

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

| | |
|--|----------------|
| OMB APPROVAL | |
| OMB Number: | 3235-0123 |
| Expires: | April 30, 2013 |
| Estimated average burden hours per response . . . | 12.00 |
| SEC FILE NUMBER | |
| - 65388 | |



11021772

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

SEC Mail Processing
Section

MAY 27 2011

FACING PAGE
Washington, DC
Information Required of Brokers and Dealers Pursuant to Section 10 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 04/01/10 AND ENDING 03/31/11
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:
McNally Financial Services Corporation

| |
|-------------------|
| OFFICIAL USE ONLY |
| FIRM ID. NO. |

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

1115 Tranquil Trail Drive

(No. and Street)

San Antonio
(City)

Texas
(State)

78232-5185
(Zip Code)

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

David McNally

(210) 545-7080

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

PMB Helin Donovan, LLP

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

5918 W. Courtyard Drive Suite 500
(Address)

Austin
(City)

Texas
(State)

78730
(Zip Code)

CHECK ONE:

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

| |
|-----------------------|
| FOR OFFICIAL USE ONLY |
|-----------------------|

*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).

SEC 1410 (06-02)

Potential persons who are to respond to the collection of
Information contained in this form are not required to respond
unless the form displays a currently valid OMB control number.

OATH OR AFFIRMATION

I, David McNally, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of McNally Financial Services Corporation, as of March 31, 2011, 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:

NONE



[Signature]
Notary Public

[Signature]
Signature

President
Title

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.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's 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).



MCNALLY FINANCIAL SERVICES CORPORATION

Financial Statements and Supplemental Schedule
March 31, 2011

(With Independent Auditors' Report Thereon)

MCNALLY FINANCIAL SERVICES CORPORATION
Index to Financial Statements and Supplemental Schedule
March 31, 2011

| | |
|------------------------------|---|
| INDEPENDENT AUDITORS' REPORT | 1 |
|------------------------------|---|

FINANCIAL STATEMENTS

| | |
|--|--------|
| Statement of Financial Condition | 2 |
| Statement of Operations | 3 |
| Statement of Changes in Stockholder's Equity | 4 |
| Statement of Cash Flows | 5 |
| Notes to the Financial Statements | 6 - 10 |

SUPPLEMENTAL SCHEDULE

| | |
|--|----|
| I. Computation of net capital and aggregate indebtedness pursuant to Rule 15c3-1 of the Securities and Exchange Commission | 11 |
|--|----|

| | |
|---|---------|
| INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL | 12 - 13 |
|---|---------|

| | |
|---|---------|
| AGREED-UPON PROCEDURES REPORT REGARDING FORM SIPC-7 | 14 - 16 |
|---|---------|

Report of Independent Auditors' Report

To the Stockholder of
McNally Financial Services Corporation:

We have audited the accompanying statement of financial condition of McNally Financial Services Corporation (the "Company") as of March 31, 2011, and the related statements of operations, changes in stockholder's equity, and cash flows for the year then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. 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 auditing standards generally accepted in the United States of America. 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 McNally Financial Services Corporation as of March 31, 2011, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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 I is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 under the Securities Exchange Act of 1934. 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.

PMB Helin Donovan, LLP

PMB Helin Donovan, LLP

Austin, Texas
May 24, 2011

MCNALLY FINANCIAL SERVICES CORPORATION

Statement of Financial Condition

March 31, 2011

ASSETS

| | | |
|---|-----------|-----------------------|
| Cash | \$ | 37,071 |
| Receivable from clearing broker-dealers | | 182,558 |
| Clearing deposit | | 25,000 |
| Securities owned, at fair value | | 73,046 |
| Fixed assets, net | | 1,383 |
| Deferred tax asset | | 2,062 |
| Other assets and receivables | | 1,759 |
| TOTAL ASSETS | \$ | <u>322,879</u> |

LIABILITIES AND STOCKHOLDER'S EQUITY

Liabilities

| | | |
|---------------------------------------|----|----------------|
| Accounts payable and accrued expenses | \$ | 205,195 |
| Deferred tax liability | | <u>1,955</u> |
| Total liabilities | | <u>207,150</u> |

Stockholder's Equity

| | | |
|---|--|----------------|
| Common stock, voting, 2,000 shares authorized, \$0.01 par value, 1,000 shares issued and outstanding | | 10 |
| Additional paid-in capital | | 104,411 |
| Retained earnings | | <u>11,308</u> |
| Total stockholder's equity | | <u>115,729</u> |

| | | |
|---|-----------|-----------------------|
| TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY | \$ | <u>322,879</u> |
|---|-----------|-----------------------|

See accompanying notes to financial statements.

MCNALLY FINANCIAL SERVICES CORPORATION

Statement of Operations

For the Year Ended March 31, 2011

REVENUES

| | | |
|---------------------------|----|------------------|
| Securities commissions | \$ | 1,472,637 |
| Insurance commissions | | 336,475 |
| Advisory fees | | 43,673 |
| Interest and other income | | <u>10,208</u> |
| Total revenues | | <u>1,862,993</u> |

EXPENSES

| | | |
|--------------------|--|------------------|
| Commission expense | | 1,541,529 |
| Payroll expenses | | 127,222 |
| Professional fees | | 95,166 |
| Regulatory fees | | 6,579 |
| Advertising | | 1,251 |
| Depreciation | | 1,661 |
| Insurance | | 2,884 |
| Other expenses | | <u>100,349</u> |
| Total expenses | | <u>1,876,641</u> |

LOSS BEFORE INCOME TAXES (13,648)

Income tax expense 1,976

NET LOSS \$ (15,624)

See accompanying notes to financial statements.

MCNALLY FINANCIAL SERVICES CORPORATION

Statement of Changes in Stockholder's Equity

For the Year Ended March 31, 2011

| | <u>Common Stock</u> | <u>Additional Paid-In Capital</u> | <u>Retained Earnings</u> | <u>Total</u> |
|----------------------------|-------------------------|---|------------------------------|-------------------|
| Balances at March 31, 2010 | \$ 10 | 104,411 | 26,932 | \$ 131,353 |
| Net loss | <u>-</u> | <u>-</u> | <u>(15,624)</u> | <u>(15,624)</u> |
| Balances at March 31, 2011 | <u>\$ 10</u> | <u>104,411</u> | <u>11,308</u> | <u>\$ 115,729</u> |

See accompanying notes to financial statements.

MCNALLY FINANCIAL SERVICES CORPORATION

Statement of Cash Flows

For the Year Ended March 31, 2011

Cash flows from operating activities:

| | | |
|--|----|-----------------|
| Net loss | \$ | (15,624) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation expense | | 1,661 |
| Change in assets and liabilities: | | |
| Receivable from clearing broker-dealers | | (140,424) |
| Securities owned | | 2,946 |
| Other assets | | 4,480 |
| Accounts payable and accrued expenses | | 130,850 |
| Net cash used in operating activities | | <u>(16,111)</u> |

Cash flows from investing activities:

| | | |
|--|--|----------------|
| Purchase of furniture and equipment | | <u>(1,508)</u> |
| Net cash used in investing activities | | <u>(1,508)</u> |

Cash flows from financing activities:

| | | |
|---------------------------|----|---------------|
| | | <u>-</u> |
| Net decrease in cash | | (17,619) |
| Cash at beginning of year | | 54,690 |
| Cash at end of year | \$ | <u>37,071</u> |

Supplemental Disclosures of Cash Flow Information:

| | | |
|-----------------|----|----------|
| Income tax paid | \$ | <u>-</u> |
| Interest paid | \$ | <u>-</u> |

See accompanying notes to financial statements.

MCNALLY FINANCIAL SERVICES CORPORATION

Notes to the Financial Statements

March 31, 2011

Note 1 - Nature of Business

McNally Financial Services Corporation (the "Company") was incorporated in the State of Texas on April 11, 2002 and became a registered broker/dealer with the Securities and Exchange Commission (SEC) in September 2002 and is a member of the Financial Industry Regulatory Authority (FINRA). The Company operates under the provisions of Paragraph K(2)(ii) of Rule 15c3-3 of the SEC, and accordingly is exempt from the remaining provisions of that Rule. The Company's customers consist primarily of individuals located throughout the United States of America.

For the year ended March 31, 2011, substantially all the commissioned brokerage transactions were settled through Pershing, LLC ("Pershing") pursuant to a fully disclosed Clearing Agreement. The Company is required to keep a minimum cash balance of \$25,000 for brokerage transactions with Pershing.

Note 2 - Significant Accounting Policies

Basis of Accounting

These financial statements are presented on the accrual basis of accounting in accordance with generally accepted accounting principles whereby revenues are recognized in the period earned and expenses when incurred.

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. Significant estimates include estimated useful lives of fixed assets. Actual results could differ from those estimates.

Cash equivalents

For purposes of the statements of cash flows, the Company considers short-term investments, which may be withdrawn at any time without penalty, and restricted cash, which will become available within one year from the date of the financial statements, to be cash equivalents.

Financial instruments and credit risk

Financial instruments that potentially subject the Company to credit risk include cash, receivables from clearing broker-dealers and securities owned. Receivables from clearing broker-dealers represent cash deposited and commissions receivable from these broker dealers and are insured by the Securities Investor Protection Corporation. Securities owned consist of investments in registered investment companies and are held for investment purposes. Securities that are marketable are stated at fair market value (as determined by quoted market prices) and securities not readily marketable are carried at fair value as determined by management of the Company. The increase or decrease in net unrealized appreciation or depreciation of securities is credited or charged to operations.

MCNALLY FINANCIAL SERVICES CORPORATION

Notes to the Financial Statements

March 31, 2011

(continued)

Property and Equipment

Property and equipment are stated at cost and depreciated using the straight line method over the estimated useful lives of the assets. Company policy is to capitalize all fixed assets with an original purchase price in excess of \$500. Depreciation charged to operations amounted to \$1,661 for year ended March 31, 2011.

Securities Transactions

Security transactions and the related commission revenues and expenses are recorded on a settlement date basis, generally the third business day following the transaction. If materially different, commission income and related expenses are recorded on a trade date basis.

Insurance Commissions

Insurance commissions are recorded when the insurance products are funded by the customer and the commission is earned.

Trading Profit

Trading profits include gains and losses on securities traded as well as adjustments to record securities positions at market value. Dividends are recorded on the ex-dividend date.

The Fund's investments are stated at fair value. However, interpreting market data to estimate fair value requires considerable judgment. Accordingly, the estimates presented herein do not necessarily indicate the amounts that the Company could realize in a current market exchange. The use of different market assumptions and estimation methodologies may have a material effect on the estimated fair value amounts.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for 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 on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Texas franchise tax is based on taxable margin and is computed on total gross revenues reduced by the greatest of three defined amounts, rather than being based on federal taxable income. For the year ended March 31, 2011, the Company had recorded \$1,905 of Texas franchise tax expense.

Date of Management's Review

The Company evaluates events that occur subsequent to the balance sheet date, but before financial statements are issued, for possible adjustment to the financial statements or other disclosure. This evaluation generally occurs through the date at which the Company's financial statements are available for issuance. For the financial statements as of and for the periods ending March 31, 2011, this date was May 24, 2011.

MCNALLY FINANCIAL SERVICES CORPORATION

Notes to the Financial Statements

March 31, 2011

(continued)

Note 3 - Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price methodology). The Company has adopted a framework for measuring fair value that includes a hierarchy used to classify inputs used in measuring fair value. The hierarchy prioritizes inputs to valuation techniques used to measure fair value into three levels which are either observable or unobservable. Observable inputs reflect market data obtained from independent sources while unobservable inputs reflect an entity's view of market assumptions in the absence of observable market information.

The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The three levels of the fair value hierarchy the Company has adopted are as follows:

Level 1: Fair value is based on unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. These generally provide the most reliable evidence and are used to measure fair value whenever available. The Company's Level 1 assets and liabilities include exchange traded equities. Valuations are obtained from readily available pricing sources for market transactions involving identical assets.

Level 2: Fair value is based upon significant inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable for substantially the full term of the asset or liability through corroboration with observable market data as of the reporting date. Level 2 inputs include quoted market prices in active markets for similar assets and liabilities, quoted market prices in markets that are not active for identical or similar assets or liabilities, model-derived valuations whose inputs are observable or whose significant value drivers are observable and other observable inputs.

Level 3: Fair value is based on significant unobservable inputs which reflect the entity's or third party pricing service assumptions about the assumptions market participants would use in pricing an asset or liability. Valuations are estimated based on non-binding broker prices or internally developed valuation models or methodologies, discounted cash flow models and other similar techniques.

The following table sets forth the Company's assets that are measured at fair value on a recurring basis as of the March 31, 2011:

| Description | Total | Level 1 | Level 2 | Level 3 |
|--------------------|--------------|----------------|----------------|----------------|
| Mutual funds | \$ 73,046 | \$ 73,046 | \$ - | \$ - |
| Total | \$ 73,046 | \$ 73,046 | \$ - | \$ - |

The carrying amount of cash and cash equivalents, accounts receivable, accounts payable and other liabilities approximated fair market value at March 31, 2011 because of their relatively short maturity.

MCNALLY FINANCIAL SERVICES CORPORATION

Notes to the Financial Statements

March 31, 2011

(continued)

Note 4 - Net Capital Requirements

The Company is subject to the SEC uniform net capital rule (Rule 15c3-1), which requires the maintenance of a minimum amount of net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. Rule 15c3-1 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 March 31, 2011, the Company had net capital in excess of minimum requirements and net capital requirements of \$49,567 and \$50,000, respectively. The Company's net capital ratio was 2.08 to 1 at March 31, 2011.

Note 5 - Income Taxes

The income tax expense for the year ended March 31, 2011 differs from the amount computed by applying the U.S. Federal income tax rate of 15% as a result of state income taxes net of federal benefits and other nondeductible expenses.

| | | |
|---|----|--------------|
| Tax at statutory rate of 15% | \$ | (2,047) |
| State tax expense | | 1,905 |
| Impact of permanent and other differences | | 2,118 |
| Total income tax expense | \$ | <u>1,976</u> |

The tax effect of temporary differences that give rise to significant portions of the current net deferred tax assets (liabilities) at March 31, 2011 are as follows:

| | | |
|---|----|--------------|
| Current portion of deferred tax assets (liabilities): | | |
| Excess of capital losses over capital gains | \$ | <u>2,062</u> |
| Current deferred tax assets (liabilities), net | \$ | <u>2,062</u> |

The tax effect of temporary differences that give rise to significant portions of the long-term net deferred tax assets (liabilities) at March 31, 2011 are as follows:

| | | |
|---|----|----------------|
| Long-term portion of deferred tax assets (liabilities): | | |
| Depreciation | \$ | <u>(1,955)</u> |
| Long-term deferred tax assets (liabilities), net | \$ | <u>(1,955)</u> |

In assessing the ability to realize deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax assets, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences.

MCNALLY FINANCIAL SERVICES CORPORATION

Notes to the Financial Statements

March 31, 2011

(continued)

Note 6 - Commitments and Contingencies

Litigation

The Company is subject to various claims and legal actions arising in the ordinary course of business. At March 31, 2011, the Company was not involved in any litigation or active legal actions.

Clearing Agreement

Included in the Company's clearing agreement with its clearing broker-dealer, is an indemnification clause. This clause relates to instances where the Company's customers fail to settle security transactions. In the event this occurs, the Company will indemnify the clearing broker-dealer to the extent of the net loss on any unsettled trades. At March 31, 2011, management of the Company had not been notified by the clearing broker-dealer, nor were they otherwise aware, of any potential losses relating to this indemnification.

Schedule I
MCNALLY FINANCIAL SERVICES CORPORATION
 Computation of Net Capital and Aggregate Indebtedness
 Pursuant to Rule 15c3-1 of the Securities and Exchange Commission
 As of March 31, 2011

| | | |
|--|----|-------------------------|
| Net capital, as reported in Company Financial Statements | \$ | 115,729 |
| Deductions and/or charges | | |
| Non-allowable assets: | | |
| Receivables from non-customers | | 1,691 |
| Fixed assets | | 1,383 |
| Other assets | | 2,131 |
| Total deductions and/or charges | | <u>5,205</u> |
| Net capital before haircuts on securities | | 110,524 |
| Haircuts on securities | | <u>10,957</u> |
| Net capital | \$ | <u><u>99,567</u></u> |
| Aggregate indebtedness | | |
| Accrued expense and other liabilities | \$ | 205,195 |
| Deferred tax liability | | 1,955 |
| Total aggregate indebtedness | \$ | <u><u>207,150</u></u> |
| Computation of basic net capital requirement | | |
| Minimum net capital required (greater of \$50,000 or 6 2/3% of aggregate indebtedness) | \$ | <u><u>50,000</u></u> |
| Net capital in excess of minimum requirement | \$ | <u><u>49,567</u></u> |
| Ratio of aggregate indebtedness to net capital | | <u><u>2.08 to 1</u></u> |
| Reconciliation with Company's computation of Net Capital (included in part II of Form X-17A-5 as of March 31, 2010) | | |
| Net capital, as reported in Company's Part II (unaudited) FOCUS report filed with FINRA on April 16, 2011 | \$ | 95,092 |
| Audit adjustments: | | |
| Net effect of audit adjustments on partner's capital | | (17,628) |
| Net effect of audit adjustments on non-allowable assets | | 22,103 |
| Net capital per audit | \$ | <u><u>99,567</u></u> |

See accompanying notes to financial statements.



**INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROL**

To the Stockholder of
McNally Financial Services Corporation:

In planning and performing our audit of the financial statements and supplemental schedules of McNally Financial Services Corporation (the Company), as of and for the year ended March 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including consideration of control activities for safeguarding securities. This study included tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by rule 17a-13
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud 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.



PMB Helin Donovan

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities 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 SEC 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 March 31, 2011, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, Securities and Exchange Commission, Financial Industry Regulatory Authority, and other regulatory agencies that rely on rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

PMB Helin Donovan, LLP

PMB Helin Donovan, LLP

May 24, 2011
Austin, Texas



**Independent Accountants' Report on Applying Agreed-Upon Procedures
Report Regarding Form SIPC-7**

To the Stockholder of McNally Financial Services Corporation:

In accordance with Rule 17a-5(e)(4) under the Securities Exchange Act of 1934, we have performed the procedures enumerated below with respect to the accompanying Schedule of Assessment and Payments [General Assessment Reconciliation (Form SIPC-7)] to the Securities Investor Protection Corporation (SIPC) for the year ended March 31, 2011, which were agreed to by McNally Financial Services Corporation and the Securities and Exchange Commission, Financial Industry Regulatory Authority, Inc., and SIPC, solely to assist you and the other specified parties in evaluating McNally Financial Services Corporation's compliance with the applicable instructions of the General Assessment Reconciliation (Form SIPC-7). McNally Financial Services Corporation's management is responsible for McNally Financial Services Corporation's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures we performed and our finding are as follows:

1. Compared the listed assessment payments in Form SIPC-7 with respective cash disbursement record entries noting no differences;
2. Compared the amounts reported on the audited Forms X-17-A-5 for the year ended March 31, 2011, as applicable, with the amounts reported in Form SIPC-7 for the year ended March 31, 2011, noting no differences;
3. Compared any adjustments reported in Form SIPC-7 with supporting schedules and working papers noting no differences; and
4. Proved the arithmetical accuracy of the calculations reflected in the Form SIPC-7 and in the related schedules and working papers supporting the adjustments noting no differences; and
5. Compared the amount of any overpayment applied to the current assessment with the Form SIPC-7, on which it was originally computed, noting no differences.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would be reported to you.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties.

PMB Helin Donovan, LLP

May 24, 2011

SIPC-7

(33-REV 7 10)

SECURITIES INVESTOR PROTECTION CORPORATION
P.O. Box 92185 Washington, D.C. 20090-2185
202-371-8300

General Assessment Reconciliation

SIPC-7

(33-REV 7:10)

For the fiscal year ended **March 31, 2011**
(Read carefully the instructions in your Working Copy before completing this Form)

TO BE FILED BY ALL SIPC MEMBERS WITH FISCAL YEAR ENDINGS

1. Name of Member, address, Designated Examining Authority, 1934 Act registration no. and month in which fiscal year ends for purposes of the audit requirement of SEC Rule 17a-5.

065388 FINRA MAR
McNally Financial Services Corp.
P.O. Box 701928
San Antonio, TX 78270-1928

Note: If any of the information shown on the mailing label requires correction, please e-mail any corrections to form@sipc.org and so indicate on the form filed.

Name and telephone number of person to contact respecting this form.

WORKING COPY

| | | |
|---|-----|-----------------------------|
| 2. A. General Assessment (item 2e from page 2) | \$ | <u>3,222</u> |
| B. Less payment made with SIPC-6 filed (exclude interest) | (| <u>3,201</u>) |
| <u>10/12/2010, 04/17/2011, 05/20/2011</u> Date Paid | | |
| C. Less prior overpayment applied | (| <u>58</u>) |
| D. Assessment balance due or (overpayment) | | <u>(37)</u> |
| E. Interest computed on late payment (see instruction E) for _____ days at 20% per annum | | |
| F. Total assessment balance and interest due (or overpayment carried forward) | \$ | <u>(37)</u> |
| G. PAID WITH THIS FORM: Check enclosed, payable to SIPC Total (must be same as F above) | \$ | <u> </u> |
| H. Overpayment carried forward | \$(| <u>(37)</u>) |

3. Subsidiaries (S) and predecessors (P) included in this form (give name and 1934 Act registration number):

The SIPC member submitting this form and the person by whom it is executed represent thereby that all information contained herein is true, correct and complete.

McNally Financial Services Corporation

(Name of Corporation, Partnership, or other organization)

David D. Williams
(Authorized Signature)

Dated the 25 day of May, 20 11

President
(Title)

This form and the assessment payment is due 60 days after the end of the fiscal year. Retain the Working Copy of this form for a period of not less than 6 years, the latest 2 years in an easily accessible place.

SIPC REVIEWER

| | | | |
|----------------------------|-----------------------------|-----------------------------|--|
| Dates: | <u> </u> | <u> </u> | <u> </u> |
| | Postmarked | Received | Reviewed |
| Calculations | <u> </u> | Documentation | <u> </u> |
| Exceptions: | | | Forward Copy <u> </u> |
| Disposition of exceptions: | | | |

DETERMINATION OF "SIPC NET OPERATING REVENUES" AND GENERAL ASSESSMENT

Amounts for the fiscal period
beginning 04/01, 2010
and ending 03/31, 2011
Eliminate cents

Item No.

2a. Total revenue (FOCUS Line 12; Part IIA Line 9 Code 4030)

\$ 1,862,993

2b. Additions.

- (1) Total revenues from the securities business of subsidiaries (except foreign subsidiaries) and predecessors not included above. _____
- (2) Net loss from principal transactions in securities in trading accounts. _____
- (3) Net loss from principal transactions in commodities in trading accounts. _____
- (4) Interest and dividend expense deducted in determining item 2a. _____
- (5) Net loss from management of or participation in the underwriting or distribution of securities. _____
- (6) Expenses other than advertising, printing, registration fees and legal fees deducted in determining net profit from management of or participation in underwriting or distribution of securities. _____
- (7) Net loss from securities in investment accounts. _____

Total additions

2c. Deductions.

- (1) Revenues from the distribution of shares of a registered open end investment company or unit investment trust, from the sale of variable annuities, from the business of insurance, from investment advisory services rendered to registered investment companies or insurance company separate accounts, and from transactions in security futures products. 563,848
- (2) Revenues from commodity transactions. _____
- (3) Commissions, floor brokerage and clearance paid to other SIPC members in connection with securities transactions. _____
- (4) Reimbursements for postage in connection with proxy solicitation. _____
- (5) Net gain from securities in investment accounts. 10,208
- (6) 100% of commissions and markups earned from transactions in (i) certificates of deposit and (ii) Treasury bills, bankers acceptances or commercial paper that mature nine months or less from issuance date. _____
- (7) Direct expenses of printing advertising and legal fees incurred in connection with other revenue related to the securities business (revenue defined by Section 16(9)(L) of the Act). _____
- (8) Other revenue not related either directly or indirectly to the securities business.
(See Instruction C) _____

19) (i) Total interest and dividend expense (FOCUS Line 22; PART IIA Line 13, Code 4075 plus line 2b(4) above) but not in excess of total interest and dividend income. \$ _____

(ii) 40% of margin interest earned on customers securities accounts (40% of FOCUS line 5, Code 3969). \$ _____

Enter the greater of line (i) or (ii)

Total deductions

574,056

2d SIPC Net Operating Revenues

\$ 1,288,937

2e General Assessment @ .0025

3,222

\$ _____

(to page 1, line 2.A.)