

STATEMENT OF ADDITIONAL INFORMATION

U.S. Government Fund of The Reserve Fund

1250 Broadway, New York, N.Y. 10001-3701
212-401-5500 or 800-637-1700

24-Hour Yield And Balance Information Nationwide 800-637-1700 - www.TheR.com

The Reserve Fund (the “Trust”) was organized on February 1, 1970 as a Maryland corporation and re-organized on October 28, 1986 as a Massachusetts business trust. The Trust is an open-end, management investment company, registered with the Securities and Exchange Commission (the “SEC”) under the Investment Company Act of 1940 (the “Investment Company Act”). This Statement of Additional Information (“SAI”) describes the Trust and its series, U.S. Government Fund (the “Fund”). As of the date of this SAI, U.S. Government Fund is authorized to issue shares in the following classes: Class Institutional, Liquidity Class I, Liquidity Class II, Liquidity Class III, Liquidity Class IV, Liquidity Class V, Class Treasurer’s Trust, Investor Class I, Investor Class II, Investor Class III and Class R. Additional series and classes may be added by the Board of Trustees (the “Board”) of the Trust without a shareholder vote.

This SAI is not a prospectus, and should be read in conjunction with the combined prospectus of the Fund dated October 8, 2008 (the “Prospectus”). The Prospectus is incorporated by reference into this SAI and this SAI is incorporated by reference into the Prospectus. The Fund’s audited financial statements are included in this SAI.

A copy of the Prospectus and the Annual Report to shareholders for the fiscal year ended May 31, 2008 (the “Annual Report”) may be obtained without charge by writing to the Trust at the address shown above or calling Reserve Management Company, Inc., the Fund’s investment adviser (“RMCI” or the “Adviser”), toll free at 800-637-1700. The SEC maintains a website (<http://www.sec.gov>) where you can download the SAI, the Prospectus, the Annual Report, material incorporated by reference and other information regarding the Fund.

This SAI is dated October 8, 2008.

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SHARES OF THE FUND IS NEITHER GUARANTEED NOR INSURED BY THE U.S. GOVERNMENT, AND THERE CAN BE NO ASSURANCE THAT THE FUND WILL BE ABLE TO MAINTAIN A STABLE NET ASSET VALUE OF \$1.00 PER SHARE.

Investment Objective and Policies

The investment objective of the Fund is to seek as high a level of current income as is consistent with preservation of capital and liquidity. This investment objective is a fundamental policy and may not be changed without the vote of a majority of the outstanding shares of the Fund as defined in the Investment Company Act. There can be no assurance that the Fund will achieve its investment objective.

An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation (“FDIC”) or any other government agency. Although the Fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the Fund.

Fundamental Policies. The Fund’s investment objective and the following fundamental investment policies may not be changed without the affirmative vote of a majority of the outstanding shares of the Fund. A majority of the outstanding shares of the Fund means the vote of the lesser of (i) 67% or more of the shares of the Fund present at a meeting, if the holders of more than 50% of the outstanding shares of the Fund are present or represented by proxy, or (ii) more than 50% of the outstanding shares of the Fund (a “Majority Vote”). Under the Fund’s fundamental investment policies, the Fund may not:

- (1) borrow money except as a temporary or emergency measure and not in an amount to exceed 5% of the market value of its total assets;
- (2) issue senior securities except in compliance with the Investment Company Act;
- (3) act as an underwriter with respect to the securities of others except to the extent that, in connection with the disposition of portfolio securities, it may be deemed to be an underwriter under certain federal securities laws;
- (4) invest more than 25% of its total assets in any particular industry, except to the extent that its investments may be concentrated exclusively in U.S. government securities and bank obligations or repurchase agreements secured by such obligations;
- (5) purchase, sell or otherwise invest in real estate or commodities or commodity contracts;
- (6) lend more than 33 1/3% of the value of its total assets, except to the extent its investments may be considered loans;
- (7) sell any security short or write, sell or purchase any futures contract or put or call option; and
- (8) make investments on a margin basis.

Although the Fund has determined to be a non-diversified investment company, in fact, like all money market funds, the Fund operates as a diversified investment company, and will continue to do so. Under Section 5(b) of the Investment Company Act, a diversified company must have 75% of the value of its total assets in cash and cash items (including receivables), U.S. government securities, securities of other investment companies, and other securities for the purposes of this calculation limited in respect of any one issuer to an amount not greater in value than 5% of the value of its total assets and to not more than 10% of the outstanding voting securities of such issuer. Any management company other than a diversified company is defined as a “non-diversified” company pursuant to Section 5(b)(2).

In addition, the Fund intends to comply with the diversification requirements of Rule 2a-7 under the Investment Company Act, which generally limits a money market fund to investing no more than 5% of its total assets in securities of any one issuer, except U.S. government securities, and, if such securities are not First Tier Securities (as defined in the Rule), to not more than 1% of its total assets. Money market funds are also subject to the credit quality and maturity requirements of Rule 2a-7. Accordingly, the Fund may invest only in short term money market obligations, rated in one of the two highest short term ratings from a nationally recognized statistical rating organization or in the securities of other open-end investment companies with substantially the same investment objective as the Fund. The average maturity of the Fund’s securities portfolio will not be more than 90 days. In addition, the Fund will not purchase securities with maturities of more than 762 days (25 months) for securities issued or guaranteed by the U.S. government, as to principal and interest, or 397 days (13 months) for other securities.

The Fund will, under normal circumstances, invest at least 80% of its net assets in securities of the U.S. government, its agencies and instrumentalities, and repurchase agreements supported by such investments. The Fund does not intend to borrow for investment purposes, except as otherwise described below. These policies are fundamental and may not be changed without a Majority Vote.

The Investment Company Act prohibits open-end funds from issuing “senior securities” other than bank borrowings that have at least 300% asset coverage. The Fund will not be considered to have issued a “senior security” by entering into reverse repurchase agreements because it will maintain liquid assets in a segregated account having a value equal to the repurchase price, including interest.

Notwithstanding the foregoing investment restrictions, and to the extent permitted under the Investment Company Act, and the regulations promulgated thereunder, the Fund may invest substantially all of its assets in another open-end investment company that invests in money market-type securities. If the Fund invests in an affiliated money market fund, it will reduce the fees and expenses payable by the Fund’s investors by the amount of fees and expenses charged by the affiliated fund. If the Fund invests in an unaffiliated money market fund, shareholders would bear both their proportionate shares of fees and expenses in the fund (including investment advisory fees) and, indirectly, the fees and expenses of such money market fund (including investment advisory fees of that fund).

Although not currently using a “master/feeder” structure, the Trust has obtained, on behalf of the Fund, shareholder approval to use a “master/feeder” structure. In that case, the Fund may become a “feeder fund” that would invest in a corresponding “master fund” rather than investing directly in securities. The master fund, in turn, would invest in securities according to the strategies and policies described in the Prospectus. A potential benefit of this structure is that the expenses of the master fund could be shared with any other feeder funds.

The Fund may invest their assets without limit in money market funds, including affiliated funds.

As a matter of operating policy, the Fund may not invest in companies for the purposes of exercising management or control.

Money Market Instruments and Investment Strategies

The following section contains more detailed information about the types of instruments in which the Fund may invest, the strategies the Fund may employ, and a summary of the related risks. A particular type of instrument or strategy will be utilized only when, in the Adviser’s opinion, the utilization will help the Fund achieve its investment objective.

MONEY MARKET INSTRUMENTS

U.S. Government Securities. The Fund may also invest in other U.S. government securities, including instruments that are issued or guaranteed by agencies of the federal government and instrumentalities that have been established or sponsored by the U.S. government, and certain interests in the foregoing securities. U.S. government securities include

obligations such as securities issued by the Government National Mortgage Association (“GNMA”), the Federal Home Loan Mortgage Corporation (“FHLMC”), the Federal National Mortgage Association (“FNMA”), the Student Loan Marketing Association (“SLMA”) and the Federal Home Loan Bank (“FHLB”), in addition to direct obligations of the U.S. Treasury. Some obligations of agencies and instrumentalities of the U.S. government, such as GNMA, are supported by the full faith and credit of the U.S. government. Other securities, such as obligations issued by FNMA and SLMA, are supported by the right of the issuer to borrow from the U.S. Treasury; and others, such as obligations issued by FHLB and FHLMC, are supported only by the credit of the agency or instrumentality issuing the obligation. In the case of securities not backed by the full faith and credit of the U.S., the investor must look principally to the agency issuing or guaranteeing the obligation for ultimate repayment.

U.S. Treasury Obligations. The Fund may invest in obligations of or obligations guaranteed by the U.S. Treasury and backed by the full faith and credit of the U.S. government. U.S. Treasury STRIPS permit the separate ownership and trading of the interest and principal components of direct obligations of the U.S. Treasury. These obligations may take the form of (i) obligations from which interest coupons have been stripped; (ii) the interest coupons that are stripped; or (iii) book-entries at a Federal Reserve member bank representing ownership of obligation components.

INVESTMENT STRATEGIES

The Fund may also employ the following investment strategies:

Repurchase Agreements. The Fund may invest in securities pursuant to repurchase agreements (“REPOs”). Under such agreements, the Fund purchases and simultaneously contracts to resell securities at a mutually agreed upon time and price, thereby determining the yield during the term of the agreement. This results in a fixed rate of return insulated from market fluctuations during such period. The Fund will limit REPOs to those financial institutions and securities dealers who are deemed credit worthy pursuant to guidelines established by the Fund’s Trustees. To reduce the risk of incurring a loss on a REPO, the Fund will follow procedures intended to provide that all REPOs are at least 100% collateralized as to principal and interest and marked-to-market daily. The Fund will require the seller to provide additional collateral if the market value of the securities falls below the repurchase price at any time during the term of the repurchase agreement. The Fund will make payment for such instruments only upon their physical delivery to, or evidence of their book-entry transfer to, the Fund’s account at its custodian.

A REPO may be construed to be a collateralized loan by the purchaser to the seller secured by the securities transferred to the purchaser. In general, for federal income tax purposes, repurchase agreements are treated as

collateralized loans secured by the securities “sold.” Therefore, amounts earned under such agreements, even if the underlying securities are tax-exempt securities, will not be considered tax-exempt interest.

REPOs could involve risks in the event of a default of the REPO counterparty to the agreement, including possible delays, losses or restrictions upon the Fund’s ability to dispose of the underlying securities. In the event of a default by the seller under a repurchase agreement construed to be a collateralized loan, the underlying securities are not owned by the Fund but only constitute collateral for the seller’s obligation to pay the repurchase price. Therefore, the Fund may suffer time delays and incur costs or possible losses in connection with the disposition of the collateral. In the event of a default, instead of the contractual fixed rate of return, the rate of return would be dependent upon intervening fluctuations of the market value of the security and the accrued interest on the security. The Fund would have rights against the seller for breach of contract with respect to any losses arising from market fluctuations following the failure of the seller to perform.

Reverse Repurchase Agreements. The Fund may enter into reverse repurchase agreements (“reverse REPOs”) when it is considered advantageous, such as to cover net redemptions or to avoid a premature outright sale of its portfolio securities. Reverse REPOs involve the sale of money market securities held by the Fund, with an agreement to repurchase the securities at an agreed-upon price, date and interest payment. In a typical reverse REPO transaction, the seller (Fund) retains the right to receive interest and principal payments on the security, but transfers title to and possession of it to a second party in return for receiving a percentage of its value. During the time a reverse REPO is outstanding, the Fund will maintain a segregated custodial account containing U.S. government or other appropriate liquid securities that have a value equal to the repurchase price. A reverse REPO involves the risk that the counterparty will fail to return the securities involved in such transactions, in which event the Fund may suffer time delays and incur costs or possible losses in connection with such transactions. It is the Fund’s policy that entering into a reverse REPO transaction will be for temporary purposes only and, when aggregated with other borrowings, may not exceed 5% of the value of the total assets of the Fund at the time of the transaction.

Investments in Illiquid Securities. Illiquid securities generally are any securities that cannot be disposed of promptly, in the ordinary course of business, at approximately the amount at which the Fund has valued the instruments. The Fund may invest in illiquid securities if such investments would not exceed 10% of the Fund’s net assets. The liquidity of the Fund’s investments is monitored under the supervision and direction of the Fund’s Trustees. Investments currently considered illiquid include REPOs not maturing within seven days and certain restricted securities.

Borrowing. The Fund has the authority to borrow money, including through reverse REPO transactions, for extraordinary or emergency purposes but not in an amount exceeding 5% of the market value of its total assets. The Fund may borrow at times to meet redemption requests rather than sell portfolio securities to raise the necessary cash. Borrowing subjects the Fund to interest costs. Borrowing could also involve leverage if securities were purchased with the borrowed money. To avoid this, the Fund will not purchase securities while borrowings are outstanding. The Fund could suffer a loss in the event that there are losses on investments made with such collateral. In the event the borrower defaults on its obligations, the Fund could suffer a loss where the market value of securities received as collateral falls below the market value of the borrowed securities. The Fund could also experience delays and costs in gaining access to the collateral.

The Fund may pledge, hypothecate, or in any manner, transfer any security owned by the Fund as security for indebtedness, but only in accordance with the limits discussed above.

Securities Lending Agreements. The Fund may from time to time lend securities on a short-term basis to banks and to broker-dealers (but not individuals) if, after any loan, the value of the securities loaned does not exceed 25% of the value of the Fund’s assets. The Fund will receive as collateral cash or securities issued by the U.S. government or its agencies or instrumentalities. Under current regulations, the loan collateral must, on each business day, be at least equal to the value of the loaned securities plus accrued interest. The Fund receives the income on the loaned securities. Where the Fund receives securities as collateral, the Fund receives a fee for its loans from the borrower and does not receive the income on the collateral. Where the Fund receives cash collateral, it may invest such collateral and retain the amount earned, net of any amount rebated to the borrower. As a result, the Fund’s yield may increase. Loans of securities are terminable at any time and the borrower, after notice, is required to return borrowed securities within the standard time period for the settlement of securities transactions. The Fund is obligated to return the collateral to the borrower at the termination of the loan. The Fund may pay reasonable finders, custodian and administrative

fees. The Fund may employ a third party agent to implement its securities lending program and the agent will receive a fee from the Fund for its services. Loan arrangements made by the Fund will comply with all applicable regulatory requirements including the rules of the Financial Industry Regulatory Authority (“FINRA”).

The Fund could suffer a loss in the event that there are losses on investments made with such collateral. In the event the borrower defaults on its obligations, the Fund could suffer a loss where the market value of securities received as collateral falls below the market value of the borrowed securities. The Fund could also experience delays and costs in gaining access to the collateral. The Fund will not have the right to vote on securities while they are being lent, but will recall securities on loan in order that these securities may be voted by the Fund if the holders of the securities are asked to vote upon or consent on matters materially affecting the investment.

Credit Quality. The SEC has adopted regulations that dictate the credit quality requirements for money market funds. These require the Fund to invest exclusively in high-quality securities. Generally, high-quality securities are securities that are rated in one of the two highest rating categories by two nationally recognized statistical rating organizations (“NRSRO”), or by one if only one NRSRO has rated the securities, or, if unrated, securities determined to be of comparable quality by the Adviser pursuant to guidelines adopted by the Trustees. High-quality securities may be “first tier” or “second tier” securities. First tier securities may be rated within the highest category or determined to be of comparable quality. Many money market fund shares and U.S. government securities are also first tier securities. Second tier securities generally are rated within the second-highest category. Should a security’s high-quality rating change after purchase by the Fund, the Adviser would take such action, including no action, determined to be in the best interest of the Fund.

Risks of Investing in the Fund

The principal risk factors associated with an investment in the Fund are the risk of fluctuations in short-term interest rates and the risk of default among one or more issuers of securities that comprise the Fund’s assets.

Credit Risk. This is the risk that the issuer will not make timely payments of principal and interest. The degree of credit risk depends on the issuer’s financial condition and on the terms of the bonds. This risk is reduced to the extent the Fund limits its debt investments to U.S. Treasury or U.S. government securities.

Interest Rate Risk. Interest rate risk is the risk that prices of debt securities generally increase when interest rates decline and decrease when interest rates increase. In general, the market price of debt securities with longer maturities will go up or down more in response to changes in interest rates than the market price of shorter-term securities. The Fund may lose money if interest rates rise sharply in a manner not anticipated by Fund management.

Temporary Defensive Positions. The Fund will at all times as is practicable be invested in accordance with the investment objective and strategies outlined in the Prospectus and above. However, from time to time, the Fund may take temporary defensive positions that are inconsistent with the Fund’s principal investment strategies to attempt to respond to adverse market, economic, political or other conditions. The Fund would generally, in adopting a temporary defensive position, buy more conservative U.S. government securities. Further, in an extreme emergency, the Fund would maintain a large percentage of uninvested cash. If the Fund adopts a temporary defensive position, the Fund might not be able to attain its objective.

Portfolio Transactions

Portfolio Transaction Fees. Investment transactions by the Fund are normally principal transactions at net prices. Therefore the Fund does not normally incur brokerage commissions. Purchases of securities from underwriters involve a commission or concession paid by the issuer to the underwriter and after-market transactions with dealers involve a spread between the bid and asked prices. The Fund has not paid any brokerage commissions during the past three fiscal years.

The Adviser places all orders for the purchase and sale of the Fund’s investment securities, subject to the overall supervision of the officers and the Trustees of the Fund. In the purchase and sale of investment securities, the

Adviser will seek to obtain prompt and reliable execution of orders at favorable prices and yields. In determining the best net results, the Adviser may take into account a dealer's operational and financial capabilities, the type of transaction involved, the dealer's general relationship with the Adviser, and any statistical, research, or other services provided by the dealer to the Adviser. To the extent such non-price factors are taken into account the execution price paid may be increased, but only in reasonable relation to the benefit of such non-price factors to the Fund as determined by the Adviser. Dealers who execute investment securities transactions may also sell shares of the Fund. However, any such sales will be neither a qualifying nor disqualifying factor in the selection of dealers.

Disclosure of Portfolio Holdings. A complete schedule of holdings as of the end of the previous business day, if available, will be provided to you at no charge by calling 800-637-1700. This information is available to any person or entity on request. The Fund's Chief Investment Officer is responsible for authorizing the daily release of the portfolio holdings. The Fund may provide nonpublic portfolio holdings information to RMCI and its affiliates. RMCI may distribute or authorize the distribution of the Fund's portfolio holdings that are not yet publicly available to RMCI's employees and affiliates that provide services to the Fund and require this information to fulfill their contractual duties relating to the Fund. To address possible conflicts between the interests of Fund shareholders and those of the RMCI and its affiliates, no consideration may be received by the Fund, RMCI or its affiliates or any of their employees in connection with the disclosure of portfolio holdings information. In addition, persons approved to receive nonpublic portfolio holdings information will receive it only as often as necessary for the purpose for which it is provided. The Trust, RMCI and Resrv Partners, Inc. ("Resrv" or the "Distributor") have also adopted a Code of Ethics that prohibits revealing information relating to the Fund's portfolio or activities except to the Trust, RMCI, RMC and Resrv, establishes guidelines and procedures to identify and prevent persons who may have knowledge of the Trust's investments and investment intentions from breaching their fiduciary duties and deals with other situations that may pose a conflict of interest or a potential conflict of interest. The Code of Ethics does not cover transactions in debt securities issued by the U.S. government or its agencies or instrumentalities, bankers' acceptances, bank certificates of deposit, commercial paper, high-quality short-term debt instruments including repurchase agreements, stock indices, shares of registered open-end investment companies (mutual funds)(other than Reportable Funds, as defined by the Code of Ethics) or exchange-traded funds, other than those organized as unit investment trusts. An Access Person, as defined by the Code of Ethics, may only engage in personal securities transactions in accordance with the procedures and guidelines established under the Policies And Procedures Concerning the Misuse of Material Non-Public Information (the "Insider Trading Policy"). The employees, affiliates and subsidiaries of the Trust, RMCI and Resrv must annually certify to compliance with the Code of Ethics and the Insider Trading Policy.

Any nonpublic portfolio holdings information made to entities other than RMCI and its affiliates will be reviewed by the Chief Compliance Officer ("CCO") prior to any release of the portfolio holdings information. The CCO will approve the furnishing of nonpublic portfolio holdings information to a third party only if she/he considers the furnishing of such information to be in the best interests of the Fund and its shareholders. There are no ongoing arrangements with third parties to make available information about the Fund's portfolio holdings that is not publicly available.

The Fund does not expect to disclose information about the Fund's portfolio holdings that is not publicly available to individual and institutional investors, to intermediaries that distribute the Fund's shares or to any other third party. The Fund may provide nonpublic portfolio holdings information to publications that rate, rank or otherwise categorize investment companies. The Board receives and reviews quarterly reports on the operation and effectiveness of the portfolio holdings policy.

Security Allocation. When orders to purchase or sell the same security on identical terms are simultaneously placed for the Fund and other investment companies managed by the Adviser, the transactions are allocated as to amount in accordance with the amount of the order placed for the Fund. The Adviser may not always be able to purchase or sell a security on identical terms for all funds affected.

Management of the Trust

The Board is responsible for the management and supervision of the Fund. The Trustees approve all material agreements between the Fund and the Fund's service providers.

The Board has an Audit Committee, a Nominating Committee and a Valuation Committee. The Audit Committee consists of Trustees who are not "interested persons" of the Fund as defined in the Investment Company Act (the "Independent Trustees"). The Audit Committee reviews the Fund's compliance procedures and practices, oversees its accounting and financial

reporting policies and practices and oversees the quality and objectivity of its financial statements and the independent audit thereof. The Audit Committee is comprised of Messrs. Montgoris and Artinian and Ms. Albicocco. Mr. Montgoris and Ms. Albicocco have been determined to meet the qualifications of audit committee financial experts. The Nominating Committee is comprised of Messrs. Montgoris and Ehlert and evaluates the qualifications of candidates and nominates individuals to serve as Independent Trustees when required. While the Nominating Committee is solely responsible for the selection and nomination of the Independent Trustees, it may consider nominations for the office of Trustee made by Fund shareholders or by management in the same manner as it deems appropriate. Shareholders who wish to recommend a nominee should send nominations to the Secretary of the Fund, include all appropriate biographical information and set forth the qualifications of the proposed nominee. The Secretary of the Fund will forward all nominations received to the Nominating Committee. The Valuation Committee, which is comprised of at least two Trustees at all times, one of whom must be an Independent Trustee, oversees the Fund's valuation procedures. The Audit Committee met five (5) times, the Nominating Committee and the Valuation Committee both did not meet during the fiscal year ended May 31, 2008. The Valuation Committee is comprised of Messrs. Bent and Ehlert.

Biographical Information. Biographical information relating to the Independent Trustees, the Officers of the Fund and the Trustee who is an "interested person" of the Fund, as defined in the Investment Company Act (the "Interested Trustee"), is set forth below. The Trustees and the Officers of the Fund oversee five registered investment companies, with 23 portfolios, in the Reserve fund family.

Name, Address, Age	Positions With the Fund	Term of Office** and Length of Service	Principal Occupations during the Last Five Years and Other Directorships
Interested Trustee			
Bruce R. Bent†*# Age: 71 The Reserve 1250 Broadway New York, NY 10001	Chairman, President, Treasurer and Trustee	Trustee since inception Chairman since 2000	President of Reserve Management Company, Inc. ("RMCI"), Chairman of Reserve Management Corporation ("RMC") and Chairman of Resrv Partners, Inc. ("Resrv") since 2000; Chairman and Director of Reserve International Liquidity Fund Ltd. since 1990. Co-founder of The Reserve Fund in 1970; officer thereof since 1970.
Independent Trustees			
Edwin Ehlert, Jr. Age: 77 The Reserve 1250 Broadway New York, NY 10001	Trustee	Trustee Since April 17, 2007	Retired. President of Premier Resources, Inc. (meeting management firm) since 1987; Trustee of other Reserve funds.
William E. Viklund Age: 68 The Reserve 1250 Broadway New York, NY 10001	Trustee	Trustee since April 17, 2007	Retired since 1996; Trustee of other Reserve funds.

William J. Montgoris Age: 61 The Reserve 1250 Broadway New York, NY 10001	Trustee	Trustee Since April 17, 2007	Retired since 1999; Director of Stage Stores, Inc. (retailing) since 2004; Director of OfficeMax Inc. (consumer goods/office supplies) since 2007; Director of Carters, Inc. (consumer goods/apparel) since 2007; Trustee of other Reserve funds.
Frank J. Stalzer Age: 51 The Reserve 1250 Broadway New York, NY 10001	Trustee	Trustee Since April 17, 2007	President of Astrex Electronics since 2006; Vice President and GM of Arrow/Zeus from 2004 to 2005; Vice President of Marketing of Arrow/Zeus from 2002 to 2004; Trustee of other Reserve funds.
Ronald J. Artinian Age: 60 The Reserve 1250 Broadway New York, NY 10001	Trustee	Trustee Since April 17, 2007	Private investor since 1998; Director of First Real Estate Investment Trust of New Jersey since 1992; Director of NYMagic, Inc. (insurance) since 2008; Trustee of other Reserve funds.
Santa Albicocco Age: 58 The Reserve 1250 Broadway New York, NY 10001	Trustee	Trustee Since April 17, 2007	Board Member of the New York State Banking Board from 1998 to 2004; Department County Executive for Finance - County of Nassau, NY; Trustee of other Reserve funds.
Stephen P. Zieniewicz Age: 49 The Reserve 1250 Broadway New York, NY 10001	Trustee	Trustee Since April 17, 2007	Executive Director - University of Washington Medical Center since 2007; Chief Operating Officer - Saint Louis University Hospital from 2004 to 2007; Vice President Support Services - South Nassau Communities Hospital from 2001 to 2004; Trustee of other Reserve funds.

Officers Who Are Not Trustees

Bruce R. Bent II†# Age: 42 The Reserve 1250 Broadway New York, NY 10001	Co-Chief Executive Officer, Senior Vice President and Assistant Treasurer	Senior Vice President and Assistant Secretary since 2000, Co-Chief Executive Officer since 2005.	Senior Vice President, Secretary and Assistant Treasurer of RMCI, Senior Vice President, Secretary and Assistant Treasurer of RMC, and Secretary, Assistant Treasurer and Director of Resrv since 2000; Former Trustee of Trusts in The Reserve fund complex.
Arthur T. Bent III†# Age: 40 The Reserve 1250 Broadway New York, NY 10001	Co-Chief Executive Officer, Senior Vice President and Assistant Secretary	Assistant Treasurer since 2000, Co-Chief Executive Officer and Senior Vice President since 2005.	Chief Operating Officer, Treasurer, Senior Vice President and Assistant Secretary of RMCI, President, Treasurer and Assistant Secretary of RMC, and Treasurer, Assistant Secretary and Director of Resrv since 2000.
Patrick J. Farrell Age: 49 The Reserve 1250 Broadway New York, NY 10001	Chief Financial Officer	Chief Financial Officer since 2006.	Chief Financial Officer of RMCI and its affiliates since 2006; Chief Financial Officer, Treasurer and Assistant Secretary of the MainStay Funds, Eclipse Funds, and MainStay VP Funds; Principal Financial Officer – McMorgan Funds; Managing Director New York Life Investment Management from 2001 to 2005.

Christina Massaro Age: 41 The Reserve 1250 Broadway New York, NY 10001	Chief Compliance Officer	Chief Compliance Officer since 2005	Chief Compliance Officer of the Fund, RMCI and Resrv since 2005; Anti-Money Laundering Compliance Officer of RMCI and Resrv since 2006; Chief Compliance Officer from 2001 to 2005 and Anti-Money Laundering Compliance Officer from 2002 to 2005 of Maxcor Financial Inc. and Maxcor Financial Asset Management.
Catherine Crowley Age : 54 The Reserve 1250 Broadway New York, NY 10001	Secretary	Secretary since 2007.	General Counsel, RMCI since 2007; Senior Vice President, Secretary-RMC since 2007; Senior Vice President, Associate General Counsel-J.P. Morgan Chase, October 1986-April 2004.

* Mr. Bruce Bent is an “interested person” of the Fund as defined in Section 2(a) (19) of the Investment Company Act, due to his positions with RMC, RMCI and Resrv.

** Each Trustee shall hold office until he/she resigns, is removed or until his successor is duly elected and qualified. A Trustee shall retire upon attaining the age of seventy-five (75) years, unless extended by a vote of the Independent Trustees. Trustees need not be shareholders. Officers hold their positions with the Trust until a successor has been duly elected and qualified.

† Mr. Bruce R. Bent, Mr. Bruce R. Bent II and Mr. Arthur T. Bent III also serve as officers to an unregistered fund advised by the Adviser.

Mr. Bruce R. Bent is the father of Mr. Bruce R. Bent II and Mr. Arthur T. Bent III.

Trustee Share Ownership. As of December 31, 2007, the Trustees’ beneficial ownership of the equity securities of the Fund and other registered investment companies in the Reserve/Hallmark fund complex overseen by each Trustee (the “Supervised Funds”) are indicated below:

Name*	AGGREGATE DOLLAR RANGE OF EQUITY SECURITIES IN THE FUNDS	
	U.S. Government Fund	ALL SUPERVISED FUNDS
INTERESTED TRUSTEES:		
Bruce R. Bent	None	Over \$100,000
INDEPENDENT TRUSTEES:		
William E. Viklund	None	\$50,001-\$100,000
Joseph Donnelly*	None	\$10,001-\$50,000
Edwin Ehlert, Jr.	None	Over \$100,000
William J. Montgoris	None	\$50,001-\$100,000
Frank Stalzer	None	\$50,001-\$100,000
Ronald J. Artinian	None	\$10,001-\$50,000
Santa Albicocco	None	\$10,001-\$50,000
Stephen P. Zieniewicz	None	\$10,001-\$50,000

* Resigned as of June 12, 2008.

As of October 1, 2008, neither the Independent Trustees nor any of their immediate family members owned beneficially or of record any securities of the Adviser, Resrv or an entity controlling, controlled by or under common control with the Adviser or the Distributor.

Compensation of Trustees. The Independent Trustees are paid a fee of \$3,500 for each Board meeting of the Trust that they attend in person, a fee of \$1,000 for each joint telephonic meeting of the Trust that they participate in, and an annual fee of \$40,000 for service to all of the trusts in the Reserve family of fund complex and reimbursement for any out-of-pocket expenses of attending meetings. These fees and expenses are allocated among the funds in the Reserve fund complex on the basis of each fund's relative net assets. The Trustees do not receive any pension or retirement benefits. The Audit Committee members receive an annual committee fee of \$2,000 and a fee of \$1,000 for each telephonic meeting of the Audit Committee that they participate in that is held separately from a Board meeting. Mr. Montgoris and Ms. Albicocco receive an annual fee of \$25,000 for their services as audit committee financial experts for the trusts for which they serve as such.

For the fiscal year ended May 31, 2008, the Independent Trustees received the following compensation from the Fund and Supervised Funds. Mr. Bruce Bent does not receive compensation from any of the funds.

Name*	U.S. Government Fund	Compensation from all Reserve/ Hallmark Funds*
Interested Trustees:		
Bruce R. Bent	\$ 0	\$ 0
Independent Trustees:		
William E. Viklund	\$ 9,666	\$ 54,000
Edwin Ehlert, Jr.	\$ 10,024	\$ 56,000
William J. Montgoris	\$ 14,678	\$ 82,000
Joseph D. Donnelly**	\$ 9,666	\$ 54,000
Frank Stalzer	\$ 9,219	\$ 51,500
Ronald J. Artinian	\$ 10,203	\$ 57,000
Santa Albicocco	\$ 13,560	\$ 75,750
Stephen P. Zieniewicz	\$ 9,815	\$ 54,833

*Each Trustee serves on the Board of five registered investment companies, which encompass a total of 23 funds.

** Resigned as of June 12, 2008.

As of October 1, 2008, the Trustees and Officers, in the aggregate, owned less than 1% of any class of the Fund.

Under the Declaration of Trust, the Trustees and Officers are entitled to be indemnified by the Trust to the fullest extent permitted by law against all liabilities and expenses reasonably incurred by them in connection with any claim, suit or judgment or other liability or obligation of any kind in which they become involved by virtue of their

service as a Trustee or Officer of the Trust. Neither Mr. Bent nor the Officers (other than the CCO) of the Fund receive any compensation from the Trust or the Fund.

Code Of Ethics. The Trust, the Adviser and Resrv have adopted a Code of Ethics, conforming to the requirements of the Investment Company Act. The purpose of the Code of Ethics is to establish guidelines and procedures to identify and prevent persons who may have knowledge of the Trust's investments and investment intentions from breaching their fiduciary duties and to deal with other situations that may pose a conflict of interest or a potential conflict of interest. Additionally, federal securities laws require advisers and others to adopt policies and procedures to identify and prevent the misuse of material, non-public information. Therefore, the Trust has developed and adopted an Insider Trading Policy that applies to all employees, affiliates and subsidiaries. Under the Code of Ethics, an Access Person may only engage in personal securities transactions in accordance with the procedures and guidelines established. The Code of Ethics does not cover transactions in debt securities issued by the U.S. government or its agencies or instrumentalities, bankers' acceptances, bank certificates of deposit, commercial paper, high quality short-term debt instruments including repurchase agreements, stock indices, shares of registered open-end investment (mutual funds) (other than Reportable Funds, as defined by the Code of Ethics) or exchange traded funds, other than those organized as unit investment trusts.

Principal Shareholders. As of October 1, 2008, the following persons or entities owned of record, or were known to own beneficially, 5% or more of any class of the outstanding shares of the Fund:

	<u>Name and Address of Beneficial Owner</u>	<u>Class</u>	<u>Percentage</u>
U.S. Government Fund	ARKANSAS STATE TREASURY 1405 W CAPITOL SUITE 275 LITTLE ROCK AR 72201	Class Institutional	10.25
	STATE OF MARYLAND DIVISION OF INVESTMENTS 80 CALVERT STREET ANNAPOLIS MD 21401	Class Institutional	45.95
	MONTGOMERY COUNTY MS MONTGOMERY COUNTY MD 101 MONROE STREET 15 FLOOR FINANCE ROCKVILLE MD	Class Institutional	21.89
	PERSHING LLC AS AGENT FOR ITS CUSTOMERS 1 PERSHING PLAZA JERSEY CITY NJ 07399	Class R	5.47
	BNC NATIONAL BNC NATIONAL BANK 2425 E. CAMELBACK RD #100 PHOENIX AZ 85016	Class Treasurer's Trust	19.78
	AMERITRADE INC TD AMERITRADE INC FOR THE EXCLUSIVE BENEFIT OF OUR CUSTOMERS PO BOX 2226 OMAHA NE 68103-2226	Class Treasurer's Trust	39.75
	BAY AREA RAPID TRANSIT 800 MADISON STREET OAKLAND CA 94607	Liquidity Class I	77.68
	BAY AREA RAPID TRANSIT BART - WEST DUBLIN/ PLEASANTON STATION 300 LAKESIDE DRIVE 22ND FL OAKLAND CA 94604	Liquidity Class I	17.02
	RESERVE MANAGEMENT CORPORATION 1250 BROADWAY NEW YORK NY 10001	Liquidity Class II	100.00
	SCOT COHEN NEW YORK NY 10022-1316	Liquidity Class III	13.98
	AMERITRADE INC TD AMERITRADE INC FOR THE EXCLUSIVE BENEFIT OF OUR CUSTOMERS PO BOX 2226 OMAHA NE 68103-2226	Liquidity Class III	85.55
	COPPERMARK BANK 3333 NORTHWEST EXPRESSWAY OKLAHOMA CITY OK 73112	Liquidity Class V	24.67
	AMERITRADE INC TD AMERITRADE INC FOR THE EXCLUSIVE BENEFIT OF OUR CUSTOMERS PO BOX 2226 OMAHA NE 68103-2226	Liquidity Class V	65.54

Persons or organizations beneficially owning, either directly or through one or more controlled companies, 25% or more of the outstanding shares of the Fund may be presumed to “control” (as that term is defined in the Investment Company Act) the Fund. As a result, these persons or organizations could have the ability to approve or reject those matters submitted to the shareholders of the Fund for their approval. As of October 1, 2008, no person or organization was a control person of the Fund.

Investment Management Arrangements

RMCI, located at 1250 Broadway, New York, NY 10001-3701, serves as the investment adviser to the Trust. Bruce R. Bent, Bruce R. Bent II and Arthur T. Bent III are each considered a “controlling person” of RMCI based on their direct and indirect securities ownership.

Investment Management Agreement. The Trust, on behalf of the Fund, has entered into an Investment Management Agreement with the Adviser (the “Management Agreement”), which provides for a comprehensive management fee structure. Under the Management Agreement, RMCI manages the Fund’s investments in accordance with its investment objective and policies, subject to the overall supervision of the Trustees.

Under the terms of the Management Agreement with the Fund, RMCI is paid a comprehensive management fee (the “Management Fee”), which includes the advisory fee (0.08% of each class’s average daily net assets), all administrative and customary operating expenses of the Fund, as well as shareholder liaison services (such as responding to inquiries and providing information on investments), record keeping charges, accounting expenses, transfer agent costs, and the expenses of preparing, printing and mailing shareholder reports and prospectuses. Excluded from the definition of operating and other expenses are interest charges, taxes, brokerage fees and commissions, extraordinary legal and accounting fees and other extraordinary expenses including expenses incurred in connection with litigation proceedings, other claims and the legal obligations of the Trust to indemnify its trustees, officers, employees, shareholders, distributors and other agents of the Trust, payments made pursuant to the Trust’s

distribution plans under Rule 12b-1 under the Investment Company Act, the compensation of the chief compliance officer and related expenses, and the fees and expenses of the Independent Trustees including the fees of the independent counsel of the Independent Trustees. The Fund will pay its direct or allocated share of applicable expenses. The Management Fee is paid on the average daily net assets of the Fund according to the following schedule:

Class R	Investor Class III	Investor Class II	Investor Class I	Class Treasurer's Trust	Liquidity Class V	Liquidity Class IV	Liquidity Class III	Liquidity Class II	Liquidity Class I	Class Institutional
0.81%	0.76%	0.56%	0.51%	0.61%	0.46%	0.36%	0.26%	0.21%	0.16%	0.13%

The Management Agreement is renewed annually if approved by the Trustees and by a separate vote of a majority of the Independent Trustees. The Management Agreement may be terminated without penalty upon sixty (60) days' written notice by RMCI or by a vote of the Trustees or of a majority of the outstanding voting shares of the Fund.

From time to time, RMCI may waive receipt of its fees and/or voluntarily assume certain expenses of the Fund that would have the effect of lowering the Fund expense ratio and increasing yield to investors at the time such amounts are assumed or waived, as the case may be. RMCI may also make such advertising and promotional expenditures, and payments to financial intermediaries using its own resources, as it from time to time deems appropriate. RMCI received the following aggregate management fees, and waived fees in the amounts shown, for the Fund for the fiscal years indicated:

Year Ended May 31,	Management Fee	Fee Waiver
2006	\$ 11,502,934	\$ 185,964
2007	\$ 28,616,225	\$ 310,263
2008	\$ 48,167,456	\$ 39,102

Distribution Arrangements

Distribution Plans. The Trust has adopted distribution plans under Rule 12b-1 of the Investment Company Act (the “Distribution Plan”) with respect to Investor Class I, Investor Class II, Investor Class III and Class R shares of the Fund. Under its Distribution Plan, the Fund pays distribution (12b-1) fees of 0.25% on the average daily net assets of those classes at the rates indicated regardless of the amount of expenses incurred.

Resrv uses distribution (12b-1) fees to pay brokers, financial institutions and other financial intermediaries (“Intermediaries”) for services to the Fund’s Investor Class I, Investor Class II, Investor Class III and Class R shareholder accounts (“qualifying accounts”). Such services may include, but are not limited to, the establishment of shareholder accounts, delivering prospectuses to prospective investors and processing automatic investments in Fund shares from the intermediary’s clients accounts. Substantially all such payments are paid to Intermediaries for distribution and shareholder liaison services.

The Fund may use a portion of the distribution payments to pay for sales materials or other promotional activities directly. The Trust’s Chief Financial Officer or Treasurer reports the amounts and uses of distribution payments to the Board quarterly and in connection with the Trustees’ annual consideration of the renewal of the Distribution Plan and related agreements. The Trustees have determined that there is a reasonable likelihood that the Distribution Plan will benefit the Fund and its shareholders. The Fund paid the following fees under its Distribution Plan for the periods indicated:

<u>Fund Name</u>	<u>Distribution Fee paid for the fiscal year ended</u>		
	<u>May 31, 2006</u>	<u>May 31, 2007</u>	<u>May 31, 2008</u>
U.S. Government Fund	\$ 2,469,947	\$ 6,478,832	\$ 11,826,118

Substantially all of such amounts were paid to Intermediaries for providing shareholder and distribution services to the Fund. As of May 31, 2008, for the period since the inception of the Distribution Plan, the distribution expenses have equaled or exceeded the distribution revenues paid under the Distribution Plan for the Funds.

Distribution Agreement. The Trust, on behalf of the Fund, has entered into a distribution agreement with Resrv, an affiliate of RMCI (the “Distribution Agreement”) for the

distribution of the Fund's shares. Resrv, located at 1250 Broadway, New York, NY 10001, acts as the "principal underwriter" for the Fund and as such arranges for the continuous offering of shares. The Distributor has the right to enter into selected dealer agreements with Intermediaries of its choice for the sale of Fund shares. Resrv's principal business is the distribution of mutual fund shares.

In addition to the amounts paid under the Distribution Agreement and the Distribution Plan, RMCI may, at its discretion, pay an Intermediary amounts from its own resources, including amounts paid to it under Management Agreement. The rate of any additional amounts that may be paid will be based on the analysis by RMCI of the contribution that the intermediary makes to the Fund by increasing assets under management and reducing expense ratios, the costs that the Fund might bear if such services were provided directly by the Fund or by another entity, and the possibility of assets being withdrawn from the Fund with a corresponding increase in the Fund's expense ratio. The amounts paid, which can vary by intermediary, can be used by the Intermediary to offset its costs associated with account maintenance support, statement preparation, and transaction processing and other shareholder support services. Amounts paid by RMCI to intermediaries, which vary by class of shares, represent a substantial portion of the amount received by RMCI under the Management Agreement. In addition to amounts paid under Distribution Plan or by RMCI, an Intermediary may charge a fee for its services directly to its clients. To the extent Intermediaries sell more shares of the Fund or retain shares of the Fund in their clients' accounts, RMCI and its affiliates benefit from the incremental management and other fees paid to RMCI and its affiliates by the Fund with respect to those assets.

Approval Of Distribution Arrangements. The Distribution Plan and each Distribution Agreement may be renewed from year to year, if approved by the Trustees and by a majority of the Independent Trustees, cast in person at a meeting called for the purpose of voting on such renewal. All material amendments to the Distribution Plan must be approved by a vote of the Trustees and of the Independent Trustees, cast in person at a meeting called for the purpose of such vote. The Distribution Plan may not be amended to increase materially the amount to be spent for distribution without shareholder approval. The Distribution Plan and the Distribution Agreement may be terminated at any time by a vote of the majority of the outstanding voting securities of the Fund, or by a vote of the Independent Trustees. The Distribution Agreement will terminate automatically in the event of its assignment.

Other Service Providers

Transfer Agent. The Trust acts as its own transfer and dividend-paying agent.

Custodian. State Street Bank & Trust Company, 2 Avenue De Lafayette, Boston, MA 02111 is the custodian of the assets of the Fund pursuant to an agreement with the Trust on behalf of the Fund.

Independent Registered Public Accounting Firm. The Audit Committee has selected KPMG LLP, 345 Park Avenue, New York, NY 10154, as the Trust's independent registered public accounting firm. The Fund's financial statements for the fiscal year ended May 31, 2008, have been audited by KPMG LLP and are included herein.

How to Buy and Sell Shares

Information relating to the calculation of net asset value and to the purchase and redemption of shares is located in the Prospectus.

Shareholder Services

In addition to the shareholder services described in the Prospectus, the following services are available to investors in Class Treasurer's Trust, Investor Class I, Investor Class II, Investor Class III and Class R:

Reserve Cash Performance Account. The Reserve Cash Performance Account ("CPA") and the Reserve Cash Performance Account Plus ("CPA "Plus") provide a comprehensive package of additional services to investors. These packages provide a checking arrangement whereby checks are provided to Fund shareholders. By completing

the application or a signature card (for existing accounts) and certain other documentation, you can write checks in any amount against your account. Redemptions by check lengthen the time your money earns dividends, since redemptions are not made until the check is processed by the Fund. Because of this, you cannot write a check to completely liquidate your account, nor may a check be presented for certification or immediate payment. Your checks will be returned and a fee charged if they are postdated, contain an irregularity in the signature, amount or otherwise, or are written against accounts with insufficient or uncollected funds. All transaction activity, including check redemptions, will be reported on your account statement. Checking may not be available to clients of some Intermediaries.

A VISA Check Card is also available with these packages. There is a \$10 annual fee for the VISA Check Card to CPA investors. There is no additional fee for CPA "Plus" investors. The VISA Check Card functions exactly as a conventional VISA credit card does, except that the cardholder's account is automatically charged for all purchases and cash advances, thus eliminating monthly finance charges. You may also use your VISA Check Card to get cash at ATMs.

Investors have a choice of receiving a cash rebate, currently 1%, on all VISA purchases which is credited to their account or, for an additional annual fee of \$35, participating in the Reserve Airline Rewards Program. As with the checking facility, VISA charges are paid by liquidating shares in your account, but any charges that exceed the balance at the time they are presented will be rejected. VISA Check Card issuance is subject to credit approval. The Trust, VISA or the bank may reject any application for checks or debit cards and may terminate an account at any time. Conditions for obtaining a VISA Check Card may be altered or waived by the Fund either generally or in specific instances. The checks and VISA Check Card are intended to provide investors with easy access to their account balances.

Participants should refer to the VISA Account Shareholder Agreement for complete information regarding responsibilities and liabilities with respect to the VISA Check Card. If a card is lost or stolen, the cardholder should report the loss immediately by telephoning the issuing bank, currently JPMorganChase at 800-VISA-911, which can be reached 24 hours a day, seven (7) days a week or telephoning the Fund at 800-637-1700 or 212-401-5500 on Monday through Friday, 8:30 AM to 6:00 PM, Eastern Time.

For more information regarding features of the CPA and CPA "Plus" packages, as well as the Terms & Conditions of the Reserve Airline Rewards Program, please call The Reserve at 800-637-1700. The Fund will charge a nonrefundable annual CPA "Plus" service fee, currently \$60, which may be charged to the account at the rate of \$5 monthly. CPA and CPA "Plus" participants will be charged for specific costs incurred in placing stop payment orders, obtaining check copies and processing returned checks. These fees may be changed at any time upon 30 days' notice to participants. In addition, Intermediaries in this program may charge their own additional service fees and may establish their own minimum check amount.

The use of checks and VISA Check Cards by participants will be subject to the terms of the Reserve CPA Application and the VISA Account Shareholder Agreement.

Dividends and Taxes

The Fund ordinarily declares dividends from its daily net investment income (and net short-term capital gains, if any) on each day the New York Stock Exchange and The Reserve are open for business. The Fund's earnings for Saturdays, Sundays and holidays are declared as dividends on the preceding business day. If you elect to receive dividends and distributions in cash, and your dividend or distribution check is returned to the Fund as undeliverable or remains un-cashed for six months, the Fund reserves the right to reinvest such dividends or distributions and all future dividends and distributions payable to you in additional Fund shares at NAV. No interest will accrue on amounts represented by un-cashed distribution or redemption checks.

Taxes. The following is a summary of certain material U.S. federal income tax considerations regarding the purchase, ownership and disposition of shares of the Fund. This summary does not address all of the potential U.S. federal income tax consequences that may be applicable to the Fund or to all categories of investors, some of which may be subject to special tax rules. Current and prospective shareholders are urged to consult their own tax adviser with respect to the specific federal, state, local and foreign tax consequences of investing in the Fund. The summary is based on the laws in effect on the date of this SAI and existing judicial and administrative interpretations thereof, all of which are subject to change, possibly with retroactive effect.

The Fund intends to qualify as a regulated investment company ("RIC") under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"), so long as such qualification is in the best interests of shareholders. Such qualification relieves the Fund of any liability for federal income tax to the extent its earnings and gains, if any, are distributed in accordance with applicable provisions of the Code. If the Fund does not qualify as a RIC, it will be treated for tax purposes as an ordinary corporation subject to federal income tax, and all

distributions from earnings and profits (as determined under U.S. federal income tax principles) to its shareholders will be taxable as ordinary dividend income eligible for the maximum 15% tax rate for non-corporate shareholders and the dividends-received deduction for corporate shareholders.

In order to qualify as a RIC, the Fund must, among other things: (a) derive at least 90% of its gross income in each taxable year from dividends, interest, payments with respect to securities loans and gains from the sale or other disposition of stock or securities or foreign currencies, other income (including, but not limited to, gains from options, futures or forward contracts) derived with respect to its business of investing in such stock, securities or currencies or net income derived from interests in “qualified publicly traded partnerships” (i.e., partnerships that are traded on an established securities market or tradable on a secondary market, other than partnerships that derive 90% of their income from interest, dividends, capital gains, and other traditionally permitted mutual fund income); and (b) diversify its holdings so that, at the end of each quarter of the Fund’s taxable year, (i) at least 50% of the market value of the Fund’s assets is represented by cash, securities of other regulated investment companies, U.S. government securities and other securities, with such other securities limited, in respect of any one issuer, to an amount not greater than 5% of the Fund’s assets and not greater than 10% of the outstanding voting securities of such issuer and (ii) not more than 25% of the value of its assets is invested in the securities (other than U.S. government securities or securities of other regulated investment companies) of any one issuer, any two or more issuers of which the Fund holds 20% or more of the voting securities and that are determined to be engaged in the same or similar trades or businesses or related trades or businesses, or in the securities of one or more qualified publicly traded partnerships.

Although in general the passive loss rules of the Code do not apply to RICs, such rules do apply to a RIC with respect to items attributable to an interest in a qualified publicly traded partnership. The Fund’s investments in partnerships, including in qualified publicly traded partnerships, may result in the Fund being subject to local or foreign income, franchise or withholding tax liabilities.

As a regulated investment company, the Fund will not be subject to U.S. federal income tax on the portion of its taxable investment income and capital gains that it distributes to its shareholders, provided that it satisfies a minimum distribution requirement. To satisfy the minimum distribution requirement, the Fund must distribute to its shareholders at least the sum of (i) 90% of its “investment company taxable income” (i.e., income other than its net realized long-term capital gain over its net realized short-term capital loss), plus or minus certain adjustments, and (ii) 90% of its net tax-exempt income for the taxable year. The Fund will be subject to income tax at regular corporation rates on any taxable income or gains that it does not distribute to its shareholders.

The Code requires a RIC to pay a nondeductible 4% excise tax to the extent the RIC does not distribute, during each calendar year, 98% of its ordinary income, determined on a calendar year basis, and 98% of its capital gain net income, determined, in general, as if the RIC’s taxable year ended on October 31, plus certain undistributed amounts from the preceding year. While the Fund intends to distribute its ordinary income and capital gain net income in the manner necessary to minimize imposition of the 4% excise tax, there can be no assurance that sufficient amounts of the Fund’s taxable income and capital gains will be distributed to avoid entirely the imposition of the tax. In such event, the Fund will be liable for the tax only on the amount by which it does not meet the foregoing distribution requirements. If, in any taxable year, the Fund fails to qualify as a RIC under the Code or fails to meet the minimum distribution requirement, it will be taxed in the same manner as an ordinary corporation and distributions to its shareholders will not be deductible by the Fund in computing its taxable income. In addition, in the event of a failure to qualify, the Fund’s distributions, to the extent derived from the Fund’s current or accumulated earnings and profits, including any distributions of net tax-exempt income net long-term capital gains, will be taxable to shareholders as dividend income. Moreover, if the Fund fails to qualify as a RIC in any year, it must pay out its earnings and profits accumulated in that year in order to qualify again as a RIC. If the Fund fails to qualify as a RIC for a period greater than two taxable years, the Fund may be required to recognize any net built-in gains with respect to certain of its assets (i.e., the excess of the aggregate gains, including items of income, over aggregate losses that would have been realized with respect to such assets if the Fund had been liquidated) if it qualifies as a RIC in a subsequent year.

Dividends paid by the Fund from its ordinary income or from an excess of net short-term capital gains over net long-term capital losses (together referred to hereafter as “ordinary income dividends”) will be taxable to a U.S. shareholder as ordinary income. The tax rate on certain dividend income and long-term capital gains applicable to non-corporate shareholders for taxable years beginning on or before December 31, 2010 is set at a maximum of 15% and under current law will rise to 20% thereafter. Under these rules, a certain portion of ordinary income dividends constituting “qualified dividend income” when paid by a RIC to non-corporate shareholders may be taxable to such shareholders at long-term capital gain rates. However, to the extent the Fund’s distributions are derived from income on debt securities and short-term capital gain, such distributions will not constitute “qualified dividend income.” Thus, ordinary income dividends paid by the Fund generally will not be eligible for taxation at the reduced rates. Similarly, because no portion of the Fund’s income is expected to consist of dividends paid by U.S. corporations, no portion of the dividends paid by the Fund is expected to be eligible for the corporate dividends-received deduction. While municipal obligations generally pay interest which is excludible from gross income for federal income tax purposes in the hands of the bondholder, such interest will not be excludible from gross income for federal income tax purposes when paid by the Fund to shareholders. Distributions of net capital gains, if any, designated as long-term capital gain dividends are taxable to shareholders as long-term capital gains, regardless of how long the shareholder has held the Fund’s shares. Distributions in excess of the Fund’s earnings and profits will first reduce the shareholder’s adjusted tax basis in his shares and any amount in excess of such basis will constitute capital gain to such shareholder (assuming the shares are held as a capital asset).

Ordinary income and capital gain dividends are taxable to shareholders as described even if they are reinvested in additional shares of the Fund. Shareholders receiving distributions in the form of additional shares, rather than cash, generally will have a cost basis in each such share equal to the NAV of a share of the Fund on the reinvestment date. If the Fund pays a dividend in January that was declared in the previous October, November or December to shareholders of record on a specified date in one of such months, then such dividend will be treated for tax purposes as being paid by the Fund and received by its shareholders on December 31 of the year in which such dividend was declared. Shareholders will be notified annually as to the U.S. federal tax status of distributions, and shareholders receiving distributions in the form of additional shares will receive a report as to the NAV of those shares.

Ordinarily, gains and losses realized from portfolio transactions will be treated as capital gain or loss. However, gain derived by the Fund from the disposition of any market discount bonds (i.e., bonds purchased other than at original issue, where the face value of the bonds exceeds their purchase price) held by the Fund generally will be taxed as ordinary income to the extent of the accrued market discount on the bonds, unless the Fund elects to include the market discount in income as it accrues.

In the event that the Fund fails to maintain a constant NAV per share, upon the sale or other disposition of shares of the Fund, a shareholder may realize a taxable gain or loss. Such gain or loss will be a capital gain or loss which, if the shares were held as capital assets, will be long-term or short-term generally depending upon the shareholder's holding period for the shares. A loss realized on a sale or exchange of the Fund's shares will be disallowed if other shares of the Fund are acquired (including shares acquired pursuant to a dividend reinvestment plan) within a period of 61 days beginning 30 days before and ending 30 days after disposition of the shares. In such a case, the basis of the shares acquired will be adjusted to reflect the disallowed loss. Any loss realized by a shareholder on a disposition of Fund shares held by the shareholder for six months or fewer will be treated as a long-term capital loss to the extent of any distributions of net long-term capital gains received by the shareholder with respect to such shares.

The Fund is currently required by federal law to withhold 28% of dividends and other distributions that are subject to federal income tax if (i) a correct and certified Taxpayer Identification Number ("TIN") is not provided for your account, (ii) you fail to certify that you have not been notified by the Internal Revenue Service (the "IRS") that you underreported taxable interest or dividend payments, or (iii) the Fund is notified by the IRS (or a broker) that the TIN provided is incorrect or you are otherwise subject to backup withholding. Corporate shareholders and certain other shareholders specified in the Code generally are exempt from such backup withholding. Backup withholding is not an additional tax. Amounts withheld and forwarded to the IRS can be credited as a payment of tax when completing your federal income tax return. For individual shareholders, the TIN is the shareholder's social security number.

If a shareholder recognizes a loss with respect to the Fund's shares of \$2 million or more for an individual shareholder or \$10 million or more for a corporate shareholder, the shareholder must file with the IRS a disclosure statement on Form 8886. Direct shareholders of portfolio securities are in many cases exempted from this reporting requirement, but under current guidance, shareholders of a regulated investment company are not exempted. The fact that a loss is reportable under these regulations does not affect the legal determination of whether the taxpayer's treatment of the loss is proper. Shareholders should consult their tax advisors to determine the applicability of these regulations in light of their individual circumstances.

Certain states exempt from state income taxation dividends paid by RICs, which are derived from interest on U.S. Treasury obligations. State law varies as to whether dividend income attributable to U.S. Treasury obligations is exempt from state income tax.

Dividends paid by the Fund to non-U.S. shareholders are generally subject to withholding tax at a 30% rate or a reduced rate specified by an applicable income tax treaty to the extent derived from investment income and short-term capital gains. In order to obtain a reduced rate of withholding, a non-U.S. shareholder will be required to provide an IRS Form W-8BEN certifying its entitlement to benefits under a treaty. The withholding tax does not apply to regular dividends paid to a non-U.S. shareholder who provides a Form W-8ECI, certifying that the dividends are effectively connected with the non-U.S. shareholder's conduct of a trade or business within the United States. Instead, the effectively connected dividends will be subject to regular U.S. income tax as if the non-U.S. shareholder were a U.S. shareholder. A non-U.S. corporation receiving effectively connected dividends may also be subject to additional "branch profits tax" imposed at a rate of 30% (or lower treaty rate). A non-U.S. shareholder

who fails to provide an IRS Form W-8BEN or other applicable form may be subject to backup withholding at the appropriate rate.

In general, United States federal withholding tax will not apply to any gain or income realized by a non-U.S. shareholder in respect of any distributions of net long-term capital gains over net short-term capital losses, exempt-interest dividends, or upon the sale or other disposition of shares of the Fund.

The foregoing is a summary of certain material U.S. federal income tax considerations regarding the purchase, ownership and disposition of shares of the Fund. This summary does not address all of the potential U.S. federal income tax consequences that may be applicable to the Fund or to all categories of investors, some of which may be subject to special tax rules. Current and prospective shareholders are urged to consult their own tax adviser with respect to the specific federal, state, local and foreign tax consequences of investing in the Fund. The summary is based on the laws in effect on the date of this SAI and existing judicial and administrative interpretations thereof, all of which are subject to change, possibly with retroactive effect.

PROXY VOTING

The Trustees have delegated proxy voting authority, in regard to the Fund's portfolio securities, to RMCI. In accordance with the requirements of Rule 206(4)-6 under the Investment Advisers Act of 1940, RMCI has adopted and implemented the proxy voting policy and procedures set forth in Appendix B to this SAI with respect to the Trust. RMCI believes that the policy and procedures ensure that such proxies are voted in the best interests of the Fund and its shareholders, in accordance with its fiduciary duties and applicable rules and regulations.

RMCI's proxy voting policies and procedures as well as information about how a particular proxy was voted for the most recent 12 month period ended June 30 are available upon request. Please contact The Reserve, 1250 Broadway, New York, NY 10001-3701, Attn: Client Services or call 800-637-1700 to request a copy. This information is also available at the SEC's website at <http://www.sec.gov>.

Information About the Trust

The Declaration of Trust permits the Trust to issue an unlimited number of full and fractional shares of beneficial interest that may be issued in any number of series (funds) and/or classes. Shares issued will be fully paid and non-assessable and will have no preemptive rights. The shareholders of the Fund are entitled to a full vote for each full share held (and fractional votes for fractional shares) and have equal rights to earnings, dividends, and redemptions. The Trustees do not intend to hold annual meetings but will call such special meetings of shareholders as may be required under the Investment Company Act or by the Declaration of Trust.

Further, the Trust is allowed to divide or combine the shares into a greater or lesser number of shares without thereby changing the proportionate beneficial interests in the Fund. If they deem it advisable and in the best interests of shareholders, the Trustees may classify or reclassify any unissued shares of the Fund by setting or changing the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends,

qualifications, or terms and conditions of redemption of the shares. Any such changes must comply with all applicable state and federal securities laws that require that each class be preferred over all other classes in respect to assets specifically allocated to such class. Upon liquidation of the Fund, shareholders are entitled to share, pro rata, in the net assets of their respective class Fund shares available for distribution to such shareholders. It is possible, although considered highly unlikely in view of the method of operation of mutual funds, that should the assets of one class of shares be insufficient to satisfy its liabilities, the assets of another class could be subject to claims arising from the operations of the first class of shares.

Each share has one vote except that if a class is separately affected by a matter requiring shareholder vote, each class will vote separately on such matters. Shares of all classes vote together for the election of Trustees and have non-cumulative voting rights, meaning that the holders of more than 50% of the shares voting for the election of Trustees could elect all Trustees if they so choose, and in such event the holders of the remaining shares could not elect any person to the Board. All consideration received by the Trust for shares of one of the classes and all assets in which such consideration is invested will belong to that class (subject only to the rights of creditors of the Fund) and will be subject to the liabilities related thereto. The income attributable to, and the expenses of, one series and/or class are treated separately from those of the other series and/or class.

Financial Statements

The Fund's audited Financial Statements, with respect to the statement of net assets of the U.S. Government Fund of The Reserve Fund (the Fund) as of May 31, 2008, and the related statement of operations for the year then ended, and the statements of changes in net assets for each of the years in the two-year period then ended, and the financial highlights for each of the periods or years in the three-year period then ended, are included in this SAI in reliance on the report of KPMG LLP, an independent registered public accounting firm, given on the authority of said firm as experts in accounting and auditing.

The audit report covering the May 31, 2008 financial statements contains an explanatory paragraph, regarding a subsequent event note dated October 7, 2008, that states that the Fund has experienced a significant decline in net assets, is currently not offering any class of shares for purchase, has suspended the right of redemption to investors and the Fund along with its investment adviser, distributor, certain of its trustees, officers, and affiliated mutual funds have been named as defendants in numerous legal actions. Furthermore, on September 29, 2008 its Board of Trustees has voted to liquidate the assets and distribute the resulting proceeds of the Fund to the Fund's shareholders. The financial statements do not include any adjustments that might result from the plan to liquidate the Fund.

THE RESERVE FUND — U.S. GOVERNMENT FUND

STATEMENT OF NET ASSETS — MAY 31, 2008

Principal Amount	US Corporate Notes/Bonds — 23.7%	Value (Note 1)
\$ 32,750,000	Federal Home Loan Bank, 4.25%, 11/13/08	\$ 33,035,884
69,000,000	Federal Home Loan Bank, 3.63%, 11/14/08	69,416,795
138,000,000	Federal Home Loan Bank, 5.13%, 12/29/08	140,237,309
100,000,000	Federal Home Loan Bank, 2.02%, 2/20/09	100,000,000
227,000,000	Federal Home Loan Bank, 2.90%, 3/5/09	227,000,000
200,000,000	Federal Home Loan Bank, 2.57%, 5/5/09	200,000,000
500,000,000	Federal Home Loan Bank, 2.74%, 10/23/09	500,000,000
250,000,000	Freddie Mac, 4.30%, 12/12/08	250,000,000
200,000,000	Freddie Mac, 4.33%, 12/17/08	200,000,000
500,000,000	Freddie Mac, 3.00%, 3/4/09	500,000,000
250,000,000	Freddie Mac, 2.61%, 4/21/09	250,000,000
Total US Corporate Notes/Bonds (Cost \$2,469,689,988)		2,469,689,988
	Floating Rate Notes* — 59.8%	
875,000,000	Fannie Mae, 2.10%, 1/9/09	875,000,000
200,000,000	Fannie Mae, 2.06%, 1/23/09	200,000,000
375,000,000	Fannie Mae, 2.25%, 9/3/09	375,000,000
200,000,000	Fannie Mae, 2.26%, 10/7/09	200,000,000
200,000,000	Federal Farm Credit Bank, 2.00%, 2/23/09	200,000,000
100,000,000	Federal Farm Credit Bank, 2.03%, 3/11/09	100,000,000
250,000,000	Federal Farm Credit Bank, 2.04%, 3/17/09	250,000,000
500,000,000	Federal Farm Credit Bank, 2.06%, 11/16/09	500,000,000
200,000,000	Federal Home Loan Bank, 2.59%, 8/15/08	200,000,000
250,000,000	Federal Home Loan Bank, 2.56%, 1/5/09	249,898,707
200,000,000	Federal Home Loan Bank, 2.06%, 1/30/09	200,000,000
500,000,000	Federal Home Loan Bank, 2.08%, 1/30/09	500,000,000
200,000,000	Federal Home Loan Bank, 2.60%, 2/11/09	199,964,038
100,000,000	Federal Home Loan Bank, 2.60%, 2/18/09	100,000,000
250,000,000	Federal Home Loan Bank, 2.13%, 2/20/09	250,000,000
300,000,000	Federal Home Loan Bank, 2.50%, 2/23/09	299,989,222
100,000,000	Federal Home Loan Bank, 2.31%, 4/13/09	100,000,000
100,000,000	Federal Home Loan Bank, 2.17%, 4/21/09	100,000,000
230,000,000	Federal Home Loan Bank, 2.68%, 5/5/09	230,000,000
250,000,000	Federal Home Loan Bank, 2.12%, 8/7/09	250,000,000
200,000,000	Federal Home Loan Bank, 2.31%, 10/28/09	200,000,000
200,000,000	Federal Home Loan Bank, 2.52%, 11/20/09	200,000,000
200,000,000	Federal Home Loan Bank, 2.45%, 11/23/09	200,000,000
250,000,000	Freddie Mac, 2.54%, 9/30/08	250,000,000
Total Floating Rate Notes (Cost \$6,229,851,967)		6,229,851,967

See notes to financial statements.

THE RESERVE FUND — U.S. GOVERNMENT FUND

STATEMENT OF NET ASSETS — MAY 31, 2008 (Continued)

<u>Principal Amount</u>	<u>Repurchase Agreements — 16.1%</u>	<u>Value (Note 1)</u>
\$ 50,000,000	Bank of America N.A., 2.33%, dated 5/30/08, due 6/2/08, repurchase proceeds at maturity \$50,009,708 (collateralized by FGPC 5.00% due 7/1/35 valued at \$51,500,000)	\$ 50,000,000
300,000,000	Barclays Capital, Inc., 2.30%, dated 5/30/08, due 6/2/08, repurchase proceeds at maturity \$300,057,500 (collateralized by FGRA 2.81% to 3.06% due 3/15/37 to 9/15/37 valued at \$62,049,556, FNMS 4.50%, to 6.50% due 8/1/37 to 4/1/38 valued at \$100,279,614, FGRM 5.87% due 5/15/16 valued at \$33,791,613, FNAR 5.85% to 6.31% due 1/1/37 to 8/1/37 valued at \$58,624,920, FNRM 6.50% due 7/25/33 valued at \$26,177,789, FGPC 5.50% due 7/1/37 valued at \$28,076,509)	300,000,000
75,000,000	Barclays Capital Inc., 2.30%, dated 5/30/08, due 6/2/08, repurchase proceeds at maturity \$75,014,375 (collateralized by FNRA 2.89% due 8/25/37 valued at \$77,250,001)	75,000,000
150,000,000	Deutsche Bank Securities Inc., 2.35%, dated 5/30/08, due 6/2/08, repurchase proceeds at maturity \$150,029,375 (collateralized by FGPC 5.00% due 12/1/35 to 4/1/38 valued at \$154,500,001)	150,000,000
500,000,000	Greenwich Capital Markets Inc., 2.35%, dated 5/30/08, due 6/2/08, repurchase proceeds at maturity \$500,097,917 (collateralized by FNST 0.00% to 0.00% due 2/1/17 to 7/1/37 valued at \$515,001,533)	500,000,000
600,000,000	HSBC Securities Inc., 2.35%, dated 5/30/08, due 6/2/08, repurchase proceeds at maturity \$600,117,500 (collateralized by FNMS 5.00% to 7.00% due 8/1/14 to 4/1/38 valued at \$618,004,555)	600,000,000
8,356,000	State Street Bank & Trust, 1.83%, dated 5/30/08, due 6/2/08, repurchase proceeds at maturity \$8,357,274 (collateralized by FHLMC 3.88% due 6/15/08 valued at 8,608,438)	8,356,000
Total Repurchase Agreements (Cost \$1,683,356,000)		<u>1,683,356,000</u>
Total Investments (Cost† \$10,382,897,955)		99.6% 10,382,897,955
Comprehensive management fees payable		(0.0) ^ (276,621)
Distribution (12b-1) fees payable		(0.0) ^ (72,198)
Other assets less liabilities		0.4 38,150,063
Net Assets		<u>100.0% \$10,420,699,199</u>

See notes to financial statements.

THE RESERVE FUND — U.S. GOVERNMENT FUND

STATEMENT OF NET ASSETS — MAY 31, 2008 (Continued)

Net asset value, offering and redemption price per share of each Class based on the shares of beneficial interest, \$0.001 par value outstanding and equivalent to the Net Assets of each Class:

5,285,291,214 shares Class R	\$	1.00
155,066,334 shares Class Treasurer's Trust	\$	1.00
98,262,040 shares Liquidity Class V(a)	\$	1.00
36,572,984 shares Liquidity Class III(a)	\$	1.00
10,081 shares Liquidity Class II(a)	\$	1.00
76,408,453 shares Liquidity Class I(a)	\$	1.00
4,769,087,810 shares Class Institutional	\$	1.00

See notes to financial statements.

THE RESERVE FUND — U.S. TREASURY FUND

STATEMENT OF NET ASSETS — MAY 31, 2008

Principal Amount	U.S. Treasury Bills — 100.4%	Value (Note 1)
\$ 15,630,000	U.S. Treasury Bill, 3.19%, 6/5/08	\$ 15,628,055
217,244,000	U.S. Treasury Bill, 1.20%, 6/26/08	217,062,892
250,000,000	U.S. Treasury Bill, 1.44%, 7/3/08	249,693,333
541,153,000	U.S. Treasury Bill, 3.17%, 7/10/08	540,435,959
300,000,000	U.S. Treasury Bill, 1.06%, 7/17/08	299,586,000
160,000,000	U.S. Treasury Bill, 2.40%, 7/24/08	159,736,178
353,099,000	U.S. Treasury Bill, 2.31%, 7/31/08	352,219,321
137,000,000	U.S. Treasury Bill, 1.61%, 8/7/08	136,560,759
524,138,000	U.S. Treasury Bill, 2.08%, 8/14/08	522,817,624
105,919,000	U.S. Treasury Bill, 2.04%, 8/21/08	105,580,042
250,000,000	U.S. Treasury Bill, 2.07%, 8/28/08	249,192,111
150,000,000	U.S. Treasury Bill, 1.50%, 10/2/08	149,287,625
150,000,000	U.S. Treasury Bill, 1.60%, 10/9/08	149,155,000
200,000,000	U.S. Treasury Bill, 1.38%, 10/16/08	198,888,778
Total U.S. Treasury Bills (Cost \$3,345,843,677)		<u>3,345,843,677</u>
Total Investments (Cost† \$3,345,843,677)	100.4%	3,345,843,677
Comprehensive management fees payable	(0.0)	(56,794)
	^)
Distribution (12b-1) fees payable	(0.0)	(10,502)
	^)
Liabilities in excess of other assets	(0.4)	(11,922,083)
Net Assets	100.0%	\$ 3,333,854,298

Net Asset value, offering and redemption price per share of each Class based on shares of beneficial interest, \$.001 par value outstanding and equivalent to the Net Assets of each Class:

762,859,771 shares Class R	\$ 1.00
5,894,923 shares Investor Class II(a)	\$ 1.00
10,135 shares Investor Class I(a)	\$ 1.00
147,102,048 shares Class Treasurer's Trust	\$ 1.00
26,794,874 shares Liquidity Class V(a)	\$ 1.00
7,113,149 shares Liquidity Class III(a)	\$ 1.00
10,054 shares Liquidity Class II(a)	\$ 1.00
138,569,787 shares Liquidity Class I(a)	\$ 1.00
2,246,494,331 shares Class Institutional	\$ 1.00

See notes to financial statements.

GLOSSARY

FGPC — FHLMC Gold Mortgage-Backed Pass-Through Participation Certificates

FGRA — FHLMC Adjustable Rate REMIC

FGRM — FHLMC Gold REMIC Mortgage-Backed Pass-Through Participation Certificates

FHLMC — Federal Home Loan Mortgage Corp.

FMAR — Freddie Mac Adjustable Rate Note

FNAR — Fannie Mae Adjustable Rates

FNMA — Federal National Mortgage Association

FNMS — Federal Mortgage-Backed Pass-Through Securities

FNRA — FNMA REMIC

FNRM — FNMA REMIC Mortgage-Backed Pass-Through Securities

FNST — FNMA STRIPS

MNI — Whole Loan Trust Receipts (Mortgage Backed Note Interest) (not securitized)

TRR — Trust Receipts

WLR — Whole Loan Repurchase Agreement

* Variable rate securities. The interest rates shown are, as reported on May 31, 2008, subject to change periodically.

^ Amount is less than 0.05%.

† The cost of investments for federal income tax purposes is the same as the cost for financial reporting purposes.

(a) Effective September 28, 2007, Classes 15, 20, 25, 35 and 45 were renamed Liquidity Class I, II, III, IV and V, respectively. Also, Classes 70, 75 and 95 were renamed Investor Class I, II and III, respectively.

See notes to financial statements.

THE RESERVE FUND
STATEMENTS OF OPERATIONS
FOR THE YEAR ENDED MAY 31, 2008

	U.S. Government Fund	U.S. Treasury Fund
Interest Income (Note 1)	<u>\$ 415,203,586</u>	<u>\$ 80,924,148</u>
Expenses (Note 2)		
Comprehensive management fees:		
Class R	40,389,087	5,744,202
Investor Class III (a)	—	—
Investor Class II (a)	—	45,784
Investor Class I (a)	—	118
Class Treasurer's Trust	936,158	489,097
Liquidity Class V (a)	196,480	84,658
Liquidity Class IV (a)	—	—
Liquidity Class III (a)	68,502	7,925
Liquidity Class II (a)	7	7
Liquidity Class I (a)	222,315	60,945
Class Institutional	6,354,907	2,834,181
Distribution (12b-1) fees:		
Class R	11,826,118	1,693,595
Investor Class III (a)	—	—
Investor Class II (a)	—	19,099
Investor Class I (a)	—	58
Trustee fee	132,394	40,540
Chief Compliance Officer expenses	12,085	2,745
Legal fee	3,204	807
Interest expense	134,488	59,227
Total expenses before waiver	<u>60,275,745</u>	<u>11,082,988</u>
Less: expenses waived (Note 2)	<u>(39,102)</u>	<u>(321,700)</u>
Net Expenses	<u>60,236,643</u>	<u>10,761,288</u>
Net Investment Income , representing Net Increase in Net Assets from Investment Operations	<u>354,966,943</u>	<u>70,162,860</u>
Realized and Unrealized Gain/Loss on Investments:		
Net realized gain/(loss) on investments	283	(994,774)
Net change in unrealized appreciation of investments	—	—
Net realized and unrealized gain/(loss) on investments	<u>283</u>	<u>(994,774)</u>
Net increase in Net Assets resulting from operations	<u>\$ 354,967,226</u>	<u>\$ 69,168,086</u>

(a) Effective September 28, 2007, Classes 15, 20, 25, 35 and 45 were renamed Liquidity Class I, II, III, IV and V, respectively. Also, Classes 70, 75 and 95 were renamed Investor Class I, II and III, respectively.

See notes to financial statements.

THE RESERVE FUND

STATEMENTS OF CHANGES IN NET ASSETS

	U.S. Government Fund	
	Year Ended May 31, 2008	Year Ended May 31, 2007
Increase in Net Assets:		
From Investment Operations:		
Net investment income	\$ 354,966,943	\$ 225,121,972
Net realized gain/(loss) on investments	283	—
Net increase in net assets resulting from operations	<u>354,967,226</u>	<u>225,121,972</u>
Distributions to Shareholders From		
Net Investment Income (Note 1):		
Class R	(158,047,061)	(139,171,875)
Investor Class III (a)	—	—
Investor Class II (a)	—	—
Investor Class I (a)	—	—
Class Treasurer's Trust	(5,735,211)	(6,202,588)
Liquidity Class V (a)	(1,368,496)	(951,347)
Liquidity Class IV (a)	—	—
Liquidity Class III (a)	(982,680)	(1,385,190)
Liquidity Class II (a)	(81)	—
Liquidity Class I (a)	(6,023,953)	(2,677,791)
Class Institutional	(182,809,461)	(54,906,002)
Class 8 (b)	—	(19,827,179)
Total dividends to shareholders	<u>(354,966,943)</u>	<u>(225,121,972)</u>

See notes to financial statements.

THE RESERVE FUND

STATEMENTS OF CHANGES IN NET ASSETS (Continued)

	<u>U.S. Treasury Fund</u>	
	<u>Year Ended May 31, 2008</u>	<u>Year Ended May 31, 2007</u>
Increase in Net Assets:		
From Investment Operations:		
Net investment income	\$ 70,162,860	\$ 23,692,684
Net realized gain/(loss) on investments	(994,774)	—
Net increase in net assets resulting from operations	<u>69,168,086</u>	<u>23,692,684</u>
Distributions to Shareholders From Net Investment Income (Note 1):		
Class R	(15,560,244)	(17,969,317)
Investor Class III (a)	—	—
Investor Class II (a)	(233,836)	(549,911)
Investor Class I (a)	(622)	—
Class Treasurer's Trust	(1,775,794)	(2,805,900)
Liquidity Class V (a)	(637,952)	(1,078,795)
Liquidity Class IV (a)	—	—
Liquidity Class III (a)	(54,927)	(58,116)
Liquidity Class II (a)	(54)	—
Liquidity Class I (a)	(677,597)	(209)
Class Institutional	(51,221,834)	(895,750)
Class 8 (b)	—	(334,686)
Total dividends to shareholders	<u>(70,162,860)</u>	<u>(23,692,684)</u>

See notes to financial statements.

THE RESERVE FUND

STATEMENTS OF CHANGES IN NET ASSETS (Continued)

	<u>U.S. Government Fund</u>	
	<u>Year Ended May 31, 2008</u>	<u>Year Ended May 31, 2007</u>
From Capital Share Transactions (Note 4) (at net asset value of \$1.00 per share):		
Proceeds from sale of shares	\$ 72,789,971,784	\$ 32,471,684,606
Dividends reinvested	339,792,577	203,834,091
Cost of shares redeemed	(68,664,785,104)	(30,747,030,122)
	<u>4,464,979,257</u>	<u>1,928,488,575</u>
Net increase in net assets	4,464,979,540	1,928,488,575
Net Assets:		
Beginning of year	5,955,719,659	4,027,231,084
End of year	<u>\$ 10,420,699,199</u>	<u>\$ 5,955,719,659</u>

(a) Effective September 28, 2007, Classes 15, 20, 25, 35 and 45 were renamed Liquidity Class I, II, III, IV and V, respectively. Also, Classes 70, 75 and 95 were renamed Investor Class I, II and III, respectively.

(b) Effective September 1, 2006, Class 12 was renamed Class Institutional, and Class 8 is no longer being offered.

See notes to financial statements.

THE RESERVE FUND

STATEMENTS OF CHANGES IN NET ASSETS (Continued)

	<u>U.S. Treasury Fund</u>	
	<u>Year Ended May 31, 2008</u>	<u>Year Ended May 31, 2007</u>
From Capital Share Transactions (Note 4) (at net asset value of \$1.00 per share):		
Proceeds from sale of shares	\$ 16,161,577,897	\$ 2,746,236,399
Dividends reinvested	64,870,596	22,060,581
Cost of shares redeemed	(13,480,728,869)	(2,730,922,713)
	<u>2,745,719,624</u>	<u>37,374,267</u>
Net increase in net assets	2,744,724,850	37,374,267
Net Assets:		
Beginning of year	589,129,448	551,755,181
End of year	<u>\$ 3,333,854,298</u>	<u>\$ 589,129,448</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

(1) Significant Accounting Policies:

The Reserve Fund (the “Trust”) is registered with the Securities and Exchange Commission (“SEC”) under the Investment Company Act of 1940, as amended (the “Investment Company Act”), as an open-end management investment company. The policies summarized below are consistently followed in the preparation of its financial statements in conformity with U.S. generally accepted accounting principles.

A. The Trust’s authorized shares of beneficial interest are unlimited and divided into seven (7) series (each a “Fund”): Primary Fund, U.S. Government Fund, U.S. Treasury Fund, Primary II Fund, Liquid Performance Money Market Fund, U.S. Government II Fund and Treasury & Repo Fund. These financial statements and notes apply only to the U.S. Government Fund and U.S. Treasury Fund (individually, a “Fund”, and collectively, the “Funds”). Each fund offered by the trust (except for Primary II Fund and U.S. Government II Fund which only offer Class Institutional) offers eleven classes of shares: Class Institutional, Liquidity Class I, Liquidity Class II, Liquidity Class III, Liquidity Class IV, Liquidity Class V, Class Treasurer’s Trust, Investor Class I, Investor Class II, Investor Class III and Class R. At May 31, 2008, U.S. Government Fund had only the following classes of shares outstanding: Class Institutional, Liquidity Class I, Liquidity Class II, Liquidity Class III, Liquidity Class V, Class Treasurer’s Trust and Class R. At May 31, 2008, U.S. Treasury Fund had only the following classes of shares outstanding: Class Institutional, Liquidity Class I, Liquidity Class II, Liquidity Class III, Liquidity Class V, Class Treasurer’s Trust, Investor Class I, Investor Class II and Class R.

B. Securities are valued at amortized cost, which approximates market value in accordance with Rule 2a-7 under the Investment Company Act. The amortized cost method values a security at cost and assumes a constant amortization to maturity of any discount or premium, irrespective of intervening changes in interest rates or market values using the effective interest method. For purposes of compliance with Rule 2a-7 of the Investment Company Act and for computing the portfolio average weighted life to maturity, the maturity of floating or variable rate instruments in which the Funds may invest are deemed to be: for floating rate instruments (1) the notice period required before the Fund is entitled to receive payment of the principal amount of the instruments; and for variable rate instruments the longer of (1) above or (2) the period remaining until the instrument’s next rate adjustment.

C. It is the policy of each Fund to comply with Subchapter M of the Internal Revenue Code and to distribute all of its taxable income to its shareholders. Accordingly, no federal income tax provision is required.

D. Security transactions are recorded on a trade date basis. Interest income is accrued daily, and security premium or discount is amortized or accreted daily using the effective interest method. Net investment income is distributed to shareholders daily and automatically reinvested in additional Fund shares, unless the shareholder has elected in writing to receive cash. Investment income and fund level expenses (expenses other than the comprehensive management fee and distribution fee) are allocated daily to each class based upon the relative proportion of net assets of each class.

E. The Funds may enter into repurchase agreements with financial institutions and securities dealers that are deemed creditworthy pursuant to guidelines established by the

NOTES TO FINANCIAL STATEMENTS (Continued)

(1) Significant Accounting Policies (Continued):

Trust's Board of Trustees. Reserve Management Company, Inc. ("RMCI" or the "Investment Adviser"), the Funds' investment adviser, follows procedures intended to ensure that all repurchase agreements are at least 100% collateralized as to principal and interest. Under a repurchase agreement, a party sells and simultaneously agrees to repurchase a security at a mutually agreed upon time and price, which results in a fixed rate of return for the period of the agreement. Securities subject to repurchase will be placed in a segregated account and will be monitored to ensure that the market value of the securities plus any accrued interest will at least equal the repurchase price. The Fund will require the seller to provide additional collateral if the market value of the securities falls below the repurchase price. A counterparty bankruptcy could delay recovery of collateral.

F. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of income and expenses during the reporting periods. Actual results could differ from those estimates.

G. During the fiscal year ended May 31, 2008, the Funds incurred overdraft positions with their custodian bank. Any related interest charges are shown in each Fund's statement of operations.

H. Effective September 28, 2007, Classes 15, 20, 25, 35 and 45 were renamed Liquidity Class I, II, III, IV and V, respectively. Also, Classes 70, 75 and 95 were renamed Investor Class I, II and III, respectively.

(2) Management Fee and Other Transactions with Affiliates:

Pursuant to a separate Investment Management Agreement (each an "Agreement") between RMCI and the Trust on behalf of each Fund, RMCI serves as each Fund's investment adviser subject to the overall supervision of the Board of Trustees. Under each Agreement, RMCI manages each fund's investments in accordance to its investment objective and policies. For its services as investment adviser, RMCI receives a comprehensive management fee, which is accrued daily based on daily average net assets. The comprehensive management fee includes the advisory fee (0.08% of each class's average daily net assets), all administrative and customary operating expenses of each Fund, as well as shareholder liaison services (such as responding to customer inquiries and providing information on their investments), recordkeeping charges, accounting expenses, transfer agent costs and the expenses of preparing, printing and mailing shareholder reports and prospectuses. Excluded from the definition of administrative and customary operating expenses are: interest charges, taxes, brokerage fees and commissions, extraordinary legal and accounting fees and other extraordinary expenses including expenses incurred in connection with litigation proceedings, other claims and the legal obligations of the Trust to indemnify its trustees, officers employees, shareholders, distributors and other agents of the Trust, payments made pursuant to the Trust's Distribution Plan, the compensation of the Chief Compliance Officer and related expenses and the fees and expenses of the Trustees who are not interested persons of the Investment Adviser as defined in the Investment Company Act (the "Independent Trustees"), including the fees of the independent counsel of the Independent Trustees. Each Fund pays RMCI a comprehensive management fee at an annual rate based

NOTES TO FINANCIAL STATEMENTS (Continued)

(2) Management Fee and Other Transactions with Affiliates (Continued):

on the average daily net assets of each Class of shares of each Fund according to the following schedule:

Class	Liquidity Class I*	Liquidity Class II*	Liquidity Class III*	Liquidity Class IV*	Liquidity Class V*	Class Treasurer's Trust	Investor Class I*	Investor Class II*	Investor Class III*	Class R	
Institutional	0.13%	0.16%	0.21%	0.26%	0.36%	0.46%	0.61%	0.51%	0.56%	0.76%	0.81%

* Effective September 28, 2007, Classes 15, 20, 25, 35 and 45 were renamed Liquidity Class I, II, III, IV and V, respectively. Also, Classes 70, 75 and 95 were renamed Investor Class I, II and III, respectively.

Prior to July 16, 2007, each of the above Classes of shares had a comprehensive management fee that was 0.01% lower.

From time to time, the Funds may have a concentration of several shareholders holding a significant percentage of shares outstanding. Investment activities of these shareholders could have a material impact on the Fund.

As of May 31, 2008, please refer to the below chart for Concentration of Ownership:

Fund Name:	Number of Shareholders:	Percentage of Ownership:
U.S. Government Fund	1	43%
U.S. Treasury Fund	4	9%, 9%, 7%, 7%

Distribution Assistance:

The Funds have adopted Rule 12b-1 Distribution Plans (the "Distribution Plans") and have entered into a Distribution Agreement with Resrv Partners, Inc. ("Resrv"), an affiliate of RMCI, which allows the Funds to pay distribution fees for certain shareholder services and for expenses related to the sale and distribution of its Class R, Investor Class III, Investor Class II and Investor Class I Shares. The rate of distribution expenses is 0.25% per year of the classes' average daily net assets.

During the year ended May 31, 2008, RMCI voluntarily waived a portion of its comprehensive management fee for the U.S. Government Fund of \$39,102 and the U.S. Treasury Fund of \$321,700. These waivers are voluntary and may be terminated at any time. Certain Trustees and Officers of the Funds are also officers of RMCI.

Prior to July 16, 2007, Class R, Investor Class III, Investor Class II and Investor Class I shares had a distribution fee that was 0.05% lower.

(3) Composition of Net Assets:

At May 31, 2008, the composition of each Fund's net assets was as follows:

	U.S. Government Fund	U.S. Treasury Fund
Par Value	\$ 10,420,699	\$ 3,334,849
Additional-Paid-in-Capital	10,410,278,500	3,331,514,223
Accumulated net realized gain/(loss) on investments	—	(994,774)
Net Assets	<u>\$ 10,420,699,199</u>	<u>\$ 3,333,854,298</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

(3) Composition of Net Assets (Continued):

The tax basis of each Fund's assets is the same as the basis for financial reporting at May 31, 2008.

The income dividends were classified as ordinary income for federal income tax purposes for the years shown below.

The tax character of distributions paid during the years ended May 31, 2007 and May 31, 2008

	<u>US Government Fund</u>		<u>U.S. Treasury Fund</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Distribution paid from:				
Ordinary Dividends	354,966,943	225,121,972	70,162,860	23,692,684
Long-term capital gain dividend	—	—	—	—
Total Distributions	<u>354,966,943</u>	<u>225,121,972</u>	<u>70,162,860</u>	<u>23,692,684</u>

(4) Capital Share Transactions:

For the year ended May 31, 2008, the capital share transactions of each Class of each Fund were as follows (at \$1 per share):

NOTES TO FINANCIAL STATEMENTS (Continued)

(4) Capital Share Transactions (Continued):

	<u>Class R</u>	<u>Treasurer's Trust</u>	<u>Liquidity Class V (a)</u>	<u>Liquidity Class III (a)</u>
U.S. GOVERNMENT FUND				
Sold	6,847,863,794	805,576,864	271,375,772	214,644,653
Reinvested	157,137,486	5,577,456	1,345,260	980,007
Redeemed	(6,200,969,479)	(835,307,075)	(205,860,711)	(203,488,763)
Net Increase (Decrease)	<u>804,031,801</u>	<u>(24,152,755)</u>	<u>66,860,321</u>	<u>12,135,897</u>

	<u>Liquidity Class II (a) (1)</u>	<u>Liquidity Class I (a)</u>	<u>Class Institutional</u>
U.S. GOVERNMENT FUND (continued)			
Sold	10,000	680,466,260	63,970,034,441
Reinvested	81	5,241,552	169,510,735
Redeemed	—	(690,337,166)	(60,528,821,910)
Net Increase (Decrease)	<u>10,081</u>	<u>(4,629,354)</u>	<u>3,610,723,266</u>

	<u>Class R</u>	<u>Investor Class II (a)</u>	<u>Investor Class I (a) (2)</u>	<u>Treasurer's Trust</u>
U.S. TREASURY FUND				
Sold	3,091,344,825	40,241,124	142,477	403,134,028
Reinvested	15,244,672	233,836	469	1,746,398
Redeemed	(2,846,708,645)	(42,635,578)	(132,811)	(296,212,004)
Net Increase (Decrease)	<u>259,880,852</u>	<u>(2,160,618)</u>	<u>10,135</u>	<u>108,668,422</u>

	<u>Liquidity Class V (a)</u>	<u>Liquidity Class III (a)</u>	<u>Liquidity Class II (a) (1)</u>	<u>Liquidity Class I (a)</u>
U.S. TREASURY FUND (continued)				
Sold	97,577,559	10,538,599	10,000	574,877,414
Reinvested	636,514	54,927	54	675,016
Redeemed	(100,894,131)	(3,491,621)	—	(436,992,851)
Net Increase (Decrease)	<u>(2,680,058)</u>	<u>7,101,905</u>	<u>10,054</u>	<u>138,559,579</u>

	<u>Class Institutional</u>
U.S. TREASURY FUND (continued)	
Sold	11,943,711,871
Reinvested	46,278,710
Redeemed	(9,753,661,228)
Net Increase (Decrease)	<u>2,236,329,353</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

(4) Capital Share Transactions (Continued):

For the year ended May 31, 2007, the capital share transactions of each Class of each Fund were as follows (at \$1 per share):

	May 31, 2007			
	Class R	Class Treasurer's Trust	Liquidity Class V (a)	Liquidity Class II (a)
U.S. GOVERNMENT FUND				
Sold	8,044,114,977	613,694,728	76,068,906	214,867,840
Reinvested	124,648,304	5,482,938	821,117	1,284,768
Redeemed	<u>(5,683,594,757)</u>	<u>(540,283,853)</u>	<u>(61,747,588)</u>	<u>(215,115,541)</u>
Net Increase	<u>2,485,168,524</u>	<u>78,893,813</u>	<u>15,142,435</u>	<u>1,037,067</u>
		Liquidity Class I (a)	Class Institutional (b)	Class 8 (b) (Unaudited)
U.S. GOVERNMENT FUND (continued)				
Sold		236,427,300	19,783,051,140	3,503,459,704
Reinvested		2,324,688	49,444,000	19,828,286
Redeemed		<u>(157,821,792)</u>	<u>(18,802,653,890)</u>	<u>(5,285,812,700)</u>
Net Increase (Decrease)		<u>80,930,196</u>	<u>1,029,841,250</u>	<u>(1,762,524,710)</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

(4) Capital Share Transactions (Continued):

	Class R	Investor Class II (a)	Class Treasurer's Trust	Liquidity Class V (a)
U.S. TREASURY FUND				
Sold	2,022,017,087	173,179,276	251,032,154	79,149,540
Reinvested	16,660,611	516,891	2,681,312	965,509
Redeemed	(1,965,072,965)	(178,866,356)	(284,620,967)	(54,173,061)
Net Increase (Decrease)	<u>73,604,733</u>	<u>(5,170,189)</u>	<u>(30,907,501)</u>	<u>25,941,988</u>
	Liquidity Class III (a)	Liquidity Class I (a)	Class Institutional (b)	Class 8 (b) (Unaudited)
U.S. TREASURY FUND (continued)				
Sold	992,552	10,020	178,625,075	41,230,696
Reinvested	57,966	168	854,754	323,370
Redeemed	(14,185,477)	21	(169,377,669)	(64,626,240)
Net Increase (Decrease)	<u>(13,134,959)</u>	<u>10,209</u>	<u>10,102,160</u>	<u>(23,072,174)</u>

(a) Effective September 28, 2007, Classes 15, 20, 25, 35 and 45 were renamed Liquidity Class I, II, III, IV and V, respectively. Also, Classes 70, 75 and 95 were renamed Investor Class I, II and III, respectively.

(b) Effective September 1, 2006, Class 8 is no longer being offered and Class 12 was renamed Class Institutional.

(1) Class commenced operations on February 8, 2008.

(2) Class commenced operations on October 1, 2007.

(5) Commitments and Contingencies:

In the normal course of business, the Funds enter into contracts that contain a variety of representations and warranties and provide general indemnifications. The Funds' general exposure under these arrangements is unknown, as this would involve future claims that may be made against the Funds that have not yet occurred. However, based on experience, the Funds expect the risk of loss to be remote.

(6) Financial Highlights:

Contained below is per share operating performance data for a share of beneficial interest outstanding of each Class of each Fund for each of the periods as indicated:

NOTES TO FINANCIAL STATEMENTS (Continued)

(6) Financial Highlights (Continued):

	Class R Years Ended May 31,				
	2008	2007	2006	2005	2004
U.S. GOVERNMENT FUND					
Net asset value at beginning of period	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
Net investment income	0.0324	0.0428	0.0307	0.0102	0.0010
Dividends from net investment income	(0.0324)	(0.0428)	(0.0307)	(0.0102)	(0.0010)
Net asset value at end of period	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
Total Return	3.29%	4.37%	3.12%	1.03%	0.10%
Ratios/Supplemental Data					
Net assets end of period (millions)	\$ 5,285.3	\$ 4,481.3	\$ 1,996.1	\$ 940.0	\$ 853.5
Ratio of expenses to average net assets, before fee waivers	1.05%	1.00%	1.00%	1.00%	1.00%
Ratio of expenses to average net assets, net of fee waivers	1.05%	1.00%	1.00%	1.00%	0.98%
Ratio of net investment income to average net assets	3.16%	4.28%	3.21%	1.04%	0.10%

	Class Treasurer's Trust Years Ended May 31,				
	2008	2007	2006	2005	2004
U.S. GOVERNMENT FUND					
Net asset value at beginning of period	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
Net investment income	0.0368	0.0468	0.0347	0.0142	0.0049
Dividends from net investment income	(0.0368)	(0.0468)	(0.0347)	(0.0142)	(0.0049)
Net asset value at end of period	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
Total Return	3.74%	4.79%	3.53%	1.44%	0.49%
Ratios/Supplemental Data					
Net assets end of period (millions)	\$ 155.1	\$ 179.2	\$ 100.3	\$ 81.2	\$ 19.3
Ratio of expenses to average net assets, before fee waivers	0.61%	0.60%	0.60%	0.60%	0.60%
Ratio of expenses to average net assets, net of fee waivers	0.61%	0.60%	0.60%	(b)	(b)
Ratio of net investment income to average net assets	3.72%	4.68%	3.52%	1.64%	0.48%

NOTES TO FINANCIAL STATEMENTS (Continued)

(6) Financial Highlights (Continued):

	Liquidity Class V (1)				
	Years Ended May 31,				
	2008	2007	2006	2005	2004
U.S. GOVERNMENT FUND					
Net asset value at beginning of period	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
Net investment income	0.0383	0.0483	0.0362	0.0157	0.0064
Dividends from net investment income	(0.0383)	(0.0483)	(0.0362)	(0.0157)	(0.0064)
Net asset value at end of period	<u>\$ 1.0000</u>	<u>\$ 1.0000</u>	<u>\$ 1.0000</u>	<u>\$ 1.0000</u>	<u>\$ 1.0000</u>
Total Return	3.90%	4.94%	3.69%	1.59%	0.64%
Ratios/Supplemental Data					
Net assets end of period (millions)	\$ 98.3	\$ 31.4	\$ 16.3	\$ 9.2	\$ 0.0 [^]
Ratio of expenses to average net assets, before fee waivers	0.46%	0.45%	0.45%	0.45%	0.44%
Ratio of expenses to average net assets, net of fee waivers	0.46%	0.45%	0.45%	(b)	(b)
Ratio of net investment income to average net assets	3.19%	4.83%	3.80%	2.36%	0.66%

	Liquidity Class III (1)				
	Years Ended May 31,				
	2008	2007	2006	2005	2004
U.S. GOVERNMENT FUND					
Net asset value at beginning of period	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
Net investment income	0.0403	0.0503	0.0382	0.0177	0.0084
Dividends from net investment income	(0.0403)	(0.0503)	(0.0382)	(0.0177)	(0.0084)
Net asset value at end of period	<u>\$ 1.0000</u>	<u>\$ 1.0000</u>	<u>\$ 1.0000</u>	<u>\$ 1.0000</u>	<u>\$ 1.0000</u>
Total Return	4.11%	5.15%	3.89%	1.80%	0.84%
Ratios/Supplemental Data					
Net assets end of period (millions)	\$ 36.6	\$ 24.4	\$ 23.4	\$ 4.6	\$ 66.0
Ratio of expenses to average net assets, before fee waivers	0.26%	0.25%	0.25%	0.25%	0.25%
Ratio of expenses to average net assets, net of fee waivers	0.26%	0.25%	0.25%	(b)	(b)
Ratio of net investment income to average net assets	3.70%	5.03%	3.96%	1.44%	0.83%

NOTES TO FINANCIAL STATEMENTS (Continued)

(6) Financial Highlights (Continued):

	Liquidity Class II (1) Period from February 8, 2008* to May 31, 2008
U.S. GOVERNMENT FUND	
Net asset value at beginning of period	\$ 1.0000
Net investment income	0.0081
Dividends from net investment income	(0.0081)
Net asset value at end of period	<u>\$ 1.0000</u>
Total Return	0.81%
Ratios/Supplemental Data	
Net assets end of period (millions)	\$ 0.0 [^]
Ratio of expenses to average net assets, before fee waivers	0.25%(a)
Ratio of expenses to average net assets, net of fee waivers	0.25%(a)
Ratio of net investment income to average net assets	2.84%(a)

	Liquidity Class I (1) Years Ended May 31,				
	2008	2007	2006	2005	2004
U.S. GOVERNMENT FUND					
Net asset value at beginning of period	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
Net investment income	0.0413	0.0514	0.0392	0.0187	0.0094
Dividends from net investment income	(0.0413)	(0.0514)	(0.0392)	(0.0187)	(0.0094)
Net asset value at end of period	<u>\$ 1.0000</u>	<u>\$ 1.0000</u>	<u>\$ 1.0000</u>	<u>\$ 1.0000</u>	<u>\$ 1.0000</u>
Total Return	4.21%	5.27%	4.00%	1.90%	0.94%
Ratios/Supplemental Data					
Net assets end of period (millions)	\$ 76.4	\$ 81.0	\$ 0.1	\$ 0.1	\$ 0.1
Ratio of expenses to average net assets, before fee waivers	0.16%	0.15%	0.15%	0.15%	0.15%
Ratio of expenses to average net assets, net of fee waivers	0.16%	0.14%	0.15%	(b)	(b)
Ratio of net investment income to average net assets	4.28%	5.18%	4.19%	1.87%	0.93%

NOTES TO FINANCIAL STATEMENTS (Continued)

(6) Financial Highlights (Continued):

	Class Institutional **				February 24, 2004* to May 31, 2004
	Years Ended May 31,				
	2008	2007	2006	2005	
U.S. GOVERNMENT FUND					
Net asset value at beginning of period	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
Net investment income	0.0415	0.0517	0.0395	0.0190	0.0025
Dividends from net investment income	(0.0415)	(0.0517)	(0.0395)	(0.0190)	(0.0025)
Net asset value at end of period	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
Total Return	4.24%	5.30%	4.03%	1.94%	0.25%
Ratios/Supplemental Data					
Net assets end of period (millions)	\$ 4,769.1	\$ 1,158.4	\$ 128.5	\$ 45.2	\$ 1.0
Ratio of expenses to average net assets, before fee waivers	0.13%	0.12%	0.12%	0.12%	0.13%(a)
Ratio of expenses to average net assets, net of fee waivers	0.13%	0.11%	0.12%	(b)	(b)
Ratio of net investment income to average net assets	3.71%	5.18%	3.96%	2.12%	0.96%(a)

	Class R				
	Years Ended May 31,				
	2008	2007	2006	2005	2004
U.S. TREASURY FUND					
Net asset value at beginning of period	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
Net investment income	0.0234	0.0395	0.0273	0.0083	0.0009
Dividends from net investment income	(0.0234)	(0.0395)	(0.0273)	(0.0083)	(0.0009)
Net asset value at end of period	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
Total Return	2.37%	4.03%	2.77%	0.83%	0.09%
Ratios/Supplemental Data					
Net assets end of period (millions)	\$ 762.9	\$ 503.0	\$ 429.4	\$ 313.9	\$ 377.5
Ratio of expenses to average net assets, before fee waivers	1.05%	1.00%	1.00%	1.00%	1.00%
Ratio of expenses to average net assets, net of fee waivers	1.04%	1.00%	0.99%	0.99%	0.89%
Ratio of net investment income to average net assets	2.19%	3.95%	2.77%	0.80%	0.09%

NOTES TO FINANCIAL STATEMENTS (Continued)

(6) Financial Highlights (Continued):

	Investor Class II (1)			
	Year Ended May 31,			August 16, 2004* To
	2008	2007	2006	May 31, 2005
U.S. TREASURY FUND				
Net asset value at beginning of period	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
Net investment income	0.0134	0.0420	0.0298	0.0100
Dividends from net investment income	(0.0134)	(0.0420)	(0.0298)	(0.0100)
Net asset value at end of period	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
Total Return	2.63%	4.29%	3.03%	1.01%
Ratios/Supplemental Data				
Net assets end of period (millions)	\$ 5.9	\$ 8.1	\$ 13.2	\$ 1.4
Ratio of expenses to average net assets, before fee waivers	0.79%	0.75%	0.75%	0.76%(a)
Ratio of expenses to average net assets, net of fee waivers	0.78%	0.75%	0.75%	(b)
Ratio of net investment income to average net assets	2.84%	4.20%	3.31%	1.39%(a)

	Investor Class I (a)	
	Period from October 1, 2007* to May 31, 2008	
U.S. TREASURY FUND		
Net asset value at beginning of period	\$ 1.0000	
Net investment income	0.0134	
Dividends from net investment income	(0.0134)	
Net asset value at end of period	\$ 1.0000	
Total Return	1.35%	
Ratios/Supplemental Data		
Net assets end of period (millions)	\$ 0.0^	
Ratio of expenses to average net assets, before fee waivers	0.78%(a)	
Ratio of expenses to average net assets, net of fee waivers	0.77%(a)	
Ratio of net investment income to average net assets	2.74%(a)	

NOTES TO FINANCIAL STATEMENTS (Continued)

(6) Financial Highlights (Continued):

	Class Treasurer's Trust				
	Years Ended May 31,				
	2008	2007	2006	2005	2004
U.S. TREASURY FUND					
Net asset value at beginning of period	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
Net investment income	0.0278	0.0435	0.0313	0.0121	0.0039
Dividends from net investment income	(0.0278)	(0.0435)	(0.0313)	(0.0121)	(0.0039)
Net asset value at end of period	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
Total Return	2.81%	4.44%	3.18%	1.23%	0.39%
Ratios/Supplemental Data					
Net assets end of period (millions)	\$ 147.1	\$ 38.4	\$ 69.3	\$ 94.0	\$ 251.4
Ratio of expenses to average net assets, before fee waivers	0.61%	0.60%	0.60%	0.60%	0.60%
Ratio of expenses to average net assets, net of fee waivers	0.60%	0.60%	0.59%	(b)	(b)
Ratio of net investment income to average net assets	2.21%	4.34%	3.09%	1.17%	0.39%

	Liquidity Class V (1)				August 7, 2003* to May 31, 2004
	Year Ended May 31,				
	2008	2007	2006	2005	
U.S. TREASURY FUND					
Net asset value at beginning of period	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
Net investment income	0.0293	0.0450	0.0328	0.0137	0.0043
Dividends from net investment income	(0.0293)	(0.0450)	(0.0328)	(0.0137)	(0.0043)
Net asset value at end of period	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
Total Return	2.97%	4.60%	3.34%	1.38%	0.43%
Ratios/Supplemental Data					
Net assets end of period (millions)	\$ 26.8	\$ 29.5	\$ 3.5	\$ 0.0^	\$ 0.0^
Ratio of expenses to average net assets, before fee waivers	0.46%	0.45%	0.45%	0.45%	0.43%(a)
Ratio of expenses to average net assets, net of fee waivers	0.45%	0.45%	0.45%	(b)	(b)
Ratio of net investment income to average net assets	3.43%	4.55%	3.48%	1.38%	0.54%(a)

NOTES TO FINANCIAL STATEMENTS (Continued)

(6) Financial Highlights (Continued):

	Liquidity Class III (1)				
	Year Ended May 31,				August 7,
	2008	2007	2006	2005	2003* to May 31, 2004
U.S. TREASURY FUND					
Net asset value at beginning of period	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
Net investment income	0.0313	0.0469	0.0348	0.0156	0.0058
Dividends from net investment income	(0.0313)	(0.0469)	(0.0348)	(0.0156)	(0.0058)
Net asset value at end of period	<u>\$ 1.0000</u>	<u>\$ 1.0000</u>	<u>\$ 1.0000</u>	<u>\$ 1.0000</u>	<u>\$ 1.0000</u>
Total Return	3.18%	4.80%	3.54%	1.59%	0.58%
Ratios/Supplemental Data					
Net assets end of period (millions)	\$ 7.1	\$ 0.0 [^]	\$ 13.1	\$ 0.0 [^]	\$ 0.0 [^]
Ratio of expenses to average net assets, before fee waivers	0.26%	0.25%	0.25%	0.25%	0.26% (a)
Ratio of expenses to average net assets net of fee waivers	0.25%	0.25%	0.25%	(b)	(b)
Ratio of net investment income to average net assets	1.80%	4.50%	4.24%	1.66%	0.71% (a)

	Liquidity Class II (1)
	Period from February 8, 2008* to May 31, 2008
U.S. TREASURY FUND	
Net asset value at beginning of period	\$ 1.0000
Net investment income	0.0054
Dividends from net investment income	(0.0054)
Net asset value at end of period	<u>\$ 1.0000</u>
Total Return	0.54%
Ratios/Supplemental Data	
Net assets end of period (millions)	\$ 0.0 [^]
Ratio of expenses to average net assets, before fee waivers	0.22% (a)
Ratio of expenses to average net assets, net of fee waivers	0.19% (a)
Ratio of net investment income to average net assets	1.73% (a)

NOTES TO FINANCIAL STATEMENTS (Continued)

(6) Financial Highlights (Continued):

	Liquidity Class I (1)	
	Year Ended May 31, 2008	Period From December 27, 2006* to May 31, 2007
U.S. TREASURY FUND		
Net asset value at beginning of period	\$ 1.0000	\$ 1.0000
Net investment income	0.0323	0.0207
Dividends from net investment income	(0.0323)	(0.0207)
Net asset value at end of period	\$ 1.0000	\$ 1.0000
Total Return	3.27%	2.09%
Ratios/Supplemental Data		
Net assets end of period (millions)	\$ 138.6	\$ 0.0 [^]
Ratio of expenses to average net assets, before fee waivers .	0.16%	0.15% (a)
Ratio of expenses to average net assets, net of fee waivers	0.15%	0.15% (a)
Ratio of net investment income to average net assets	1.78%	4.84%

	Class Institutional**				
	Year Ended May 31,				February 24,
	2008	2007	2006	2005	2004* to May 31, 2004
U.S. TREASURY FUND					
Net asset value at beginning of period	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
Net investment income	0.0326	0.0483	0.0361	0.0170	0.0022
Dividends from net investment income	(0.0326)	(0.0483)	(0.0361)	(0.0170)	(0.0022)
Net asset value at end of period	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
Total Return	3.31%	4.95%	3.68%	1.72%	0.22%
Ratios/Supplemental Data					
Net assets end of period (millions)	\$ 2,246.3	\$ 10.2	\$ 0.1	\$ 0.0 [^]	\$ 0.0 [^]
Ratio of expenses to average net assets, before fee waivers	0.13%	0.12%	0.12%	0.12%	0.12% (a)
Ratio of expenses to average net assets, net of fee waivers	0.12%	0.11%	0.11%	(b)	(b)
Ratio of net investment income to average net assets	2.34%	4.86%	6.46%	1.78%	0.83% (a)

* Inception of Class operations.

** Effective September 1, 2006, Class 12 was renamed Class Institutional.

(1) Effective September 28, 2007, Classes 15, 20, 25, 35 and 45 were renamed Liquidity Class I, II, III, IV and V, respectively. Also, Classes 70, 75 and 95 were renamed Investor Class I, II and III, respectively.

+ The Fund did not have assets as shown outstanding during the entire period indicated. Therefore, ratios were annualized based on the period that the class held assets and therefore was allocated income and expenses.

[^] Amount is less than \$50,000.

(a) Annualized.

(b) As there were no fee waivers during the period, this is not applicable.

NOTES TO FINANCIAL STATEMENTS (Continued)

(7) Recent Accounting Pronouncements:

On July 13, 2006, the FASB released FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Funds' tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. Adoption of FIN 48 is required for fiscal years beginning after December 15, 2006 and is to be applied to all open tax years as of the effective date. Management has analyzed the fund's tax positions taken on federal income tax returns for all open tax years for purposes of implementing FIN 48, and has concluded that as of May 31, 2008, no provision for income tax would be required in the Funds' financial statements.

In September 2006, the FASB issued FASB Statement No. 157, Fair Value Measurement (Statement 157), Statement 157 defines fair value, establishes framework for the measurement of fair value, and enhances disclosures about fair value measurements. The Statement is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Management does not believe the adoption of FAS 157 will impact the amounts reported in the financial statements, however, additional disclosures will be required about the inputs used to develop the measurements of fair value and the effect of certain of the measurements reported in the Statement of Operations for a fiscal period

(8) Additional Information:

As of May 5, 2008, State Street Bank and Trust Company became the Fund's custodian.

As of June 2, 2008, State Street Bank and Trust Company became the Fund's accountant.

(9) Subsequent Events:

As of October 7, 2008, and until further notice, each of the U.S. Government Fund and U.S. Treasury Fund ("Funds") are not offering any class of shares for purchase, except through dividend reinvestment. In addition, in accordance with relief provided pursuant to an exemptive order by the Securities and Exchange Commission ("SEC") under Section 22(e) of the Investment Company Act of 1940 ("1940 Act"), the U.S. Government Fund has suspended the right of redemption and postponed the date of payment upon redemption of shares for an indefinite period. At times since September 15, 2008 the Funds failed to transmit shareholder redemption proceeds within seven calendar days of receipt of the redemption request as required by the 1940 Act.

The Board of Trustees of the Reserve Fund ("Board") has voted to liquidate the net assets of the U.S. Government Fund and distribute the resulting proceeds to fund shareholders. Upon conclusion of such distributions, the U.S. Government Fund will become inactive. Under the SEC exemptive order, any distributions to shareholders of the U.S. Government Fund are subject to the supervision of the SEC. Concerning the U.S. Government Fund, the Board and RMCI are currently working with the SEC to develop a plan to distribute the net assets of the Fund but cannot currently estimate the timing or amount of distributions to be made to shareholders. The Treasury Fund has not requested any relief from the SEC and is paying out redemption proceeds in accordance with Section 22(e) of the 1940 Act. The Board and RMCI are evaluating whether to continue to operate and offer shares of the U.S. Treasury Fund to investors in the future or to liquidate the assets of the Fund.

Due to recent economic turmoil, the net assets of the Funds have significantly declined (see Note 10) resulting from significant redemptions by investors in the Funds.

The Reserve Fund, the Primary Fund, the U.S. Government Fund, RMCI and certain of their trustees and officers have been named as defendants in numerous legal actions that have been filed since September 17, 2008. Defendants have not been served in many of these actions but have become aware of them through public sources. Plaintiffs in these actions are investors (or broker-dealers for investors) who own or owned shares of the Primary Fund and the U.S. Government Fund.

Although the allegations in the actions differ in some respects, the actions arise from the same underlying set of facts relating to the Primary Fund's holding of debt securities (with a face value of \$785 million) issued by Lehman Brothers Holdings, Inc. ("Lehman"), which filed a petition for bankruptcy protection on September 15, 2008. The bankruptcy filing by Lehman resulted in a decrease to the fair values of all debt securities issued by Lehman and held by the Primary Fund as determined by the Board of Trustees. The fair value declines of the assets coupled with aforementioned redemptions on and after September 15, 2008 resulted in the Fund's significant decline in net asset value/share. As a result, the U.S. Government Fund experienced significant redemption demands. At the same time, the extreme illiquidity of the financial markets and the limited number of bids for securities held by the Primary Fund and the U.S. Government Fund made raising cash to meet those redemption requests difficult. Faced with this, the U.S. Government Fund obtained relief from the SEC permitting the U.S. Government Fund to suspend the right of redemption and postpone the date of payment or satisfaction upon redemption of shares for more than seven days after the tender of shares for redemption.

The above mentioned actions variously allege claims under the Securities Act of 1933, the Securities Exchange Act of 1934, the 1940 Act and common law for breach of contract, breach of fiduciary duty, fraud, and conversion arising from the conduct of one or more defendants prior to and during the week of September 15, 2008. Plaintiffs in these actions seek various forms of relief, including monetary compensation for losses sustained by a decrease in share value, an order directing the Primary Fund or the U.S. Government Fund, as the case may be, to recalculate redemption amounts, disgorgement of fund management fees, rescission of shares purchased and an order to liquidate the fund. Additional actions based upon similar allegations may be filed in the future.

RMCI, the Reserve Fund and other defendants are reviewing the allegations made in these actions and intend to vigorously defend them. The potential impact of these actions, all of which seek unquantifiable damages, attorneys' fees, and expenses, and future potential similar suits is uncertain. There can be no assurance that these suits and/or ongoing adverse publicity will not result in adverse consequences for RMCI, The Reserve Fund, the Primary Fund, the U.S. Government Fund, and the U.S. Treasury Fund.

The conditions and events resulted in a significant decline in the net assets of the Funds and in the Funds' ability to meet shareholder redemption requests as required by the 1940 Act subsequent to May 31, 2008 and, accordingly, contributed to the liquidation of the U.S. Government Fund and raised substantial doubt about the U.S. Treasury Fund's ability to continue as a going concern. Further, the conditions and events described above may result in the Funds disposing of their assets at distressed prices in order to meet shareholder redemption requests.

(10) Recent net assets and net asset value per share information and redemptions payable information (Unaudited):

Net assets of the Funds as of October 3, 2008 were as follows:

U.S. Government Fund	\$ 885,714,651
U.S. Treasury Fund	\$ 320,327,053

In addition, the aforementioned decline in the fair value of debt investments in Lehman coupled with a marked decline in the Primary Fund's net assets due to redemptions on and after September 15, 2008 resulted in the Fund's decline in net asset value from \$1.00 to \$0.97 as of the close of the U.S. securities exchanges on September 16.

Redemptions payable as of October 3, 2008 are as follows:

U.S. Treasury Fund:	\$ (5,572,572)
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Report of Independent Registered Public Accounting Firm

The Board of Trustees and Shareholders
of The Reserve Fund:

We have audited the accompanying statements of net assets of the U.S. Government Fund and U.S. Treasury Fund of The Reserve Fund (the Funds) as of May 31, 2008, and the related statements of operations for the year then ended, and the statements of changes in net assets for each of the years in the two-year period then ended, and the financial highlights for each of the periods or years in the three-year period then ended. These financial statements and financial highlights are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits. The financial highlights for each of the years or periods in the two-year period ended May 31, 2005 were audited by another independent registered public accounting firm whose report dated September 26, 2005 expressed an unqualified opinion on those financial highlights.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of May 31, 2008, by correspondence with the custodian. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the U.S. Government Fund, and U.S. Treasury Fund of The Reserve Fund as of May 31, 2008, and the results of their operations for the year then ended, the changes in their net assets for each of the years in the two-year period then ended, and the financial highlights for each of the periods or years in the three-year period then ended, in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Funds will continue as a going concern. As discussed in note 9 to the financial statements, each of the Funds have experienced a significant decline in net assets, are currently not offering any class of shares for purchase and, with respect to the U.S. Government Fund, have suspended the right of redemption to investors. In addition, as further discussed in note 9, The Reserve Fund, the Primary Fund, the U.S. Government Fund, the Funds' investment adviser, distributor and certain of their trustees and officers have been named as defendants in numerous legal actions. These matters raise substantial doubt about the U.S. Treasury Fund's ability to continue as a going concern. Management's plans in regard to the U.S. Treasury Fund are also described in note 9. Furthermore, as described in note 9, on September 29, 2008 the Board of Trustees of The Reserve Fund has voted to liquidate the assets and distribute the resulting proceeds of the U.S. Government Fund to the Fund's shareholders. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty with respect to the U.S. Treasury Fund or the liquidation of assets with respect to the U.S. Government Fund.

July 30, 2008, except for note 9 which is dated October 7, 2008

CREDIT RATINGS

The following are the rating designations of certain short-term instruments and issuers and their respective meanings.

Standard & Poor's ("S&P") Instruments with the greatest capacity for timely payment are rated A by S&P. Issues (including commercial paper) within this category are further redefined with designations 1, 2 and 3 to indicate the relative degree of safety; A-1, the highest of the three, indicates the degree of safety regarding timely payment is strong; A-2 indicates that the capacity for timely repayment is satisfactory; A-3 indicates that capacity for timely payment is adequate, however, they are more vulnerable to the adverse changes of circumstances than obligations rated A-1 or A-2. S&P ratings with respect to certain municipal note issues with a maturity of less than three years reflects the liquidity factors and market access risks unique to notes. SP-1, the highest note rating, indicates a strong capacity to pay principal and interest. Issues that possess a very strong capacity to pay debt service will be given an "SP-1+" designation. SP-2, the second highest note rating, indicates a satisfactory capacity to pay principal and interest, with some vulnerability to adverse financial and economic changes over the term of the notes.

Moody's Investors Service, Inc. ("Moody's") employs the designations of Prime-1, Prime-2 and Prime-3 to indicate the relative capacity of the rated issuers (which includes issuers of commercial paper) to repay punctually. Prime-1 issues have a superior capacity for repayment. Prime-2 issues have a strong capacity for timely repayment, but to a lesser degree than Prime-1, Prime-3 issues have an acceptable capacity for repayment.

Moody's highest rating for short-term notes is MIG1/VMIG1; MIG-1/VMIG-1 denotes "superior credit quality", enjoying "highly reliable liquidity support" or "demonstrated broad-based access to the market for refinancing"; MIG2/VMIG2 denotes "strong credit quality" with margins of protection that are ample although not so large as MIG1/VMIG1.

Fitch Ratings ("Fitch") employs the ratings F1 - F3 for short-term investment grade obligations (which includes commercial paper). F1 denotes the highest credit quality. It indicates the strongest capacity for timely payment of financial commitments. A "+" may be appended to an F1 rating class to denote any exceptionally strong credit feature. F2 denotes good credit quality. It indicates a satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings. F3 denotes fair credit quality. It indicates that the capacity for timely payment of financial commitments is adequate; however, near-term adverse changes could result in a reduction to non-investment grade.

Fitch Ratings are placed on Rating Watch to notify investors that there is a reasonable probability of a rating change and the likely direction of such change. These are designated as "Positive", indicating a potential upgrade, "Negative", for a potential downgrade, or "Evolving", if ratings may be raised, lowered or maintained. Rating Watch is typically resolved over a relatively short period.

Fitch Individual Ratings are assigned only to banks. 'A' denotes a very strong bank. Characteristics may include outstanding profitability and balance sheet integrity, franchise, management, operating environment or prospects. 'B' denotes a strong bank. There are no major concerns regarding the bank. Characteristics may include strong profitability and balance sheet integrity, franchise, management, operating environment or prospects. 'C' denotes an adequate bank, which, however, possesses one or more troublesome aspects. There may be some concerns regarding its profitability and balance sheet integrity, franchise, management, operating environment or prospects.

Corporate Debt Obligations. The following summarizes the ratings used by S&P for corporate debt obligations:

AAA - This is the highest rating assigned by S&P to a debt obligation and indicates an extremely high capacity to pay interest and repay principal.

AA - Debt rated AA has a very strong capacity to pay interest and repay principal and differs from AAA issues only in small degree.

A - Debt rated A has a strong capacity to pay interest and repay principal although they are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher-rated categories.

BBB - This is the lowest investment grade. Debt rated BBB has an adequate capacity to pay interest and repay principal. Although it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for bonds in this category than for bonds in higher rated categories.

The following summarizes the ratings used by Moody's for corporate debt obligations:

Aaa - Bonds that are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edged." Interest payments are protected by a large or exceptionally stable margin, and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Aa - Bonds rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude, or there may be other elements present that make the long-term risks appear somewhat larger than in Aaa securities.

A - Bonds that are rated A possess many favorable investment attributes and are to be considered as upper-medium-grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present that suggest a susceptibility to impairment some time in the future.

Baa - Bonds that are rated Baa are considered as medium grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present, but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

RESERVE MANAGEMENT COMPANY, INC
PROXY VOTING POLICY AND PROCEDURES

I. POLICY

Reserve Management Company, Inc. (the “Adviser”) acts as investment adviser for the various series of The Reserve funds, registered investment companies, referred to collectively as the “Funds”. The Adviser has full authority to vote proxies on behalf of each Fund. Although the Funds do not invest in corporate securities, they may on occasion invest in affiliated or other mutual funds which may issue proxies from time to time. Therefore, the Adviser will vote all proxies and act on all other actions in a timely manner as part of its authority in accordance with this Policy and Procedures.

When voting proxies for the Funds, the Adviser’s utmost concern is that all decisions be made solely in the best interest of each Fund. The Adviser will act in a prudent and diligent manner intended to enhance the economic value of the assets of each Fund’s account.

II. PURPOSE

The purpose of these Policies and Procedures is to memorialize the procedures and policies adopted by the Adviser to enable it to comply with its fiduciary responsibilities to clients and the requirements of Rule 206(4)-6 under the Investment Advisers Act of 1940, as amended (“Advisers Act”).

III. PROCEDURES

The Portfolio Manager of each Fund (each a “Portfolio Manager”) is ultimately responsible for ensuring that all proxies received by the Adviser are voted in a timely manner and in a manner consistent with the Adviser’s determination of each Fund’s best interests. Although many proxy proposals can be voted in accordance with the Funds’ established guidelines (see Section V. below, “Guidelines”), the Adviser recognizes that some proposals require special consideration which may dictate that the Adviser makes an exception to the Guidelines.

A. Conflicts of Interest

Where a proxy proposal raises a material conflict between the Adviser’s interests and an interest of any Fund, the Adviser will resolve such a conflict in the manner described below:

1. Vote in Accordance with the Guidelines. To the extent that the Adviser has little or no discretion to deviate from the Guidelines with respect to the proposal in question, the Adviser shall vote in accordance with such pre-determined voting policy.
2. Obtain Consent. To the extent that the Adviser has discretion to deviate from the Guidelines with respect to the proposal in question, the Adviser will disclose the conflict to each affected Fund and obtain consent to the proposed vote prior to voting the securities. The disclosure will include sufficient detail regarding the matter to be voted on and the nature of the Adviser’s conflict such that each affected Fund would be able to make an informed decision regarding the vote. If a Fund does not respond to such a conflict disclosure request or denies the request, the Adviser will abstain from voting the securities held by that Fund’s account.

Each Portfolio Manager will review the proxy proposal for conflicts of interest as part of the overall vote review process. All material conflicts of interest so identified by the Adviser will be addressed as described above in this Section III.A.

B. Limitations

In certain circumstances, in accordance with a Fund's investment advisory agreement (or other written directive) or where the Adviser has determined that it is in the Fund's best interest, the Adviser will not vote proxies received. The following are certain circumstances where the Adviser will limit its role in voting proxies:

1. **Fund Maintains Proxy Voting Authority:** Where a Fund specifies in writing that it will maintain the authority to vote proxies itself or that it has delegated the right to vote proxies to a third party, the Adviser will not vote the securities and will direct the relevant custodian to send the proxy material directly to the Fund. If any proxy material is received by the Adviser, it will promptly be forwarded to the Fund or specified third party.

2. **Terminated Account:** Once a Fund account has been terminated with the Adviser in accordance with its investment advisory agreement, the Adviser will not vote any proxies received after the termination. However, the Fund may specify in writing that proxies should be directed to the Fund (or a specified third party) for action.

3. **Limited Value:** If the Adviser determines that the value of a Fund's economic interest or the value of the portfolio holding is indeterminable or insignificant, the Adviser may abstain from voting a Fund's proxies. The Adviser also will not vote proxies received for securities which are no longer held by the Fund's account. In addition, the Adviser generally will not vote securities where the economic value of the securities in the Fund account is less than \$500.

4. **Securities Lending Programs:** When securities are out on loan, they are transferred into the borrower's name and are voted by the borrower, in its discretion. However, where the Adviser determines that a proxy vote (or other shareholder action) is materially important to the Fund's account, the Adviser may recall the security for purposes of voting, subject to the securities lending agreements with the Funds' custodian in place at that time.

5. **Unjustifiable Costs:** In certain circumstances, after doing a cost-benefit analysis, the Adviser may abstain from voting where the cost of voting a Fund's proxy would exceed any anticipated benefits to the Fund of the proxy proposal.

IV. RECORD KEEPING

In accordance with Rule 204-2 under the Advisers Act, the Adviser will maintain for the time periods set forth in the Rule (i) these proxy voting procedures and policies, and all amendments thereto; (ii) all proxy statements received regarding securities held by the Fund (provided however, that the Adviser may rely on the proxy statement filed on EDGAR as its records); (iii) a record of all votes cast on behalf of each Fund; (iv) records of all client requests for proxy voting information; (v) any documents prepared by the Adviser that were material to making a decision how to vote or that memorialized the basis for the decision; and (vi) all records relating to requests made to the Funds regarding conflicts of interest in voting the proxy.

The Adviser will describe in its Part II of Form ADV (or other brochure fulfilling the requirement of Rule 204-3) its proxy voting policies and procedures and will inform each Fund as to how they may obtain information on how the Adviser voted proxies with respect to securities held by each Fund. Clients may obtain information on how their securities were voted or a copy of the Adviser's Policies and Procedures by written request addressed to the Adviser. The Adviser will coordinate with each Fund to assist in the provision of all information required to be filed on Form N-PX.

V. PROXY VOTING GUIDELINES

Each proxy issue will be considered individually. The following guidelines are a partial list, do not include all potential voting issues and are to be used in voting proposals contained in the proxy statements, but will not be used as rigid rules. The Adviser is instructed to vote all proxies in accordance with these guidelines, except as otherwise instructed. However, because proxy issues and the circumstances of individual companies are so varied, there may be instances when proxies may not be voted in strict adherence to these guidelines.

The following guidelines are grouped according to the types of proposals generally presented to stockholders. Part A deals with proposals that have been approved and recommended by the company's board of directors. Part B deals with proposals submitted by stockholders for inclusion in proxy statements. Part C addresses unique considerations pertaining to foreign issuers.

A. Board Approved Proposals

The vast majority of matters presented to stockholders relate to proposals made by the issuer itself. These proposals have been approved and recommended by the issuer's board of directors. The Funds fully support the enhanced corporate governance practices being implemented and intend to hold corporate boards accountable for their actions in promoting stockholder interests. Accordingly, the Funds' proxies will generally be voted for board-approved proposals, except as follows:

- a. The Funds will withhold votes for any nominee for director who is considered independent by the company but who has received compensation from the company other than for service as a director (such as for investment banking, consulting, legal or financial advisory services).
- b. The Funds will vote on a case-by-case basis in contested elections of directors and on proposals to classify a board of directors.

The Funds will vote on a case-by-case basis on board approved proposals:

- relating to executive compensation.
- relating to changes in a company's capitalization.
- relating to acquisitions, mergers, re-incorporations, reorganizations and other similar transactions.
- to adopt any form of anti-takeover measures.
- to amend a company's charter or bylaws (except for charter amendments which are necessary to effect stock splits, to change a company's name or to authorize additional shares of common stock).
- on other business matters where the Funds are otherwise withholding votes for the entire board of directors.

B. Stockholder Proposals

The Securities and Exchange Commission regulations permit stockholders to submit proposals for inclusion in a company's proxy statement. These proposals often seek to change some aspect of the company's corporate governance structure or to change some aspect of its business operations. The Funds will vote on a case-by-case basis on all shareholder proposals.

C. Voting Shares of Foreign Issuers

Because foreign issuers are incorporated outside of the United States, protection for shareholders may vary significantly from jurisdiction to jurisdiction. Laws governing certain foreign issuers may provide substantially less protection for shareholders. As a result, the above guidelines, which are premised on the existence of sound corporate governance and disclosure frameworks, may not be appropriate under some circumstances for foreign issuers. Therefore, the Funds will vote proxies of foreign issuers on a case-by-case basis.

Approved as of March 6, 2008