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OMB Number:	3235-0123
Expires:	January 31, 2007
Estimated average burden hours per response.....	12.00

ANNUAL AUDITED REPORT FORM X-17A-5 PART III

SEC FILE NUMBER
8- 41965

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/06 AND ENDING 12/31/06 MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Harbor Financial Services, LLC

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

1555 S. University Blvd., Suite B

(No. and Street)

Mobile, Alabama 36609

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Christina Costarides

(251) 650-0840

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Solberger & Smith, LLP

(Name - if individual, state last, first, middle name)

273 Azalea Road, Suite 1-101 Mobile, Alabama 36609

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

PROCESSED

MAR 12 2007

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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

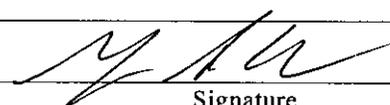
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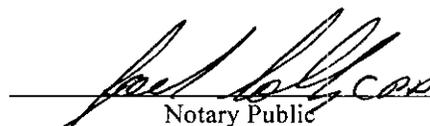
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OATH OR AFFIRMATION

I, Marc Whitehead, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Harbor Financial Services, LLC, as of December 31, 2006, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:


Signature

Managing Member
Title


Notary Public

This report ** contains (check all applicable boxes):

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of ~~Changes in Financial Condition~~ Cash Flow
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).



Harbor Financial Services, LLC

**Financial Statements
and
Supplemental Information**

for the year ended December 31, 2006

HARBOR FINANCIAL SERVICES, LLC

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SOLBERGER & SMITH, L.L.P.

Certified Public Accountants

JACK SOLBERGER, CPA, MBA
DONNA BAIN SMITH, CPA, MBA

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INDEPENDENT AUDITORS' REPORT

To The Members
Harbor Financial Services, LLC
Mobile, AL

We have audited the accompanying statement of financial condition of Harbor Financial Services, LLC as of December 31, 2006 and the related statements of operations, changes in member's capital, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Harbor Financial Services, LLC as of December 31, 2006, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles in the United States.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 of the Securities and Exchange Commission. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Certified Public Accountants
February 14, 2007

HARBOR FINANCIAL SERVICES, LLC
STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2006

ASSETS

Cash	\$249,039
Receivables from brokers	40,313
Office equipment (net of accumulated depreciation of \$3,628)	<u>5,735</u>
Total assets	<u>\$295,087</u>

LIABILITIES AND MEMBER'S CAPITAL

Liabilities

Accounts payable	\$134,541
Unearned revenue	<u>2,500</u>
Total liabilities	<u>137,041</u>

Member's capital

Marc Whitehead	46,294
Daria Corp.	55,876
Brown Corp.	<u>55,876</u>
Total member's capital	<u>158,046</u>

Total liabilities and member's capital	<u>\$295,087</u>
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See accompanying notes and accountants' report.

HARBOR FINANCIAL SERVICES, LLC
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2006

Revenues

Broker commission revenue	\$4,186,424
Broker commission expense	<u>4,186,424</u>
Net broker commission income	<u>0</u>

Other operating revenue

Broker fee income	436,638
Commissions earned	132,505
Broker expense reimbursements	71,417
Rental income	24,000
Other income	<u>1,481</u>
	<u>666,041</u>

Expenses

Salaries & wages	277,484
Broker/dealer fees & charges	91,001
Insurance	60,313
Office rent	59,362
Postage & delivery	14,214
Fines & penalties	13,050
Office expenses	12,087
Professional fees	11,706
Utilities	9,233
Telephone	8,450
Travel & entertainment	6,514
Equipment rent	4,937
Information technology fees	4,142
Printing reproduction	4,077
Advertising	4,062
Repairs & maintenance	2,750
Depreciation	1,440
Taxes & licenses	<u>711</u>
	<u>585,533</u>

Net loss	<u>\$ 80,508</u>
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See accompanying notes and accountants' report.

HARBOR FINANCIAL SERVICES, LLC
STATEMENT OF CHANGES IN MEMBER'S EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2006

	MARC WHITEHEAD	SIGLER BURKE	BROWN CORP.	DARAI CORP.	TOTALS
Capital balances 1/01/2006	\$ 7,320	\$ 2,720	\$37,749	\$37,749	\$ 85,538
Transfers of interest during year	2,720	(2,720)			
Net income during year	40,254		20,127	20,127	80,508
Capital withdrawals during year	(4,000)	—	(2,000)	(2,000)	(8,000)
Capital balances 12/31/2006	<u>\$46,294</u>	<u>\$ 0</u>	<u>\$55,876</u>	<u>\$55,876</u>	<u>\$158,046</u>

See accompanying notes and accountants' report.

**HARBOR FINANCIAL SERVICES, LLC
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Cash flows from operating activities

Net income	\$80,508
Depreciation expense	1,440
Increase in receivable from brokers	(13,849)
Decrease in prepaid insurance	19,069
Decrease in payables	<u>(10,001)</u>
Net cash provided by operating activities	77,167

Cash flows from financial activities

Capital withdrawals	<u>(8,000)</u>
Cash increase during period	69,167
Cash at beginning of period	<u>179,872</u>
Cash at end of period	<u>\$ 249,039</u>

See accompanying notes and accountants' report.

HARBOR FINANCIAL SERVICES, LLC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1: Nature of business and significant accounting policies

Nature of Business

Harbor Financial Services, LLC is engaged in business as a broker in municipal securities, government securities, equity trading on a fully disclosed basis, options, mutual funds and underwriting of offerings of corporate securities. The company operates under the exemptive provisions of SEC Rule 15c3-3 (k) (2) (ii) and is not required to comply with deposit requirements and possession and control requirements as generally required by SEC Rule 15c3-3.

A summary of the Company's significant accounting policies are as follows:

Cash and cash equivalents

Cash and cash equivalents include deposits with banks or other financial institutions as well as debt instruments with original maturities of three months or less, and other highly liquid investments which are readily convertible into cash. Cash equivalents are stated at cost which approximates value.

Securities transactions

Securities transactions and related commission income and expense are recorded on a trade-date basis.

Income taxes

The Company has elected to be taxed under the partnership provisions of the Internal Revenue Code. Under those provisions, the Company does not pay taxes on its taxable income and is not allowed a net operating loss carryover or carryback as a deduction. Instead, the member's include the Company's taxable income or loss on their income tax return.

HARBOR FINANCIAL SERVICES, LLC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 2: Cash and securities segregated under federal regulation

The Company claims exemption from this requirement under SEC Rule 15C3-3 (k) (2) (ii).

NOTE 3: Liabilities subordinated to claims of general creditors

None

NOTE 4: Net capital requirements

The Company is subject to the Securities and Exchange Commission's net capital rule which requires the company to maintain \$9,136 net capital at all times and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 8 to 1. On December 31, 2006, the Company had net capital of \$111,461 which was \$102,326 in excess of its required net capital of \$9,136. The Company's aggregate indebtedness to net capital ratio was 1.23 to 1.

NOTE 5: Related party transactions

During 2006 the Company subleased its operating equipment and its broker license from its former managing member. Payments made by the Company in 2006 on leases executed personally by the Company's former managing member totaled \$16,937. In negotiating the resignation of its former managing member and the admittance of new members, the Company agreed to continue the required payments on these operating leases.

NOTE 6: Client activities

In the normal course of business, the Company's client activities include the placing of various client securities and commodities orders with various clearing firms. This activity may expose the Company to off-balance sheet risk in the event the client is unable to fulfill its contractual obligations to the clearing firm.

**HARBOR FINANCIAL SERVICES, LLC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 7: Concentrations of credit risk

As a securities broker and dealer, the Company is engaged in various securities trading and brokerage activities servicing a diverse group of corporations and individual investors. The Company's exposure to credit risk associated with the non-performance of these counterparties in fulfilling their contractual obligations pursuant to securities and commodities transactions can be directly impacted by volatile trading markets which may impair the counterparties' ability to satisfy their obligations to the Company.

HARBOR FINANCIAL SERVICES, LLC
COMPUTATION OF NET CAPITAL UNDER RULE 15C3-1
OF THE SECURITIES AND EXCHANGE COMMISSION
DECEMBER 31, 2006

Member's capital	\$ 158,046
Less non-allowable assets	
Office equipment	(5,735)
Accounts receivable	<u>(40,313)</u>
Net capital before haircuts on security positions	111,998
Haircuts on securities	
Money market account	<u>(537)</u>
Net capital	111,461
Required net capital	<u>9,136</u>
Excess net capital	\$ <u>102,325</u>
Aggregate indebtedness	<u>\$137,041</u>
Ratio: Aggregate indebtedness to net capital	1.23 to 1

The net capital as computed above was not materially different from the Company's computation Part I of Form X-17A-5 as of December 31, 2006.



SOLBERGER & SMITH, L.L.P.

Certified Public Accountants

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EMAIL: taxtime@bellsouth.net

February 14, 2007

To The Members
Harbor Financial Services, LLC.
Mobile, Alabama

In planning and performing our audit of the financial statements of Harbor Financial Services, LLC for the year ended December 31, 2006, we considered its internal control structure, including procedures for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

We also made a study of the practices and procedures followed by the Company in making the periodic computations of aggregate indebtedness and net capital under rule 17a-3(a)(11) and the procedures for determining compliance with the exemptive provisions of rule 15c3-3. We did not review the practices and procedures followed by the Company in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by rule 17a-13 or in complying with the requirements for prompt payment for securities under section 8 of Regulation T of the Board of Governors of the Federal Reserve System, because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities.

Because of inherent limitations in any internal control structure or the practices and procedures referred to above, errors or irregularities may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the

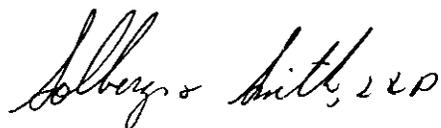
Harbor Financial Services, LLC.

February 14, 2007

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normal course of performing their assigned functions. However, we noted no matters involving the internal control structure, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commission to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2006, to meet the Commission's objectives.



Certified Public Accountants

END