



# Nebraska Liquid Asset Fund

Exclusively for School Districts,  
Educational Service Units,  
Community Colleges,  
Public Agencies and Other  
Governmental Subdivisions

*May 31, 2009*

**Sponsored by:**

Nebraska Council of  
School Administrators

Nebraska Association of  
School Boards

Annual Report

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*This information does not represent an offer to sell or a solicitation of an offer to buy or sell any fund or other security. Investors should consider the Fund's investment objectives, risks, charges and expenses before investing in the Fund. This and other information about the Fund is available in the Fund's current Information Statement, which should be read carefully before investing. A copy of the Fund's Information Statement may be obtained by calling 1-877-667-3523 or is available on the Fund's website at [www.nlafpool.org](http://www.nlafpool.org). While the Fund seeks to maintain a stable net asset value of \$1.00 per share, it is possible to lose money investing in the Fund. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency. Shares of the Fund are distributed by **PFM Fund Distributors, Inc.**, member Financial Industry Regulatory Authority (FINRA) ([www.finra.org](http://www.finra.org)). PFM Fund Distributors, Inc. is a wholly owned subsidiary of PFM Asset Management LLC. Member SIPC.*

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# Message from the Board of Trustees

Dear NLAf Participant,

On behalf of the Nebraska Liquid Asset Fund (“NLAf” or “the Fund”), the Board of Trustees are pleased to present to you the NLAf annual report for the Fund’s fiscal year ending May 31, 2009.

The past year has been a challenging time for investors as a result of the credit crisis and other turmoil in the financial markets. Since it was established in 1988, the Fund’s primary objective has been safety of principal and the Fund has steadfastly maintained this focus over the past year. The Fund continues to hold a AAAM rating from Standard & Poor’s (“S&P”). This rating is a testament to the paramount importance of adhering to the Fund’s overall objective of safety of principal and not chasing yield through more risky investments which could leave the Fund’s assets exposed to losses.

In spite of difficult market conditions and a decreasing interest rate environment, we have seen the continued participation of Nebraska school districts and other governmental entities in the Fund. So despite the challenges of the current investing market, Fund participation remains strong.

As a Participant in NLAf, you also have convenient access to your account information 24 hours a day, seven days a week through EON (Easy Online Network). This service provided by the Fund’s Administrator allows Participants access to downloadable check details, customized reports, up-to-the-minute online account balances and consolidated online electronic statements. Participants also are able to initiate transactions online up to six months in advance and can view current and previous monthly account statements and current yield information.

In closing, the Board of Trustees would like to take this opportunity to thank our Participants for their dedication and continued loyalty to the Fund. The members of the Board of Trustees all represent Fund Participants in some way. Our interests are your interests. We will continue to work hard to maintain the safety of your investments while maximizing return and ensuring liquidity. Please feel free to contact us with any questions or concerns you may have.

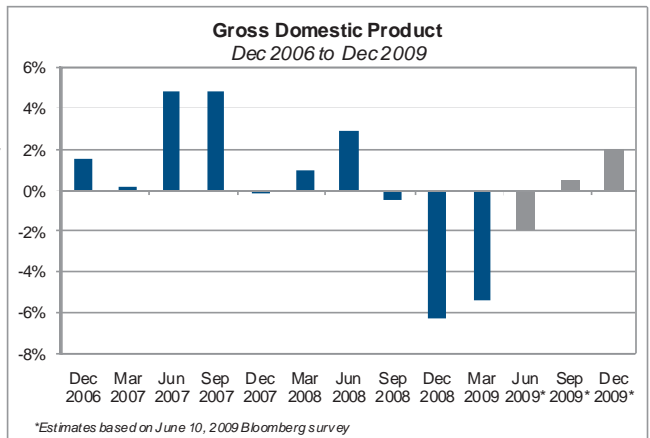
*The NLAf Board of Trustees and Officers*

## Message from the Investment Advisor

The recession that erupted in December of 2007 is now in its nineteenth month, the longest since the Great Depression. However, recent economic reports show that the pace of decline has slowed, which supports the view that the U.S. economy may be in the process of bottoming. Despite the challenges faced by the financial markets and the broader U.S. economy during 2008 and the first half of 2009, we are pleased to report that we were successful in preserving the safety of your investments in NLAIF at all times, while generating a competitive return.

Since the recession began, nearly 6.5 million jobs have been lost, which has pushed unemployment to its highest level since 1983. High levels of unemployment coupled with economic uncertainty have led to reductions in consumer spending and an increase in savings. As the economy faltered in 2008, the savings rate increased steeply, demonstrating that consumers would boost savings to ride out the recession. The coincidence of a rising savings rate and abrupt drop off in retail sales contributed to the economic downturn. Since the consumer accounts for more than 70% of U.S. Gross Domestic Product (GDP), lower spending is a drag on the entire economy.

First quarter GDP declined at an annual rate of -5.5% according to the government's final revision. Year-over-year real GDP fell by -2.5% after contracting by -0.8% in the fourth quarter. As shown in the chart to the right, many economists are forecasting GDP will start to reverse course and that recovery will begin in the third quarter followed by a return to modest growth by year end.



Meanwhile, the Federal Reserve ("Fed") has been utilizing its entire toolbox to help guide the economy into recovery. The Fed has continued to maintain an extraordinarily low level of the Federal Funds rate. Further, the Fed also plans to purchase up to \$300 billion of Treasury securities, and will continue to provide support for mortgage lending and housing markets by purchasing a total of up to \$1.25 trillion of agency mortgage-backed securities and up to \$200 billion of agency debt. A timetable has not been set for the Fed to begin reversing its policy of aggressive credit easing; indeed despite inflation concerns and recent increases in long-term rates, the Fed has maintained its stance that supporting the economy should be its primary objective.

Since the end of last year the Fed has targeted a range for the Federal Funds rate between 0.00% and 0.25%. Accordingly, short term U.S. Treasury and Federal Agency securities yields have followed suit and remain near historical lows.

## Nebraska Liquid Asset Fund

Throughout the financial market and economic turmoil of 2008 and 2009, NLAF has maintained its record as a secure investment for short term funds. The safety of underlying investments was never in question, the net asset value of shares remained stable, and NLAF also provided competitive yields and liquidity to its investors.

In the second half of 2008, we extended the Fund's average maturity anticipating lower yields, and increased liquidity as a defensive measure. The Fund was positioned well in order to take advantage of the collapsing federal agency spreads when short term rates reached historic lows. In order to offset the historically low yields on short-term securities, new security types which include FDIC insured certificates of deposit, two year federal agency securities, and registered money market funds were approved as permitted investments. Additionally, NLAF has taken advantage of floating rate securities which have the yield advantage of investing in a longer term security but the protection of a floating rate should rates rise. These new investments have added significant value to NLAF by allowing us to take advantage of more favorable yields without compromising safety or liquidity.

The worst of the recession and financial market disruption is likely behind us, although it is not clear if we are actually on an upward trend. Though, until there is substantial improvement in the economy, it is expected that short term rates will remain near zero. We will continue to keep the Fund's maturity toward the maximum level that is prudent as long as short term rates remain in their current ranges.

We look forward to continuing to work with Participants to develop and implement effective investment strategies to meet their investment objectives.

Respectfully,  
PFM Asset Management LLC

July 8, 2009

## About the Fund

The Nebraska Liquid Asset Fund (“NLAF” or “the Fund”) was established as the Nebraska School District Liquid Asset Fund Plus on March 23, 1988 as an instrumentality of trust pursuant to the Nebraska Interlocal Cooperation Act. Under its original Declaration of Trust and Interlocal Agreement (“Declaration of Trust”) establishing the Fund, shares of the Fund were offered exclusively to Nebraska school districts, educational service units and technical community colleges. Under the Nebraska Interlocal Cooperation Act, Nebraska counties, cities, villages, school districts, learning communities, educational service units, community colleges, natural resource districts, public utilities, public libraries, mental health regions, drainage districts, sanitary and improvement districts or agencies of the state government or of the United States, or other municipal corporations, public offices or political subdivision of this state, and various other public entities or offices are all public agencies (“Participants”). NLAF offers Participants a professionally managed portfolio which offers a competitive money market rate. The Fund stresses “safety of principal” as its number one objective and is rated “AAAm\*” by Standard and Poor’s (“S&P”). Additional fixed income investment products are available through the Investment Advisor to assist NLAF Participants in seeking to maximize results.

## Public Focus

Since it was established, the Fund’s single focus has been serving the investment needs of its Participants. The Fund’s activities are directed by a Board of Trustees, all of whom are representatives of Nebraska public agencies. The NLAF Board of Trustees contracts for services with professional service providers who are industry leaders in their fields. As a result, the Fund is accountable solely to its Participants.

## Investment Options

Currently, NLAF offers Participants not only the Fund, which is rated “AAAm” by Standard & Poor’s, but also fixed-term investments and individually managed portfolios, which are not a part of the Fund but are available under a separate agreement with the Fund’s Investment Advisor.

### The Fund

The NLAF fund is a short-term money market portfolio, which seeks to provide daily liquidity and earn a high level of income, consistent with its objectives of preserving principal. This pooled fund offers Participants:

- Standard & Poor’s “AAAm” rating
- Daily liquidity
- Interest earned daily and credited monthly
- Competitive money market rates

*\* The rating is based on S&P’s analysis of the Fund’s credit quality, market price exposure and management. According to S&P rating criteria, this rating signifies excellent safety of invested principal and a superior capacity to maintain a \$1.00 per share net asset value. However, it should be understood that this rating is not a “market” rating or a recommendation to buy, hold or sell the securities.*

## **Fixed Income Investment Program**

The Board of Trustees approved the Investment Advisor making available to Participants a fixed income investment program. This program will allow Participants to individually invest in securities issued by the United States Government or agencies or instrumentalities thereof, certificates of deposit (“CDs”) and other fixed income investments permitted by Nebraska law.

The Investment Advisor will offer investment advice on a non-discretionary basis and assist Participants in the purchase of these investments for an advisory fee, based upon factors such as the amount and complexity of the transaction. The CDs available through this program are usually issued in denominations up to the maximum amount insured by the FDIC and are not held as a part of the Fund, and, within the limits and to the extent of insurance provided by the FDIC, may be separately insured by the FDIC from any certificates of deposit which may be held by the Fund.

## **Services**

To simplify investing, NLAF also offers a variety of cash management tools to assist Participants in effectively managing their cash, such as automatic transfers, which help Participants minimize the effort of transferring funds. Check writing is also available at an expense to Participants, which allows the Participants to keep their funds fully invested until the check clears. NLAF also provides unlimited sub-accounting, which allows Participants to easily track investments for different funds or entities. As a Participant in NLAF, you may access your account information 24 hours a day, seven days a week through EON, the Easy Online Network. This on-line service provided by the Administrator offers complete, up-to-date account and investment information, pertinent general information, transaction input up to six months in advance, current and previous monthly statements, and current yield information. NLAF’s Investment Advisor also provides a number of specialized services for bond proceeds to help Participants comply with complex arbitrage rebate regulations. These services include expenditure tests and arbitrage rebate tracking.

## **We Value Your Participation**

The Board of Trustees is committed to managing the Fund in a manner that meets the investment and associated record-keeping and cash management needs of its Participants. We are interested in your feedback. For additional information, please call us at 1-877-667-3523 or visit us online at [www.nlafpool.org](http://www.nlafpool.org).

# Report of Independent Auditors

To the Participants and Board of Trustees of the  
Nebraska Liquid Asset Fund

We have audited the accompanying statement of assets and liabilities of the Nebraska Liquid Asset Fund (the "Fund"), including the statement of net assets, as of May 31, 2009, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the three years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's 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 two years in the period ended May 31, 2006 were audited by other auditors, whose report dated August 1, 2006 expressed an unqualified opinion on those financial highlights.

We conducted our audits in accordance with auditing standards generally accepted in the 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. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of May 31, 2009, by correspondence with the custodian, banks and brokers and other alternative procedures. 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 Nebraska Liquid Asset Fund at May 31, 2009, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and financial highlights for each of the three years in the period then ended, in conformity with U.S. generally accepted accounting principles.

*Ernst & Young LLP*

Philadelphia, Pennsylvania  
August 21, 2009

Nebraska Liquid Asset Fund

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## Statement of Assets and Liabilities

May 31, 2009

<b>Assets</b>		
Investments at Value (See Note B)		\$210,238,742
Cash		12,048,055
Accrued Interest Receivable		564,860
Total Assets		<u>222,851,657</u>
<b>Liabilities</b>		
Payable for Securities Purchased		16,167,476
Investment Advisory Fees Payable		17,016
Administration Fees Payable		1,702
Marketing Fees Payable		15,315
Consulting Fees Payable		6,806
Banking Fees Payable		5,074
Audit Fees Payable		22,100
Legal Fees Payable		3,422
Other Expenses Payable		16,438
Total Liabilities		<u>16,255,349</u>
<b>Net assets</b>		
Net Asset Value per Share (Applicable to 206,596,308 Outstanding Shares of Beneficial Interest, Unlimited Authorization)		<u>\$1.00</u>

## Statement of Net Assets

May 31, 2009

	Yield to Maturity	Maturity Date	Face Amount	Value
<b>CERTIFICATES OF DEPOSIT (8.09%)</b>				
Affiliated Bank				
1.50%	12/28/09		\$ 245,000	\$ 245,000
Bank of the Cascades				
1.85%	12/28/09		245,000	245,000
Bank of the Ozarks				
1.60%	12/28/09		245,000	245,000
Capstone Bank				
1.10%	12/15/09		247,000	247,000
Cecil Federal Bank				
1.65%	5/28/10		245,000	245,000
Central Bank of Stilwater				
1.65%	12/28/09		245,000	245,000
Charter Bank				
1.75%	12/28/09		245,000	245,000
Charter West National Bank				
1.65%	12/28/09		245,000	245,000
Chevy Chase Bank				
1.40%	12/28/09		245,000	245,000
Chinatrust Bank				
1.73%	12/28/09		245,000	245,000
Citizens State Bank				
1.60%	12/28/09		245,000	245,000
Citizens State Bank of Finley				
1.50%	12/28/09		245,000	245,000
Citizens Trust Bank				
1.20%	12/15/09		247,000	247,000

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

## Statement of Net Assets (continued)

May 31, 2009

Yield to Maturity	Maturity Date	Face Amount	Value
<b>CERTIFICATES OF DEPOSIT (continued) (8.09%)</b>			
Commonwealth National Bank			
1.00%	12/15/09	\$ 247,000	\$ 247,000
Community 1st Bank			
1.10%	12/15/09	247,000	247,000
Community Bank of Central Wisconsin			
1.80%	12/28/09	245,000	245,000
Community Bank of Northern Wisconsin			
1.50%	12/28/09	245,000	245,000
Connecticut Bank & Trust Co. Hartford			
1.75%	12/28/09	245,000	245,000
East Carolina Bank			
1.34%	12/15/09	247,000	247,000
Farmers & Merchants State Bank			
1.10%	12/15/09	247,000	247,000
Fidelity Bank			
1.50%	5/28/10	245,000	245,000
Fidelity Bank of Florida			
1.10%	12/15/09	247,000	247,000
Fifth Third Bank			
1.80%	12/28/09	245,000	245,000
Financial Federal Savings Bank			
1.10%	12/15/09	247,000	247,000
First Central Bank Mccook			
1.75%	12/28/09	245,000	245,000
First Chatham Bank			
1.60%	5/28/10	245,000	245,000
First Regional Bank			
1.55%	12/28/09	245,000	245,000
Folsom Lake Bank			
1.15%	12/15/09	247,000	247,000
Franklin Security Bank			
1.20%	12/15/09	247,000	247,000
Frontenac Bank			
1.70%	12/28/09	245,000	245,000
Frontier Bank			
1.00%	12/15/09	247,000	247,000
Georgia Bank & Trust Company of Augusta			
1.00%	12/15/09	247,000	247,000
Glenwood State Bank			
1.60%	12/28/09	245,000	245,000
Great Midwest Bank			
1.60%	12/28/09	245,000	245,000
Home Savings Bank			
1.00%	12/15/09	247,000	247,000
Hometown Bank			
1.70%	12/28/09	245,000	245,000
International Bank of Chicago			
1.15%	12/15/09	247,000	247,000
Marshall & Ilsley Bank (NV)			
1.47%	12/15/09	247,000	247,000

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

## Nebraska Liquid Asset Fund

**Statement of Net Assets (continued)**

May 31, 2009

Yield to Maturity	Maturity Date	Face Amount	Value
<b>CERTIFICATE OF DEPOSITS (continued) (8.09%)</b>			
Marshall & Ilsley Bank (WI)			
1.55%	12/15/09	\$ 247,000	\$ 247,000
Mercantile Bank of Michigan			
0.80%	12/15/09	247,000	247,000
Midtown Bank & Trust Co.			
1.15%	12/15/09	247,000	247,000
Monticell Banking Company			
1.45%	12/28/09	245,000	245,000
Mountain Commerce Bank			
0.90%	12/15/09	247,000	247,000
Mountain First Bank & Trust Co.			
1.10%	12/15/09	247,000	247,000
Orrstown Bank			
1.65%	12/28/09	245,000	245,000
Plaza Bank			
1.74%	12/28/09	245,000	245,000
Post Oak Bank			
1.15%	12/15/09	247,000	247,000
Premier Business Bank			
1.40%	12/28/09	245,000	245,000
Privatebank			
1.50%	12/28/09	245,000	245,000
Regal Financial Bank			
1.85%	12/28/09	245,000	245,000
Republic Bank			
0.95%	12/15/09	247,000	247,000
Seaside National Bank & Trust			
1.10%	12/15/09	247,000	247,000
Shorebank			
1.60%	12/28/09	245,000	245,000
Sonabank			
1.90%	12/28/09	245,000	245,000
Southwest Bank			
1.55%	12/15/09	247,000	247,000
State Bank of India (CA)			
1.80%	12/28/09	245,000	245,000
Synovus Bank of Jacksonville			
1.60%	12/28/09	245,000	245,000
Tennessee State Bank			
2.00%	12/28/09	245,000	245,000
The First			
0.86%	12/15/09	247,000	247,000
Tomatobank			
1.75%	12/28/09	245,000	245,000
Traditional Bank			
1.00%	12/15/09	247,000	247,000
Valley National Bank			
2.00%	12/28/09	245,000	245,000
Wayne County Bank			
1.10%	12/15/09	247,000	247,000

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

## Statement of Net Assets (continued)

May 31, 2009

	Yield to Maturity	Maturity Date	Face Amount	Value
<b>CERTIFICATES OF DEPOSIT (continued) (8.09%)</b>				
West Pointe Bank				
1.15%	12/15/09	.....	\$ 247,000	\$ 247,000
Western Commercial Bank				
1.60%	12/28/09	.....	245,000	245,000
Wilshire State Bank				
1.00%	12/15/09	.....	247,000	247,000
Worthington National Bank				
0.90%	12/15/09	.....	247,000	247,000
Zions Frist National Bank				
1.75%	12/28/09	.....	245,000	245,000
<i>Total Certificates of Deposit</i>				<u>16,720,000</u>
<b>COMMERCIAL PAPER GUARANTEED UNDER TEMPORARY LIQUIDITY GUARANTEE PROGRAM (5.81%)</b>				
Bank of America				
0.27%	6/24/09	.....	6,000,000	5,998,965
General Electric Capital Corporation				
0.24%	6/15/09	.....	6,000,000	5,999,440
<i>Total Commercial Paper Guaranteed Under Temporary Liquidity Guarantee Program</i>				<u>11,998,405</u>
<b>CORPORATE NOTES GUARANTEED UNDER TEMPORARY LIQUIDITY GUARANTEE PROGRAM (0.98%)</b>				
Morgan Stanley				
1.84%	3/4/11	.....	2,000,000	2,019,575
<i>Total Corporate Notes Guaranteed Under Temporary Liquidity Guarantee Program</i>				<u>2,019,575</u>
<b>MONEY MARKET FUNDS (19.80%)</b>				
Fidelity Institutional Money Market Government Portfolio, Class I				
0.33%	6/1/09	.....	25,950,000	25,950,000
First American Government Obligation Fund, Class Z				
0.24%	6/1/09	.....	14,950,000	14,950,000
<i>Total Money Market Funds</i>				<u>40,900,000</u>
<b>U.S. GOVERNMENT &amp; AGENCY OBLIGATIONS (62.24%)</b>				
Fannie Mae Mortgage-Backed Security Discount Notes				
0.52%	7/1/09	.....	10,000,000	9,995,666
0.30%	8/3/09	.....	10,066,000	10,060,715
Fannie Mae Notes				
0.51%	6/15/09	.....	1,507,000	1,510,356
1.11%	7/13/09	.....	1,150,000	1,155,301
0.69%	8/15/09	.....	3,000,000	3,028,996
0.51%	9/15/09	.....	1,194,000	1,215,026
0.47%*	10/16/09	.....	15,000,000	15,006,523
1.85%	10/21/09	.....	1,700,000	1,714,132
0.54%	1/15/10	.....	985,000	1,025,893
0.52%	3/12/10	.....	2,000,000	2,065,646
0.71%	4/19/10	.....	3,500,000	3,624,046
0.67%*	10/22/10	.....	7,400,000	7,411,420

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

## Statement of Net Assets (continued)

May 31, 2009

	Yield to Maturity	Maturity Date	Face Amount	Value
<b>U.S. GOVERNMENT &amp; AGENCY OBLIGATIONS (continued) (62.24%)</b>				
Fannie Mae Separately Traded Registered Interest and Principal Securities (STRIPS) Principal Only				
	0.49%	1/15/10	\$ 1,127,000	\$ 1,123,617
Federal Home Loan Bank Discount Notes				
	0.17%	6/19/09	6,168,000	6,167,476
Federal Home Loan Bank Notes				
	0.32%	8/4/09	1,000,000	1,003,886
	0.88%*	8/5/09	3,000,000	3,003,118
	0.38%	8/18/09	5,430,000	5,468,951
	0.81%	11/13/09	1,025,000	1,051,238
	0.68%*	2/2/10	5,000,000	4,992,230
	0.86%*	2/23/10	5,000,000	5,000,000
	0.48%	3/12/10	1,500,000	1,551,174
	1.16%	3/12/10	500,000	514,910
	1.01%	4/1/10	2,000,000	1,998,985
	0.83%	4/20/10	1,000,000	999,900
	0.60%	4/30/10	705,000	716,362
	0.57%*	5/5/10	5,000,000	5,000,000
	0.33%*	5/21/10	7,000,000	6,997,223
Freddie Mac Discount Notes				
	0.70%	9/21/09	2,000,000	1,995,645
Freddie Mac Notes				
	0.25%	6/11/09	3,000,000	3,003,879
	0.70%	7/30/09	500,000	503,000
	0.86%	9/1/09	650,000	655,347
	0.78%	9/15/09	944,000	959,959
	2.02%	9/22/09	2,000,000	2,012,100
	0.83%	11/30/09	1,000,000	1,016,363
	0.61%*	1/8/10	5,000,000	5,000,000
	0.51%	3/15/10	1,000,000	1,050,851
	1.35%*	3/9/11	5,000,000	5,000,000
	1.21%*	4/7/11	3,000,000	3,000,637
Freddie Mac Notes (Callable)				
	1.27%	3/23/10	1,000,000	1,000,191
<i>Total U.S. Government &amp; Agency Obligations</i>				<u>128,600,762</u>
<b>REPURCHASE AGREEMENTS (4.84%)</b>				
Deutsche Bank				
	0.18%	6/2/09	10,000,000	10,000,000
(Dated 5/27/09, repurchase price \$10,000,050, collateralized by Freddie Mac securities, 4.62%, maturing 9/1/33, market value \$10,200,051)				
<i>Total Repurchase Agreements</i>				<u>10,000,000</u>
<b>TOTAL INVESTMENTS (101.76%)</b>				<u>210,238,742</u>
<b>OTHER LIABILITIES IN EXCESS OF OTHER ASSETS (-1.76%)</b>				<u>(3,642,434)</u>
<b>NET ASSETS (100.00%)</b>				<u>\$ 206,596,308</u>

\* Floating or variable rate securities. Rate shown is that which was in effect at May 31, 2009.

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

## Statement of Operations

	Year Ended May 31, 2009
<b>Investment Income</b>	
Interest Income .....	\$ 3,458,400
<b>Expenses (see Note C)</b>	
Investment Advisory Fees .....	187,093
Administration Fees .....	187,093
Marketing Fees .....	168,383
Consulting Fees .....	112,256
Banking Fees .....	125,927
Legal Fees .....	37,879
Audit Fees .....	22,100
Other Expenses .....	32,683
Total Expenses .....	873,414
Less: Fee Waivers by Administrator .....	(19,892)
Fee Waivers by Sponsors .....	(4,420)
Expenses Paid Indirectly .....	(22,898)
Net Expenses .....	826,204
<b>Net Investment Income</b>	2,632,196
<b>Net Realized Gain on Sale of Investments</b>	46,177
<b>Net Increase in Net Assets Resulting from Operations</b>	\$ 2,678,373

## Statements of Changes in Net Assets

	Year Ended May 31, 2009	Year Ended May 31, 2008
<b>INCREASE (DECREASE) IN NET ASSETS</b>		
<b>Operations</b>		
Net Investment Income .....	\$ 2,632,196	\$ 7,659,706
Net Realized Gain on Sale of Investments .....	46,177	38,446
Net Increase in Net Assets .....	2,678,373	7,698,152
<b>Distributions</b>		
Net Investment Income .....	(2,632,196)	(7,659,706)
Net Realized Gain on Sale of Investments .....	(46,177)	(38,446)
Total Distributions .....	(2,678,373)	(7,698,152)
<b>Capital Share Transactions (at \$1.00 per share)</b>		
Issued .....	637,565,818	625,096,091
Redeemed .....	(687,553,977)	(605,428,561)
Distributions Reinvested .....	2,678,373	7,698,152
Net (Decrease) Increase from Capital Share Transactions .....	(47,309,786)	27,365,682
Total (Decrease) Increase in Net Assets .....	(47,309,786)	27,365,682
<b>Net Assets</b>		
Beginning of Year .....	253,906,094	226,540,412
End of Year .....	\$ 206,596,308	\$ 253,906,094

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

## Financial Highlights

For a share outstanding throughout each year

	Year Ended May 31,				
	2009	2008	2007	2006	2005
Net Asset Value, Beginning of Year . . . . .	\$ 1.000	\$ 1.000	\$ 1.000	\$ 1.000	\$ 1.000
Operations					
Net Investment Income . . . . .	.013	.040	.049	.036	.016
Total from Operations . . . . .	.013	.040	.049	.036	.016
Distributions					
Net Investment Income . . . . .	(.013)	(.040)	(.049)	(.036)	(.016)
Total Distributions . . . . .	(.013)	(.040)	(.049)	(.036)	(.016)
Net Asset Value, End of Year . . . . .	\$1.000	\$1.000	\$ 1.000	\$ 1.000	\$ 1.000
<b>Ratios/Supplemental Data</b>					
Net Assets, End of Year (000) . . . . .	\$206,596	\$253,906	\$226,540	\$209,909	\$180,411
Total Return . . . . .	1.34%	4.04%	4.99%	3.66%	1.60%
Ratio of Expenses to Average Net Assets Before Fee Waivers and Expenses Paid Indirectly . . . . .	0.47%	0.44%	0.41%	0.42%	0.41%
Ratio of Expenses to Average Net Assets After Fee Waivers and Expenses Paid Indirectly . . . . .	0.44%	0.44%	0.41%	0.42%	0.41%
Ratio of Net Investment Income to Average Net Assets Before Fee Waivers and Expenses Paid Indirectly . . . . .	1.38%	3.92%	4.88%	3.56%	1.53%
Ratio of Net Investment Income to Average Net Assets After Fee Waivers and Expenses Paid Indirectly . . . . .	1.41%	3.92%	4.88%	3.56%	1.53%

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

## Notes to Financial Statements

### A. Description of the Fund

The Nebraska Liquid Asset Fund (the "Fund"), was established on March 23, 1988 as the Nebraska School District Liquid Asset Fund Plus, pursuant to the Interlocal Cooperation Act and Article XV, Section 18 of the Nebraska State Constitution. Under its original Declaration of Trust and Interlocal Agreement ("Declaration of Trust") establishing the Fund, shares of the Fund were offered exclusively to Nebraska school districts, educational service units and technical community colleges. The Declaration of Trust was amended, restated and readopted effective February 5, 2008 to change the name of the Fund to Nebraska Liquid Asset Fund and to expand the authorized Participants of the Fund to add Nebraska public agencies and other political subdivisions. The objective of the Fund is to provide a high yield for the Participants while maintaining liquidity and preserving capital by investing only in instruments permitted by Nebraska law. The Fund commenced operations on May 27, 1988.

### B. Summary of Significant Accounting Policies

#### Use of Estimates in Financial Statement Preparation

The accompanying financial statements of the Fund have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

#### Valuation of Investments

Portfolio securities are valued at amortized cost, which approximates fair value. The amortized cost method involves valuing a security at its cost on the date of purchase and recording a constant accretion or amortization to maturity of any discount or premium. It is the Fund's policy to compare amortized cost and fair values of the securities periodically throughout each month and as of the last business day each month. Fair value is determined by reference to quoted market prices.

The Fund has adopted FASB Statement No. 157, "Fair Value Measurements" ("Statement 157"). Statement 157 establishes a framework for measuring fair value in GAAP, clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurements to increase consistency and comparability among fair value estimates used in financial reporting. Statement 157 defines fair value as the price that the Funds would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability.

Statement 157 establishes a three-tier hierarchy of levels for fair value measurements based upon the transparency of inputs to the valuation, as follows:

**Level 1** – Quoted prices in active markets for identical assets.

**Level 2** – Inputs other than quoted prices that are observable for the asset, including quoted prices for similar investments based on interest rates, credit risk and like factors.

**Level 3** – Unobservable inputs for the assets, including the Fund's own assumption for determining fair value.

Portfolio investments are assigned a level based upon the observability of the inputs which are significant to the overall valuation. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Money market securities are valued using amortized cost. Generally, amortized cost approximates the current fair value of a security, but since the value is not obtained from a quoted price in an active market, such securities held by the Fund are categorized as Level 2 under the Statement 157 hierarchy.

### **Accounting for Investments**

Security transactions are accounted for on the trade date (date the order to buy or sell is executed). In computing net investment income, the Fund amortizes or accretes any premiums or discounts on securities owned. Interest income on debt securities is accrued daily. Gains or losses realized upon the sale of securities are based on their amortized cost and are determined using the identified cost method.

### **Income Tax Status**

Pursuant to Section 115 of the Internal Revenue Code, because the Fund performs an essential governmental function, income generated by the Fund should not be subject to Federal income taxes. Furthermore, income of the Fund also should not be subject to state and local income taxes. Accordingly, no provision for income tax is required in the financial statements.

### **Repurchase Agreements**

Repurchase agreements entered into with broker-dealers are secured by U.S. Government or U.S. Government agency obligations. The Fund's custodian takes possession of the collateral pledged for investments in securities purchased under agreement to resell. Securities purchased under agreement to resell are collateralized at 102% of the obligation's principal and interest value. In the event of default on the obligation to repurchase, the Fund has the right to liquidate the collateral and apply the proceeds in satisfaction of the obligation. If the seller defaults and the value of collateral declines, realization of the value of the obligation by the Fund may be delayed. In the event of default or bankruptcy by the other party to the agreement, realization of the value and/or retention of the collateral may be subject to delays from legal proceedings.

### **Representations and Indemnifications**

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

## **C. Fund Expenses**

### **Investment Advisory Fees**

Pursuant to an Investment Advisory Agreement with the Fund, PFM Asset Management LLC ("PFM") provides investment advice and generally supervises the investment program of the Fund. PFM is paid a fee at an annual rate equal to 0.10% of the Fund's average daily net assets. Such fee is calculated daily and paid monthly.

## **Administration Fees**

Under an Administration Agreement with the Fund, PFM services all Participant accounts, determines and allocates income of the Fund, provides administrative personnel, equipment and office space, determines the net asset value of the Fund on a daily basis and performs all related administrative services. The Administrator also pays the Fund's expenses for printing certain documents and for administrative costs of the Fund (such as postage, telephone charges and computer time). PFM is paid a fee at an annual rate equal to 0.10% of the Fund's average daily net assets. Such fee is calculated daily and paid monthly.

## **Marketing Fee**

Under a Marketing Agreement with the Fund, PFM Fund Distributors provides marketing services for which it is paid a fee at an annual rate equal to 0.09% of the Fund's average daily net assets. Such fee is calculated daily and paid monthly.

## **Consulting Fees**

The Fund has separate consulting agreements with the Nebraska Council of School Administrators ("NCSA") and Nebraska Association of School Boards ("NASB"), referred to as the Consultants. Pursuant to these agreements, the Consultants advise PFM, as a representative of the Fund, on applicable and pending state laws affecting the Fund, schedule and announce through their publications informational meetings and seminars at which representatives of the Fund will speak, provide mailing lists of potential Participants and permit the use of their logos. The Consultants are each paid a fee at an annual rate equal to 0.03% of the Fund's average daily net assets. Such fee is calculated daily and paid monthly.

## **Other Fund Expenses**

The Fund pays expenses incurred by its Trustees and officers (in connection with the discharge of their duties), fees of the Custodian, audit fees and legal fees. During the year ended May 31, 2009, the Custodian's fees were reduced by \$22,898 as a result of earnings credits from cash balances.

## **Fee Reduction Agreements**

Effective April 16, 2009, the Fund entered into separate Fee Reduction Agreements with PFM, the Custodian and each Consultant (each a "Service Provider") pursuant to which each Service Provider individually may, but shall not be obligated to, temporarily reduce a portion of its fees to assist the Fund in an attempt to maintain a positive yield. In the event that a Service Provider elects to initiate a fee reduction, such fee reduction shall be applicable to the computation of the net asset value ("NAV") of the Fund on the business day immediately following the date on which the Service Provider gives notice to the Fund on the rate of the fee reduction to be applied in calculating the NAV. A fee reduction shall remain in effect until notice is provided to the Fund by the Service Provider regarding its intent to terminate its fee reduction or revise, upward or downward, the rate of its fee reduction.

At any time after a fee reduction has been terminated, the relevant Service Provider may elect to have the amount of its accumulated reduced fees restored in whole or in part under the conditions described in the Service Provider's Fee Reduction Agreement with the Fund by way of a payment of fees in excess of the rate it was

entitled to, prior to any fee reduction, all as set forth in the respective Fee Reduction Agreement. In all cases, the amount of accumulated reduced fees to be restored in a given month may not exceed 115% of the fees payable under the terms of each Service Providers related agreement with the Fund. Further, any fees reduced subject to the respective Fee Reduction Agreements may only be restored to each Service Provider for a period of three years after they have been withheld.

As of May 31, 2009, the amount of fees waived under the Fund's Fee Reduction Agreements with PFM, NCSA and NASB totaled \$19,892, \$2,210 and \$2,210, respectively.

#### D. Dividends and Distributions

On a daily basis, the Fund declares dividends and distributions from its net investment and other income and net realized gains or losses from securities transactions, if any. Such dividends and distributions are payable to Participants of record at the time of the previous computation of the Fund's net asset value.

#### E. Governmental Accounting Standards (unaudited)

Under Governmental Accounting Standards ("GAS"), state and local governments and other municipal entities are required to disclose credit risk, concentration of credit risk, and interest rate risk for investment portfolios. Although the Fund is not subject to GAS, the following risk disclosures of its investment portfolio as of May 31, 2009 have been provided for the information of the Participants.

##### Credit Risk

The Fund's investment policy, as outlined in its Information Statement, limits the Fund's investments to certain fixed income instruments which school entities are permitted to invest in under Nebraska law. As of May 31, 2009, the Fund's investment portfolio was comprised of investments which were, in aggregate, rated by Standard & Poor's as shown in the chart to the right. The ratings of the Fund, include the ratings of collateral underlying repurchase agreements in effect for the Fund at May 31, 2009.

S&P Rating	Percent of Portfolio
AAA	53.5%
AAAm	19.4%
A-1+	16.3%
A-1	2.8%
NR	7.9%

##### Concentration of Credit Risk

The Fund's investment policy establishes certain restrictions on investments and limitations on portfolio composition. The Fund's investment portfolio at May 31, 2009 included the following issuers which individually represented greater than 5% of the Fund's total investment portfolio:

Issuer	Percent of Portfolio
Fannie Mae	27.9%
Federal Home Loan Bank	21.1%
Fidelity Institutional Money Market Government Portfolio	12.3%
Freddie Mac	11.9%
First American Government Obligation Fund	7.1%

## Interest Rate Risk

The Fund's investment policy limits its exposure to market value fluctuations due to changes in interest rates by requiring that the Fund's portfolio maintain a dollar-weighted average maturity of not greater than one-hundred thirty-five days. The weighted average maturity of the Fund's entire portfolio at May 31, 2009 was 57 days. The fair values and weighted average maturity of the Fund's types of investments at May 31, 2009 is as follows:

Type of Investments	Fair Value	Weighted Average Maturity
U.S. Government Agency Bonds	\$100,381,260	69 Days
U.S. Government Agency Discount Notes	28,219,502	46 Days
Certificates of Deposit	16,720,000	212 Days
Commercial Paper Guaranteed Under Temporary Liquidity Guarantee Program	11,998,405	19 Days
Corporate Notes Guaranteed Under Temporary Liquidity Guarantee Program	2,019,575	4 Days
Money Market Funds	40,900,000	1 Day
Repurchase Agreements	10,000,000	2 Days
	<u>\$210,238,742</u>	

The weighted-average maturities shown above are calculated based on the stated maturity dates with the following exceptions: (1) any floating or variable rate securities are assumed to have an effective maturity of the date upon with the security's interest rate next resets; and (2) the effective maturity of callable securities is assumed to be its stated maturity unless the security had been called as of the reporting date, in which case the effective maturity would be assumed to be its called date.

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NEBRASKA  
LIQUID  
ASSET FUND

### ***Sponsoring Organizations***

**Nebraska Association of School Boards**  
John Bonaiuto, Executive Director

**Nebraska Council of School Administrators**  
Dr. Michael Dulaney, Executive Director

### ***Service Providers***

Investment Advisor & Administrator  
**PFM Asset Management LLC**  
One Keystone Plaza, Suite 300  
North Front & Market Streets  
Harrisburg, Pennsylvania 17101-2044

Airport Corporate Center  
One Corporate Drive, Suite 101  
Bohemia, New York 11716

Distributor  
**PFM Fund Distributors, Inc.**  
One Keystone Plaza, Suite 300  
North Front & Market Streets  
Harrisburg, Pennsylvania 17101-2044

77 West Port Plaza, Suite 220  
St. Louis, Missouri 63101

Custodian  
**U.S. Bank, N.A.**  
One U.S. Bank Plaza  
St. Louis, Missouri 63101

Independent Auditors  
**Ernst & Young LLP**  
2001 Market Street  
Philadelphia, Pennsylvania 19103

Legal Counsel  
**Perry, Guthery, Haase & Gessford, P.C.**  
1400 US Bank Building  
Lincoln, Nebraska 68508

### ***Trustees and Officers***

**Dr. Kenneth Fossen, Chairperson & Trustee**  
Associate Superintendent for  
General Administration  
*Millard Public Schools*

**Dr. Liz Standish, Vice Chairperson & Trustee**  
Administrator  
*Omaha Public Schools*

**Kelly Coash-Johnson, Secretary**  
Director of Training & Development  
*Nebraska Council of School Administrators*

**Dr. Gil Kettlehut, Treasurer & Trustee**  
Administrator  
*Educational Service Unit #3*

**Dennis Francke, Trustee**  
School Board Member  
*Waverly School District #145*

**Sally Hileman, Trustee**  
Director of Business Operations  
*Papillion-LaVista Schools*

**Gene Neddenriep, Trustee**  
Superintendent  
*Malcolm Public Schools*

**Dr. Michael Ough, Trustee**  
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*Educational Service Unit #2*

**Craig Pease, Trustee**  
Superintendent  
*Ashland-Greenwood School District*

**Dr. Dennis L. Pool, Trustee**  
Associate Superintendent for  
General Administration  
*Omaha Public Schools*

**Stuart Simpson, Trustee**  
Business Manager  
*North Platte Public Schools*

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## **Nebraska Liquid Asset Fund**

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