

# **HARBOR INVESTMENT ADVISORY, LLC**

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**Financial Statements and  
Supplementary Information Pursuant to Rule 17a-5  
Under the Securities Exchange Act of 1934**

**Together with Report of Independent Registered Public Accounting Firm  
For the Years Ended December 31, 2021 and 2020**

# HARBOR INVESTMENT ADVISORY, LLC

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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Member of  
Harbor Investment Advisory, LLC:

### **Opinion on the Financial Statements**

We have audited the accompanying statements of financial condition of Harbor Investment Advisory, LLC (a Maryland limited liability company) (the Company) as of December 31, 2021 and 2020, the related statements of operations, changes in member's capital, changes in subordinated borrowings, and cash flows for the years then ended, and the related notes and schedules (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## **Auditor's Report on Supplemental Information**

The information contained in Schedules I, II, III and IV (supplemental information) has been subjected to audit procedures performed in conjunction with the audit of Harbor Investment Advisory, LLC's financial statements. The supplemental information is the responsibility of the Harbor Investment Advisory, LLC's management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with 17 C.F.R. §240.17a-5. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole.

We have served as Harbor Investment Advisory, LLC's auditor since 2012.

*SC & H Attest Services, P.C.*

Sparks, MD

February 25, 2022

# HARBOR INVESTMENT ADVISORY, LLC

## Statements of Financial Condition

<i>As of December 31,</i>	<i>2021</i>	<i>2020</i>
<b>Assets</b>		
Cash and cash equivalents	\$ 2,910,453	\$ 3,565,486
Restricted cash equivalents	251,032	251,032
Receivables from clearing broker	215,605	82,496
Accrued advisory fees receivable	1,609,140	1,365,378
Prepaid expenses and other assets	185,396	164,158
Notes receivable from related parties	1,386,757	1,934,779
Furniture, equipment, and leasehold improvements, net of accumulated depreciation	14,247	27,853
Right-of-use assets (operating leases)	1,434,358	366,073
Deposits	21,977	21,977
<b>Total Assets</b>	<b>\$ 8,028,965</b>	<b>\$ 7,779,232</b>
<b>Liabilities and Member's Capital</b>		
<b>Liabilities</b>		
Accounts payable, accrued expenses and other liabilities	\$ 1,862,410	\$ 1,562,479
Lease liabilities (operating leases)	1,446,716	416,610
Deferred revenue	109,375	203,125
Forgivable loan	375,000	468,750
<b>Total Liabilities</b>	<b>3,793,501</b>	<b>2,650,964</b>
<b>Commitments and Contingencies (Note 4)</b>		
<b>Member's Capital</b>	<b>4,235,464</b>	<b>5,128,268</b>
<b>Total Liabilities and Member's Capital</b>	<b>\$ 8,028,965</b>	<b>\$ 7,779,232</b>

*The accompanying notes are an integral part of these financial statements.*

# HARBOR INVESTMENT ADVISORY, LLC

## Statements of Operations

<i>For the Years Ended December 31,</i>	<i>2021</i>	<i>2020</i>
Revenues		
Management, investment advisory, and financial planning fees	\$ 15,054,902	\$ 11,657,127
Envestnet platform and manager fees	656,520	-
Commissions		
Listed equities, ETFs, closed-end funds, and options	167,309	357,737
Annuity and insurance commissions and trailers	316,524	358,473
Marketing and distribution fees		
Mutual fund 12b-1 fees	369,195	327,768
Mutual fund trading, service fees, and finder's fees	8,161	23,355
529 plan fees and trading	20,871	25,080
Fixed income trading	49,182	93,465
Interest income	39,959	58,944
Recognition of deferred clearing firm incentive fee (Note 4)	93,750	93,750
Forgivable loan principal and interest (Note 5)	133,045	146,236
Payroll Protection Program conditional grant revenue (Note 7)	2,742	557,895
Account service fees and other income	17,719	35,339
 Total Revenues	 16,929,879	 13,735,169
Operating Expenses		
Employee compensation and benefits	12,496,901	9,716,419
General and administrative	1,101,135	886,659
Envestnet platform and manager fees	652,218	31,842
Occupancy	290,213	282,689
Clearing charges	178,462	184,573
 Total Operating Expenses	 14,718,929	 11,102,182
 Operating Income	 2,210,950	 2,632,987
Other Expenses		
Interest expense	36,222	47,611
 Net Income	 \$ 2,174,728	 \$ 2,585,376

*The accompanying notes are an integral part of these financial statements.*

# HARBOR INVESTMENT ADVISORY, LLC

## Statements of Changes in Member's Capital For the Years Ended December 31, 2021 and 2020

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Balance at December 31, 2019	\$ 3,963,331
Net income	2,585,376
Distributions to member	(1,420,439)
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Balance at December 31, 2020	5,128,268
Net income	2,174,728
Distributions to member	(3,067,532)
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Balance at December 31, 2021	\$ 4,235,464

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*The accompanying notes are an integral part of these financial statements.*

# HARBOR INVESTMENT ADVISORY, LLC

## Statements of Changes in Subordinated Borrowings For the Years Ended December 31, 2021 and 2020

Balance at December 31, 2019	\$	562,500
Principal payments forgiven		(93,750)
Balance at December 31, 2020		468,750
Principal payments forgiven		(93,750)
Balance at December 31, 2021	\$	375,000

*The accompanying notes are an integral part of these financial statements.*



# HARBOR INVESTMENT ADVISORY, LLC

## Statements of Cash Flows

<i>For the Years Ended December 31,</i>	<i>2021</i>	<i>2020</i>
Cash Flows From Operating Activities		
Net income	\$ 2,174,728	\$ 2,585,376
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Depreciation	13,606	13,704
Principal forgiven on forgivable loan	(93,750)	(93,750)
Changes in assets and liabilities:		
Receivables from clearing broker	(133,109)	(11,063)
Accrued advisory fees receivable	(243,762)	(137,326)
Prepaid expenses and other assets	(21,238)	47,410
Right-of-use assets (operating leases)	(1,068,285)	260,191
Accounts payable, accrued expenses and other liabilities	299,931	36,695
Lease liabilities (operating leases)	1,030,106	(260,318)
Deferred revenue	(93,750)	(93,750)
Net Cash and Cash Equivalents Provided By Operating Activities	1,864,477	2,347,169
Cash Flows From Investing Activities		
Acquisition of furniture, equipment, and leasehold improvements	-	(13,896)
Repayments of notes receivable from related parties	548,022	520,721
Net Cash and Cash Equivalents Provided By Investing Activities	548,022	506,825
Cash Flows From Financing Activities		
Distributions to member	(3,067,532)	(1,420,439)
Net Cash and Cash Equivalents Used In Financing Activities	(3,067,532)	(1,420,439)
Net Increase (Decrease) in Cash and Cash Equivalents	(655,033)	1,433,555
Cash and Cash Equivalents, beginning of year	3,565,486	2,131,931
Restricted Cash Equivalents, beginning of year	251,032	251,032
Cash and Cash Equivalents, end of year	2,910,453	3,565,486
Restricted Cash Equivalents, end of year	\$ 251,032	\$ 251,032
<b>Supplemental Disclosure of Non-Cash Activities:</b>		
Interest forgiven on forgivable loan	\$ 39,295	\$ 52,486
Net change to right-to-use assets from new and terminated operating leases	\$ 1,344,952	\$ 1,585
Net change to lease liabilities from new and terminated operating leases	\$ 1,344,952	\$ 1,585

*The accompanying notes are an integral part of these financial statements.*

# HARBOR INVESTMENT ADVISORY, LLC

## Notes to the Financial Statements For the Years Ended December 31, 2021 and 2020

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Operations

Harbor Investment Advisory, LLC (the Company) is a full-service broker-dealer and investment advisor that provides clients with investment portfolio solutions. The Company is registered with the Securities and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority (FINRA) and is therefore subject to certain regulatory requirements including the maintenance of a certain amount of net capital. The Company is a Maryland limited liability company (LLC) that is 100% owned by Harbor Investment Management, LLC (the Parent).

In accordance with the operating agreement, unless sooner terminated, the Company shall continue to be in existence for perpetuity.

Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, the Company is exempt from the provisions of Rule 15c3-3. The Company has claimed exemption from the provisions of Rule 15c3-3 under the Securities Exchange Act of 1934, in that the Company's activities are limited to those set forth in the conditions for exemption appearing in paragraph (k)(2)(ii) of Rule 15c3-3. The Company has a fully disclosed clearing arrangement with Pershing, LLC (Pershing) to provide custody and clearing services for clients of the Company.

#### Basis of Presentation

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 may vary from those estimates.

#### Cash and Cash Equivalents

Cash and cash equivalents consist of cash and other highly liquid investments with original maturities of three months or less at the time of purchase.

#### Concentration of Credit Risk

The Company maintains substantially all its cash with two financial institutions. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor. The Company periodically maintains cash balances in excess FDIC coverage.

# HARBOR INVESTMENT ADVISORY, LLC

## Notes to the Financial Statements For the Years Ended December 31, 2021 and 2020

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

#### Restricted Cash Equivalents

Restricted cash equivalents consist of amounts held by Pershing as required by the Company's fully disclosed clearing agreement with Pershing, of which \$250,000 is permanently restricted for the life of the agreement (Note 4). The amounts are held in cash equivalents.

#### Accrued Advisory Fees Receivable

Accrued advisory fees receivable result from unbilled monthly charges that have not been processed through Pershing for advisory fees for which performance obligations per the customer contract have been satisfied and the Company has the right to bill the customer. The Company utilizes the allowance method to provide for doubtful accounts based on management's evaluation of the collectability of the accounts receivable. There was no allowance established at December 31, 2021 and 2020, as management believes that all accounts are fully collectible.

#### Notes Receivable from Related Parties

The Company has various notes receivable from certain employees which are in the form of forgivable loans. During the years ended December 31, 2021 and 2020, the Company did not issue any promissory notes. As of December 31, 2021 and 2020, the Company had promissory notes outstanding totaling \$1,386,757 and \$1,934,779, respectively. As of December 31, 2021 and 2020, the interest rates on such notes ranged from 1.29% to 2.89%. The notes have various maturity dates through October 2025.

#### Furniture, Equipment, and Leasehold Improvements

Furniture, equipment, and leasehold improvements are recorded at cost less accumulated depreciation. All office furniture and equipment with a cost in excess \$2,500 is capitalized. Furniture and equipment are depreciated using the straight-line method over estimated useful lives of five to seven years. Leasehold improvements are depreciated using the straight-line method over the shorter of the asset's useful life or the lease term, which is approximately six years.

#### Valuation of Long-Lived Assets

The Company accounts for the valuation of long-lived assets in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 360, *Property, Plant, and Equipment* (ASC 360). ASC 360 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets.

# HARBOR INVESTMENT ADVISORY, LLC

## Notes to the Financial Statements For the Years Ended December 31, 2021 and 2020

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

#### Valuation of Long-Lived Assets – cont'd

As of December 31, 2021 and 2020, the Company determined that none of its assets were impaired. Assets to be disposed are reportable at the lower of the carrying amount or fair value, less costs to sell. The Company has no assets intended for disposal as of December 31, 2021 and 2020.

#### Revenue Recognition

The Company recognizes revenue from contracts with customers in accordance with ASC 606, *Revenue from Contracts with Customers*. Management, investment advisory, and financial planning fees include fees earned from providing investment advisory services and consulting services. Substantially all advisory fees are recognized as revenue when the services are provided over the term of the contract period as performance obligations are satisfied and the income is reasonably determinable. Envestnet platform and manager fees are recognized as revenue when collected from customers, and as expenses when remitted to Envestnet, which is typically within several business days of collection. Commissions and related clearing expenses are recorded on a settlement-date basis as security transactions occur which the Company has determined is very consistent with trade-date basis, and any impact on revenue recognition is immaterial. Marketing and distribution fees from various fund companies are recognized when performance obligations are satisfied and are typically based on average daily assets over the previous month or quarter as specified in the underlying contracts or prospectuses of the funds.

#### Income Taxes

No provision or benefit for income taxes is required since the Company is recognized as a single member limited liability company for Federal and state income tax purposes. As such, the Company is deemed a disregarded entity for tax purposes, and any taxable income of the Company is included in the tax returns of its sole member. The Company has not incurred interest and penalties accrued on any unrecognized tax exposures.

ASC 740, *Income Taxes*, prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return as well as guidance on de-recognition, classification, interest and penalties and financial statement reporting disclosures. For these benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement.

#### Advertising

The Company recognizes advertising expense as incurred. Advertising expenses for the years ended December 31, 2021 and 2020 totaled \$14,494 and \$3,402, respectively.

# HARBOR INVESTMENT ADVISORY, LLC

## Notes to the Financial Statements For the Years Ended December 31, 2021 and 2020

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

#### Subsequent Events

The Company evaluated for disclosure any subsequent events through February 25, 2022, the date the financial statements were available to be issued and determined there were no material events that warrant disclosure, except as disclosed in Note 11 to the financial statements.

### 2. FURNITURE, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

Depreciation expense for the years ended December 31, 2021 and 2020 totaled \$13,606 and \$13,704, respectively. The cost and accumulated depreciation of furniture, equipment, and leasehold improvements consists of the following as of December 31,:

	2021	2020
Furniture and equipment	\$ 103,051	\$ 103,051
Leasehold improvements	69,227	69,227
Less: accumulated depreciation	(158,031)	(144,425)
Furniture, equipment, and leasehold improvements, net	\$ 14,247	\$ 27,853

### 3. EMPLOYEE RETIREMENT PLAN

The Company has a defined contribution plan (the Plan) in which employees of the Company participate. The Plan covers substantially all employees upon date of hire, as defined in the Plan document. The Plan has been structured under Section 401(k) of the Internal Revenue Code. Employees may elect to make salary reduction contributions from 1% to 100% of annual compensation, subject to annual Internal Revenue Code limitations. The Company makes Traditional ADP Safe Harbor Matching Contributions equal to the sum of (a) 100% of the Participant's elective deferrals that do not exceed 3% of his or her compensation for the allocation period, plus (b) 50% of the Participant's elective deferrals that exceed 3% of his or her compensation for the allocation period but do not exceed 5% of his or her compensation for the allocation period. For the years ended December 31, 2021 and 2020, Company matching contributions totaled \$234,846 and \$214,243, respectively, and are included in employee compensation and benefits in the accompanying statements of operations.

# HARBOR INVESTMENT ADVISORY, LLC

## Notes to the Financial Statements For the Years Ended December 31, 2021 and 2020

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### 4. COMMITMENTS AND CONTINGENCIES

#### Leasing Arrangements

In accordance with FASB ASC 842, *Leases*, capital and operating leases are to be reported on the statement of financial condition as a depreciable right-of-use asset and a liability reduced by lease payments. The asset and liability are initially measured at the present value of the future lease payments, including payments to be made in optional periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. Leases with an initial term of 12 months or less are not recorded on the statement of financial condition. The lease liability was determined by using the incremental borrowing rate of 5% based on the information available at the lease commencement date. The associated right-of-use asset is valued at an amount equal to the lease liability, less any adjustments as defined in Topic 842. The lease agreements do not contain any residual value guarantees or restrictive covenants.

The Company leases office space in one location under an operating lease agreement that expires in March 2022. In August 2021, the Company renewed the lease agreement effective April 1, 2022, that expires in May 2027. In August 2021, the Company entered into a sublease agreement for office space in a second location for an initial term of twelve months. In accordance with ASC 842, the Company has elected to exclude the sublease from the statement of financial condition and future minimum lease payments schedule. Rent expense totaling \$290,213 and \$282,689 was charged to operations for the years ended December 31, 2021 and 2020, respectively.

Future minimum lease payments under the office space lease are as follows for the years ending December 31,:

2022	\$ 250,088
2023	293,207
2024	303,470
2025	314,091
2026	325,084
2027	138,519
Total future minimum lease payments	1,624,459
Less: discount to present value	(196,772)
Total	\$ 1,427,687

The Company leases office equipment under operating leases with varying expiration dates through December 2025. Office equipment rent expense totaling \$7,684 and \$7,721 was charged to operations for the years ended December 31, 2021 and 2020, respectively.

# HARBOR INVESTMENT ADVISORY, LLC

## Notes to the Financial Statements For the Years Ended December 31, 2021 and 2020

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### 4. COMMITMENTS AND CONTINGENCIES – cont'd

#### Leasing Arrangements – cont'd

Future minimum lease payments under the office equipment leases are as follows for the years ending December 31,:

2022	\$	7,659
2023		7,659
2024		4,643
2025		420
Total future minimum lease payments		20,381
Less: discount to present value		(1,352)
Total		\$ 19,029

As of December 31, 2021 and 2020, the Company has recorded a lease liability totaling \$1,446,716 and \$416,610, respectively. As of December 31, 2021 and 2020, the Company has recorded a right-of-use asset totaling \$1,434,358 and \$366,073, respectively.

#### Termination Agreement

In 2010, the Company entered into an agreement with Pershing to provide custody and clearing services for clients of the Company for a period of six years. In March 2015, the parties modified the terms and renewed for a period of eight years. As part of the renewal, the Company received from Pershing an incentive fee. This incentive fee will be recognized ratably over the life of the new agreement. The outstanding balance totaled \$109,375 and \$203,125 as of December 31, 2021 and 2020, respectively, and is recorded as deferred revenue on the accompanying statements of financial condition. The agreement states that if the Company moves their client accounts from Pershing, the Company will be liable for a termination fee which decreases each year through the eighth year of the agreement. As of December 31, 2021, management has no intention of moving client accounts from Pershing. The maximum termination fee totaled \$750,000 and \$1,000,000 as of December 31, 2021 and 2020, respectively.

### 5. FORGIVABLE LOAN

The Company entered into a loan agreement on August 15, 2017. Under the terms of the agreement, the amount borrowed totaled \$750,000. The loan bears interest at 5% plus the greater of the Prime Rate and Fed Funds Rate. As of December 31, 2021 and 2020, such rate was 8.25%. As of December 31, 2021 and 2020, the outstanding balance on the loan was \$375,000 and \$468,750, respectively. The scheduled maturity date of any unpaid principal, interest, and late charges is August 15, 2025. The loan was entered into with prior written approval of FINRA and constitutes a satisfactory subordination agreement under Appendix D to Rule 15c3-1 under the Securities Exchange Act of 1934, as amended (SEA). Accordingly, the lender irrevocably agrees that the obligations of the Company with respect to the payment of principal and interest are and shall be fully and irrevocably subordinate in right of payment and subject to the prior payment or provision for payment in full of all claims of all other

# HARBOR INVESTMENT ADVISORY, LLC

## Notes to the Financial Statements For the Years Ended December 31, 2021 and 2020

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### 5. FORGIVABLE LOAN – cont'd

present and future creditors of the Company whose claims are not similarly subordinated (claims hereunder shall rank pari passu with claims similarly subordinated) and to claims which are now or hereafter expressly stated in the instruments creating such claims to be senior in right of payment to the claims of the class of this claim arising out of any matter occurring prior to the date on which the Company's obligation to make such payment matures consistent with the provisions hereof.

The loan states that on each anniversary date of the closing date, and again on the scheduled maturity date, the lender shall forgive one-eighth of the total amount of the loan, and the amount of accrued interest as of the applicable partial forgiveness date, on the condition that the Company meets specific conditions of forgiveness. If at any time during the term of the loan agreement, any of the conditions of forgiveness have not been met, there shall be no further forgiveness of any amounts of the loan, and any remaining principal amount of the loan that has not been forgiven pursuant to Section 4(b) of Rider A to said loan shall remain payable in accordance with the terms of the loan agreement. On August 15, 2021, the Company met all the specific conditions of forgiveness, and \$93,750 of principal and \$39,295 of interest was forgiven by the lender. On August 15, 2020, the Company met all the specific conditions of forgiveness, and \$93,750 of principal and \$52,486 of interest was forgiven by the lender. The forgiven principal and interest are included in forgivable loan principal and interest in the accompanying statements of operations.

### 6. CORONAVIRUS

In December 2019, a novel strain of coronavirus (COVID-19) was reported, and the World Health Organization declared COVID-19 to constitute a "Public Health Emergency of International Concern". In March 2020, COVID-19 began to spread throughout the United States. Efforts to contain COVID-19, including restrictions mandated by U.S. Federal and state governments, caused numerous businesses to close or operate remotely in effort to slow down the spread of COVID-19. The Company experienced an immediate impact from COVID-19 due to the volatility of the financial markets, but the overall impact of COVID-19 to the operations and financial position of the Company in 2020 and 2021 were ultimately not significant. The future impact of the pandemic is highly uncertain, but it could have a material adverse impact on the future results of operations and financial position of the Company.

### 7. PAYCHECK PROTECTION PROGRAM

In April 2020, the Company received a loan in the amount of \$670,800 from Sandy Spring Bank under the U.S. Small Business Administration (SBA) Paycheck Protection Program (PPP), which was established by the Coronavirus Aid, Relief and Economic Security Act (CARES Act). The loan was eligible for forgiveness pursuant to terms and conditions of the CARES Act, which minimally required that (1) the loan proceeds be used to cover eligible expenses, which include payroll costs, mortgage interest, rent and utilities, and (2) the number of employees and compensation levels are generally maintained.

The Company elected to account for the forgivable loan as a conditional grant. Accordingly, the Company recorded the initial loan proceeds as a loan payable and reduced the loan payable and recognized revenue once the conditions for forgiveness were substantially met or explicitly waived.



# HARBOR INVESTMENT ADVISORY, LLC

## Notes to the Financial Statements For the Years Ended December 31, 2021 and 2020

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### 7. PAYCHECK PROTECTION PROGRAM – cont'd

The Company repaid \$112,905 of the PPP loan in August 2020. During the year ended December 31, 2020, \$557,895 of Paycheck Protection Program conditional grant revenue was recognized in the accompanying statements of operations and the balance of the loan payable was reduced to zero. During the year ended December 31, 2021, the full principal balance and applicable interest was formally forgiven by the SBA. Total forgiveness totaled \$560,637, resulting in an additional credit of \$2,742 recognized as Paycheck Protection Program conditional grant revenue in the accompanying statements of operations for the year ended December 31, 2021.

### 8. NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital of \$50,000 and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 (and the rule of the "applicable" exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). At December 31, 2021, the Company had net capital of \$2,820,132, which was \$2,695,147 in excess of its required net capital, and the Company's net capital ratio was .66 to 1. At December 31, 2020, the Company had net capital of \$3,278,311, which was \$3,170,777 in excess of its required net capital, and the Company's net capital ratio was 0.49 to 1.

### 9. EXEMPTION FROM RULE 15c3-3

The Company is subject to the provisions of Rule 15c3-3 of the SEC. However, the Company operates pursuant to the exemptive provisions of paragraph (k)(2)(ii) of Rule 15c3-3, and therefore the Company is prohibited from carrying client margin accounts, or otherwise holding client funds or securities, or performing custodial duties with respect to clients' securities. Therefore, the Company is not required to maintain a "Special Reserve Bank Account for the Exclusive Benefit of Customers".

### 10. FOCUS REPORT

There are no differences between the accompanying financial statements and the December 31, 2021 FOCUS report filed with FINRA.

### 11. SUBSEQUENT EVENTS

In January and February 2022, the Company made capital distributions totaling \$762,161.

## SUPPLEMENTARY INFORMATION

# HARBOR INVESTMENT ADVISORY, LLC

## Schedule I Computation of Net Capital and Aggregate Indebtedness Under Rule 15c3-1 of the Securities and Exchange Commission As of December 31, 2021

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Total member's capital	\$	4,235,464
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Deduction and/or charges:

Total nonallowable assets:

Fees receivable not offset by payable	\$	177,530	
Prepaid expenses and other assets		185,396	
Receivables from clearing broker offset by long market value - MTM		4,425	
Notes receivable from related parties		1,386,757	
Furniture, equipment, and leasehold improvements		14,247	
Deposits		21,977	1,790,332

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Additions to member's capital

Satisfactory Subordinated Loan Outstanding	375,000	375,000
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Net capital before haircuts on securities positions	2,820,132
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Haircuts on trading and investment securities:

Debt securities	-
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Net Capital	\$	2,820,132
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### Computation of Basic Net Capital Requirement under Rule 15c3-1 of the Securities Exchange Commission

Minimum net capital required (Under SEC Rule 15c3-1)	\$	124,985
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Excess net capital	\$	2,695,147
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Net capital less greater of 10% of aggregate indebtedness or 120% of minimum dollar net capital	\$	2,632,655
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### Computation of Aggregate Indebtedness under Rule 15c3-1 of the Securities Exchange Commission

Total aggregate indebtedness included in statement of financial condition	\$	1,874,768
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Ratio of aggregate indebtedness to net capital	0.66
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*See report of independent registered public accounting firm.*

# **HARBOR INVESTMENT ADVISORY, LLC**

## **Schedule II Computation for Determination of Reserve Requirement Under Rule 15c3-3 of the Securities and Exchange Commission As of December 31, 2021**

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As of December 31, 2021, Harbor Investment Advisory, LLC has not maintained security accounts for customers and has not performed custodial functions relating to customer securities. As of December 31, 2021, Harbor Investment Advisory, LLC has adhered to the exemptive provisions of Rule 15c3-3 of the Securities and Exchange Commission.

# **HARBOR INVESTMENT ADVISORY, LLC**

## **Schedule III Information Relating to Possession or Control Requirements Under Rule 15c3-3 of the Securities and Exchange Commission As of December 31, 2021**

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As of December 31, 2021, Harbor Investment Advisory, LLC has not maintained security accounts for customers and has not performed custodial functions relating to customer securities. As of December 31, 2021, Harbor Investment Advisory, LLC has adhered to the exemptive provisions of Rule 15c3-3(k)(2)(ii) of the Securities and Exchange Commission.

# **HARBOR INVESTMENT ADVISORY, LLC**

## **Schedule IV Statement Pursuant to Paragraph (d)(4) of Rule 17a-5 As of December 31, 2021**

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There are no material differences between the computation of net capital and aggregate indebtedness required pursuant to Rule 15c3-1 contained in the supplementary information to the financial statements and the corresponding computation prepared by, and included in, the Company's unaudited Part II Focus Report as of December 31, 2021.

## OTHER INFORMATION



## Report of Independent Registered Public Accounting Firm

To the Member of  
Harbor Investment Advisory, LLC:

We have reviewed management's statements, included in the accompanying Harbor Investment Advisory, LLC Exemption Report, in which (1) Harbor Investment Advisory, LLC identified the following provisions of 17 C.F.R. §15c3-3(k) under which Harbor Investment Advisory, LLC claimed an exemption from 17 C.F.R. §240.15c3-3: (k)(2)(ii) (the "exemption provisions") and (2) Harbor Investment Advisory, LLC stated that they met the identified exemption provisions throughout the most recent fiscal year without exception. Harbor Investment Advisory, LLC's management is responsible for compliance with the exemption provisions and its statements.

Our review was conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States) and, accordingly, included inquiries and other required procedures to obtain evidence about Harbor Investment Advisory, LLC's compliance with the exemption provisions. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on management's statements. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to management's statements referred to above for them to be fairly stated, in all material respects, based on the provisions set forth in paragraph (k)(2)(ii) of Rule 15c3-3 under the Securities Exchange Act of 1934.

*SCH Attest Services, P.C.*

Sparks, MD  
February 25, 2022



### **Harbor Investment Advisory, LLC Exemption Report**

**Harbor Investment Advisory, LLC** (the Company) is a registered broker-dealer subject to Rule 17a-5 promulgated by the Securities and Exchange Commission (17 C.F.R. §240.17a-5, “Reports to be made by certain brokers and dealers”). This Exemption Report was prepared as required by 17 C.F.R. § 240.17a-5(d)(1) and (4). To the best of its knowledge and belief, the Company states the following:

- (1) The Company claimed an exemption from 17 C.F.R. § 240.15c3-3 under the following provisions of 17 C.F.R. § 240.15c3-3 (k)(2)(ii).
- (2) The Company met the identified exemption provisions in 17 C.F.R. § 240.15c3-3(k)(ii) throughout the most recent fiscal year ended December 31, 2021, without exception.

### **Harbor Investment Advisors, LLC**

I, Raymond Dean, swear (or affirm) that, to my best knowledge and belief, this Exemption Report is true and correct.

  
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Raymond P. Dean, FINOP

February 25, 2022