietor's Equity.....		445,257	384,414
28	Total Liabilities and Equity.....		\$1,269,342	\$1,196,457

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

HARRAH'S CASINO HOTEL, ATLANTIC CITY

STATEMENTS OF INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2006 (c)	2005 (d)
	Revenue:			
1	Casino.....		\$378,107	\$355,523
2	Rooms.....		39,790	37,386
3	Food and Beverage.....		42,581	40,475
4	Other.....		9,555	9,844
5	Total Revenue.....		470,033	443,228
6	Less: Promotional Allowances.....	2	111,660	105,968
7	Net Revenue.....		358,373	337,260
	Costs and Expenses:			
8	Cost of Goods and Services.....		177,718	165,506
9	Selling, General, and Administrative.....		42,107	35,394
10	Provision for Doubtful Accounts.....		569	241
11	Total Costs and Expenses.....		220,394	201,141
12	Gross Operating Profit.....		137,979	136,119
13	Depreciation and Amortization.....		29,697	27,870
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....	3	11,807	10,040
16	Income (Loss) from Operations.....		96,475	98,209
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....	9	(39,000)	(39,000)
18	Interest Expense - External.....		0	0
19	CRDA Related Income (Expense) - Net.....		(2,714)	(2,134)
20	Nonoperating Income (Expense) - Net.....		(973)	(186)
21	Total Other Income (Expenses).....		(42,687)	(41,320)
22	Income (Loss) Before Taxes and Extraordinary Items.....		53,788	56,889
23	Provision (Credit) for Income Taxes.....	2	4,980	6,166
24	Income (Loss) Before Extraordinary Items.....		48,808	50,723
25	Extraordinary Items (Net of Income Taxes - 2006, \$0; 2005, \$0).....		0	0
26	Net Income (Loss).....		\$48,808	\$50,723

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

HARRAH'S CASINO HOTEL, ATLANTIC CITY

STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2006 (c)	2005 (d)
	Revenue:			
1	Casino.....		\$135,497	\$135,237
2	Rooms.....		15,647	14,977
3	Food and Beverage.....		14,961	15,841
4	Other.....		4,562	4,400
5	Total Revenue.....		170,667	170,455
6	Less: Promotional Allowances.....	2	42,076	41,976
7	Net Revenue.....		128,591	128,479
	Costs and Expenses:			
8	Cost of Goods and Services.....		62,078	60,946
9	Selling, General, and Administrative.....		15,375	13,048
10	Provision for Doubtful Accounts.....		192	55
11	Total Costs and Expenses.....		77,645	74,049
12	Gross Operating Profit.....		50,946	54,430
13	Depreciation and Amortization.....		10,789	9,257
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....	3	4,158	3,703
16	Income (Loss) from Operations.....		35,999	41,470
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....	9	(13,000)	(13,000)
18	Interest Expense - External.....		0	0
19	CRDA Related Income (Expense) - Net.....		(827)	(313)
20	Nonoperating Income (Expense) - Net.....		(16)	3
21	Total Other Income (Expenses).....		(13,843)	(13,310)
22	Income (Loss) Before Taxes and Extraordinary Items.....		22,156	28,160
23	Provision (Credit) for Income Taxes.....	2	1,424	2,295
24	Income (Loss) Before Extraordinary Items.....		20,732	25,865
	Extraordinary Items (Net of Income Taxes -			
25	2006, \$0; 2005, \$0).....		0	0
26	Net Income (Loss).....		\$20,732	\$25,865

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

HARRAH'S CASINO HOTEL, ATLANTIC CITY STATEMENTS OF CHANGES IN PARTNERS' OR PROPRIETOR'S EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2005
AND THE NINE MONTHS ENDED SEPTEMBER 30, 2006

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	Contributed Capital (c)	Accumulated Earnings (Deficit) (d)	(e)	Total Equity (Deficit) (f)
1	Balance, December 31, 2004.....		\$165,954	\$167,737	\$0	\$333,691
2	Net Income (Loss) - 2005.....			62,758		62,758
3	Capital Contributions.....					0
4	Capital Withdrawals.....					0
5	Partnership Distributions.....					0
6	Prior Period Adjustments.....					0
7	_____					0
8	_____					0
9	_____					0
10	Balance, December 31, 2005.....		165,954	230,495	0	396,449
11	Net Income (Loss) - 2006.....			48,808		48,808
12	Capital Contributions.....					0
13	Capital Withdrawals.....					0
14	Partnership Distributions.....					0
15	Prior Period Adjustments.....					0
16	_____					0
17	_____					0
18	_____					0
19	Balance, SEPTEMBER, 2006.....		\$165,954	\$279,303	\$0	\$445,257

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

HARRAH'S CASINO HOTEL, ATLANTIC CITY

STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2006 (c)	2005 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		\$90,732	\$33,958
	CASH FLOWS FROM INVESTING ACTIVITIES:			
2	Purchase of Short-Term Investments			
3	Proceeds from the Sale of Short-Term Investments		0	0
4	Cash Outflows for Property and Equipment.....		(97,856)	(34,129)
5	Proceeds from Disposition of Property and Equipment.....		52	362
6	CRDA Obligations		(4,529)	(4,042)
7	Other Investments, Loans and Advances made.....		0	0
8	Proceeds from Other Investments, Loans, and Advances		1,735	462
9	Cash Outflows to Acquire Business Entities.....		0	0
10			0	421
11				
12	Net Cash Provided (Used) By Investing Activities.....		(100,598)	(36,926)
	CASH FLOWS FROM FINANCING ACTIVITIES:			
13	Proceeds from Short-Term Debt			
14	Payments to Settle Short-Term Debt.....			
15	Proceeds from Long-Term Debt			
16	Costs of Issuing Debt.....			
17	Payments to Settle Long-Term Debt.....			
18	Cash Proceeds from Issuing Stock or Capital Contributions...		0	0
19	Purchases of Treasury Stock.....			
20	Payments of Dividends or Capital Withdrawals.....			
21				
22				
23	Net Cash Provided (Used) By Financing Activities.....		0	0
24	Net Increase (Decrease) in Cash and Cash Equivalents.....		(9,866)	(2,968)
25	Cash and Cash Equivalents at Beginning of Period.....		41,182	43,969
26	Cash and Cash Equivalents at End of Period.....		\$31,316	\$41,001
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....		\$0	\$0
28	Income Taxes.....		\$6,087	\$6,665

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

HARRAH'S CASINO HOTEL, ATLANTIC CITY

STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2006 (c)	2005 (d)
	CASH FLOWS FROM OPERATING ACTIVITIES:			
29	Net Income (Loss).....		\$48,808	\$50,723
30	Depreciation and Amortization of Property and Equipment.....		29,692	27,867
31	Amortization of Other Assets.....		5	3
32	Amortization of Debt Discount or Premium.....		0	0
33	Deferred Income Taxes - Current		(250)	0
34	Deferred Income Taxes - Noncurrent		(1,481)	(1,811)
35	(Gain) Loss on Disposition of Property and Equipment.....		52	(172)
36	(Gain) Loss on CRDA-Related Obligations.....		0	0
37	(Gain) Loss from Other Investment Activities.....		0	0
38	(Increase) Decrease in Receivables and Patrons' Checks		(4,331)	(8,290)
39	(Increase) Decrease in Inventories		211	315
40	(Increase) Decrease in Other Current Assets.....		1,956	7,022
41	(Increase) Decrease in Other Assets.....		1,781	1,166
42	Increase (Decrease) in Accounts Payable.....		4,466	(6,884)
43	Increase (Decrease) in Other Current Liabilities		43,578	39,745
44	Increase (Decrease) in Other Liabilities		(204)	229
45	(Increase) decrease in other receivables or advanc		(33,551)	(75,955)
46				
47	Net Cash Provided (Used) By Operating Activities.....		\$90,732	\$33,958

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	ACQUISITION OF PROPERTY AND EQUIPMENT:			
48	Additions to Property and Equipment.....		(\$97,856)	(\$34,129)
49	Less: Capital Lease Obligations Incurred.....		0	0
50	Cash Outflows for Property and Equipment.....		(\$97,856)	(\$34,129)
	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.

HARRAH'S CASINO HOTEL, ATLANTIC CITY

SCHEDULE OF PROMOTIONAL EXPENSES AND ALLOWANCES

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	370,770	\$32,294		
2	Food	1,924,901	19,249		
3	Beverage	4,324,400	10,811		
4	Travel	0	0	103,446	10,241
5	Bus Program Cash	25,989	260		
6	Other Cash Complimentaries	3,598,679	44,983		
7	Entertainment	126,332	3,158		
8	Retail & Non-Cash Gifts	181,000	905		
9	Parking		0		
10	Other				
11	Total	10,552,071	\$111,660	103,446	\$10,241

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	142,064	\$12,374		
2	Food	698,901	6,989		
3	Beverage	1,368,400	3,421		
4	Travel	0	0	38,453	3,807
5	Bus Program Cash	7,839	78		
6	Other Cash Complimentaries	1,373,442	17,168		
7	Entertainment	72,800	1,820		
8	Retail & Non-Cash Gifts	45,200	226		
9	Parking	0	0		
10	Other	0	0		
11	Total	3,708,646	\$42,076	38,453	\$3,807

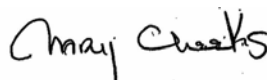
HARRAH'S CASINO HOTEL, ATLANTIC CITY STATEMENT OF CONFORMITY, ACCURACY, AND COMPLIANCE

FOR THE QUARTER ENDED SEPTEMBER 30, 2006

1. I have examined this Quarterly Report
2. All the information contained in this Quarterly Report has been prepared in conformity with the Casino Control Commission'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.A.C. 19:43-4.2(b)1-5 during the quarter.

11/15/2006

Date



MARY CHEEKS

VICE PRESIDENT OF FINANCE

Title

004960-11

License Number

On Behalf of:

HARRAH'S CASINO HOTEL, ATLANTIC CITY

Casino Licensee

HARRAH'S CASINO HOTEL ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
(Dollars in Thousands)

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

Marina Associates and Subsidiary (the "Partnership") operates as a General Partnership and owns and operates a casino hotel resort located in the Marina District of Atlantic City, New Jersey known as Harrah's Casino Hotel Atlantic City. The Partnership is an indirect, wholly-owned subsidiary of Harrah's Operating Company, Inc. ("HOC"), which is a direct wholly-owned subsidiary of Harrah's Entertainment, Inc. ("Harrah's"). A substantial portion of the Partnership's revenues is derived from gaming and supporting hotel operations.

The Partnership is licensed to operate the facility by the New Jersey Casino Control Commission (the "CCC") and is subject to rules and regulations established by the CCC. The Partnership's license is subject to renewal every four years with the current license expiring in April 2008.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The accompanying consolidated financial statements include the account balances of the Partnership and its wholly-owned subsidiary, Reno Crossroads LLC ("Reno"). As a result, all material intercompany transactions and balances have been eliminated in consolidation.

Allowance for Doubtful Accounts - The Partnership reserves an estimated amount for receivables that may not be collected. The methodology for estimating the allowance includes using specific reserves and applying various percentages to aged receivables. Historical collection rates are considered, as are customer relationships, in determining specific allowances. As with many estimates, management must make judgments about potential actions by third parties in establishing and evaluating the allowance for bad debts.

Inventories - Inventories of provisions and supplies are valued at the lower of average cost, or market.

Land, Buildings and Equipment - Land, buildings, and equipment are stated at cost, including capitalized interest on intercompany funds used to finance construction calculated at Harrah's overall weighted-average borrowing rate of interest.

Improvements that extend the life of the asset are capitalized. Building improvements are depreciated over the remaining life of the building. Maintenance and repairs are expensed as incurred.

Depreciation is provided using the straight-line method over the shorter of the estimated useful life of the asset or the related lease term, as follows:

Land improvements	12 years
Buildings and improvements	30 to 40 years
Furniture, fixtures and equipment	3 to 12 years

The Company reviews the carrying value of land, buildings and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the asset. The factors considered by the Company in performing this assessment include

HARRAH'S CASINO HOTEL ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
(Dollars in Thousands)

current operating results, trends and prospects, as well as the effect of obsolescence, demand, competition and other economic factors.

Investments in Subsidiaries - During 1999, the Partnership, through its wholly owned subsidiary Reno Crossroads LLC ("Reno"), acquired a parcel of land in Reno, Nevada for approximately \$10,325. The existing facilities located on the parcel site were demolished and a new plaza was constructed on the site at a cost of approximately \$2,365. On February 1, 2000, Reno entered into an agreement to lease this parcel of land to HOC for a period of twenty years at a fixed rent of \$1,120 per year.

Financial Instruments - The carrying amount of receivables and all current liabilities approximates fair value due to their short-term nature. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. After giving effect to their allowances, the Casino Reinvestment Development Authority ("CRDA") bonds and deposits approximately reflect their fair value based upon their below market interest rates. The carrying amount of long-term debt is estimated to approximate its fair value as the stated rates approximate current rates

CRDA Real Estate Project - The Partnership's investment in its CRDA real estate project (the "Project") consists of various townhomes, an apartment building and a retail store outlet in the northeast section of Atlantic City, NJ. Based upon an agreement with the CRDA, Harrah's Atlantic City may not sell its ownership interests in certain elements of the project, principally the apartment building, before 2007 and the townhomes before 2011.

Income or loss from the operation of the Project is included in the results of operations. Buildings are being depreciated using the straight-line method based on an estimated useful life of 27.5 years.

Revenue Recognition - Casino revenues consist of the net win from gaming activities, which is the difference between gaming wins and losses. Food, beverage, rooms and other revenues include the aggregate amounts generated by those departments.

Total Rewards Program Liability - Our customer loyalty program, Total Rewards, offers incentives to customers who gamble at certain of our casinos throughout the United States. Under the program, customers are able to accumulate, or bank, Reward Credits over time that they may redeem at their discretion under the terms of the program. The Reward Credit balance will be forfeited if the customer does not earn a Reward Credit over the prior six-month period. As a result of the ability of the customer to bank the Reward Credits, we accrue the expense of Reward Credits, after consideration of estimated breakage, as they are earned. The value of the cost to provide Reward Credits is expensed as the Reward Credits are earned and is included in Casino expense on our Statements of Income. To arrive at the estimated cost associated with Reward Credits, estimates and assumptions are made regarding incremental marginal costs of the benefits, breakage rates and the mix of goods and services for which Reward Credits will be redeemed. We use historical data to assist in the determination of estimated accruals. At September 30, 2006 and 2005, \$4,401 and \$3,794 million, respectively, was accrued for the cost of anticipated Total Rewards credit redemptions.

HARRAH'S CASINO HOTEL ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
(Dollars in Thousands)

In addition to Reward Credits, customers can earn points based on play that are redeemable in cash (“cash-back points”). We accrue the cost of cash-back points, after consideration of estimated breakage, as they are earned. The cost is recorded as contra-revenue and included in Casino promotional allowances on our Statements of Income. At September 30, 2006 and 2005, the liability related to outstanding cash-back points, which is based on historical redemption activity, was \$1,457 and \$1,132 million, respectively

Casino Promotional Allowances - Casino promotional allowances consist of the retail value of complimentary food and beverages, accommodations, admissions and entertainment provided to casino patrons. Also included is the value of the coupons redeemed for cash at the property. The estimated costs of providing such complimentary services are classified as casino expenses in the accompanying statements of income. These costs consisted of the following at September 30:

	<u>2006</u>	<u>2005</u>
Food and beverage	\$ 22,055	\$ 18,814
Rooms	10,569	10,362
Other	4,686	4,245
Other Cash Complimentaries	<u>43,216</u>	<u>41,206</u>
	<u>\$ 80,526</u>	<u>\$ 74,627</u>

Income Taxes - The accompanying consolidated financial statements do not include a provision for federal income taxes, since any income or losses allocated to the partners are reportable for federal income tax purposes by each partner.

In accordance with regulations prescribed by the New Jersey Casino Control Act, the Partnership files a state income tax return on behalf of the partners. Accordingly, the accompanying consolidated financial statements include a provision for state income taxes.

Deferred tax assets and liabilities represent the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in existing tax rates is recognized as an increase or decrease to the tax provision in the period that includes the enactment date.

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

Use of Estimates - The preparation of these financial statements in conformity with generally accepted accounting principles requires the Partnership 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 may differ from these estimates.

Reclassifications - Certain prior year balances have been reclassified to conform to the current year presentation.

NOTE 3 - RELATED PARTY TRANSACTIONS

HARRAH'S CASINO HOTEL ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
(Dollars in Thousands)

The Partnership participates with HOC and its other subsidiaries in marketing, purchasing, insurance, employee benefit and other programs that are defined and negotiated by HOC on a consolidated basis. The Partnership believes that participating in these consolidated programs is beneficial in comparison to the terms for similar programs that it could negotiate on a stand-alone basis.

Certain of the more significant intercompany relationships between the Partnership and HOC are discussed in this footnote.

Cash Activity with HOC and Affiliates - The Partnership transfers cash in excess of its operating and regulatory needs to HOC on a daily basis. Cash transfers from HOC to the Partnership are also made based upon the needs of the Partnership to fund daily operations, including accounts payable and payroll, as well as capital expenditures. No interest is earned on the amount shown as due from affiliates, net, in the accompanying consolidated financial statements.

Administrative and Other Services - The Partnership is charged a fee by HOC for administrative and other services (including consulting, legal, marketing, information technology, accounting and insurance). The Partnership was charged \$11,807 and \$10,040 for these services for the six months ended September 30, 2006 and 2005, respectively and \$4,158 and \$3,703 for these services for the three months ended September 30, 2006 and 2005 respectively. The fee is included in changes from affiliates in the accompanying consolidated statements of income.

NOTE 4 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

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

	<u>2006</u>	<u>2005</u>
Prepaid Air Charters	4,004	1,248
Prepaid State Income Tax	1,279	711
Prepaid Taxes	1,308	1,559
Prepaid Marketing	742	1,387
Prepaid Other	586	552
Prepaid Insurance	<u>150</u>	<u>311</u>
	<u>\$ 8,069</u>	<u>\$ 5,768</u>

HARRAH'S CASINO HOTEL ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
(Dollars in Thousands)

NOTE 5 - INVESTMENTS, ADVANCES AND RECEIVABLES

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

	<u>2006</u>	<u>2005</u>
Due from Affiliates	\$ 589,140	\$ 578,657
Casino Reinvestment Development Authority obligation deposits - Net of Valuation Allowance of \$2,614 and \$2,630 at September 30, 2006 and 2005, respectively	11,808	11,068
Casino Reinvestment Development Authority Bonds - Net of Valuation Allowance of \$3,728 and \$3,821 at September 30, 2006 and 2005, respectively	4,336	4,272
Other	<u>423</u>	<u>494</u>
	<u>\$605,707</u>	<u>\$594,491</u>

Due from Affiliates as of September 30 consisted of the following unsecured, non-interest bearing intercompany amounts:

	<u>2006</u>	<u>2005</u>
Harrah's New Jersey, Inc.	\$ 18,962	\$ 18,962
I/C- Embassy Suites	545,380	533,970
Showboat Atlantic City	6,405	10,608
Harrah's Reno	7,120	6,096
Northeast Regional Office	3,105	4,337
Embassy Suites, Inc.	1,940	1,940
Ceasar's	2,596	-
Bally's	897	-
Harrah's Cherokee	762	761
Harrah's East Chicago	729	729
Harrah's Joliet	341	342
Harrah's Tunic	225	225
Harrah's Del Rio	185	202
Harrah's Lake Tahoe	139	132
Bill's Casino	111	111
Harrah's St. Louis	74	74
Harrah's Vicksburg		23
Harrah's New Orleans	1	1
Harrah's Shreveport	1	1
Harrah's Prairie Band	9	8
Harrah's Ak Chin	42	42
Harvey's	46	46
Harrah's Gold Card	<u>47</u>	<u>47</u>
	<u>\$ 589,140</u>	<u>\$ 578,657</u>

NOTE 6 – LAND, BUILDINGS AND EQUIPMENT

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(Unaudited)
(Dollars in Thousands)

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

	<u>2006</u>	<u>2005</u>
Land and Land Improvements	\$ 93,183	\$ 93,082
Buildings, Leaseholds and Improvements	584,944	562,186
Furniture, Fixtures and Equipment	203,586	186,711
Construction in Progress	<u>79,520</u>	<u>18,249</u>
	961,233	860,228
Less Accumulated Depreciation	<u>(362,519)</u>	<u>(327,679)</u>
Property and Equipment, Net	<u>\$598,714</u>	<u>\$532,549</u>

NOTE 7 - OTHER ASSETS

Other Assets as of September 30 consisted of the following:

	<u>2006</u>	<u>2005</u>
Deferred and Prepaid CRDA Obligations	\$ 4,564	\$ 6,884
Deposits	42	42
Long-term Portion of Prepaid Insurance	38	67
Deferred Other	<u>15</u>	<u>15</u>
	<u>\$ 4,659</u>	<u>\$ 7,008</u>

NOTE 8 - OTHER ACCRUED EXPENSES

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

	<u>2006</u>	<u>2005</u>
Accrued Interest, Long-term debt	\$ 91,000	\$ 91,000
Accrued Salaries, Wages and Benefits	7,923	6,829
Taxes Payable	3,029	3,674
Accrued Casino Control Commission / Department		
Gaming Enforcement Casino License Fees	1,334	288
Accrued In-House Progressive Slot Liability	466	276
Accrued City Wide Progressive Slot Liability	631	575
Other Accrued Expenses	<u>12,459</u>	<u>9,172</u>
	<u>\$116,842</u>	<u>\$111,814</u>

NOTE 9 - LONG-TERM DEBT

Long-term Debt as of December 31 consisted of the following:

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	<u>2006</u>	<u>2005</u>
Promissory Note	<u>\$650,000</u>	<u>\$650,000</u>

On October 31, 2001, the Partnership and HOC consummated a promissory note for \$650,000. All principal and interest outstanding on the promissory note is due and payable on demand to HOC. Interest is computed on an annual basis using 360 days for the actual number of days elapsed during a year, and an annual rate of eight percent. Any amount of principal not paid by the Partnership to HOC when due will bear an additional two percent annual interest rate. On March 12, 2003, the eight percent Promissory Note was assigned to Harrah's Entertainment Limited ("HEL"). Neither the term nor the amount of debt was affected by this assignment. Based on the affiliate's agreement not to demand repayment prior to October 1, 2007, these amounts have been classified as non-current in the accompanying balance sheet. As of September 30, 2006 and 2005, there was accrued interest of \$91,000, on the balance sheet related to the intercompany note.

NOTE 10 - OTHER LIABILITIES

Other Liabilities as of September 30 consisted of the following:

	<u>2006</u>	<u>2005</u>
Due to Affiliates, Long-term	\$40,063	\$40,210
Other	<u>994</u>	<u>1,128</u>
	<u>\$41,057</u>	<u>\$41,338</u>

Due to Affiliates at September 30 consisted of the following unsecured, non-interest bearing inter-company accounts:

	<u>2006</u>	<u>2005</u>
Harrah's Atlantic City, Inc.	\$ 38,855	\$ 38,855
Harrah's Holdings, Inc.,	603	603
Harrah's Las Vegas	276	396
Harrah's Kansas City	52	44
Harrah's Jazz Casino	(15)	19
Harrah's Holiday Inns of New Jersey, Inc.	<u>292</u>	<u>293</u>
	<u>\$40,063</u>	<u>\$40,210</u>

NOTE 11 – COMMITMENTS AND CONTINGENCIES

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Litigation - The Partnership is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, these matters will not have a material effect on the Partnership's financial position or results of operations.

Insurance Reserve - The Partnership is self-insured for various levels of general liability coverage. Insurance claims and reserves include the accrual of estimated settlements for known and anticipated claims. Accrued expenses and other current liabilities in the accompanying balance sheets includes insurance allowances of \$75 and \$134 as of September 30, 2006 and 2005, respectively. Actual results may differ from these reserve amounts.

CRDA Investment Obligation - The New Jersey Casino Control Act provides, among other things, for an assessment of licensees equal to 1.25% of their gross gaming revenues in lieu of an investment alternative tax equal to 2.5% of gross gaming revenues. The Partnership 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 50 years and bear interest at below market rates. The Partnership includes CRDA investment bonds and funds on deposit in deferred charges and other non-current assets in the accompanying balance sheets totaling \$11,808 and \$4,336, respectively, at September 30, 2006 and \$11,068 and \$4,272, respectively, at September 30, 2005. The Partnership records charges to operations to reflect the estimated net realizable value of its CRDA investment.

To satisfy current Atlantic City obligations as well as those projected beyond the year 2006, the Partnership received approval from the CRDA for a qualified direct investment project to construct various townhomes, an apartment building and a retail store outlet in the northeast section of Atlantic City ("CRDA real estate project") at an estimated cost to the Partnership of approximately \$54,573. As of September 30, 2006 and 2005, approximately \$4,559 and \$6,539 respectively, represents a prepayment of the Partnership's future obligations to the CRDA related to the CRDA real estate project. The prepaid asset is being amortized over the related Atlantic City obligation period and is included in deferred charges and other non-current assets in the accompanying balance sheets.

The Partnership has committed \$9,589 of its current and future CRDA deposit obligations for the refurbishment of the Atlantic City Convention Center. The amount was to be amortized on a straight-line basis over a 15-year period commencing September 2001.

The twelve Atlantic City casino properties (the "AC Industry") and the CRDA have entered into an agreement with the New Jersey Sports & Exposition Authority (the "NJSEA") to provide funding to subsidize New Jersey's horseracing industry. In exchange for this funding, the NJSEA and the three active New Jersey racetracks will not conduct any casino gaming at the racetracks prior to January, 1 2009. As part of the agreement, the AC Industry will provide \$34 million over a four year period to the NJSEA and must deposit another \$62 million in the Casino Expansion Fund (managed by the CRDA). The \$62 million will be derived from funds either currently on deposit or to be deposited with the CRDA pursuant to each casino property's investment obligation. The Company's obligation is equal to its fair-share of AC Industry casino revenues. The Company estimates this commitment over the four year period to be \$3,215 the first payment of which was made November 2004. This amount will be charged to operations on a straight line basis through January 1, 2009. Once the Company meets its deposit obligation related to its fair share of the \$62 million, the Company is eligible to receive funds from the Casino Expansion Fund for qualified construction

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expenditures. The Company has until June 30, 2014 to submit an application to exhaust its share of the Casino Expansion Fund. Any funds not transferred out of the Casino Expansion Fund by the required date will be transferred to funds on deposit with the CRDA pursuant to its ongoing investment obligations.