

Schwab Government Cash Reserves™

Semiannual Report

June 30, 2005

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From the Chairman



Charles Schwab
Chairman

Dear Shareholder,

I have always believed that it's important to make sure that your cash is earning income between long-term investments by putting the money into a money market fund. While no investment is risk-free, money market funds carry, perhaps, the least amount of risk, as they generally are not as volatile as stocks or stock mutual funds. Money funds are good choices for investors who want to mitigate the potential fluctuations that may occur in their mostly stock portfolios.

At Schwab, we offer a range of money funds with distinct investment strategies. Our municipal money funds, for example, may be beneficial for those of you in the higher tax brackets. We also offer money funds for those interested in the added protection provided by a portfolio of U.S. government securities. In addition, several of the Schwab money funds offer share classes that carry lower expenses in exchange for higher investment minimums.

Now, as a result of the Federal Reserve having raised short-term interest rates eight times in the past 12 months (four during the six-month period covered in this report), yields on money market mutual funds are more attractive than they have been in many years. Not only that, but it's likely that the Fed will raise these rates again this year. Based on this expectation, we anticipate that the yields on money market funds will continue to move upwards over the next few months.

On behalf of Schwab Funds, I want to thank you for investing with us and remind you that our commitment to our shareholders will never waver.

Sincerely,

A handwritten signature in cursive script that reads "Charles R. Schwab". The signature is written in dark ink and is positioned below the word "Sincerely,".

Management's Discussion for the six months ended June 30, 2005



Evelyn Dilsaver is President and CEO of Charles Schwab Investment Management, Inc. and is president of the funds covered in this report. She joined the firm in 1992 and has held a variety of executive positions at Schwab.

Dear Shareholder,

When I assumed my new role as President and CEO of Schwab Funds® last year, I pledged that I would be committed to offering you more relevant choices and better value. I am pleased to report that we already have done both.

On July 1, 2005, Schwab Funds launched the Schwab Target Funds™, a suite of five mutual funds to help keep your retirement investments properly allocated over your lifetime. With a single investment in a Schwab Target Fund, you can avoid a common investment mistake—failing to adjust your portfolio over time.

The funds are designed to provide shareholders with investment management, asset allocation and ongoing re-allocation over time. You simply choose the fund that most closely matches the date of your retirement and our experienced portfolio managers will do the rest. They will rebalance four of the five funds from more aggressive to more conservative as you get closer to your retirement date. The fifth fund is designed to help generate income and additional growth after you've retired. It also is a good choice for investors already enjoying their retirement.

These no-load funds are a good value, as the funds have access to the lowest-priced eligible share class on the underlying Schwab affiliate funds. And because the funds invest in groups of other Schwab affiliate funds, they provide an additional layer of diversification.

At Schwab, we believe that having an asset-allocation plan that fits your retirement goals, time frame and tolerance for risk is a key element in meeting your long-term investment goals. The Schwab Target Funds are designed to help you do this. I encourage you to learn more about these funds at www.schwab.com/target, or call Schwab.

Thank you for investing in Schwab Funds.

Sincerely,

A handwritten signature in black ink that reads "Evelyn Dilsaver". The signature is written in a cursive, flowing style.

Investors should consider carefully information contained in the prospectus, including investment objectives, risks, charges and expenses. You can request a prospectus by calling Schwab at 1-800-435-4000. Please read the prospectus carefully before investing.



Karen Wiggan, a vice president of the investment adviser and senior portfolio manager, has been responsible for day-to-day management of the fund since 1999. She joined the firm in 1987 and has worked in fixed income portfolio management since 1991.

The Investment Environment and the Fund

Oil prices hit highs never seen before and the Federal Reserve Open Market Committee continued to raise short-term interest rates to curb inflationary pressures, raising rates for the fourth time this year. At the same time, GDP continued to grow at a healthy pace and the housing market remained strong, largely due to low mortgage rates.

The firming labor market, as well as steady gains in capital spending, kept the economic expansion on a self-sustaining path. Businesses, unable to continue boosting productivity by restraining hiring, added new jobs during the six-month report period. Moreover, many leading indicators, such as the Institute for Supply Management's business activity surveys, suggested ongoing expansion, while continuing claims for unemployment benefits remained near cyclical lows.

Business investments grew only modestly, but consumers continued to spend. In fact, consumer confidence rose to a level not experienced since before September 11, 2001. With consumers in a spending mode and consumer spending comprising about 70% of GDP, first quarter GDP remained strong and retail sales were healthy. In this positive economic environment, strong labor market conditions remained positive for domestic consumption.

While high energy prices remained a significant headwind for economic performance, supply no longer was the issue; demand, especially in China, drove prices up. At the end of the six-month report period, a barrel of oil cost \$56.50 versus \$42.55 at the beginning of 2005.

Though high oil and commodity prices could have hampered growth and stirred inflationary pressures, productivity gains, slow growth in the money supply and slack in the economy have mostly kept a lid on core inflation. The productivity gains, coupled with foreign central banks buying large amounts of U.S. Treasury securities, also helped to keep long-term interest rates under control. These conditions also caused the dollar to rally unexpectedly, which took a little bit of pressure off the price of imported goods.

Amid signs of solidly expanding output and improved hiring, the Fed continued to tighten. It increased short-term interest rates at each of

In this market environment, our strategy was to position the fund for a continued rise in rates.

the four meetings in the first half of 2005, ending the six-month report period at a still moderate 3.25%. The moves have had a limited impact on overall economic growth, due primarily to the record-low level of rates from which the increases began. Nonetheless, the higher rates succeeded in moving money fund yields higher, making them a more attractive investment vehicle.

In response to the Federal Reserve's stated intentions to raise short-term interest rates at a "measured" pace, the yield curve for money market funds steepened during the first quarter. Over the course of the second quarter the yield curve began to flatten as the market questioned the duration of the Fed's tightening campaign.

In this market environment, our strategy was to position the fund for a continued rise in rates. To take advantage of the rising-rate environment, we kept the weighted average maturity (WAM) short. Keeping the WAM short provided flexibility to adapt and respond to the changes in interest rates. This is a similar strategy to our peers, as shortening the WAM enabled money funds to more quickly reinvest at higher rates.

Nothing in this report represents a recommendation of a security by the investment adviser. Manager views and portfolio holdings may have changed since the report date.

Performance and Fund Facts as of 6/30/05

Ticker Symbol: SWHXX

Seven-Day Yields

The seven-day yields are calculated using standard SEC formulas. The effective yield includes the effect of reinvesting daily dividends. Please remember that money market fund yields fluctuate.

Seven-Day Yield¹	2.52%
Seven-Day Yield–No Waiver²	1.79%
Seven-Day Effective Yield¹	2.55%

The performance data quoted represents past performance. Past performance does not guarantee future results. Current performance may be lower or higher than performance data quoted. To obtain more current performance information, please visit www.schwab.com/schwabfunds.

Statistics

Money funds must maintain a dollar-weighted average maturity of no longer than 90 days, and cannot invest in any security whose effective maturity is longer than 397 days (approximately 13 months).

Weighted Average Maturity	14 days
Credit Quality of Holdings % of portfolio	100% Tier 1

An investment in a money fund is neither insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. Although money funds seek to preserve the value of your investment at \$1 per share, it is possible to lose money by investing in a money fund.

Portfolio holdings may have changed since the report date.

¹ Fund expenses have been partially absorbed by CSIM and Schwab.

² Yield if fund expenses had not been partially absorbed by CSIM and Schwab.

Fund Expenses

Examples for a \$1,000 Investment

As a fund shareholder, you incur two types of costs: transaction costs, such as redemption fees; and, ongoing costs, such as management fees, transfer agent and shareholder services fees, and other fund expenses.

The expense examples below are intended to help you understand your ongoing cost (in dollars) of investing in a fund and to compare this cost with the ongoing cost of investing in other mutual funds. These examples are based on an investment of \$1,000 invested for six-months beginning January 1, 2005 and held through June 30, 2005.

Actual Return lines in the table below provide information about actual account values and actual expenses. You may use this information, together with the amount you invested, to estimate the expenses that you paid over the period. To do so, simply divide your account value by \$1,000 (for example, an \$8,600 account value \div \$1,000 = 8.6), then multiply the result by the number given for your fund under the heading entitled "Expenses Paid During Period."

Hypothetical Return lines in the table below provide information about hypothetical account values and hypothetical expenses based on a fund's actual expense ratio and an assumed return of 5% per year before expenses. Because the return used is not an actual return, it may not be used to estimate the actual ending account value or expenses you paid for the period.

You may use this information to compare the ongoing costs of investing in the fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only, and do not reflect any transactional costs, such as redemption fees. If these transactional costs were included, your costs would have been higher.

	Expense Ratio ¹ (Annualized)	Beginning Account Value at 1/1/05	Ending Account Value (Net of Expenses) at 6/30/05	Expenses Paid During Period ² 1/1/05 – 6/30/05
Schwab Government Cash Reserves™				
Actual Return	0.88%	\$1,000	\$1,009.20	\$4.38
Hypothetical 5% Return	0.88%	\$1,000	\$1,020.43	\$4.41

¹ Based on the most recent six-month expense ratio; may differ from the expense ratio provided in Financial Highlights.

² Expenses for the fund are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 181 days of the period, and divided by 365 days of the fiscal year.

Financial Statements

Financial Highlights

	1/1/05– 6/30/05*	1/1/04– 12/31/04	1/1/03– 12/31/03	1/1/02– 12/31/02	1/1/01– 12/31/01	1/1/00– 12/31/00
Per-Share Data (\$)						
Net asset value at beginning of period	1.00	1.00	1.00	1.00	1.00	1.00
Income from investment operations:						
Net investment income	0.01	0.00 ¹	0.00 ¹	0.01	0.03	0.05
Less distributions:						
Dividends from net investment income	(0.01)	(0.00) ¹	(0.00) ¹	(0.01)	(0.03)	(0.05)
Net asset value at end of period	1.00	1.00	1.00	1.00	1.00	1.00
Total return (%)	0.92 ²	0.36	0.08	0.68	3.08	5.33
Ratios/Supplemental Data (%)						
Ratios to average net assets:						
Net operating expenses	0.88 ³	1.03 ⁴	1.14 ⁵	1.25	1.25	1.14 ⁶
Gross operating expenses	1.36 ³	1.40	1.45	1.41	1.50	1.47
Net investment income	1.85 ³	0.35	0.08	0.67	2.99	5.24
Net assets, end of period (\$ x 1,000,000)	597	650	644	639	562	412

* Unaudited.

¹ Per-share amount was less than \$0.01.

² Not Annualized.

³ Annualized.

⁴ In addition to the guaranteed expense limit in place, the investment adviser voluntarily reduced the fund's annualized operating expense ratio by an additional 0.13%.

⁵ In addition to the guaranteed expense limit in place, the investment adviser voluntarily reduced the fund's annualized operating expense ratio by an additional 0.11%.

⁶ The ratio of net operating expenses would have been 1.13% if certain non-routine expenses (proxy fees) had not been included.

Portfolio Holdings as of June 30, 2005; unaudited

This section shows all the securities in the fund's portfolio and their value, as of the report date.

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on the fund's most recent Form N-Q is available by visiting Schwab's website at www.schwab.com/schwabfunds.

We use the symbols below to designate certain characteristics of the securities.

- ◆ Delayed-delivery security
- ▲ All or a portion of this security is held as collateral for delayed-delivery security

For fixed-rate obligations, the rate shown is the effective yield at the time of purchase, except for U.S. government agency coupon notes and U.S. Treasury notes, for which the rate shown is the interest rate (the rate established when the obligation was issued). For variable-rate obligations with scheduled maturities greater than 397 days, the maturity shown is the later of the next interest rate change date or demand date. For variable-rate obligations with scheduled maturities less than 397 days, the maturity shown is the earlier of the next interest rate change date or demand date. For variable-rate obligations without demand features, the maturity shown is the next interest rate change date.

Holdings by Category	Cost (\$x1,000)	Value (\$x1,000)
36.0% U.S. Government Securities	215,159	215,159
68.5% Other Investments	408,734	408,734
104.5% Total Investments	623,893	623,893
(4.5)% Other Assets and Liabilities		(26,742)
100.0% Net Assets		597,151

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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U.S. Government Securities 36.0% of net assets**Discount Notes** 29.9%**Fannie Mae**

▲ 3.04%, 07/13/05	12,000	11,988
▲ 3.07%, 07/13/05	6,100	6,094
3.08%, 07/18/05	1,173	1,171
3.06%, 07/20/05	4,250	4,243
3.17%, 08/10/05	2,700	2,691
3.29%, 09/14/05	20,000	19,864
◆ 3.45%, 10/03/05	26,000	25,778

Federal Home Loan Bank

▲ 3.05%, 07/15/05	5,000	4,994
3.07%, 07/27/05	4,598	4,588
▲ 3.03%, 08/02/05	28,000	27,925

Freddie Mac

▲ 2.70%, 07/05/05	15,000	14,996
▲ 2.74%, 07/05/05	10,000	9,997
3.03%, 07/12/05	3,100	3,097
3.04%, 07/12/05	12,700	12,688
3.01%, 07/19/05	4,354	4,347
▲ 3.02%, 07/19/05	20,000	19,970
3.06%, 08/01/05	4,298	4,287

178,718**Coupon Notes** 6.1%**Fannie Mae**

1.45%, 07/08/05	10,000	9,997
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Freddie Mac

1.50%, 08/15/05	26,500	26,444
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36,441

Security	Maturity Amount (\$ x 1,000)	Value (\$ x 1,000)
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Other Investments 68.5% of net assets

Repurchase Agreements 68.5%

Bear Stearns & Co. Inc.

Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$121,385 3.45%, issued 06/30/05, due 07/01/05	119,011	119,000
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Credit Suisse First Boston L.L.C.

Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$123,151 3.40%, issued 06/30/05, due 07/01/05	120,746	120,734
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Goldman Sachs & Co.

Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$121,380 3.45%, issued 06/30/05, due 07/01/05	119,011	119,000
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Morgan Stanley & Co., Inc.

Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$30,712 3.26%, issued 06/23/05, due 07/07/05	30,038	30,000
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UBS Financial Services, Inc.

Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$20,400 3.15%, issued 06/13/05, due 07/07/05	20,042	20,000
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408,734

End of investments.

Statement of

Assets and Liabilities

As of June 30, 2005; unaudited. All numbers x 1,000 except NAV.

Unless stated, all numbers x 1,000.

Assets

Investments, at value	\$215,159
Repurchase agreements, at value	408,734
Interest receivable	307
Prepaid expenses	+ 199
Total assets	624,399

The amortized cost for the fund's securities was \$623,893.

Liabilities

Payables:	
Dividends to shareholders	613
Investments bought	25,778
Transfer agent and shareholder service fees	5
Transaction service fees	821
Trustees' fees	4
Accrued expenses	+ 27
Total liabilities	27,248

Net Assets

Total assets	624,399
Total liabilities	- 27,248
Net assets	\$597,151

Net Assets by Source

Capital received from investors	597,174
Net realized capital losses	(23)

Net Asset Value (NAV)

Net Assets	÷	Shares Outstanding	=	NAV
\$597,151		597,175		\$1.00

Federal Tax Data

Cost basis of portfolio \$623,893

As of December 31, 2004:

Unused capital losses:

Expires 12/31 of:	Loss amount:
2007	\$1
2011	+ 22
	\$23

Statement of

Operations

For January 1, 2005 through June 30, 2005; unaudited. All numbers x 1,000.

Investment IncomeInterest **\$8,489****Expenses**

Investment adviser and administrator fees	1,182
Transfer agent and shareholder service fees	1,399
Transaction service fees	1,440
Trustees' fees	12
Custodian and portfolio accounting fees	32
Professional fees	16
Registration fees	96
Shareholder reports	32
Other expenses	+
Total expenses	4,215
Expense reduction	- 1,484
Net expenses	2,731

Increase in Net Assets from Operations

Total investment income	8,489
Net expenses	- 2,731
Net investment income	5,758
Increase in net assets from operations	\$5,758

Unless stated, all numbers x 1,000.

Calculated on a graduated basis as a percentage of average daily net assets: 0.38% of the first \$1 billion, 0.35% over \$1 billion, 0.32% over \$10 billion, 0.30% over \$20 billion and 0.27% over \$40 billion. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

Calculated as a percentage of average daily net assets: for transfer agent services, 0.25% of the fund's assets; for shareholder services, 0.20% of the fund's assets. These fees are paid to Charles Schwab & Co., Inc. (Schwab).

For transaction services, Schwab receives a fee based on the number and type of transactions provided.

For the fund's independent trustees only.

Includes \$1,087 from the investment adviser (CSIM) and \$397 from the transfer agent and shareholder service agent (Schwab). These reductions reflect a guarantee by CSIM and Schwab to limit the operating expenses of this fund through April 29, 2006, to 0.65% of average daily net assets. Prior to April 30, 2005, this limit was 0.99%. This limit excludes interest, taxes and certain non-routine expenses.

Statements of

Changes in Net Assets

For the current and prior report periods. All numbers x 1,000.
 Figures for the current period are unaudited.

Operations

	1/1/05-6/30/05	1/1/04-12/31/04
Net investment income	\$5,758	\$2,153
Increase in net assets from operations	5,758	2,153

Distributions Paid

Dividends from net investment income	5,758	2,153
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Transactions in Fund Shares

Shares sold	3,179,671	5,885,347
Shares reinvested	4,930	2,065
Shares redeemed	+ (3,237,726)	(5,880,712)
Net transactions in fund shares	(53,125)	6,700

Net Assets

Beginning of period	650,276	643,576
Total increase or decrease	+ (53,125)	6,700
End of period	\$597,151	\$650,276

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 12/31/04 are:

Ordinary income	\$2,153
Long-term capital gains	\$-

Because all transactions in this section took place at \$1.00 per share, figures for share quantities are the same as for dollars.

Represents the changes in net assets from operations plus the changes in value of transactions in fund shares, minus distributions paid.

Financial Notes unaudited

Business Structure of the Fund

The fund discussed in this report is a series of The Charles Schwab Family of Funds, a no-load, open-end management investment company. The company is organized as a Massachusetts business trust and is registered under the Investment Company Act of 1940, as amended. The sidebar shows the fund in this report and its trust.

The fund offers one share class. Shares are bought and sold at \$1.00 per share. Each share has a par value of 1/1,000 of a cent, and the trust may issue as many shares as necessary.

Fund Operations

Most of the fund's investments are described in sections earlier in this report. However, there are certain other fund operations and policies that may affect the fund's financials, as described below. Other policies concerning the fund's business operations also are described here.

The fund declares dividends every day it is open for business. These dividends, which are equal to the fund's net investment income for that day, are paid out to shareholders once a month. The fund may make distributions from any net realized capital gains once a year.

The fund may buy securities on a delayed-delivery basis. In these transactions, the fund agrees to buy a security for a stated price, with settlement generally occurring within two weeks. If the security's value falls before settlement occurs, the fund could end up paying more for the security than its market value at the time of settlement. The fund has set aside sufficient securities as collateral for those securities bought on a delayed-delivery basis.

The fund may enter into repurchase agreements. In a repurchase agreement, the fund buys a security from another party (usually a financial institution) with

the agreement that it be sold back in the future. The date, price and other conditions are all specified when the agreement is created. Any repurchase agreement with due dates later than seven days from issue dates may be subject to seven day put features for liquidity purposes.

The fund's repurchase agreements will be fully collateralized by U.S. government securities. All collateral is held by the fund's custodian (or, with tri-party agreements, the agent's bank) and is monitored daily to ensure that its market value is at least equal to the repurchase price under the agreement.

The fund pays fees to affiliates of the Investment Adviser for various services. Through its trust, the fund has agreements with Charles Schwab Investment Management, Inc. (CSIM) to provide investment advisory and administrative services and with Charles Schwab & Co., Inc. (Schwab) to provide transfer agent, shareholder services and transaction services.

The Trust and Its Funds

This list shows all of the funds included in The Charles Schwab Family of Funds. The fund discussed in this report is highlighted.

The Charles Schwab Family of Funds

organized October 20, 1989

- Schwab Money Market Fund
- Schwab Government Money Fund
- Schwab U.S. Treasury Money Fund
- Schwab Value Advantage Money Fund
- Schwab Municipal Money Fund
- Schwab California Municipal Money Fund
- Schwab New York Municipal Money Fund
- Schwab New Jersey Municipal Money Fund
- Schwab Pennsylvania Municipal Money Fund
- Schwab Florida Municipal Money Fund
- Schwab Massachusetts Municipal Money Fund
- Schwab Retirement Advantage Money Fund
- Schwab Retirement Money Fund
- Schwab Government Cash Reserves
- Schwab Advisor Cash Reserves
- Schwab Cash Reserves

Although these agreements specify certain fees for these services, CSIM and Schwab have made additional agreements with the fund that may limit the total expenses charged. The rates and limitations for these fees are described in the fund's Statement of Operations.

The fund may engage in certain transactions involving affiliates. The fund may make direct transactions with certain other Schwab Funds® when practical. When one fund is seeking to sell a security that another is seeking to buy, an interfund transaction can allow both funds to benefit by reducing transaction costs. This practice is limited to funds that share the same investment adviser, trustees and officers.

Pursuant to an exemptive order issued by the SEC, the fund may enter into interfund borrowing and lending transactions within the Schwab Funds. All loans are for temporary or emergency purposes only. The interest rate charged on the loan is the average of the overnight repurchase agreement rate and the short-term bank loan rate. The interfund lending facility is subject to the oversight and periodic review of the Board of Trustees of the Schwab Funds.

Trustees may include people who are officers and/or directors of the investment adviser or Schwab.

Federal securities law limits the percentage of such "interested persons" who may serve on a trust's board, and the trust was in compliance with these limitations throughout the report period. The trust did not pay any of these persons for their service as trustees, but it did pay non-interested persons (independent trustees), as noted in the fund's Statement of Operations.

The fund may borrow money from banks and custodians. The fund may obtain temporary bank loans through the trust to which the fund belongs, to use for meeting shareholder redemptions or for extraordinary or emergency purposes. The Schwab Funds has custodian overdraft facilities and line of credit arrangements of \$150 million and \$100 million with PNC Bank, N.A. and Bank of America, N.A., respectively. The fund pays interest on the amounts that it borrows at rates that are negotiated periodically. There was no borrowing for the fund during the period.

The fund intends to meet federal income and excise tax requirements for regulated investment companies. Accordingly, the fund distributes substantially all of its net investment income and net realized capital gains (if any) to its respective shareholders each year. As long as the fund meets the tax requirements, it is not required to pay federal income tax.

Under the fund's organizational documents, its officers and trustees are indemnified against certain liability arising out of the performance of their duties to the fund. In addition, in the normal course of business the fund enters into contracts with its vendors and others that 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. However, based on experience, the fund expects the risk of loss to be remote.

Accounting Policies

The following are the main policies the fund uses in preparing its financial statements.

The fund values its securities at amortized cost, which approximates market value.

Security transactions are recorded as of the date the order to buy or sell the security is executed.

Interest income is recorded as it accrues. If the fund buys a debt instrument at a discount (that is, for less than its face value) or a premium (more than its face value), it amortizes the discount or premium from the current date up to maturity. The fund then increases (in the case of discounts) or reduces (in the case of premiums) the income it records from the security. If the security is callable (meaning that the issuer has the option to pay it off before its maturity date), then the fund amortizes the premium to the security's call date and price, rather than the maturity date and price.

Realized gains and losses from security transactions are based on the identified costs of the securities involved.

Expenses that are specific to the fund or a class are charged directly to the fund or class. Expenses that are common to all funds within the trust generally are allocated among the funds in proportion to their average daily net assets.

The fund maintains its own account for purposes of holding assets and accounting, and is considered a separate entity for tax purposes. Within its account, the fund also may keep certain assets in segregated accounts, as required by securities law.

The accounting policies described above conform with accounting principles generally accepted in the United States of America. Notwithstanding this, shareholders should understand that in order to follow these principles, fund management has to make estimates and assumptions that affect the information reported in the financial statements. It's possible that once the results are known, they may turn out to be different from these estimates.

Investment Advisory Agreement Approval

The Investment Company Act of 1940 (the “1940 Act”) requires that initial approval of, as well as the continuation of, a fund’s investment advisory agreement must be specifically approved (1) by the vote of the trustees or by a vote of the shareholders of the fund, and (2) by the vote of a majority of the trustees who are not parties to the investment advisory agreement or “interested persons” of any party (the “Independent Trustees”), cast in person at a meeting called for the purpose of voting on such approval. In connection with such approvals, the fund’s trustees must request and evaluate, and the investment adviser is required to furnish, such information as may be reasonably necessary to evaluate the terms of the advisory agreement. In addition, the Securities and Exchange Commission (the “SEC”) takes the position that, as part of their fiduciary duties with respect to fund fees, fund boards are required to evaluate the material factors applicable to a decision to approve an investment advisory agreement.

Consistent with these responsibilities, the Board of Trustees (the “Board”) calls and holds one or more meetings each year that are dedicated, in whole or in part, to considering whether to renew the investment advisory agreement between The Charles Schwab Family of Funds (the “Trust”) and CSIM (the “Agreement”) with respect to existing funds in the Trust, including Schwab Government Cash Reserves, and to review certain other agreements pursuant to which CSIM provides investment advisory services to certain other registered investment companies. In preparation for the meeting(s), the Board requests and reviews a wide variety of materials provided by CSIM, including information about CSIM’s affiliates, personnel and operations. The Board also receives extensive data provided by third parties. This information is in addition to the detailed information about the funds that the Board reviews during the course of each year, including information that relates to fund operations and fund performance. The

trustees also receive a memorandum from fund counsel regarding the responsibilities of trustees for the approval of investment advisory contracts. In addition, the Independent Trustees receive advice from independent counsel to the Independent Trustees, meet in executive session outside the presence of fund management and participate in question and answer sessions with representatives of CSIM.

At the May 24, 2005 meeting of the Board, the trustees, including a majority of the Independent Trustees, approved the renewal of the Agreement on an interim basis through September 30, 2005. In connection with the interim approval of the Agreement, the Board requested that CSIM prepare responses to certain questions outlined below in advance of the next regularly scheduled Board meeting. The Board’s approval of the Agreement was based on consideration and evaluation of a variety of specific factors discussed at that meeting and at prior meetings, including:

1. the nature, extent and quality of the services provided to the funds under the Agreement, including the resources of CSIM and its affiliates dedicated to the funds;
2. each fund’s investment performance and how it compared to that of certain other comparable mutual funds;
3. each fund’s expenses and how those expenses compared to those of certain other comparable mutual funds;
4. the profitability of CSIM and its affiliates, including Schwab, with respect to each fund, including both direct and indirect benefits accruing to CSIM and its affiliates; and
5. the extent to which economies of scale would be realized as the funds grow and whether fee levels in the Agreement reflect those economies of scale for the benefit of fund investors.

Nature, Extent and Quality of Services. The Board considered the nature, extent and quality of the services provided by CSIM to the funds and the resources of CSIM and its affiliates dedicated to the funds. In this regard, the trustees evaluated, among other things, CSIM's personnel, experience, track record and compliance program. The trustees also considered the fact that Schwab's extensive branch network, Internet access, investment and research tools, telephone services, and array of account features benefit the funds. The trustees also considered Schwab's excellent reputation as a full service brokerage firm and its overall financial condition. Finally, the trustees considered that the vast majority of the funds' investors are also brokerage clients of Schwab, and that CSIM and its affiliates are uniquely positioned to provide services and support to the funds and such shareholders. Following such evaluation, the Board concluded, within the context of its full deliberations, that the nature, extent and quality of services provided by CSIM to the funds and the resources of CSIM and its affiliates dedicated to the funds supported interim renewal of the Agreement.

Fund Performance. The Board considered fund performance in determining whether to renew the Agreement. Specifically, the trustees considered each fund's performance relative to a peer group of other mutual funds and appropriate indices/benchmarks, in light of total return, yield and market trends. As part of this review, the trustees considered the composition of the peer group, selection criteria and the reputation of the third party who prepared the peer group analysis. In evaluating the performance of each fund, the trustees considered both risk and shareholder risk expectations for such fund. The Board noted that certain funds, including the Government Cash Reserves, had lower performance relative to their respective peer groups than other funds, and inquired as to the underlying

reasons for this relative performance. The Board also requested that CSIM evaluate the reasons for such funds' relative performance, consider appropriate measures to address the performance and report the results of their findings at the next Board meeting. Following such evaluation, and based upon CSIM's agreement to perform such analyses, etc. relating to performance, the Board concluded, within the context of its full deliberations, that the performance of the funds supported interim renewal of the Agreement.

Fund Expenses. With respect to the funds' expenses, the trustees considered the rate of compensation called for by the Agreement, and each fund's net operating expense ratio, in each case, in comparison to those of other comparable mutual funds, such peer groups and comparisons having been selected and calculated by an independent third party. The trustees considered the effects of CSIM's and Schwab's voluntary waiver of management and other fees to prevent total fund expenses from exceeding a specified cap. The trustees also considered fees charged by CSIM to other mutual funds and to other types of accounts, such as wrap accounts and offshore funds, but, with respect to such other types of accounts, accorded less weight to such comparisons due to the unique legal, regulatory, compliance and operating features of mutual funds as compared to these other types of accounts. Following such evaluation the Board concluded, within the context of its full deliberations, that the expenses of the funds are reasonable and supported interim renewal of the Agreement.

Profitability. With regard to profitability, the trustees considered the compensation flowing to CSIM and its affiliates, directly or indirectly. In this connection, the trustees reviewed management's profitability analyses, together with certain commentary thereon from an independent accounting

firm. The trustees also considered any other benefits derived by CSIM from its relationship with the funds, such as whether, by virtue of its management of the Funds, CSIM obtains investment information or other research resources that aid it in providing advisory services to other clients. The trustees considered whether the varied levels of compensation and profitability under the Agreement and other service agreements were reasonable and justified in light of the quality of all services rendered to each fund by CSIM and its affiliates. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the profitability of CSIM is reasonable and supported interim renewal of the Agreement.

Economies of Scale. The trustees considered the existence of any economies of scale and whether those are passed along to a fund's shareholders through a graduated investment advisory fee schedule or other means, including any fee waivers by CSIM and its affiliates. In this regard, and consistent with their consideration of fund expenses, the trustees considered that CSIM and Schwab have previously committed resources to minimize the effects on shareholders of diseconomies of scale during periods when fund assets were relatively small through their contractual expense waivers. For example, such diseconomies of scale may particularly affect newer funds or funds with investment strategies that are from time to time out of favor, but shareholders may benefit from the continued availability of such funds at subsidized expense levels. The trustees also considered CSIM's agreement to contractual investment advisory fee schedules which include lower fees at higher graduated asset levels. With respect to Schwab Government Cash Reserves, the Board also considered Schwab's agreement that that fund's net operating expenses (excluding interest, taxes and certain non-routine expenses) would not exceed 65 (sixty-five) basis

points for the period April 30, 2005 until April 30, 2006. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the funds obtain reasonable benefit from economies of scale.

In the course of their deliberations, the trustees did not identify any particular information or factor that was all-important or controlling. Based on the trustees' deliberation and their evaluation of the information described above, the Board, including all of the Independent Trustees, unanimously approved the interim continuation of the Agreement and concluded that the compensation under the Agreement is fair and reasonable in light of such services and expenses and such other matters as the trustees have considered to be relevant in the exercise of their reasonable judgment.

Trustees and Officers

A fund's Board of Trustees is responsible for protecting the interests of that fund's shareholders. The tables below give information about the people who serve as trustees and officers for the Schwab Funds®, including the funds covered in this report. Trustees remain in office until they resign, retire or are removed by shareholder vote.¹

Under the Investment Company Act of 1940, any officer, director, or employee of Schwab or CSIM is considered an “interested person,” meaning that he or she is considered to have a business interest in Schwab or CSIM. These individuals are listed as “interested trustees.” The “independent trustees” are individuals who, under the 1940 Act, are not considered to have a business interest in Schwab or CSIM.

Each of the 56 Schwab Funds belongs to one of these trusts: The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust or Schwab Annuity Portfolios. Currently all these trusts have the same trustees and officers. The address for all trustees and officers is 101 Montgomery Street, San Francisco, CA 94104. You can find more information about the trustees and officers in the Statement of Additional Information, which is available free by calling 1-800-435-4000.

Interested Trustees and Officers

Name and Birthdate	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
Charles R. Schwab ² 7/29/37	Chairman, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Director, The Charles Schwab Corp., Charles Schwab & Co., Inc.; Chair, Director, Charles Schwab Investment Management, Inc.; Chair, Charles Schwab Holdings (UK); Chair, Director, U.S. Trust Corp., United States Trust Co. of New York, U.S. Trust Co., N.A.; CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, Charles Schwab Bank, N.A., The Charles and Helen Schwab Foundation, All Kinds of Minds (education); Trustee, Stanford University. <i>Until 5/04</i> : Director, The Gap, Inc. (clothing retailer). <i>Until 5/03</i> : Co-CEO, The Charles Schwab Corp. <i>Until 3/02</i> : Director, Audiobase, Inc. (Internet audio solutions). <i>Until 5/02</i> : Director, Vodafone AirTouch PLC (telecommunications). <i>Until 7/01</i> : Director, The Charles Schwab Trust Co.

¹ The Schwab Funds retirement policy requires that independent trustees elected after January 1, 2000 retire at age 72 or after twenty years of service as a trustee, whichever comes first. Independent trustees elected prior to January 1, 2000 will retire on the following schedule: Messrs. Holmes and Dorward will retire on December 31, 2007, and Messrs. Stephens and Wilsey will retire on December 31, 2010.

² In addition to his position with the investment adviser and the distributor, Mr. Schwab also owns stock of The Charles Schwab Corporation.

Interested Trustees but Not Officers

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Randall W. Merk 7/25/54	2005 (all trusts).	EVP, President, AMPS Enterprise. <i>Until 7/04</i> : President, CEO, Charles Schwab Investment Management, Inc.; VP, Charles Schwab & Co., Inc. <i>Until 8/02</i> : President, Chief Investment Officer, American Century Management; Director, American Century Companies, Inc. <i>Until 6/01</i> : Chief Investment Officer, Fixed Income, American Century Companies, Inc.

Officers of the Trust

Name and Birthdate	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
Evelyn Dilsaver 5/4/55	President, CEO (all trusts).	EVP, President, Director, Charles Schwab Investment Management, Inc. <i>Until 7/04</i> : SVP for Development and Distribution, Asset Management Products and Services Enterprise. <i>Until 6/03</i> : EVP, CFO, Chief Administrative Officer, U.S. Trust.
Stephen B. Ward 4/5/55	SVP, Chief Investment Officer (all trusts).	SVP, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co.
Kimon Daifotis 7/10/59	SVP, Chief Investment Officer (all trusts).	<i>Since 9/04</i> : Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Since 6/04</i> : SVP, Charles Schwab Investment Management, Inc. <i>Until 6/04</i> : VP, Charles Schwab Investment Management, Inc.
Jeffrey Mortimer 9/29/63	SVP, Chief Investment Officer (all trusts).	<i>Since 5/04</i> : SVP, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc. <i>Since 6/04</i> : VP, Chief Investment Officer, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 5/04</i> : VP, Charles Schwab Investment Management, Inc.
Randall Fillmore 11/11/60	Chief Compliance Officer (all trusts).	<i>Since 9/04</i> : SVP, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Chief Compliance Officer, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 9/04</i> : VP, Charles Schwab & Co., Inc., Charles Schwab Investment Management, Inc. <i>Until 2002</i> : VP of Internal Audit, Charles Schwab & Co., Inc. <i>Prior to 2000</i> : PricewaterhouseCoopers.
Koji E. Felton 3/13/61	Secretary (all trusts).	SVP, Chief Counsel, Assistant Corporate Secretary, Charles Schwab Investment Management, Inc. <i>Until 6/98</i> : Branch Chief in Enforcement, U.S. Securities and Exchange Commission, San Francisco.
George Pereira 6/9/64	Treasurer, Principal Financial Officer (all trusts).	<i>Since 11/04</i> : SVP, CFO, Charles Schwab Investment Management, Inc. <i>Until 11/04</i> : SVP, Financial Reporting, Charles Schwab & Co., Inc. <i>Until 12/99</i> : CFO, Commerzbank Capital Markets. <i>Until 9/99</i> : Managing Director at the New York Stock Exchange.

Independent Trustees

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Mariann Byerwalter 8/13/60	2000 (all trusts).	Chair, JDN Corp. Advisory LLC (real estate); Trustee, Stanford University, America First Cos., Omaha, NE (venture capital/fund management), Redwood Trust, Inc. (mortgage finance), Stanford Hospitals and Clinics, SRI International (research), PMI Group, Inc. (mortgage insurance), Lucile Packard Children's Hospital. <i>Since 2/05</i> : Director, Pacific Mutual Holding Company (insurance). <i>Since 2004</i> : Laudus Trust, Laudus Variable Insurance Trust. <i>Until 2001</i> : Stanford University, Special Assistant to the President. <i>From 1996-2001</i> : VP of Business Affairs, CFO.
Donald F. Dorward 9/23/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	CEO, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999</i> : EVP, Managing Director, Grey Advertising. <i>Until 1996</i> : President, CEO, Allen & Dorward Advertising.
William A. Hasler 11/22/41	2000 (all trusts).	Dean Emeritus, Haas School of Business, University of California, Berkeley; Director, Apton Corp. (bio-pharmaceuticals); Non-Executive Chair, Solectron Corp. (manufacturing), Mission West Properties (commercial real estate), Stratex Networks (network equipment), TOUSA (home building); Public Governor, Member, executive committee, Pacific Stock & Options Exchange. <i>Since 2004</i> : Trustee, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 2/04</i> : Co-CEO, Apton Corp. (bio-pharmaceuticals).
Robert G. Holmes 5/15/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Director, Semloh Financial, Inc. (international financial services and investment advisory firm).
Gerald B. Smith 9/28/50	2000 (all trusts).	Chair, CEO, Founder, Smith Graham & Co. (investment advisers); Trustee, Cooper Industries (electrical products, tools and hardware); Chairman, audit committee, Northern Border Partners, L.P. (energy).
Donald R. Stephens 6/28/38	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chair, CEO, North American Trust (real estate investment trust).
Michael W. Wilsey 8/18/43	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Wilsey Bennett, Inc. (real estate investment and management, and other investments).

Glossary

agency discount notes Notes issued by federal agencies—known as Government Sponsored Enterprises, or GSEs—at a discount to their value at maturity. An agency discount note is a short-term investment alternative offering a high degree of credit quality.

Alternative Minimum Tax (AMT) A federal income tax designed to limit the extent to which high-income taxpayers (including individuals, estates, trusts and corporations) can benefit from certain deductions and exemptions. For example, some types of income that are exempt from regular federal income tax are not exempt from the AMT.

asset-backed securities Bonds or other debt securities that represent ownership in a pool of assets such as credit card debt.

bond A security representing a loan from the investor to the issuer. A bond typically pays interest at a fixed rate (the “coupon rate”) until a specified date (the “maturity date”), at which time the issuer returns the money borrowed (“principal” or “face value”) to the bondholder. Because of their structure, bonds are sometimes called “fixed income securities” or “debt securities.”

An individual bond is subject to the credit risk of the issuer. Changes in interest rates can affect a bond's market value prior to call or maturity. There is no guarantee that a bond's yield to call or maturity will provide a positive return over the rate of inflation.

bond fund A bond fund is subject to the same credit, interest rate, and inflation risks as bonds. In addition, a bond fund incurs ongoing fees and expenses. A bond fund's net asset value will fluctuate with the price of the underlying bonds and the portfolio turnover activity; return of principal is not guaranteed.

bond anticipation notes Obligations sold by a municipality on an interim basis in anticipation of the municipality's issuance of a longer-term bond in the future.

capital gain, capital loss The difference between the amount paid for an investment and its value at a later time. If the investment has been sold, the capital gain or loss is considered a realized gain or loss. If the investment is still held, the gain or loss is still “on paper” and is considered unrealized.

commercial paper Promissory notes issued by banks, corporations, state and local governments and other entities to finance short-term credit needs. These securities generally are structured on a discounted basis but

sometimes may be interest-bearing notes. Commercial paper, which may be unsecured, is subject to credit risk.

credit-enhanced securities Securities that are backed by the credit of an entity other than the issuer (such as a financial institution). Credit enhancements, which can equal up to 100% of the security's value, are designed to help lower the risk of default on a security and may also make the security more liquid.

credit quality The capacity of an issuer to make its interest and principal payments. Federal regulations strictly limit the credit quality of the securities a money market fund can buy.

credit ratings Debt issuers, including corporations, states and municipalities, may arrange with a recognized independent rating organization, such as Standard & Poor's, Fitch, Inc. and Moody's Investor Service, to rate their creditworthiness and/or the creditworthiness of their debt issues. For example, an issuer may obtain a long-term rating within the investment grade rating category, which is, from high to low, AAA, AA, A and BBB for Standard & Poor's and Fitch, and Aaa, Aa, A and Baa for Moody's.

credit risk The risk that a debt issuer may be unable to pay interest or principal to its debtholders.

Portfolio terms

To help reduce the space occupied by the portfolio holdings, we use the following terms. Most of them appear within descriptions of individual securities in municipal funds, and describe features of the issuer or the security. Some of these are more fully defined elsewhere in the Glossary.

ACES	Adjustable convertible extendable security
BAN	Bond anticipation note
COP	Certificate of participation
GAN	Grant anticipation note
GO	General obligation
HDA	Housing Development Authority
HFA	Housing Finance Agency
IDA	Industrial Development Authority
IDB	Industrial Development Board
IDRB	Industrial Development Revenue Bond
M/F	Multi-family
RAN	Revenue anticipation note
RB	Revenue bond
S/F	Single-family
TAN	Tax anticipation note
TECP	Tax-exempt commercial paper
TRAN	Tax and revenue anticipation note
VRD	Variable-rate demand

dollar-weighted average maturity (DWAM) See weighted average maturity.

effective yield A measurement of a fund's yield that assumes that all dividends were reinvested in additional shares of the fund.

expense ratio The amount that is taken from a mutual fund's assets each year to cover the fund's operating expenses. An expense ratio of 0.50% means that a fund's expenses amount to half of one percent of its average net assets a year.

face value The value of a bond, note, mortgage or other security as given on the certificate or instrument. Face value is also referred to as par value or nominal value.

illiquid securities Securities are generally considered illiquid if they cannot be disposed of promptly (typically within seven days) and in the ordinary course of business at approximately the amount at which a fund has valued the instruments.

interest Payments to holders of debt securities as compensation for loaning a security's principal to the issuer.

liquidity-enhanced security A security that when tendered is paid from funds advanced by an entity other than the issuer (such as a large financial institution). Liquidity enhancements are often used on variable-rate securities where the portfolio manager has an option to tender the securities prior to their final maturity.

maturity The date a debt security is scheduled to be "retired" and its principal amount returned to the bondholder.

money market securities High-quality, short-term debt securities that may be issued by entities such as the U.S. government, corporations and financial institutions (such as banks). Money market securities include commercial paper, promissory notes, certificates of deposit, banker's acceptances, notes and time deposits.

muni, municipal bonds, municipal securities Debt securities issued by a state, its counties, municipalities, authorities and other subdivisions, or the territories and possessions of the United States and the District of Columbia, including their subdivisions, agencies and instrumentalities and corporations. These securities may be issued to obtain money for various public purposes, including the construction of a wide range of public facilities such as airports, bridges, highways, housing, hospitals, mass transportation, public utilities, schools, streets, and water and sewer works.

net asset value per share (NAV) The value of one share of a mutual fund. NAV is calculated by taking the fund's total assets, subtracting liabilities, and dividing by the number of shares outstanding. Money funds seek to maintain a steady NAV of \$1.00.

outstanding shares, shares outstanding When speaking of a company or mutual fund, indicates all shares currently held by investors.

restricted securities Securities that are subject to contractual restrictions on resale. These securities are often purchased in private placement transactions.

revenue anticipation notes Obligations that are issued in expectation of the receipt of revenue, such as income taxes, property taxes, etc.

section 3c7 securities Section 3c7 of the Investment Company Act of 1940 (the "1940 Act") exempts certain issuers from many regulatory requirements applicable to investment companies under the 1940 Act. An issuer whose outstanding securities are exclusively owned by "qualified purchasers" and who is not making or proposing to make a public offering of the securities may qualify for this exemption.

section 4(2)/144A securities Securities exempt from registration under Section 4(2) of the Securities Act of 1933. These securities may be sold only to qualified institutional buyers under Securities Act Rule 144A.

taxable-equivalent yield The yield an investor would need to get from a taxable investment in order to match the yield paid by a given tax-exempt investment, once the effect of all applicable taxes is taken into account. For example, if your tax rate were 25%, a tax-exempt investment paying 4.5% would have a taxable-equivalent yield for you of 6.0% ($4.5\% \div [1 - 0.25\%] = 6.0\%$).

total return The percentage that an investor would have earned or lost on an investment in the fund assuming dividends and distributions were reinvested.

tax anticipation notes Notes that typically are sold to finance the cash flow needs of municipalities in anticipation of the receipt of taxes on a future date.

Tier 1, Tier 2 Tier 1 is the highest category of credit quality, Tier 2 the second highest. A security's tier can be established either by an independent rating organization or by a determination of the investment adviser. Money market fund shares and U.S. government securities are automatically considered Tier 1 securities.

weighted average maturity For mutual funds, the maturity of all the debt securities in its portfolio, calculated as a weighted average. As a rule, the longer a fund's weighted average maturity, the greater its interest rate risk. Money funds are required to maintain a weighted average maturity of no more than 90 days.

yield The income paid out by an investment, expressed as a percentage of the investment's market value.

Notes

Schwab Funds® offers you a complete family of mutual funds, each one based on a clearly defined investment approach and using disciplined management strategies. The list at right shows all currently available Schwab Funds.

Whether you're an experienced investor or just starting out, Schwab Funds can help you achieve your financial goals. An investor should consider a fund's investment objectives, risks, and charges and expenses carefully before investing or sending money. This and other important information can be found in the fund's prospectus. Please call 1-800-435-4000 for a prospectus and brochure for any Schwab Fund. Please read the prospectus carefully before you invest. This report must be preceded or accompanied by a current prospectus.

Methods for Placing Orders

The following information outlines how Schwab investors can place orders. If you are investing through a third-party investment provider, methods for placing orders may be different.

Internet¹

www.schwab.com

Schwab by Phone™²

Use our automated voice service or speak to a representative. Call **1-800-435-4000**, day or night (for TDD service, call **1-800-345-2550**).

TeleBroker®

Use our automated touch-tone phone service at **1-800-272-4922**.

Mail

Write to Schwab Funds at:
P.O. Box 3812
Englewood, CO
80155-3812

When selling or exchanging shares, be sure to include the signatures of at least one of the persons whose name is on the account.

Proxy Voting Policies, Procedures and Results

A description of the proxy voting policies and procedures used to determine how to vote proxies on behalf of the funds is available without charge, upon request, by visiting Schwab's website at www.schwab.com/schwabfunds, the SEC's website at <http://www.sec.gov>, or by contacting Schwab Funds at 1-800-435-4000.

Information regarding how a fund voted proxies relating to portfolio securities during the most recent twelve-month period ended June 30 is available, without charge, by visiting Schwab's website at www.schwab.com/schwabfunds or the SEC's website at <http://www.sec.gov>.

The Schwab Funds Family®

Stock Funds

Schwab S&P 500 Index Fund
Schwab 1000 Index® Fund
Schwab Small-Cap Index Fund®
Schwab Total Stock Market Index Fund®
Schwab International Index Fund™
Schwab Premier Equity Fund™
Schwab Core Equity Fund™
Schwab Dividend Equity Fund™
Schwab Small-Cap Equity Fund™
Schwab Hedged Equity Fund™
Schwab Financial Services Fund™
Schwab Health Care Fund™
Schwab Technology Fund™
Schwab Institutional Select® S&P 500 Fund

Asset Allocation Funds

Schwab MarketTrack All Equity Portfolio™
Schwab MarketTrack Growth Portfolio™
Schwab MarketTrack Balanced Portfolio™
Schwab MarketTrack Conservative Portfolio™
Schwab Target 2010 Fund
Schwab Target 2020 Fund
Schwab Target 2030 Fund
Schwab Target 2040 Fund
Schwab Retirement Income Fund

Bond Funds

Schwab YieldPlus Fund®
Schwab Short-Term Bond Market Fund™
Schwab Total Bond Market Fund™
Schwab GNMA Fund™
Schwab Tax-Free YieldPlus Fund™
Schwab Short/Intermediate Tax-Free Bond Fund™
Schwab Long-Term Tax-Free Bond Fund™
Schwab California Tax-Free YieldPlus Fund™
Schwab California Short/Intermediate Tax-Free Bond Fund™
Schwab California Long-Term Tax-Free Bond Fund™

Schwab Money Funds

Schwab offers an array of money market funds that seek high current income consistent with safety and liquidity.³ Choose from taxable or tax-advantaged alternatives. Many can be linked to your eligible Schwab account to "sweep" cash balances automatically, subject to availability, when you're between investments. Or, for your larger cash reserves, choose one of our Value Advantage Investments®.

¹ Shares of Sweep Investments™ may not be purchased directly over the Internet.

² Orders placed in person or through a telephone representative may be subject to a service fee payable to Schwab.

³ Investments in money market funds are neither insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency and, although they seek to preserve the value of your investment at \$1 per share, it is possible to lose money.

charles SCHWAB

Investment Adviser

Charles Schwab Investment Management, Inc.
101 Montgomery Street, San Francisco, CA 94104

Distributor

Charles Schwab & Co., Inc. (Schwab)

Funds

Schwab Funds®
P.O. Box 3812, Englewood, CO 80155-3812

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Schwab Retirement Advantage Money Fund™
Schwab Retirement Money Fund®

Semiannual Report

June 30, 2005

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From the Chairman



Charles Schwab
Chairman

Dear Shareholder,

I have always believed that it's important to make sure that your cash is earning income between long-term investments by putting the money into a money market fund. While no investment is risk-free, money market funds carry, perhaps, the least amount of risk, as they generally are not as volatile as stocks or stock mutual funds. Money funds are good choices for investors who want to mitigate the potential fluctuations that may occur in their mostly stock portfolios.

At Schwab, we offer a range of money funds with distinct investment strategies. Our municipal money funds, for example, may be beneficial for those of you in the higher tax brackets. We also offer money funds for those interested in the added protection provided by a portfolio of U.S. government securities. In addition, several of the Schwab money funds offer share classes that carry lower expenses in exchange for higher investment minimums.

Now, as a result of the Federal Reserve having raised short-term interest rates eight times in the past 12 months (four during the six-month period covered in this report), yields on money market mutual funds are more attractive than they have been in many years. Not only that, but it's likely that the Fed will raise these rates again this year. Based on this expectation, we anticipate that the yields on money market funds will continue to move upwards over the next few months.

On behalf of Schwab Funds, I want to thank you for investing with us and remind you that our commitment to our shareholders will never waver.

Sincerely,

A handwritten signature in cursive script that reads "Charles R. Schwab". The signature is written in dark ink and is positioned below the word "Sincerely,".

Management's Discussion

for the six months ended June 30, 2005



Evelyn Dilsaver is President and CEO of Charles Schwab Investment Management, Inc. and is president of the funds covered in this report. She joined the firm in 1992 and has held a variety of executive positions at Schwab.

Dear Shareholder,

When I assumed my new role as President and CEO of Schwab Funds® last year, I pledged that I would be committed to offering you more relevant choices and better value. I am pleased to report that we already have done both.

On July 1, 2005, Schwab Funds launched the Schwab Target Funds™, a suite of five mutual funds to help keep your retirement investments properly allocated over your lifetime. With a single investment in a Schwab Target Fund, you can avoid a common investment mistake—failing to adjust your portfolio over time.

The funds are designed to provide shareholders with investment management, asset allocation and ongoing re-allocation over time. You simply choose the fund that most closely matches the date of your retirement and our experienced portfolio managers will do the rest. They will rebalance four of the five funds from more aggressive to more conservative as you get closer to your retirement date. The fifth fund is designed to help generate income and additional growth after you've retired. It also is a good choice for investors already enjoying their retirement.

These no-load funds are a good value, as the funds have access to the lowest-priced eligible share class on the underlying Schwab affiliate funds. And because the funds invest in groups of other Schwab affiliate funds, they provide an additional layer of diversification.

At Schwab, we believe that having an asset-allocation plan that fits your retirement goals, time frame and tolerance for risk is a key element in meeting your long-term investment goals. The Schwab Target Funds are designed to help you do this. I encourage you to learn more about these funds at www.schwab.com/target, or call Schwab.

Thank you for investing in Schwab Funds.

Sincerely,



Investors should consider carefully information contained in the prospectus, including investment objectives, risks, charges and expenses. You can request a prospectus by calling Schwab at 1-800-435-4000. Please read the prospectus carefully before investing.



Linda Klingman, a vice president of the investment adviser and senior portfolio manager, has overall responsibility for the management of the funds. She joined the firm in 1990 and has managed money market funds since 1988.



Mike Neitzke, a portfolio manager, has day-to-day responsibility for management of the funds. Prior to joining the firm in March 2001, he worked for more than 15 years in the financial industry as a portfolio manager.

The Investment Environment and the Fund

Oil prices hit highs never seen before and the Federal Reserve Open Market Committee continued to raise short-term interest rates to curb inflationary pressures, raising rates for the fourth time this year. At the same time, GDP continued to grow at a healthy pace and the housing market remained strong, largely due to low mortgage rates.

The firming labor market, as well as steady gains in capital spending, kept the economic expansion on a self-sustaining path. Businesses, unable to continue boosting productivity by restraining hiring, added new jobs during the six-month report period. Moreover, many leading indicators, such as the Institute for Supply Management's business activity surveys, suggested ongoing expansion, while continuing claims for unemployment benefits remained near cyclical lows.

Business investments grew only modestly, but consumers continued to spend. In fact, consumer confidence rose to a level not experienced since before September 11, 2001. With consumers in a spending mode and consumer spending comprising about 70% of GDP, first quarter GDP remained strong and retail sales were healthy. In this positive economic environment, strong labor market conditions remained positive for domestic consumption.

While high energy prices remained a significant headwind for economic performance, supply no longer was the issue; demand, especially in China, drove prices up. At the end of the six-month report period, a barrel of oil cost \$56.50 versus \$42.55 at the beginning of 2005.

Though high oil and commodity prices could have hampered growth and stirred inflationary pressures, productivity gains, slow growth in the money supply and slack in the economy have mostly kept a lid on core inflation. The productivity gains, coupled with foreign central banks buying large amounts of U.S. Treasury securities, also helped to keep long-term interest rates under control. These conditions also caused the dollar to rally unexpectedly, which took a little bit of pressure off the price of imported goods.

Amid signs of solidly expanding output and improved hiring, the Fed continued to tighten. It increased short-term interest rates at each of

In this market environment, our strategy was to position the funds for a continued rise in rates.

the four meetings in the first half of 2005, ending the six-month report period at a still moderate 3.25%. The moves have had a limited impact on overall economic growth, due primarily to the record-low level of rates from which the increases began. Nonetheless, the higher rates succeeded in moving money fund yields higher, making them a more attractive investment vehicle.

In response to the Federal Reserve's stated intentions to raise short-term interest rates at a "measured" pace, the yield curve for money market funds steepened during the first quarter. Over the course of the second quarter the yield curve began to flatten as the market questioned the duration of the Fed's tightening campaign.

In this market environment, our strategy was to position the funds for a continued rise in rates. To accomplish this, we maintained and continued to add to our position of variable-rate securities. The interest rates on these types of securities reset frequently, allowing us the opportunity to capture a rise in market rates. To further take advantage of this rising-rate environment, we kept the weighted average maturity (WAM) short, averaging about 40 days. Maintaining the WAM at this level provided us the flexibility desired to adapt to and respond to anticipated changes in interest rates. This is a similar strategy to our peers, as shortening the WAM enabled money funds to more quickly reinvest at higher rates.

Nothing in this report represents a recommendation of a security by the investment adviser. Manager views and portfolio holdings may have changed since the report date.

Performance and Fund Facts as of 6/30/05

Seven-Day Yields

The seven-day yields are calculated using standard SEC formulas. The effective yield includes the effect of reinvesting daily dividends. Please remember that money market fund yields fluctuate.

	Retirement Advantage Money Fund	Retirement Money Fund
Ticker Symbol	SWIXX	SWRXX
Seven-Day Yield	2.72% ¹	2.55%
Seven-Day Yield—No Waiver	2.58 % ²	n/a
Seven-Day Effective Yield	2.76 % ¹	2.58%

The performance data quoted represents past performance. Past performance does not guarantee future results. Current performance may be lower or higher than performance data quoted. To obtain more current performance information, please visit www.schwab.com/schwabfunds.

Statistics

Money funds must maintain a dollar-weighted average maturity of no longer than 90 days, and cannot invest in any security whose effective maturity is longer than 397 days (approximately 13 months).

	Retirement Advantage Money Fund	Retirement Money Fund
Weighted Average Maturity	38 days	39 days
Credit Quality of Holdings % of portfolio	100% Tier 1	100% Tier 1
Minimum Initial Investment ³	\$25,000	\$1

An investment in a money fund is neither insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. Although money funds seek to preserve the value of your investment at \$1 per share, it is possible to lose money by investing in a money fund. Portfolio holdings may have changed since the report date.

¹ Fund expenses have been partially absorbed by CSIM and Schwab.

² Yield if fund expenses had not been partially absorbed by CSIM and Schwab.

³ Please see prospectus for further detail and eligibility requirements.

Fund Expenses

Examples for a \$1,000 Investment

As a fund shareholder, you incur two types of costs: transaction costs, such as redemption fees; and, ongoing costs, such as management fees, transfer agent and shareholder services fees, and other fund expenses.

The expense examples below are intended to help you understand your ongoing cost (in dollars) of investing in a fund and to compare this cost with the ongoing cost of investing in other mutual funds. These examples are based on an investment of \$1,000 invested for six-months beginning January 1, 2005 and held through June 30, 2005.

Actual Return lines in the table below provide information about actual account values and actual expenses. You may use this information, together with the amount you invested, to estimate the expenses that you paid over the period. To do so, simply divide your account value by \$1,000 (for example, an \$8,600 account value \div \$1,000 = 8.6), then multiply the result by the number given for your fund under the heading entitled "Expenses Paid During Period."

Hypothetical Return lines in the table below provide information about hypothetical account values and hypothetical expenses based on a fund's actual expense ratio and an assumed return of 5% per year before expenses. Because the return used is not an actual return, it may not be used to estimate the actual ending account value or expenses you paid for the period.

You may use this information to compare the ongoing costs of investing in the fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only, and do not reflect any transactional costs, such as redemption fees. If these transactional costs were included, your costs would have been higher.

	Expense Ratio ¹ (Annualized)	Beginning Account Value at 1/1/05	Ending Account Value (Net of Expenses) at 6/30/05	Expenses Paid During Period ² 1/1/05–6/30/05
Schwab Retirement Advantage Money Fund*				
Actual Return	0.49%	\$1,000	\$1,011.20	\$2.44
Hypothetical 5% Return	0.49%	\$1,000	\$1,022.37	\$2.46
Schwab Retirement Money Fund*				
Actual Return	0.67%	\$1,000	\$1,010.30	\$3.34
Hypothetical 5% Return	0.67%	\$1,000	\$1,021.47	\$3.36

¹ Based on the most recent six-month expense ratio; may differ from the expense ratio provided in Financial Highlights.

² Expenses for each fund are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 181 days of the period, and divided by 365 days of the fiscal year.

Schwab Retirement Advantage Money Fund™

Financial Statements

Financial Highlights

	1/1/05 6/30/05*	1/1/04– 12/31/04	1/1/03– 12/31/03	1/1/02– 12/31/02	1/1/01– 12/31/01	1/1/00– 12/31/00
Per-Share Data (\$)						
Net asset value at beginning of period	1.00	1.00	1.00	1.00	1.00	1.00
Income from investment operations:						
Net investment income	0.01	0.01	0.01	0.01	0.04	0.06
Less distributions:						
Dividends from net investment income	(0.01)	(0.01)	(0.01)	(0.01)	(0.04)	(0.06)
Net asset value at end of period	1.00	1.00	1.00	1.00	1.00	1.00
Total return (%)	1.12 ¹	0.95	0.74	1.48	3.96	6.12
Ratios/Supplemental Data (%)						
Ratios to average net assets:						
Net operating expenses	0.49 ²	0.49	0.50	0.50	0.50	0.51 ³
Gross operating expenses	0.63 ²	0.63	0.63	0.63	0.66	0.69
Net investment income	2.26 ²	0.94	0.75	1.46	3.83	5.96
Net assets, end of period (\$ x 1,000,000)	661	680	766	907	797	647

* Unaudited.

¹ Not annualized.

² Annualized.

³ The ratio of net operating expenses would have been 0.50% if certain non-routine expenses (proxy fees) had not been included.

Portfolio Holdings as of June 30, 2005; unaudited

This section shows all the securities in the fund's portfolio and their value, as of the report date.

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on the fund's most recent Form N-Q is available by visiting Schwab's website at www.schwab.com/schwabfunds.

We use the symbols below to designate certain characteristics of the securities.

- ◆ Asset-backed security
- + Credit-enhanced security
- Illiquid and/or restricted security

For fixed-rate obligations, the rate shown is the effective yield at the time of purchase, except for U.S. government agency coupon notes and U.S. Treasury notes, for which the rate shown is the interest rate (the rate established when the obligation was issued). For variable-rate obligations, the rate shown is the rate as of the report date. For variable-rate obligations with scheduled maturities greater than 397 days, the maturity shown is the later of the next interest rate change date or demand date. For variable-rate obligations with scheduled maturities less than 397 days, the maturity shown is the earlier of the next interest rate change date or demand date. For variable-rate obligations without demand features, the maturity shown is the next interest rate change date.

Holdings by Category	Cost (\$x1,000)	Value (\$x1,000)
66.8% Fixed-Rate Obligations	441,630	441,630
16.0% Variable-Rate Obligations	106,072	106,072
17.0% Other Investments	112,283	112,283
99.8% Total Investments	659,985	659,985
0.2% Other Assets and Liabilities		1,077
100.0% Net Assets		661,062

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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Fixed-Rate Obligations 66.8% of net assets**Commercial Paper & Other Corporate Obligations** 41.9%

AB Spintab		
3.23%, 08/11/05	4,500	4,484
Alliance & Leicester, PLC, Section 4(2) / 144A		
3.15%, 09/08/05	2,000	1,988
◆+ Amsterdam Funding Corp., Section 4(2) / 144A		
3.09%, 07/07/05	1,000	999
3.26%, 07/25/05	4,000	3,991
◆+ Aquinas Funding, L.L.C., Section 4(2) / 144A		
2.85%, 07/12/05	2,000	1,998
3.61%, 12/22/05	1,000	983
◆+ ASAP Funding Ltd., Section 4(2) / 144A		
3.29%, 08/02/05	4,000	3,988
3.30%, 08/26/05	1,000	995
◆+ Atlantic Asset Securitization Corp., Section 4(2) / 144A		
3.18%, 07/14/05	2,000	1,998
◆ Atlantis One Funding Corp., Section 4(2) / 144A		
2.82%, 07/11/05	5,000	4,996
2.98%, 08/11/05	7,000	6,977
3.39%, 11/16/05	2,000	1,974
3.60%, 12/20/05	1,000	983
◆+ Barton Capital Corp		
3.16%, 07/14/05	3,000	2,997
◆+ Blue Spice, L.L.C., Section 4(2) / 144A		
3.15%, 07/13/05	3,000	2,997
◆ CC (USA), Inc., Section 3c7 / 144A		
3.13%, 07/22/05	4,000	3,993
+ Citigroup Funding, Inc.		
3.11%, 07/01/05	5,000	5,000
Citigroup Global Markets Holdings, Inc.		
3.17%, 08/02/05	7,000	6,980
3.46%, 11/30/05	5,700	5,618
◆+ Clipper Receivables Co., Section 4(2) / 144A		
3.08%, 07/05/05	4,000	3,999
3.11%, 07/21/05	2,000	1,997
◆+ Concord Minutemen Capital Co., Series A Section 3c7 / 144A		
2.78%, 07/06/05	1,000	1,000
◆+ Crown Point Capital Co., L.L.C., Section 4(2) / 144A		
3.09%, 07/12/05	5,000	4,995

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
3.09%, 07/19/05	1,437	1,435			
3.32%, 09/21/05	2,521	2,502			
◆ Dakota CP Notes of Citibank Credit Card Issuance Trust, Section 4(2) / 144A			◆ KBC Financial Products International, Ltd., Section 4(2) / 144A		
3.16%, 07/13/05	2,500	2,497	3.37%, 10/12/05	5,000	4,953
3.17%, 07/25/05	10,000	9,979	◆ Lexington Parker Capital Co., L.L.C., Section 4(2) / 144A		
3.17%, 07/26/05	4,000	3,991	2.98%, 08/08/05	3,000	2,991
3.30%, 09/06/05	3,000	2,982	3.07%, 08/23/05	5,000	4,978
◆ Danske Corp.			◆ Mane Funding Corp., Section 4(2) / 144A		
3.20%, 08/08/05	2,700	2,691	3.31%, 07/27/05	6,000	5,986
◆ Dexia Delaware L.L.C.			Morgan Stanley		
3.17%, 08/02/05	1,000	997	3.15%, 07/19/05	4,000	3,994
◆ Eiffel Funding, L.L.C., Section 4(2) / 144A			3.23%, 07/20/05	6,000	5,990
3.26%, 07/21/05	2,000	1,996	3.25%, 07/26/05	2,000	1,995
3.17%, 07/27/05	3,000	2,993	◆ Newcastle Certificates Program, Series 2000A Section 4(2) / 144A		
◆ Fairway Finance Co., L.L.C., Section 4(2) / 144A			3.20%, 07/18/05	1,000	998
2.96%, 07/28/05	1,000	998	◆ Nieuw Amsterdam Receivables Corp., Section 4(2) / 144A		
3.23%, 09/12/05	1,294	1,286	2.89%, 07/13/05	3,932	3,928
◆ Falcon Asset Securitization Corp., Section 4(2) / 144A			◆ Park Avenue Receivables Corp. L.L.C., Section 4(2) / 144A		
3.18%, 07/18/05	4,000	3,994	3.16%, 07/18/05	5,000	4,993
3.19%, 07/18/05	1,155	1,153	◆ Park Granada, L.L.C., Section 4(2) / 144A		
3.19%, 07/19/05	1,309	1,307	3.30%, 07/12/05	3,000	2,997
◆ Galaxy Funding, Inc., Section 4(2) / 144A			3.20%, 08/01/05	1,000	997
3.12%, 07/26/05	1,000	998	◆ Preferred Receivables Funding Corp., Section 4(2) / 144A		
General Electric Capital Corp.			3.13%, 07/14/05	10,340	10,328
2.86%, 07/21/05	6,000	5,991	Rabobank USA Financial Corp.		
◆ Giro Funding U.S. Corp., Section 4(2) / 144A			3.19%, 07/26/05	3,000	2,993
3.13%, 07/08/05	7,000	6,996	◆ Scaldis Capital Ltd., Section 4(2) / 144A		
◆ Grampian Funding, LLC., Section 4(2) / 144A			2.86%, 07/15/05	2,000	1,998
3.60%, 12/20/05	1,000	983	3.33%, 09/15/05	3,711	3,685
◆ Greyhawk Funding L.L.C., Section 4(2) / 144A			3.32%, 09/21/05	1,679	1,666
3.15%, 07/11/05	1,000	999	◆ Sigma Finance, Inc., Section 3c7 / 144A		
◆ HBOS Treasury Services, PLC			3.09%, 07/13/05	2,000	1,998
3.17%, 07/28/05	1,450	1,447	3.46%, 11/21/05	1,000	986
3.26%, 07/28/05	4,700	4,689	Skandinaviska Enskilda Banken AB		
◆ ING (U.S.) Funding, L.L.C.			3.11%, 07/13/05	3,300	3,297
3.25%, 07/20/05	5,000	4,991	The Goldman Sachs Group, Inc.		
Irish Life & Permanent, PLC, Section 4(2) / 144A			3.47%, 11/21/05	2,000	1,973
3.45%, 11/10/05	3,000	2,963	◆ Thunder Bay Funding, L.L.C. Section 4(2) / 144A		
◆ Jupiter Securitization Corp., Section 4(2) / 144A			3.07%, 07/01/05	2,865	2,865
3.13%, 07/13/05	10,000	9,990			
3.16%, 07/18/05	1,000	998			
◆ K2 (USA), L.L.C., Section 3c7 / 144A					
3.38%, 11/08/05	6,000	5,928			

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
◆◆ Ticonderoga Funding, LLC., Section 4(2) / 144A 3.26%, 07/22/05	5,000	4,991	HSBC Bank, USA 3.44%, 11/21/05	3,000	3,000
◆◆ Triple A-One Funding Corp., Section 4(2) / 144A 3.26%, 07/25/05	3,000	2,993	Landesbank Hessen-Thuringen Girozentrale 3.15%, 09/12/05	3,000	3,000
+ UBS Finance (Delaware) Inc. 3.08%, 07/08/05	5,000	4,997	Lloyds TSB Bank, PLC 3.45%, 11/17/05	6,000	6,000
3.09%, 07/22/05	7,000	6,987	3.46%, 12/01/05	2,000	2,000
+ Westpac Capital Corp. 3.47%, 11/28/05	8,000	7,886	Mizuho Corp. Bank, Ltd. 3.21%, 08/08/05	5,000	5,000
◆◆ Windmill Funding Corp., Section 4(2) / 144A 3.17%, 07/18/05	9,000	8,987	Royal Bank of Scotland, PLC 2.17%, 07/01/05	3,000	3,000
		277,134	Skandinaviska Enskilda Banken AB 3.20%, 07/22/05	3,000	3,000
Certificates of Deposit 21.9%			Societe Generale 3.23%, 09/23/05	5,000	5,000
Alliance & Leicester, PLC 3.32%, 10/18/05	3,000	2,997	3.37%, 11/09/05	2,000	2,000
Banco Bilbao Vizcaya Argentaria S.A. 3.46%, 11/28/05	5,000	5,000	Svenska Handelsbanken AB 3.11%, 07/14/05	10,000	10,000
Barclays Bank PLC 3.57%, 12/19/05	4,000	4,000	Toronto Dominion Bank 3.44%, 11/09/05	2,000	1,999
BNP Paribas 3.30%, 09/12/05	9,000	9,000	3.45%, 11/28/05	4,000	4,000
3.46%, 11/28/05	6,000	6,000	3.47%, 12/05/05	1,000	1,000
Calyon 2.95%, 08/10/05	2,000	2,000	U.S. Bank, N.A. 3.34%, 10/03/05	3,000	3,000
3.40%, 11/10/05	2,000	2,000	UBS, AG 2.71%, 07/08/05	5,000	5,000
Canadian Imperial Bank of Commerce 2.72%, 07/05/05	10,000	10,000	Unicredito Italiano SpA 3.42%, 11/02/05	3,000	3,000
Citibank, N.A. 3.27%, 08/31/05	7,000	7,000	Washington Mutual Bank, FA 3.44%, 11/22/05	4,500	4,500
Credit Suisse First Boston 3.19%, 08/09/05	11,000	11,000	Wells Fargo Bank, N.A. 3.27%, 07/12/05	6,000	6,000
Danske Bank A/S 3.23%, 07/26/05	3,000	3,000			144,496
DePfa Bank, PLC 3.11%, 09/01/05	2,000	2,000	Bank Notes 2.3%		
Dexia Credit Local 3.23%, 07/22/05	3,000	3,000	Bank of America, N.A. 2.98%, 08/19/05	10,000	10,000
HSBC Bank, PLC 3.11%, 07/25/05	2,000	2,000	2.98%, 08/23/05	5,000	5,000
3.03%, 08/22/05	5,000	5,000			15,000

Portfolio Holdings continued

Security	Maturity Amount (\$ x 1,000)	Value (\$ x 1,000)
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UBS Financial Services, Inc.

Tri-Party Repurchase Agreement
Collateralized by U.S. Government
Securities with a value of \$20,405
3.21%, issued 06/23/05,
due 07/07/05

20,025	20,000
	112,283

End of investments.

Issuer Rate, Acquisition Date, Maturity Date	Face Amount (\$ x 1,000)	Cost/ Value (\$ x 1,000)
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**At 06/30/05, portfolio holdings included
illiquid and/or restricted securities as follows:**

Blue Spice, L.L.C. Section 4(2) / 144A

3.15%, 06/10/05, 07/13/05	3,000	2,997
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The Goldman Sachs Group, Inc.

2.85%, 01/06/05, 07/06/05	5,000	5,000
3.32%, 02/22/05, 07/22/05	6,000	6,000
		11,000

Statement of

Assets and Liabilities

As of June 30, 2005; unaudited. All numbers x 1,000 except NAV.

Assets

Investments, at value	\$547,702
Repurchase agreements at value	112,288
Receivables:	
Fund shares sold	1,046
Interest	1,229
Prepaid expenses	+ 28
Total assets	662,288

Liabilities

Payables:	
Fund shares redeemed	440
Dividends to shareholders	727
Investment adviser and administrator fees	13
Transfer agent and shareholder service fees	12
Trustees' fees	4
Accrued expenses	+ 30
Total liabilities	1,226

Net Assets

Total assets	662,288
Total liabilities	- 1,226
Net assets	\$661,062

Net Assets by Source

Capital received from investors	661,062
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Net Asset Value (NAV)

Net Assets	+	Shares Outstanding	=	NAV
\$661,062		661,120		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost of the fund's securities was \$659,985. Includes restricted and/or illiquid securities worth \$13,997, or 2.1% of the fund's total net assets. Also, includes other restricted but deemed liquid securities comprised of 144A, section 4(2) and 3c7 securities, worth \$205,949 or 31.2% of the fund's total net assets.

Federal Tax Data

Cost basis of portfolio	\$659,985
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Statement of

Operations

For January 1, 2005 through June 30, 2005; unaudited. All numbers x 1,000.

Investment IncomeInterest **\$9,100****Expenses**

Investment adviser and administrator fees 1,257

Transfer agent and shareholder service fees 728

Trustees' fees 12

Custodian and portfolio accounting fees 36

Professional fees 14

Registration fees 21

Other expenses + 6

Total expenses 2,074

Expense reduction - 454

Net expenses 1,620**Increase in Net Assets from Operations****Total investment income 9,100****Net expenses - 1,620****Net investment income 7,480****Increase in net assets from operations \$7,480**

Unless stated, all numbers x 1,000.

Calculated on a graduated basis as a percentage of average daily net assets: 0.38% of the first \$1 billion, 0.35% over \$1 billion, 0.32% over \$10 billion, 0.30% over \$20 billion and 0.27% over \$40 billion. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

Calculated as a percentage of average daily net assets: for transfer agent services, 0.05% of the fund's assets; for shareholder services, 0.17% of the fund's assets. These fees are paid to Charles Schwab & Co., Inc. (Schwab).

For the fund's independent trustees only.

This reduction was made by the investment adviser (CSIM). It reflects a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the annual operating expenses through April 29, 2006, to 0.49% of average daily net assets. This limit excludes interest, taxes and certain non-routine expenses.

Statements of

Changes in Net Assets

For the current and prior report periods. All numbers x 1,000.
Figures for the current period are unaudited.

Operations

	1/1/05-6/30/05	1/1/04-12/31/04
Net investment income	\$7,480	\$6,778
Increase in net assets from operations	7,480	6,778

Distributions Paid

Dividends from net investment income	7,480	6,778
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Transactions in Fund Shares

Shares sold	159,744	527,193
Shares reinvested	6,630	6,620
Shares redeemed	+ (185,480)	(619,675)
Net transactions in fund shares	(19,106)	(85,862)

Net Assets

Beginning of period	680,168	766,030
Total decrease	+ (19,106)	(85,862)
End of period	\$661,062	\$680,168

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 12/31/04 are:

Ordinary income	\$6,778
Long-term capital gains	\$-

Because all transactions in this section took place at \$1.00 per share, figures for share quantities are the same as for dollars.

Represents the changes in net assets from operations plus the changes in value of transactions in fund shares, minus distributions paid.

Schwab Retirement Money Fund[®]

Financial Statements

Financial Highlights

	1/1/05– 6/30/05*	1/1/04– 12/31/04	1/1/03– 12/31/03	1/1/02– 12/31/02	1/1/01– 12/31/01	1/1/00– 12/31/00
Per-Share Data (\$)						
Net asset value at beginning of period	1.00	1.00	1.00	1.00	1.00	1.00
Income from investment operations:						
Net investment income	0.01	0.01	0.01	0.01	0.04	0.06
Less distributions:						
Dividends from net investment income	(0.01)	(0.01)	(0.01)	(0.01)	(0.04)	(0.06)
Net asset value at end of period	1.00	1.00	1.00	1.00	1.00	1.00
Total return (%)	1.03 ¹	0.77	0.58	1.30	3.75	5.90
Ratios/Supplemental Data (%)						
Ratios to average net assets:						
Net operating expenses	0.67 ²	0.66	0.66	0.68	0.70	0.72 ³
Gross operating expenses	0.67 ²	0.66	0.66	0.68	0.70	0.72
Net investment income	2.09 ²	0.76	0.58	1.28	3.61	5.77
Net assets, end of period (\$ x 1,000,000)	503	492	578	566	515	399

* Unaudited.

¹ Not annualized.

² Annualized.

³ The ratio of net operating expenses would have been 0.71% if certain non-routine expenses (proxy fees) had not been included.

Portfolio Holdings as of June 30, 2005; unaudited

This section shows all the securities in the fund's portfolio and their value, as of the report date.

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on the fund's most recent Form N-Q is available by visiting Schwab's website at www.schwab.com/schwabfunds.

We use the symbols below to designate certain characteristics of the securities.

- ◆ Asset-backed security
- ✦ Credit-enhanced security
- Illiquid and/or restricted security

For fixed-rate obligations, the rate shown is the effective yield at the time of purchase, except for U.S. government agency coupon notes and U.S. Treasury notes, for which the rate shown is the interest rate (the rate established when the obligation was issued). For variable-rate obligations, the rate shown is the rate as of the report date. For variable-rate obligations with scheduled maturities greater than 397 days, the maturity shown is the later of the next interest rate change date or demand date. For variable-rate obligations with scheduled maturities less than 397 days, the maturity shown is the earlier of the next interest rate change date or demand date. For variable-rate obligations without demand features, the maturity shown is the next interest rate change date.

Holdings by Category	Cost (\$x1,000)	Value (\$x1,000)
71.7% Fixed-Rate Obligations	361,046	361,046
15.5% Variable-Rate Obligations	77,895	77,895
13.2% Other Investments	66,693	66,693
100.4% Total Investments	505,634	505,634
(0.4)% Other Assets and Liabilities		(2,184)
100.0% Net Assets		503,450

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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Fixed-Rate Obligations 71.7% of net assets**Commercial Paper & Other Corporate Obligations** 46.4%

AB Spintab		
2.95%, 08/08/05	3,000	2,991
Alliance & Leicester, PLC, Section 4(2) / 144A		
3.15%, 09/08/05	1,000	994
◆+ Amsterdam Funding Corp., Section 4(2) / 144A		
3.11%, 07/12/05	6,000	5,994
◆+ Aquinas Funding, L.L.C., Section 4(2) / 144A		
2.85%, 07/12/05	1,000	999
3.61%, 12/22/05	1,000	983
◆+ ASAP Funding Ltd., Section 4(2) / 144A		
3.17%, 07/11/05	2,000	1,998
3.29%, 08/02/05	2,000	1,994
◆+ Atlantic Asset Securitization Corp., Section 4(2) / 144A		
3.18%, 07/14/05	3,000	2,997
◆ Atlantis One Funding Corp., Section 4(2) / 144A		
2.87%, 07/22/05	3,000	2,995
2.98%, 08/11/05	4,000	3,987
3.25%, 09/20/05	2,000	1,986
3.39%, 11/16/05	1,000	987
3.44%, 11/18/05	2,000	1,974
Bank of America Corp.		
3.31%, 10/06/05	5,000	4,956
◆+ Barton Capital Corp		
3.16%, 07/14/05	6,000	5,993
◆+ Beta Finance, Inc., Section 3c7 / 144A		
3.43%, 09/28/05	1,500	1,487
◆+ Blue Spice, L.L.C., Section 4(2) / 144A		
3.15%, 07/13/05	2,000	1,998
+ CBA (Delaware) Finance, Inc.		
3.31%, 07/29/05	1,000	997
Citigroup Global Markets Holdings, Inc.		
3.17%, 08/02/05	5,000	4,986
◆+ Clipper Receivables Co., Section 4(2) / 144A		
3.11%, 07/21/05	2,000	1,997
◆+ Concord Minutemen Capital Co., Series 2000A Section 3c7 / 144A		
2.83%, 07/06/05	3,000	2,999
3.01%, 08/18/05	2,000	1,992

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
◆+ Crown Point Capital Co., L.L.C., Section 4(2) / 144A			◆+ Kitty Hawk Funding Corp., Section 4(2) / 144A		
3.09%, 07/19/05	5,799	5,790	3.18%, 07/15/05	6,000	5,993
3.17%, 07/26/05	1,000	998	◆+ Lexington Parker Capital Co., L.L.C., Section 4(2) / 144A		
3.44%, 11/16/05	1,000	987	2.98%, 08/08/05	2,000	1,994
◆ Dakota CP Notes of Citibank Credit Card Issuance Trust, Section 4(2) / 144A			3.22%, 08/08/05	2,000	1,993
3.16%, 07/13/05	1,000	999	3.07%, 08/23/05	2,000	1,991
3.17%, 07/26/05	7,000	6,985	◆ Mane Funding Corp., Section 4(2) / 144A		
3.30%, 09/06/05	7,000	6,957	3.31%, 09/08/05	3,107	3,087
+ Danske Corp.			Morgan Stanley		
3.17%, 08/02/05	5,150	5,136	3.19%, 07/20/05	2,000	1,997
3.20%, 08/08/05	2,000	1,993	3.23%, 07/20/05	2,000	1,997
+ Dexia Delaware L.L.C.			3.25%, 07/26/05	3,000	2,993
3.20%, 08/09/05	1,000	997	◆ Newcastle Certificates Program, Series 2000A Section 4(2) / 144A		
DnB NOR Bank ASA			3.21%, 07/11/05	1,000	999
3.17%, 07/14/05	1,200	1,199	◆+ Park Avenue Receivables Corp. L.L.C., Section 4(2) / 144A		
◆+ Eiffel Funding, L.L.C., Section 4(2) / 144A			3.16%, 07/18/05	5,000	4,993
3.17%, 07/27/05	2,000	1,995	◆ Park Granada, L.L.C., Section 4(2) / 144A		
◆ Galaxy Funding, Inc., Section 4(2) / 144A			3.26%, 07/25/05	4,000	3,991
3.05%, 07/01/05	5,000	5,000	◆+ Preferred Receivables Funding Corp., Section 4(2) / 144A		
3.12%, 07/26/05	1,000	998	3.13%, 07/14/05	8,000	7,991
General Electric Capital Corp.			◆+ Ranger Funding Co. L.L.C., Section 4(2) / 144A		
2.86%, 07/21/05	3,000	2,995	3.19%, 07/19/05	8,000	7,987
◆ Giro Funding U.S. Corp., Section 4(2) / 144A			◆+ Scaldis Capital Ltd., Section 4(2) / 144A		
3.13%, 07/08/05	5,000	4,997	2.84%, 07/11/05	1,896	1,895
◆+ Grampian Funding, LLC., Section 4(2) / 144A			2.86%, 07/15/05	2,000	1,998
3.60%, 12/20/05	3,000	2,949	3.33%, 09/27/05	4,986	4,946
+ ING (U.S.) Funding, L.L.C.			◆+ Sigma Finance, Inc., Section 3c7 / 144A		
3.25%, 07/20/05	2,000	1,997	3.08%, 07/12/05	4,000	3,996
3.17%, 08/03/05	2,700	2,692	Skandinaviska Enskilda Banken AB		
3.20%, 08/03/05	1,400	1,396	2.81%, 07/12/05	2,000	1,998
Irish Life & Permanent, PLC, Section 4(2) / 144A			3.25%, 09/16/05	2,000	1,986
3.29%, 09/07/05	2,000	1,988	◆+ Ticonderoga Funding, LLC., Section 4(2) / 144A		
+ IXIS Commercial Paper Corp., Section 4(2) / 144A			3.26%, 07/22/05	4,000	3,992
3.20%, 08/12/05	3,000	2,989	◆+ Triple A-One Funding Corp., Section 4(2) / 144A		
◆+ Jupiter Securitization Corp., Section 4(2) / 144A			3.09%, 07/05/05	1,577	1,576
3.13%, 07/13/05	7,000	6,993	3.26%, 07/25/05	1,306	1,303
3.18%, 08/05/05	1,339	1,335	+ UBS Finance (Delaware) Inc.		
◆ K2 (USA), L.L.C., Section 3c7 / 144A			3.16%, 07/11/05	2,000	1,998
2.92%, 07/07/05	2,000	1,999	3.09%, 07/22/05	7,000	6,987
2.84%, 07/15/05	2,000	1,998	3.24%, 07/25/05	3,000	2,994
3.25%, 09/19/05	1,000	993			

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
+ Westpac Capital Corp.			HSBC Bank, PLC		
3.47%, 11/28/05	6,000	5,915	3.11%, 07/25/05	3,000	3,000
◆ Windmill Funding Corp., Section 4(2) / 144A			HSBC Bank, USA		
3.17%, 07/18/05	4,000	3,994	3.44%, 11/21/05	5,000	4,999
3.23%, 07/21/05	1,000	998	Landesbank Hessen-Thuringen Girozentrale		
◆ Yorktown Capital, L.L.C., Section 4(2) / 144A			3.15%, 09/12/05	2,000	2,000
3.16%, 07/11/05	4,334	4,330	Lloyds TSB Bank, PLC		
3.13%, 07/15/05	1,000	999	3.45%, 11/17/05	5,000	5,000
		233,550	Mizho Corp. Bank, Ltd.		
			3.14%, 07/19/05	5,000	5,000
Certificates of Deposit 23.9%			Royal Bank of Scotland, PLC		
Alliance & Leicester, PLC			2.17%, 07/01/05	2,000	2,000
3.32%, 10/18/05	2,000	1,998	3.25%, 07/28/05	3,000	3,000
3.58%, 12/20/05	1,000	1,000	Skandinaviska Enskilda Banken AB		
American Express Centurion Bank			3.20%, 07/22/05	1,000	1,000
3.30%, 09/06/05	2,500	2,500	Societe Generale		
Banco Bilbao Vizcaya Argentaria S.A.			3.23%, 09/23/05	5,000	5,000
3.46%, 11/28/05	5,000	5,000	Svenska Handelsbanken AB		
Bank of The West			3.19%, 08/10/05	7,000	7,000
3.33%, 09/27/05	4,000	4,000	Toronto Dominion Bank		
Bank of Tokyo-Mitsubishi, Ltd.			3.44%, 11/09/05	2,000	1,999
3.27%, 07/27/05	5,000	5,000	3.45%, 11/28/05	2,000	2,000
Barclays Bank PLC			U.S. Bank, N.A.		
3.57%, 12/19/05	4,000	4,000	3.32%, 10/11/05	2,000	2,000
BNP Paribas			Unicredito Italiano SpA		
3.30%, 09/12/05	5,000	5,000	3.42%, 11/02/05	3,000	3,000
3.46%, 11/28/05	2,000	2,000	Washington Mutual Bank, FA		
Calyon			3.44%, 11/22/05	4,000	4,000
3.37%, 11/09/05	5,000	5,000	Wells Fargo Bank, N.A.		
Canadian Imperial Bank of Commerce			3.26%, 07/07/05	5,000	5,000
2.72%, 07/05/05	7,000	7,000			120,496
Citibank, N.A.			Promissory Notes 0.8%		
3.27%, 08/31/05	6,000	6,000	• The Goldman Sachs Group, Inc.		
Credit Suisse First Boston			2.85%, 07/06/05	4,000	4,000
3.15%, 07/29/05	5,000	5,000	Bank Notes 0.6%		
3.19%, 08/09/05	3,000	3,000	Bank of America, N.A.		
DePfa Bank, PLC			2.98%, 08/23/05	3,000	3,000
3.11%, 09/01/05	2,000	2,000			
Dexia Credit Local					
3.23%, 07/22/05	4,000	4,000			
DnB NOR Bank ASA					
3.25%, 09/22/05	2,000	2,000			

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Variable-Rate Obligations 15.5% of net assets		
Barclays Bank, PLC		
3.13%, 07/11/05	3,000	2,999
3.21%, 07/21/05	1,000	1,000
3.26%, 07/29/05	6,000	5,999
BNP Paribas		
3.18%, 07/18/05	1,000	1,000
+ California Pollution Control Financing Authority		
Solid Waste Disposable RB (Burr Properties Project) Series 1998B		
3.44%, 07/07/05	1,760	1,760
◆ CC (USA), Inc., Section 3c7 / 144A		
3.27%, 07/25/05	4,000	4,000
+ Columbus, Georgia Development Authority		
Taxable RB (Jay Leasing, Inc. Project) Series 1997		
3.36%, 07/07/05	1,790	1,790
◆ Dorada Finance, Inc., Section 3c7 / 144A		
3.20%, 07/15/05	3,000	3,000
+ Eagle County, Colorado Taxable Housing Facilities		
RB (BC Housing, L.L.C. Project) Series 1997B		
3.34%, 07/07/05	1,500	1,500
Fannie Mae		
2.99%, 07/05/05	2,000	2,000
3.21%, 07/29/05	10,000	9,999
Federal Home Loan Bank		
3.05%, 07/05/05	3,000	3,000
+ HBOS Treasury Service, PLC		
3.27%, 07/26/05	2,000	2,000
HSH Nordbank, AG		
3.12%, 07/11/05	2,000	2,000
Landesbank Baden-Wurtemberg		
3.10%, 07/07/05	5,000	4,999
3.15%, 07/15/05	2,000	2,000
◆ Liberty Lighthouse U.S. Capital Co. L.L.C. 4(2) / 144A		
3.29%, 07/29/05	2,000	2,000
+ LP Pinewoods SPV		
3.34%, 07/07/05	15,000	15,000
Norddeutsche Landesbank Girozentrale		
3.17%, 07/14/05	2,000	2,000

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Royal Bank of Scotland, PLC		
3.26%, 07/27/05	3,000	2,999
• The Goldman Sachs Group, Inc.		
3.32%, 07/22/05	5,000	5,000
+ Trap Rock Industries, Inc.		
RB Series 1997		
3.36%, 07/07/05	1,040	1,040
+ Village of Sturtevant, Wisconsin		
IDRB (Andis Co. Project) Series 1996B		
3.42%, 07/07/05	810	810
		77,895

Security Maturity Amount
(\$ x 1,000)

Other Investments 13.2% of net assets

Repurchase Agreements 13.2%

Credit Suisse First Boston L.L.C.		
Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$68,029 3.40%, issued 06/30/05, due 07/01/05	66,700	66,693

End of investments.

Issuer Rate, Acquisition Date Maturity Date	Face Amount (\$ x 1,000)	Cost/ Value (\$ x 1,000)
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**At 06/30/05, portfolio holdings included
restricted and/or illiquid securities as follows:**

Blue Spice, L.L.C. Section 4(2) / 144A		
3.15%, 06/10/05, 07/13/05	2,000	1,998
The Goldman Sachs Group, Inc.		
2.85%, 01/06/05, 07/06/05	4,000	4,000
3.32%, 03/22/05, 07/22/05	5,000	5,000
		9,000

Statement of

Assets and Liabilities

As of June 30, 2005; unaudited. All numbers x 1,000 except NAV.

Assets

Investments, at value	\$438,941
Repurchase agreements at value	66,693
Receivables:	
Fund shares sold	195
Interest	824
Prepaid expenses	+ 48
Total assets	506,701

Liabilities

Payables:	
Fund shares redeemed	2,673
Dividends to shareholders	526
Investment adviser and administrator fees	16
Transfer agent and shareholder service fees	10
Trustees' fees	2
Accrued expenses	+ 24
Total liabilities	3,251

Net Assets

Total assets	506,701
Total liabilities	- 3,251
Net assets	\$503,450

Net Assets by Source

Capital received from investors	503,450
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Net Asset Value (NAV)

Net Assets	+	Shares Outstanding	=	NAV
\$503,450		503,508		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost of the fund's securities was \$505,634. Includes restricted and/or illiquid securities worth \$10,998, or 2.2% of the fund's total net assets. Also, includes other restricted but deemed liquid securities comprised of 144A, section 4(2) and 3c7 securities, worth \$173,539 or 34.5% of the fund's total net assets.

Federal Tax Data

Cost basis of portfolio	\$505,634
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Statement of

Operations

For January 1, 2005 through June 30, 2005; unaudited. All numbers x 1,000.

Investment IncomeInterest **\$6,813****Expenses**

Investment adviser and administrator fees 939

Transfer agent and shareholder service fees 618

Trustees' fees 12

Custodian and portfolio accounting fees 29

Professional fees 14

Registration fees 22

Shareholder reports 12

Other expenses + 5

Total expenses 1,651**Increase in Net Assets from Operations****Total investment income 6,813****Total expenses - 1,651****Net investment income 5,162****Increase in net assets from operations \$5,162**

Unless stated, all numbers x 1,000.

Calculated on a graduated basis as a percentage of average daily net assets: 0.38% of the first \$1 billion, 0.35% over \$1 billion, 0.32% over \$10 billion, 0.30% over \$20 billion and 0.27% over \$40 billion. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

Calculated as a percentage of average daily net assets: for transfer agent services, 0.05% of the fund's assets; for shareholder services, 0.20% of the fund's assets. These fees are paid to Charles Schwab & Co., Inc. (Schwab).

For the fund's independent trustees only.

Statements of

Changes in Net Assets

For the current and prior report periods. All numbers x 1,000.
Figures for the current period are unaudited.

Operations

	1/1/05-6/30/05	1/1/04-12/31/04
Net investment income	\$5,162	\$4,155
Increase in net assets from operations	5,162	4,155

Distributions Paid

Dividends from net investment income	5,162	4,155
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Transactions in Fund Shares

Shares sold	162,708	321,230
Shares reinvested	4,591	4,104
Shares redeemed	+ (156,194)	(410,657)
Net transactions in fund shares	11,105	(85,323)

Net Assets

Beginning of period	492,345	577,668
Total increase or decrease	+ 11,105	(85,323)
End of period	\$503,450	\$492,345

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 12/31/04 are:

Ordinary income	\$4,155
Long-term capital gains	\$-

Because all transactions in this section took place at \$1.00 per share, figures for share quantities are the same as for dollars.

Represents the changes in net assets from operations plus the changes in value of transactions in fund shares, minus distributions paid.

Financial Notes unaudited

Business Structure of the Funds

Each of the funds discussed in this report is a series of The Charles Schwab Family of Funds, a no-load, open-end management investment company. The company is organized as a Massachusetts business trust and is registered under the Investment Company Act of 1940, as amended. The sidebar shows the funds in this report and their trust.

The funds offer one share class. For these funds, shares are bought and sold at \$1.00 per share. Each share has a par value of 1/1,000 of a cent, and the trust may issue as many shares as necessary.

Fund Operations

Most of the funds' investments are described in the sections earlier in this report. However, there are certain other fund operations and policies that may affect a fund's financials, as described below. Other policies concerning the funds' business operations also are described here.

The funds declare dividends every day they are open for business. These dividends, which are equal to a fund's net investment income for that day, are paid out to shareholders once a month. The funds may make distributions from any net realized capital gains once a year.

The funds may buy securities on a delayed-delivery basis. In these transactions, a fund agrees to buy a security for a stated price, with settlement generally occurring within two weeks. If the security's value falls before settlement occurs, a fund could end up paying more for the security than its market value at the time of settlement. The funds have set aside sufficient securities as collateral for those securities bought on a delayed-delivery basis.

The funds may enter into repurchase agreements. In a repurchase agreement, a fund buys a security from another party (usually a financial institution) with the agreement that it be sold back in the future. The date, price and other conditions are all specified when the agreement is created. Any repurchase agreements with due dates later than seven days from issue dates may be subject to seven day put features for liquidity purposes.

The funds' repurchase agreements will be fully collateralized by U.S. government securities. All collateral is held by the funds' custodian (or, with tri-party agreements, the agent's bank) and is monitored daily to ensure that its market value is at least equal to the repurchase price under the agreement.

The funds pay fees to affiliates of the Investment Adviser for various services. Through their trust, the funds have agreements with Charles Schwab Investment Management, Inc. (CSIM) to provide investment advisory and administrative services and with Charles Schwab & Co., Inc. (Schwab) to provide transfer agent and shareholder services.

The Trust and Its Funds

This list shows all of the funds included in The Charles Schwab Family of Funds. The funds discussed in this report are highlighted.

The Charles Schwab Family of Funds

organized October 20, 1989

- Schwab Money Market Fund
- Schwab Government Money Fund
- Schwab U.S. Treasury Money Fund
- Schwab Value Advantage Money Fund
- Schwab Municipal Money Fund
- Schwab California Municipal Money Fund
- Schwab New York Municipal Money Fund
- Schwab New Jersey Municipal Money Fund
- Schwab Pennsylvania Municipal Money Fund
- Schwab Florida Municipal Money Fund
- Schwab Massachusetts Municipal Money Fund
- Schwab Retirement Advantage Money Fund**
- Schwab Retirement Money Fund**
- Schwab Government Cash Reserves
- Schwab Advisor Cash Reserves
- Schwab Cash Reserves

Although these agreements specify certain fees for these services, CSIM and Schwab have made additional agreements with the funds that may limit the total expenses charged. The rates and limitations for these fees vary from fund to fund, and are described in each fund's Statement of Operations.

The funds may engage in certain transactions involving affiliates. The funds may make direct transactions with certain other Schwab Funds® when practical. When one fund is seeking to sell a security that another is seeking to buy, an interfund transaction can allow both funds to benefit by reducing transaction costs. This practice is limited to funds that share the same investment adviser, trustees and officers.

Pursuant to an exemptive order issued by the SEC, the funds may enter into interfund borrowing and lending transactions within the Schwab Funds. All loans are for temporary or emergency purposes only. The interest rate charged on the loan is the average of the overnight repurchase agreement rate and the short-term bank loan rate. The interfund lending facility is subject to the oversight and periodic review of the Board of Trustees of the Schwab Funds.

Trustees may include people who are officers and/or directors of the investment adviser or Schwab. Federal securities law limits the percentage of such "interested persons" who may serve on a trust's board, and the trust was in compliance with these limitations throughout the report period. The trust did not pay any of these persons for their service as trustees, but it did pay non-interested persons (independent trustees), as noted in each fund's Statement of Operations.

The funds may borrow money from banks and custodians. The funds may obtain temporary bank loans through the trust to which the funds belong, to use for meeting shareholder redemptions or for extraordinary or emergency purposes. The Schwab Funds have custodian overdraft facilities and line of credit arrangements of \$150 million and \$100 million with PNC Bank, N.A. and Bank of America, N.A., respectively. The funds pay interest on the amounts they borrow at rates that are negotiated periodically. There was no borrowing for any funds during the period.

The funds intend to meet federal income and excise tax requirements for regulated investment companies. Accordingly, the funds distribute substantially all of their net investment income and net realized capital gains (if any) to their respective shareholders each year. As long as a fund meets the tax requirements, it is not required to pay federal income tax.

Under the funds' organizational documents, its officers and trustees are indemnified against certain liability arising out of the performance of their duties to the funds. In addition, in the normal course of business the funds enter into contracts with their vendors and others that provide general indemnifications. The funds' maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the funds. However, based on experience, the funds expect the risk of loss to be remote.

Accounting Policies

The following are the main policies the funds use in preparing their financial statements.

The funds value their securities at amortized cost, which approximates market value.

Security transactions are recorded as of the date the order to buy or sell the security is executed.

Interest income is recorded as it accrues. If a fund buys a debt instrument at a discount (that is, for less than its face value) or a premium (more than face value), it amortizes the discount or premium from the current date up to maturity. The fund then increases (in the case of discounts) or reduces (in the case of premiums) the income it records from the security. If the security is callable (meaning that the issuer has the option to pay it off before its maturity date), then the fund amortizes the premium to the security's call date and price, rather than the maturity date and price.

Realized gains and losses from security transactions are based on the identified costs of the securities involved.

Expenses that are specific to a fund or a class are charged directly to that fund or class. Expenses that are common to all funds within the trust generally are allocated among the funds in proportion to their average daily net assets.

Each fund maintains its own account for purposes of holding assets and accounting, and is considered a separate entity for tax purposes. Within its account, each fund also may keep certain assets in segregated accounts, as required by securities law.

The accounting policies described above conform with accounting principles generally accepted in the United States of America. Notwithstanding this, shareholders should understand that in order to follow these principles, fund management has to make estimates and assumptions that affect the information reported in the financial statements. It's possible that once the results are known, they may turn out to be different from these estimates.

Investment Advisory Agreement Approval

The Investment Company Act of 1940 (the “1940 Act”) requires that initial approval of, as well as the continuation of, a fund’s investment advisory agreement must be specifically approved (1) by the vote of the trustees or by a vote of the shareholders of the fund, and (2) by the vote of a majority of the trustees who are not parties to the investment advisory agreement or “interested persons” of any party (the “Independent Trustees”), cast in person at a meeting called for the purpose of voting on such approval. In connection with such approvals, the fund’s trustees must request and evaluate, and the investment adviser is required to furnish, such information as may be reasonably necessary to evaluate the terms of the advisory agreement. In addition, the Securities and Exchange Commission (the “SEC”) takes the position that, as part of their fiduciary duties with respect to fund fees, fund boards are required to evaluate the material factors applicable to a decision to approve an investment advisory agreement.

Consistent with these responsibilities, the Board of Trustees (the “Board”) calls and holds one or more meetings each year that are dedicated, in whole or in part, to considering whether to renew the investment advisory agreement between The Charles Schwab Family of Funds (the “Trust”) and CSIM (the “Agreement”) with respect to existing funds in the Trust, including the Schwab Retirement Advantage Money Fund and Schwab Retirement Money Fund, and to review certain other agreements pursuant to which CSIM provides investment advisory services to certain other registered investment companies. In preparation for the meeting(s), the Board requests and reviews a wide variety of materials provided by CSIM, including information about CSIM’s affiliates, personnel and operations. The Board also receives extensive data provided by third parties. This information is in addition to the detailed information about the funds that the Board reviews during the course of each year, including information that

relates to fund operations and fund performance. The trustees also receive a memorandum from fund counsel regarding the responsibilities of trustees for the approval of investment advisory contracts. In addition, the Independent Trustees receive advice from independent counsel to the Independent Trustees, meet in executive session outside the presence of fund management and participate in question and answer sessions with representatives of CSIM.

At the May 24, 2005 meeting of the Board, the trustees, including a majority of the Independent Trustees, approved the renewal of the Agreement on an interim basis through September 30, 2005. The Board’s approval of the Agreement was based on consideration and evaluation of a variety of specific factors discussed at that meeting and at prior meetings, including:

1. the nature, extent and quality of the services provided to the funds under the Agreement, including the resources of CSIM and its affiliates dedicated to the funds;
2. each fund’s investment performance and how it compared to that of certain other comparable mutual funds;
3. each fund’s expenses and how those expenses compared to those of certain other comparable mutual funds;
4. the profitability of CSIM and its affiliates, including Schwab, with respect to each fund, including both direct and indirect benefits accruing to CSIM and its affiliates; and
5. the extent to which economies of scale would be realized as the funds grow and whether fee levels in the Agreement reflect those economies of scale for the benefit of fund investors.

Nature, Extent and Quality of Services. The Board considered the nature, extent and quality of the services provided by CSIM to the funds and the resources of CSIM and its affiliates dedicated to the funds. In this regard, the trustees evaluated, among other things, CSIM's personnel, experience, track record and compliance program. The trustees also considered the fact that Schwab's extensive branch network, Internet access, investment and research tools, telephone services, and array of account features benefit the funds. The trustees also considered Schwab's excellent reputation as a full service brokerage firm and its overall financial condition. Finally, the trustees considered that the vast majority of the funds' investors are also brokerage clients of Schwab, and that CSIM and its affiliates are uniquely positioned to provide services and support to the funds and such shareholders. Following such evaluation, the Board concluded, within the context of its full deliberations, that the nature, extent and quality of services provided by CSIM to the funds and the resources of CSIM and its affiliates dedicated to the funds supported interim renewal of the Agreement.

Fund Performance. The Board considered fund performance in determining whether to renew the Agreement. Specifically, the trustees considered each fund's performance relative to a peer group of other mutual funds and appropriate indices/benchmarks, in light of total return, yield and market trends. As part of this review, the trustees considered the composition of the peer group, selection criteria and the reputation of the third party who prepared the peer group analysis. In evaluating the performance of each fund, the trustees considered both risk and shareholder risk expectations for such fund. Following such evaluation, the Board concluded, within the context of its full deliberations, that the performance of the funds supported interim renewal of the Agreement.

Fund Expenses. With respect to the funds' expenses, the trustees considered the rate of compensation called for by the Agreement, and each fund's net operating expense ratio, in each case, in comparison to those of other comparable mutual funds, such peer groups and comparisons having been selected and calculated by an independent third party. The trustees considered the effects of CSIM's and Schwab's voluntary waiver of management and other fees to prevent total fund expenses from exceeding a specified cap. The trustees also considered fees charged by CSIM to other mutual funds and to other types of accounts, such as wrap accounts and offshore funds, but, with respect to such other types of accounts, accorded less weight to such comparisons due to the unique legal, regulatory, compliance and operating features of mutual funds as compared to these other types of accounts. Following such evaluation the Board concluded, within the context of its full deliberations, that the expenses of the funds are reasonable and supported interim renewal of the Agreement.

Profitability. With regard to profitability, the trustees considered the compensation flowing to CSIM and its affiliates, directly or indirectly. In this connection, the trustees reviewed management's profitability analyses, together with certain commentary thereon from an independent accounting firm. The trustees also considered any other benefits derived by CSIM from its relationship with the funds, such as whether, by virtue of its management of the Funds, CSIM obtains investment information or other research resources that aid it in providing advisory services to other clients. The trustees considered whether the varied levels of compensation and profitability under the Agreement and other service agreements were reasonable and justified in light of the quality of all services rendered to each fund by CSIM and its affiliates. Based on this evaluation, the Board con-

cluded, within the context of its full deliberations, that the profitability of CSIM is reasonable and supported interim renewal of the Agreement.

Economies of Scale. The trustees considered the existence of any economies of scale and whether those are passed along to a fund's shareholders through a graduated investment advisory fee schedule or other means, including any fee waivers by CSIM and its affiliates. In this regard, and consistent with their consideration of fund expenses, the trustees considered that CSIM and Schwab have previously committed resources to minimize the effects on shareholders of diseconomies of scale during periods when fund assets were relatively small through their contractual expense waivers. For example, such diseconomies of scale may particularly affect newer funds or funds with investment strategies that are from time to time out of favor, but shareholders may benefit from the continued availability of such funds at subsidized expense levels. The trustees also considered CSIM's agreement to contractual investment advisory fee schedules which include lower fees at higher graduated asset levels. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the funds obtain reasonable benefit from economies of scale.

In the course of their deliberations, the trustees did not identify any particular information or factor that was all-important or controlling. Based on the trustees' deliberation and their evaluation of the information described above, the Board, including all of the Independent Trustees, unanimously approved the interim continuation of the Agreement and concluded that the compensation under the Agreement is fair and reasonable in light of such services and expenses and such other matters as the trustees have considered to be relevant in the exercise of their reasonable judgment.

Trustees and Officers

A fund's Board of Trustees is responsible for protecting the interests of that fund's shareholders. The tables below give information about the people who serve as trustees and officers for the Schwab Funds®, including the funds covered in this report. Trustees remain in office until they resign, retire or are removed by shareholder vote.¹

Under the Investment Company Act of 1940, any officer, director, or employee of Schwab or CSIM is considered an “interested person,” meaning that he or she is considered to have a business interest in Schwab or CSIM. These individuals are listed as “interested trustees.” The “independent trustees” are individuals who, under the 1940 Act, are not considered to have a business interest in Schwab or CSIM.

Each of the 56 Schwab Funds belongs to one of these trusts: The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust or Schwab Annuity Portfolios. Currently all these trusts have the same trustees and officers. The address for all trustees and officers is 101 Montgomery Street, San Francisco, CA 94104. You can find more information about the trustees and officers in the Statement of Additional Information, which is available free by calling 1-800-435-4000.

Interested Trustees and Officers

Name and Birthdate	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
Charles R. Schwab ² 7/29/37	Chairman, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Director, The Charles Schwab Corp., Charles Schwab & Co., Inc.; Chair, Director, Charles Schwab Investment Management, Inc.; Chair, Charles Schwab Holdings (UK); Chair, Director, U.S. Trust Corp., United States Trust Co. of New York, U.S. Trust Co., N.A.; CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, Charles Schwab Bank, N.A., The Charles and Helen Schwab Foundation, All Kinds of Minds (education); Trustee, Stanford University. <i>Until 5/04:</i> Director, The Gap, Inc. (clothing retailer). <i>Until 5/03:</i> Co-CEO, The Charles Schwab Corp. <i>Until 3/02:</i> Director, Audiobase, Inc. (Internet audio solutions). <i>Until 5/02:</i> Director, Vodafone AirTouch PLC (telecommunications). <i>Until 7/01:</i> Director, The Charles Schwab Trust Co.

¹ The Schwab Funds retirement policy requires that independent trustees elected after January 1, 2000 retire at age 72 or after twenty years of service as a trustee, whichever comes first. Independent trustees elected prior to January 1, 2000 will retire on the following schedule: Messrs. Holmes and Dorward will retire on December 31, 2007, and Messrs. Stephens and Wilsley will retire on December 31, 2010.

² In addition to his position with the investment adviser and the distributor, Mr. Schwab also owns stock of The Charles Schwab Corporation.

Interested Trustees but Not Officers

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Randall W. Merk 7/25/54	2005 (all trusts).	EVP, President, AMPS Enterprise. <i>Until 7/04</i> : President, CEO, Charles Schwab Investment Management, Inc.; VP, Charles Schwab & Co., Inc. <i>Until 8/02</i> : President, Chief Investment Officer, American Century Management; Director, American Century Companies, Inc. <i>Until 6/01</i> : Chief Investment Officer, Fixed Income, American Century Companies, Inc.

Officers of the Trust

Name and Birthdate	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
Evelyn Dilsaver 5/4/55	President, CEO (all trusts).	EVP, President, Director, Charles Schwab Investment Management, Inc. <i>Until 7/04</i> : SVP for Development and Distribution, Asset Management Products and Services Enterprise. <i>Until 6/03</i> : EVP, CFO, Chief Administrative Officer, U.S. Trust.
Stephen B. Ward 4/5/55	SVP, Chief Investment Officer (all trusts).	SVP, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co.
Kimon Daifotis 7/10/59	SVP, Chief Investment Officer (all trusts).	<i>Since 9/04</i> : Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Since 6/04</i> : SVP, Charles Schwab Investment Management, Inc. <i>Until 6/04</i> : VP, Charles Schwab Investment Management, Inc.
Jeffrey Mortimer 9/29/63	SVP, Chief Investment Officer (all trusts).	<i>Since 5/04</i> : SVP, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc. <i>Since 6/04</i> : VP, Chief Investment Officer, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 5/04</i> : VP, Charles Schwab Investment Management, Inc.
Randall Fillmore 11/11/60	Chief Compliance Officer (all trusts).	<i>Since 9/04</i> : SVP, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Chief Compliance Officer, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 9/04</i> : VP, Charles Schwab & Co., Inc., Charles Schwab Investment Management, Inc. <i>Until 2002</i> : VP of Internal Audit, Charles Schwab & Co., Inc. <i>Prior to 2000</i> : PricewaterhouseCoopers.
Koji E. Felton 3/13/61	Secretary (all trusts).	SVP, Chief Counsel, Assistant Corporate Secretary, Charles Schwab Investment Management, Inc. <i>Until 6/98</i> : Branch Chief in Enforcement, U.S. Securities and Exchange Commission, San Francisco.
George Pereira 6/9/64	Treasurer, Principal Financial Officer (all trusts).	<i>Since 11/04</i> : SVP, CFO, Charles Schwab Investment Management, Inc. <i>Until 11/04</i> : SVP, Financial Reporting, Charles Schwab & Co., Inc. <i>Until 12/99</i> : CFO, Commerzbank Capital Markets. <i>Until 9/99</i> : Managing Director at the New York Stock Exchange.

Independent Trustees

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Mariann Byerwalter 8/13/60	2000 (all trusts).	Chair, JDN Corp. Advisory LLC (real estate); Trustee, Stanford University, America First Cos., Omaha, NE (venture capital/fund management), Redwood Trust, Inc. (mortgage finance), Stanford Hospitals and Clinics, SRI International (research), PMI Group, Inc. (mortgage insurance), Lucile Packard Children's Hospital. <i>Since 2/05</i> : Director, Pacific Mutual Holding Company (insurance). <i>Since 2004</i> : Laudus Trust, Laudus Variable Insurance Trust. <i>Until 2001</i> : Stanford University, Special Assistant to the President. <i>From 1996-2001</i> : VP of Business Affairs, CFO.
Donald F. Dorward 9/23/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	CEO, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999</i> : EVP, Managing Director, Grey Advertising. <i>Until 1996</i> : President, CEO, Allen & Dorward Advertising.
William A. Hasler 11/22/41	2000 (all trusts).	Dean Emeritus, Haas School of Business, University of California, Berkeley; Director, Apton Corp. (bio-pharmaceuticals); Non-Executive Chair, Solectron Corp. (manufacturing), Mission West Properties (commercial real estate), Stratex Networks (network equipment), TOUSA (home building); Public Governor, Member, executive committee, Pacific Stock & Options Exchange. <i>Since 2004</i> : Trustee, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 2/04</i> : Co-CEO, Apton Corp. (bio-pharmaceuticals).
Robert G. Holmes 5/15/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Director, Semloh Financial, Inc. (international financial services and investment advisory firm).
Gerald B. Smith 9/28/50	2000 (all trusts).	Chair, CEO, Founder, Smith Graham & Co. (investment advisers); Trustee, Cooper Industries (electrical products, tools and hardware); Chairman, audit committee, Northern Border Partners, L.P. (energy).
Donald R. Stephens 6/28/38	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chair, CEO, North American Trust (real estate investment trust).
Michael W. Wilsey 8/18/43	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Wilsey Bennett, Inc. (real estate investment and management, and other investments).

Glossary

agency discount notes Notes issued by federal agencies—known as Government Sponsored Enterprises, or GSEs—at a discount to their value at maturity. An agency discount note is a short-term investment alternative offering a high degree of credit quality.

Alternative Minimum Tax (AMT) A federal income tax designed to limit the extent to which high-income taxpayers (including individuals, estates, trusts and corporations) can benefit from certain deductions and exemptions. For example, some types of income that are exempt from regular federal income tax are not exempt from the AMT.

asset-backed securities Bonds or other debt securities that represent ownership in a pool of assets such as credit card debt.

bond A security representing a loan from the investor to the issuer. A bond typically pays interest at a fixed rate (the “coupon rate”) until a specified date (the “maturity date”), at which time the issuer returns the money borrowed (“principal” or “face value”) to the bondholder. Because of their structure, bonds are sometimes called “fixed income securities” or “debt securities.”

An individual bond is subject to the credit risk of the issuer. Changes in interest rates can affect a bond’s market value prior to call or maturity. There is no guarantee that a bond’s yield to call or maturity will provide a positive return over the rate of inflation.

bond fund A bond fund is subject to the same credit, interest rate, and inflation risks as bonds. In addition, a bond fund incurs ongoing fees and expenses. A bond fund’s net asset value will fluctuate with the price of the underlying bonds and the portfolio turnover activity; return of principal is not guaranteed.

bond anticipation notes Obligations sold by a municipality on an interim basis in anticipation of the municipality’s issuance of a longer-term bond in the future.

capital gain, capital loss The difference between the amount paid for an investment and its value at a later time. If the investment has been sold, the capital gain or loss is considered a realized gain or loss. If the investment is still held, the gain or loss is still “on paper” and is considered unrealized.

commercial paper Promissory notes issued by banks, corporations, state and local governments and other entities to finance short-term credit needs. These securities generally are structured on a discounted basis but

sometimes may be interest-bearing notes. Commercial paper, which may be unsecured, is subject to credit risk.

credit-enhanced securities Securities that are backed by the credit of an entity other than the issuer (such as a financial institution). Credit enhancements, which can equal up to 100% of the security’s value, are designed to help lower the risk of default on a security and may also make the security more liquid.

credit quality The capacity of an issuer to make its interest and principal payments. Federal regulations strictly limit the credit quality of the securities a money market fund can buy.

credit ratings Debt issuers, including corporations, states and municipalities, may arrange with a recognized independent rating organization, such as Standard & Poor’s, Fitch, Inc. and Moody’s Investor Service, to rate their creditworthiness and/or the creditworthiness of their debt issues. For example, an issuer may obtain a long-term rating within the investment grade rating category, which is, from high to low, AAA, AA, A and BBB for Standard & Poor’s and Fitch, and Aaa, Aa, A and Baa for Moody’s.

credit risk The risk that a debt issuer may be unable to pay interest or principal to its debtholders.

Portfolio terms

To help reduce the space occupied by the portfolio holdings, we use the following terms. Most of them appear within descriptions of individual securities in municipal funds, and describe features of the issuer or the security. Some of these are more fully defined elsewhere in the Glossary.

ACES	Adjustable convertible extendable security
BAN	Bond anticipation note
COP	Certificate of participation
GAN	Grant anticipation note
GO	General obligation
HDA	Housing Development Authority
HFA	Housing Finance Agency
IDA	Industrial Development Authority
IDB	Industrial Development Board
IDRB	Industrial Development Revenue Bond
M/F	Multi-family
RAN	Revenue anticipation note
RB	Revenue bond
S/F	Single-family
TAN	Tax anticipation note
TECP	Tax-exempt commercial paper
TRAN	Tax and revenue anticipation note
VRD	Variable-rate demand

dollar-weighted average maturity (DWAM) See weighted average maturity.

effective yield A measurement of a fund's yield that assumes that all dividends were reinvested in additional shares of the fund.

expense ratio The amount that is taken from a mutual fund's assets each year to cover the fund's operating expenses. An expense ratio of 0.50% means that a fund's expenses amount to half of one percent of its average net assets a year.

face value The value of a bond, note, mortgage or other security as given on the certificate or instrument. Face value is also referred to as par value or nominal value.

illiquid securities Securities are generally considered illiquid if they cannot be disposed of promptly (typically within seven days) and in the ordinary course of business at approximately the amount at which a fund has valued the instruments.

interest Payments to holders of debt securities as compensation for loaning a security's principal to the issuer.

liquidity-enhanced security A security that when tendered is paid from funds advanced by an entity other than the issuer (such as a large financial institution). Liquidity enhancements are often used on variable-rate securities where the portfolio manager has an option to tender the securities prior to their final maturity.

maturity The date a debt security is scheduled to be "retired" and its principal amount returned to the bondholder.

money market securities High-quality, short-term debt securities that may be issued by entities such as the U.S. government, corporations and financial institutions (such as banks). Money market securities include commercial paper, promissory notes, certificates of deposit, banker's acceptances, notes and time deposits.

muni, municipal bonds, municipal securities Debt securities issued by a state, its counties, municipalities, authorities and other subdivisions, or the territories and possessions of the United States and the District of Columbia, including their subdivisions, agencies and instrumentalities and corporations. These securities may be issued to obtain money for various public purposes, including the construction of a wide range of public facilities such as airports, bridges, highways, housing, hospitals, mass transportation, public utilities, schools, streets, and water and sewer works.

net asset value per share (NAV) The value of one share of a mutual fund. NAV is calculated by taking the fund's total assets, subtracting liabilities, and dividing by the number of shares outstanding. Money funds seek to maintain a steady NAV of \$1.00.

outstanding shares, shares outstanding When speaking of a company or mutual fund, indicates all shares currently held by investors.

restricted securities Securities that are subject to contractual restrictions on resale. These securities are often purchased in private placement transactions.

revenue anticipation notes Obligations that are issued in expectation of the receipt of revenue, such as income taxes, property taxes, etc.

section 3c7 securities Section 3c7 of the Investment Company Act of 1940 (the "1940 Act") exempts certain issuers from many regulatory requirements applicable to investment companies under the 1940 Act. An issuer whose outstanding securities are exclusively owned by "qualified purchasers" and who is not making or proposing to make a public offering of the securities may qualify for this exemption.

section 4(2)/144A securities Securities exempt from registration under Section 4(2) of the Securities Act of 1933. These securities may be sold only to qualified institutional buyers under Securities Act Rule 144A.

taxable-equivalent yield The yield an investor would need to get from a taxable investment in order to match the yield paid by a given tax-exempt investment, once the effect of all applicable taxes is taken into account. For example, if your tax rate were 25%, a tax-exempt investment paying 4.5% would have a taxable-equivalent yield for you of 6.0% ($4.5\% \div [1 - 0.25\%] = 6.0\%$).

total return The percentage that an investor would have earned or lost on an investment in the fund assuming dividends and distributions were reinvested.

tax anticipation notes Notes that typically are sold to finance the cash flow needs of municipalities in anticipation of the receipt of taxes on a future date.

Tier 1, Tier 2 Tier 1 is the highest category of credit quality, Tier 2 the second highest. A security's tier can be established either by an independent rating organization or by a determination of the investment adviser. Money market fund shares and U.S. government securities are automatically considered Tier 1 securities.

weighted average maturity For mutual funds, the maturity of all the debt securities in its portfolio, calculated as a weighted average. As a rule, the longer a fund's weighted average maturity, the greater its interest rate risk. Money funds are required to maintain a weighted average maturity of no more than 90 days.

yield The income paid out by an investment, expressed as a percentage of the investment's market value.

Notes

Notes

Schwab Funds® offers you a complete family of mutual funds, each one based on a clearly defined investment approach and using disciplined management strategies. The list at right shows all currently available Schwab Funds.

Whether you're an experienced investor or just starting out, Schwab Funds can help you achieve your financial goals. An investor should consider a fund's investment objectives, risks, and charges and expenses carefully before investing or sending money. This and other important information can be found in the fund's prospectus. Please call 1-800-435-4000 for a prospectus and brochure for any Schwab Fund. Please read the prospectus carefully before you invest. This report must be preceded or accompanied by a current prospectus.

Methods for Placing Orders

The following information outlines how Schwab investors can place orders. If you are investing through a third-party investment provider, methods for placing orders may be different.

Internet¹

www.schwab.com

Schwab by Phone™²

Use our automated voice service or speak to a representative. Call **1-800-435-4000**, day or night (for TDD service, call **1-800-345-2550**).

TeleBroker®

Use our automated touch-tone phone service at **1-800-272-4922**.

Mail

Write to Schwab Funds at:
P.O. Box 3812
Englewood, CO
80155-3812

When selling or exchanging shares, be sure to include the signatures of at least one of the persons whose name is on the account.

Proxy Voting Policies, Procedures and Results

A description of the proxy voting policies and procedures used to determine how to vote proxies on behalf of the funds is available without charge, upon request, by visiting Schwab's website at www.schwab.com/schwabfunds, the SEC's website at <http://www.sec.gov>, or by contacting Schwab Funds at 1-800-435-4000.

Information regarding how a fund voted proxies relating to portfolio securities during the most recent twelve-month period ended June 30 is available, without charge, by visiting Schwab's website at www.schwab.com/schwabfunds or the SEC's website at <http://www.sec.gov>.

The Schwab Funds Family®

Stock Funds

Schwab S&P 500 Index Fund
Schwab 1000 Index® Fund
Schwab Small-Cap Index Fund®
Schwab Total Stock Market Index Fund®
Schwab International Index Fund™
Schwab Premier Equity Fund™
Schwab Core Equity Fund™
Schwab Dividend Equity Fund™
Schwab Small-Cap Equity Fund™
Schwab Hedged Equity Fund™
Schwab Financial Services Fund™
Schwab Health Care Fund™
Schwab Technology Fund™
Schwab Institutional Select® S&P 500 Fund

Asset Allocation Funds

Schwab MarketTrack All Equity Portfolio™
Schwab MarketTrack Growth Portfolio™
Schwab MarketTrack Balanced Portfolio™
Schwab MarketTrack Conservative Portfolio™
Schwab Target 2010 Fund
Schwab Target 2020 Fund
Schwab Target 2030 Fund
Schwab Target 2040 Fund
Schwab Retirement Income Fund

Bond Funds

Schwab YieldPlus Fund®
Schwab Short-Term Bond Market Fund™
Schwab Total Bond Market Fund™
Schwab GNMA Fund™
Schwab Tax-Free YieldPlus Fund™
Schwab Short/Intermediate Tax-Free Bond Fund™
Schwab Long-Term Tax-Free Bond Fund™
Schwab California Tax-Free YieldPlus Fund™
Schwab California Short/Intermediate Tax-Free Bond Fund™
Schwab California Long-Term Tax-Free Bond Fund™

Schwab Money Funds

Schwab offers an array of money market funds that seek high current income consistent with safety and liquidity.³ Choose from taxable or tax-advantaged alternatives. Many can be linked to your eligible Schwab account to "sweep" cash balances automatically, subject to availability, when you're between investments. Or, for your larger cash reserves, choose one of our Value Advantage Investments®.

¹ Shares of Sweep Investments™ may not be purchased directly over the Internet.

² Orders placed in person or through a telephone representative may be subject to a service fee payable to Schwab.

³ Investments in money market funds are neither insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency and, although they seek to preserve the value of your investment at \$1 per share, it is possible to lose money.

charles SCHWAB

Investment Adviser

Charles Schwab Investment Management, Inc.
101 Montgomery Street, San Francisco, CA 94104

Distributor

Charles Schwab & Co., Inc. (Schwab)

Funds

Schwab Funds®
P.O. Box 3812, Englewood, CO 80155-3812

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Schwab Money Market Fund™

Semiannual Report

June 30, 2005

charles SCHWAB

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From the Chairman



Charles Schwab
Chairman

Dear Shareholder,

I have always believed that it's important to make sure that your cash is earning income between long-term investments by putting the money into a money market fund. While no investment is risk-free, money market funds carry, perhaps, the least amount of risk, as they generally are not as volatile as stocks or stock mutual funds. Money funds are good choices for investors who want to mitigate the potential fluctuations that may occur in their mostly stock portfolios.

At Schwab, we offer a range of money funds with distinct investment strategies. Our municipal money funds, for example, may be beneficial for those of you in the higher tax brackets. We also offer money funds for those interested in the added protection provided by a portfolio of U.S. government securities. In addition, several of the Schwab money funds offer share classes that carry lower expenses in exchange for higher investment minimums.

Now, as a result of the Federal Reserve having raised short-term interest rates eight times in the past 12 months (four during the six-month period covered in this report), yields on money market mutual funds are more attractive than they have been in many years. Not only that, but it's likely that the Fed will raise these rates again this year. Based on this expectation, we anticipate that the yields on money market funds will continue to move upwards over the next few months.

On behalf of Schwab Funds, I want to thank you for investing with us and remind you that our commitment to our shareholders will never waver.

Sincerely,

A handwritten signature in black ink that reads "Charles R. Schwab". The signature is written in a cursive, flowing style.

Management's Discussion

for the six months ended June 30, 2005



Evelyn Dilsaver is President and CEO of Charles Schwab Investment Management, Inc. and is president of the funds covered in this report. She joined the firm in 1992 and has held a variety of executive positions at Schwab.

Dear Shareholder,

When I assumed my new role as President and CEO of Schwab Funds® last year, I pledged that I would be committed to offering you more relevant choices and better value. I am pleased to report that we already have done both.

On July 1, 2005, Schwab Funds launched the Schwab Target Funds™, a suite of five mutual funds to help keep your retirement investments properly allocated over your lifetime. With a single investment in a Schwab Target Fund, you can avoid a common investment mistake—failing to adjust your portfolio over time.

The funds are designed to provide shareholders with investment management, asset allocation and ongoing re-allocation over time. You simply choose the fund that most closely matches the date of your retirement and our experienced portfolio managers will do the rest. They will rebalance four of the five funds from more aggressive to more conservative as you get closer to your retirement date. The fifth fund is designed to help generate income and additional growth after you've retired. It also is a good choice for investors already enjoying their retirement.

These no-load funds are a good value, as the funds have access to the lowest-priced eligible share class on the underlying Schwab affiliate funds. And because the funds invest in groups of other Schwab affiliate funds, they provide an additional layer of diversification.

At Schwab, we believe that having an asset-allocation plan that fits your retirement goals, time frame and tolerance for risk is a key element in meeting your long-term investment goals. The Schwab Target Funds are designed to help you do this. I encourage you to learn more about these funds at www.schwab.com/target, or call Schwab.

Thank you for investing in Schwab Funds.

Sincerely,

A handwritten signature in black ink that reads "Evelyn Dilsaver".

Investors should consider carefully information contained in the prospectus, including investment objectives, risks, charges and expenses. You can request a prospectus by calling Schwab at 1-800-435-4000. Please read the prospectus carefully before investing.



Linda Klingman, a vice president of the investment adviser and senior portfolio manager, has overall responsibility for the management of the fund. She joined the firm in 1990 and has managed money market funds since 1988.



Mike Neitzke, a portfolio manager, has day-to-day responsibility for management of the fund. Prior to joining the firm in March 2001, he worked for more than 15 years in the financial services industry as a portfolio manager.

The Investment Environment and the Fund

Oil prices hit highs never seen before and the Federal Reserve Open Market Committee continued to raise short-term interest rates to curb inflationary pressures, raising rates for the fourth time this year. At the same time, GDP continued to grow at a healthy pace and the housing market remained strong, largely due to low mortgage rates.

The firming labor market, as well as steady gains in capital spending, kept the economic expansion on a self-sustaining path. Businesses, unable to continue boosting productivity by restraining hiring, added new jobs during the six-month report period. Moreover, many leading indicators, such as the Institute for Supply Management's business activity surveys, suggested ongoing expansion, while continuing claims for unemployment benefits remained near cyclical lows.

Business investments grew only modestly, but consumers continued to spend. In fact, consumer confidence rose to a level not experienced since before September 11, 2001. With consumers in a spending mode and consumer spending comprising about 70% of GDP, first quarter GDP remained strong and retail sales were healthy. In this positive economic environment, strong labor market conditions remained positive for domestic consumption.

While high energy prices remained a significant headwind for economic performance, supply no longer was the issue; demand, especially in China, drove prices up. At the end of the six-month report period, a barrel of oil cost \$56.50 versus \$42.55 at the beginning of 2005.

Though high oil and commodity prices could have hampered growth and stirred inflationary pressures, productivity gains, slow growth in the money supply and slack in the economy have mostly kept a lid on core inflation. The productivity gains, coupled with foreign central banks buying large amounts of U.S. Treasury securities, also helped to keep long-term interest rates under control. These conditions also caused the dollar to rally unexpectedly, which took a little bit of pressure off the price of imported goods.

Amid signs of solidly expanding output and improved hiring, the Fed continued to tighten. It increased short-term interest rates at each of the four meetings in the first half of 2005, ending the six-month report period at a still moderate 3.25%. The moves have had a limited impact

In this market environment, our strategy was to position the fund for a continued rise in rates.

on overall economic growth, due primarily to the record-low level of rates from which the increases began. Nonetheless, the higher rates succeeded in moving money fund yields higher, making them a more attractive investment vehicle.

In response to the Federal Reserve's stated intentions to raise short-term interest rates at a "measured" pace, the yield curve for money market funds steepened during the first quarter. Over the course of the second quarter the yield curve began to flatten as the market questioned the duration of the Fed's tightening campaign.

In this market environment, our strategy was to position the fund for a continued rise in rates. To accomplish this, we maintained and continued to add to our position of variable-rate securities. The interest rates on these types of securities reset frequently, allowing us the opportunity to capture a rise in market rates. To further take advantage of the rising-rate environment, we kept the weighted average maturity (WAM) short, at about 42 days. Keeping the WAM short provided flexibility to adapt and respond to the changes in interest rates. This is a similar strategy to our peers, as shortening the WAM enabled money funds to more quickly reinvest at higher rates.

Nothing in this report represents a recommendation of a security by the investment adviser. Manager views and portfolio holdings may have changed since the report date.

Performance and Fund Facts as of 6/30/05

Ticker Symbol: SWMXX

Seven-Day Yields

The seven-day yields are calculated using standard SEC formulas. The effective yield includes the effect of reinvesting daily dividends. Please remember that money market fund yields fluctuate.

Seven-Day Yield¹	2.49%
Seven-Day Yield–No Waiver²	2.44%
Seven-Day Effective Yield¹	2.52%

The performance data quoted represents past performance. Past performance does not guarantee future results. Current performance may be lower or higher than performance data quoted. To obtain more current performance information, please visit www.schwab.com/schwabfunds.

Statistics

Money funds must maintain a dollar-weighted average maturity of no longer than 90 days, and cannot invest in any security whose effective maturity is longer than 397 days (approximately 13 months).

Weighted Average Maturity	42 days
Credit Quality of Holdings % of portfolio	100% Tier 1

An investment in a money fund is neither insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. Although money funds seek to preserve the value of your investment at \$1 per share, it is possible to lose money by investing in a money fund.

Portfolio holdings may have changed since the report date.

¹ Fund expenses have been partially absorbed by CSIM and Schwab.

² Yield if fund expenses had not been partially absorbed by CSIM and Schwab.

Fund Expenses

Examples for a \$1,000 Investment

As a fund shareholder, you incur two types of costs: transaction costs, such as redemption fees; and, ongoing costs, such as management fees, transfer agent and shareholder services fees, and other fund expenses.

The expense examples below are intended to help you understand your ongoing cost (in dollars) of investing in a fund and to compare this cost with the ongoing cost of investing in other mutual funds. These examples are based on an investment of \$1,000 invested for six-months beginning January 1, 2005 and held through June 30, 2005.

Actual Return lines in the table below provide information about actual account values and actual expenses. You may use this information, together with the amount you invested, to estimate the expenses that you paid over the period. To do so, simply divide your account value by \$1,000 (for example, an \$8,600 account value \div \$1,000 = 8.6), then multiply the result by the number given for your fund under the heading entitled "Expenses Paid During Period."

Hypothetical Return lines in the table below provide information about hypothetical account values and hypothetical expenses based on a fund's actual expense ratio and an assumed return of 5% per year before expenses. Because the return used is not an actual return, it may not be used to estimate the actual ending account value or expenses you paid for the period.

You may use this information to compare the ongoing costs of investing in the fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only, and do not reflect any transactional costs, such as redemption fees. If these transactional costs were included, your costs would have been higher.

	Expense Ratio ¹ (Annualized)	Beginning Account Value at 1/1/05	Ending Account Value (Net of Expenses) at 6/30/05	Expenses Paid During Period ² 1/1/05–6/30/05
Schwab Money Market Fund™				
Actual Return	0.74%	\$1,000	\$1,010.00	\$3.69
Hypothetical 5% Return	0.74%	\$1,000	\$1,021.13	\$3.71

¹ Based on the most recent six-month expense ratio; may differ from the expense ratio provided in Financial Highlights.

² Expenses for the fund are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 181 days of the period, and divided by 365 days of the fiscal year.

Financial Statements

Financial Highlights

	1/1/05– 6/30/05*	1/1/04– 12/31/04	1/1/03– 12/31/03	1/1/02– 12/31/02	1/1/01– 12/31/01	1/1/00– 12/31/00
Per-Share Data (\$)						
Net asset value at beginning of period	1.00	1.00	1.00	1.00	1.00	1.00
Income from investment operations:						
Net investment income	0.01	0.01	0.01	0.01	0.04	0.06
Less distributions:						
Dividends from net investment income	(0.01)	(0.01)	(0.01)	(0.01)	(0.04)	(0.06)
Net asset value at end of period	1.00	1.00	1.00	1.00	1.00	1.00
Total return (%)	1.00 ¹	0.68	0.50	1.23	3.73	5.84
Ratios/Supplemental Data (%)						
Ratios to average net assets:						
Net operating expenses	0.74 ²	0.75	0.75	0.75	0.75	0.76 ³
Gross operating expenses	0.79 ²	0.78	0.78	0.78	0.79	0.81
Net investment income	2.01 ²	0.67	0.50	1.22	3.63	5.70
Net assets, end of period (\$ x 1,000,000)	42,213	44,023	49,079	51,063	49,116	41,823

* Unaudited.

¹ Not annualized.

² Annualized.

³ The ratio of net operating expenses would have been 0.75% if certain non-routine expenses (proxy fees) had not been included.

Portfolio Holdings as of June 30, 2005; unaudited

This section shows all the securities in the fund's portfolio and their value, as of the report date.

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on the fund's most recent Form N-Q is available by visiting Schwab's website at www.schwab.com/schwabfunds.

We use the symbols below to designate certain characteristics of the securities.

- ◆ Asset-backed security
- ✦ Credit-enhanced security
- Illiquid and/or restricted security

For fixed-rate obligations, the rate shown is the effective yield at the time of purchase, except for U.S. government agency coupon notes and U.S. Treasury notes, for which the rate shown is the interest rate (the rate established when the obligation was issued). For variable-rate obligations, the rate shown is the rate as of the report date. For variable-rate obligations with scheduled maturities greater than 397 days, the maturity shown is the later of the next interest rate change date or demand date. For variable-rate obligations with scheduled maturities less than 397 days, the maturity shown is the earlier of the next interest rate change date or demand date. For variable-rate obligations without demand features, the maturity shown is the next interest rate change date.

Holdings by Category	Cost (\$x1,000)	Value (\$x1,000)
64.3% Fixed-Rate Obligations	27,143,994	27,143,994
17.3% Variable-Rate Obligations	7,309,345	7,309,345
18.5% Other Investments	7,820,973	7,820,973
100.1% Total Investments	42,274,312	42,274,312
(0.1)% Other Assets and Liabilities		(61,436)
100.0% Total Net Assets		42,212,876

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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Fixed-Rate Obligations 64.3% of net assets
Commercial Paper & Other Corporate Obligations 36.3%
AB Spintab

2.95%, 08/08/05	137,000	136,580
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Alliance & Leicester, PLC, Section 4(2) / 144A

3.15%, 09/08/05	70,000	69,584
3.20%, 09/12/05	40,000	39,744

◆ Amstel Funding Corp., Section 4(2) / 144A

3.20%, 07/20/05	13,892	13,869
2.95%, 08/10/05	32,096	31,992
3.28%, 08/31/05	60,000	59,670

◆✦ Amsterdam Funding Corp., Section 4(2) / 144A

3.09%, 07/07/05	100,000	99,949
3.17%, 07/18/05	100,000	99,851
3.19%, 07/19/05	90,000	89,857
3.23%, 07/21/05	136,030	135,787
3.24%, 07/27/05	100,000	99,767
3.26%, 07/28/05	27,400	27,333

◆✦ Aquinas Funding, L.L.C., Section 4(2) / 144A

3.15%, 09/02/05	45,000	44,756
3.60%, 12/19/05	50,000	49,159
3.61%, 12/19/05	25,000	24,579
3.62%, 12/22/05	28,713	28,220
3.61%, 12/23/05	66,210	65,069

◆✦ ASAP Funding Ltd., Section 4(2) / 144A

3.17%, 07/11/05	41,000	40,964
3.23%, 07/22/05	16,000	15,970
3.30%, 08/03/05	25,000	24,925
3.23%, 08/08/05	112,000	111,621
3.23%, 08/09/05	55,000	54,809
3.24%, 08/09/05	50,000	49,826
3.30%, 08/26/05	39,000	38,802

◆✦ Atlantic Asset Securitization Corp., Section 4(2) / 144A

3.09%, 07/05/05	21,860	21,853
3.15%, 07/11/05	74,204	74,139

◆ Atlantis One Funding Corp., Section 4(2) / 144A

2.84%, 07/14/05	279,000	278,718
2.87%, 07/20/05	146,470	146,251
2.87%, 07/21/05	60,882	60,786
2.87%, 07/22/05	50,000	49,917
3.15%, 09/15/05	196,012	194,729
3.25%, 09/20/05	120,000	119,136
3.39%, 11/16/05	60,000	59,234
3.61%, 12/20/05	26,643	26,192

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Bank of America Corp.			3.30%, 09/06/05	100,000	99,390
3.32%, 10/06/05	245,000	242,848	3.30%, 09/07/05	100,000	99,381
◆◆ Blue Spice, L.L.C., Section 4(2) / 144A			◆ Dexia Delaware L.L.C.		
3.29%, 07/12/05	70,000	69,930	3.30%, 09/09/05	200,000	198,726
3.15%, 07/13/05	82,000	81,914	◆ Dorada Finance, Inc., Section 3c7 / 144A		
3.21%, 07/20/05	64,000	63,892	2.78%, 07/07/05	50,000	49,977
◆ CC (USA), Inc., Section 3c7 / 144A			2.82%, 07/15/05	20,000	19,978
2.78%, 07/07/05	15,000	14,993	3.31%, 09/09/05	10,000	9,936
3.31%, 09/12/05	50,000	49,667	3.43%, 09/28/05	45,000	44,622
3.43%, 09/29/05	78,000	77,337	◆◆ Eiffel Funding, L.L.C., Section 4(2) / 144A		
3.46%, 09/29/05	64,000	63,451	3.08%, 07/07/05	23,000	22,988
+ Citigroup Funding, Inc.			3.13%, 07/08/05	25,000	24,985
3.11%, 07/01/05	446,000	446,000	3.14%, 07/12/05	20,000	19,981
3.21%, 07/21/05	200,000	199,644	3.25%, 07/15/05	10,000	9,987
3.21%, 07/22/05	181,000	180,662	3.23%, 07/25/05	50,000	49,893
Citigroup Global Markets Holdings, Inc.			3.23%, 07/26/05	47,000	46,895
3.17%, 08/02/05	246,000	245,311	3.17%, 07/27/05	20,000	19,954
3.27%, 09/01/05	250,000	248,605	3.26%, 07/28/05	25,000	24,939
◆◆ Clipper Receivables Co., LLC			3.27%, 07/28/05	25,000	24,939
Section 4(2) / 144A			3.31%, 08/02/05	18,000	17,947
3.09%, 07/05/05	76,000	75,974	3.46%, 09/28/05	50,000	49,576
3.19%, 07/18/05	30,000	29,955	◆◆ Fairway Finance Co., L.L.C., Section 4(2) / 144A		
3.11%, 07/21/05	50,000	49,914	3.26%, 07/25/05	17,062	17,025
◆◆ Concord Minutemen Capital Co., Series A			3.17%, 07/27/05	19,162	19,118
Section 3c7 / 144A			2.96%, 07/28/05	11,153	11,129
2.81%, 07/06/05	30,000	29,988	◆ Galaxy Funding, Inc., Section 4(2) / 144A		
2.83%, 07/06/05	69,000	68,973	3.05%, 07/01/05	16,000	16,000
3.25%, 07/22/05	20,000	19,962	3.07%, 07/11/05	11,000	10,991
2.96%, 08/11/05	50,000	49,834	3.09%, 07/19/05	53,670	53,588
3.07%, 08/16/05	152,252	151,664	3.09%, 07/20/05	90,000	89,854
3.01%, 08/18/05	69,000	68,728	3.13%, 07/26/05	53,000	52,886
◆◆ Crown Point Capital Co., L.L.C., Section 3c7 / 144A			3.31%, 09/06/05	10,000	9,939
3.09%, 07/12/05	36,000	35,966	3.43%, 09/26/05	60,000	59,507
3.09%, 07/19/05	131,000	130,799	General Electric Capital Corp.		
3.17%, 07/26/05	11,000	10,976	2.86%, 07/20/05	371,000	370,448
2.95%, 08/08/05	99,000	98,696	◆ Giro Funding U.S. Corp., Section 4(2) / 144A		
3.37%, 10/20/05	96,468	95,480	3.10%, 07/06/05	96,000	95,959
3.44%, 11/16/05	98,292	97,017	3.18%, 07/13/05	100,000	99,894
◆ Dakota CP Notes of Citibank Credit Card Issuance			3.09%, 07/18/05	57,958	57,874
Trust, Section 4(2) / 144A			3.23%, 07/19/05	100,000	99,839
3.16%, 07/13/05	265,000	264,722	3.24%, 07/22/05	55,000	54,896
3.17%, 07/25/05	200,000	199,580	3.29%, 07/28/05	75,000	74,816
3.17%, 07/26/05	150,000	149,672	3.32%, 08/01/05	9,000	8,974
3.17%, 07/27/05	300,000	299,317	◆◆ Grampian Funding, LLC., Section 4(2) / 144A		
3.26%, 07/28/05	150,000	149,634	3.43%, 09/28/05	60,000	59,496
			3.60%, 12/20/05	100,000	98,309

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
◆+ Greyhawk Funding L.L.C., Section 4(2) / 144A			◆ Mane Funding Corp., Section 4(2) / 144A		
3.15%, 07/11/05	39,000	38,966	3.22%, 07/22/05	50,000	49,906
HSBC U.S.A., Inc.			3.27%, 07/25/05	29,640	29,576
3.32%, 08/01/05	75,000	74,786	3.26%, 07/27/05	100,332	100,096
3.59%, 12/20/05	50,000	49,159	3.31%, 07/27/05	51,647	51,524
Irish Life & Permanent, PLC, Section 4(2) / 144A			3.31%, 07/29/05	40,115	40,012
3.29%, 09/07/05	85,000	84,477	3.31%, 09/08/05	48,000	47,698
3.30%, 09/12/05	50,000	49,668	3.43%, 09/21/05	20,000	19,845
3.30%, 09/13/05	10,000	9,933	3.43%, 09/22/05	100,000	99,216
3.45%, 11/10/05	50,000	49,379	3.43%, 09/23/05	60,000	59,524
+ IXIS Commercial Paper Corp., Section 4(2) / 144A			Morgan Stanley		
3.26%, 07/11/05	11,250	11,240	3.15%, 07/19/05	111,000	110,826
◆+ Jupiter Securitization Corp., Section 4(2) / 144A			3.19%, 07/20/05	50,000	49,916
3.13%, 07/13/05	8,078	8,070	3.23%, 07/20/05	50,000	49,915
3.16%, 07/18/05	44,316	44,250	3.45%, 11/14/05	200,000	197,439
3.17%, 07/18/05	125,391	125,204	+ National Australia Funding (Delaware) Inc.		
3.19%, 07/19/05	90,229	90,086	3.18%, 07/25/05	20,000	19,958
3.26%, 07/25/05	49,155	49,048	◆ Newcastle Certificates Program, Section 4(2) / 144A		
3.23%, 07/26/05	100,000	99,776	Series 2000A		
◆ K2 (USA), L.L.C., Section 3c7 / 144A			3.23%, 07/13/05	77,875	77,791
2.84%, 07/15/05	21,800	21,776	3.33%, 07/08/05	18,500	18,488
3.07%, 08/25/05	98,700	98,244	3.24%, 07/18/05	5,300	5,292
3.15%, 09/09/05	38,200	37,970	3.38%, 07/26/05	25,000	24,941
3.31%, 09/12/05	34,400	34,171	◆+ Nieuw Amsterdam Receivables Corp.,		
3.25%, 09/19/05	14,000	13,900	Section 4(2) / 144A		
3.35%, 10/03/05	100,000	99,141	3.09%, 07/06/05	18,541	18,533
3.33%, 10/11/05	20,100	19,913	3.30%, 07/07/05	50,000	49,973
3.38%, 11/08/05	50,000	49,401	2.89%, 07/13/05	13,000	12,988
3.46%, 11/15/05	28,000	27,637	2.93%, 07/28/05	30,449	30,383
3.51%, 12/09/05	10,000	9,846	2.96%, 08/08/05	10,000	9,969
+ KBC Financial Products International, Ltd.,			◆+ Park Avenue Receivables Corp. L.L.C.,		
Section 4(2) / 144A			Section 4(2) / 144A		
3.37%, 10/12/05	104,000	103,015	3.14%, 07/14/05	136,069	135,915
◆+ Kitty Hawk Funding Corp., Section 4(2) / 144A			3.16%, 07/18/05	87,316	87,186
3.18%, 07/15/05	192,000	191,763	3.26%, 07/25/05	35,000	34,924
3.25%, 09/20/05	15,000	14,892	3.23%, 07/26/05	178,000	177,602
◆+ Lexington Parker Capital Co., L.L.C.,			◆ Park Granada, L.L.C., Section 4(2) / 144A		
Section 4(2) / 144A			3.26%, 07/25/05		
3.09%, 07/14/05	10,000	9,989	3.27%, 07/29/05	150,000	149,620
2.86%, 07/18/05	14,000	13,981	3.20%, 08/01/05	16,500	16,455
3.22%, 07/18/05	70,196	70,090	◆+ Preferred Receivables Funding Corp.,		
3.26%, 07/18/05	72,000	71,890	Section 4(2) / 144A		
2.88%, 07/25/05	45,000	44,915	3.13%, 07/14/05	63,000	62,929
3.07%, 08/16/05	100,000	99,613	3.15%, 07/15/05	81,323	81,224
3.07%, 08/23/05	10,000	9,955	◆+ Ranger Funding Co. L.L.C., Section 4(2) / 144A		
3.15%, 09/01/05	225,000	223,799	3.19%, 07/19/05		
				86,590	86,453

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
+ San Paolo IMI U.S. Financial Co.			Certificates of Deposit 26.3%		
3.09%, 07/21/05	100,000	99,829	Alliance & Leicester, PLC		
+ Santander Central Hispano Finance (Delaware), Inc.			3.08%, 07/18/05	50,000	50,000
2.81%, 07/13/05	210,000	209,806	3.32%, 10/18/05	55,000	54,945
3.31%, 09/09/05	110,000	109,298	3.58%, 12/20/05	25,000	25,000
◆+ Scaldis Capital Ltd., Section 4(2) / 144A			American Express Bank FSB		
2.86%, 07/15/05	82,249	82,159	3.09%, 07/07/05	120,000	120,000
3.33%, 09/19/05	111,547	110,735	American Express Centurion Bank		
3.33%, 09/27/05	21,000	20,832	3.30%, 09/06/05	128,000	128,000
◆+ Sigma Finance, Inc., Section 3c7 / 144A			Banco Bilbao Vizcaya Argentaria S.A.		
2.81%, 07/01/05	27,000	27,000	2.77%, 07/06/05	220,000	220,000
3.08%, 07/12/05	200,000	199,813	3.33%, 10/11/05	20,000	20,000
3.09%, 07/13/05	28,000	27,971	3.46%, 11/28/05	185,000	185,000
3.15%, 09/02/05	45,000	44,756	3.49%, 12/02/05	50,000	50,000
3.46%, 11/21/05	84,000	82,866	Bank of The West		
Skandinaviska Enskilda Banken AB			3.33%, 09/27/05	46,000	46,000
2.81%, 07/12/05	70,000	69,941	Bank of Tokyo-Mitsubishi, Ltd.		
3.25%, 09/16/05	55,000	54,624	3.27%, 07/27/05	170,000	170,000
3.26%, 09/16/05	39,000	38,732	Barclays Bank PLC		
Societe Generale North America, Inc.			3.57%, 12/19/05	89,000	89,000
2.73%, 07/06/05	150,000	149,944	BNP Paribas		
The Goldman Sachs Group, Inc.			3.30%, 09/12/05	163,000	163,000
3.47%, 11/21/05	90,000	88,781	3.43%, 11/08/05	300,000	300,000
◆+ Thunder Bay Funding, L.L.C., Section 4(2) / 144A			3.46%, 11/28/05	410,000	410,000
3.26%, 07/27/05	12,000	11,972	Calyon		
◆+ Triple-A One Funding Corp., Section 4(2) / 144A			3.37%, 11/09/05	265,000	265,000
3.26%, 07/25/05	20,658	20,613	3.40%, 11/10/05	235,000	235,000
+ UBS Finance (Delaware) Inc.			Canadian Imperial Bank of Commerce		
3.08%, 07/08/05	315,000	314,812	2.72%, 07/05/05	338,000	338,000
3.24%, 07/25/05	10,600	10,577	Citibank, N.A.		
+ Westpac Capital Corp.			3.27%, 08/31/05	113,000	113,000
3.45%, 11/28/05	150,000	147,881	Credit Suisse First Boston		
3.46%, 11/29/05	100,000	98,574	3.15%, 07/29/05	15,000	15,000
◆ White Pine Finance, L.L.C., Section 3c7 / 144A			3.19%, 08/09/05	643,000	643,000
2.92%, 07/07/05	10,381	10,376	3.27%, 09/02/05	75,000	75,000
3.43%, 09/26/05	44,653	44,286	Danske Bank A/S		
◆+ Windmill Funding Corp., Section 4(2) / 144A			3.18%, 07/18/05	30,000	30,000
3.09%, 07/08/05	49,000	48,971	3.23%, 07/26/05	247,000	247,000
3.17%, 07/18/05	85,000	84,873	DePfa Bank, PLC		
3.19%, 07/19/05	25,000	24,960	2.77%, 07/05/05	20,000	20,000
3.19%, 07/21/05	160,000	159,717	3.11%, 09/01/05	80,000	80,000
3.23%, 07/21/05	67,000	66,880	Deutsche Bank, AG		
◆+ Yorktown Capital, L.L.C., Section 4(2) / 144A			3.31%, 09/08/05	150,000	149,998
3.19%, 07/19/05	29,189	29,143	3.31%, 09/16/05	175,000	175,000
		15,331,064			

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Dexia Credit Local			3.32%, 10/11/05	173,000	173,000
3.23%, 07/22/05	182,000	182,000	3.45%, 11/18/05	100,000	100,000
DnB NOR Bank			Unicredito Italiano SpA		
3.40%, 11/10/05	50,000	50,001	3.34%, 10/12/05	548,000	548,000
HSBC Bank, PLC			Washington Mutual Bank, FA		
3.11%, 07/25/05	245,000	245,000	3.27%, 09/26/05	145,000	145,000
3.03%, 08/22/05	260,000	260,000	3.44%, 11/22/05	198,000	198,000
HSBC Bank, USA			Wells Fargo Bank, N.A.		
3.44%, 11/21/05	41,000	40,996	3.26%, 07/07/05	262,000	261,999
KBC Bank NV			3.27%, 07/12/05	299,000	298,999
3.11%, 07/15/05	113,000	113,000	3.25%, 07/28/05	230,000	230,000
3.14%, 07/15/05	122,000	122,000	Westpac Banking Corp.		
Landesbank Hessen-Thuringen Girozentrale			3.22%, 08/10/05	197,000	197,000
3.15%, 09/12/05	200,000	200,002	Wilmington Trust Co.		
3.45%, 11/14/05	50,000	50,000	2.81%, 07/05/05	42,000	42,000
Lloyds TSB Bank, PLC					11,112,930
3.45%, 11/17/05	90,000	89,992	Bank Notes 1.5%		
3.46%, 12/01/05	115,000	115,002	Bank of America, N.A.		
Mizuho Corp. Bank, Ltd.			2.98%, 08/19/05	300,000	300,000
3.20%, 08/08/05	80,000	80,000	2.98%, 08/23/05	310,000	310,000
3.21%, 08/08/05	90,000	90,000			610,000
Nordea Bank Finland, PLC			Promissory Notes 0.2%		
3.30%, 09/09/05	100,000	100,000	The Goldman Sachs Group, Inc.		
Royal Bank of Scotland, PLC			2.85%, 07/06/05	50,000	50,000
2.17%, 07/01/05	145,000	145,000	2.93%, 07/15/05	40,000	40,000
3.25%, 07/28/05	195,000	195,000			90,000
Skandinaviska Enskilda Banken AB			Variable-Rate Obligations 17.3% of net assets		
3.20%, 07/22/05	160,000	160,000	ABAG Financial Authority for Nonprofit Corps., California		
Societe Generale			RB (Public Pole Institute) Series 2002B		
3.23%, 09/23/05	200,000	200,000	3.36%, 07/07/05	17,830	17,830
3.51%, 12/15/05	300,000	300,000	Albuquerque, New Mexico Airport		
3.54%, 12/16/05	200,000	200,000	RB Series 2000B		
Svenska Handelsbanken AB			3.37%, 07/07/05	16,200	16,200
3.11%, 07/14/05	282,000	282,000	Bank of New York Co., Inc., 144A		
3.19%, 08/10/05	360,000	360,000	3.35%, 07/27/05	75,000	75,000
Toronto Dominion Bank			Barclays Bank, PLC		
3.44%, 11/09/05	15,000	14,996	3.28%, 07/05/05	90,000	89,984
3.47%, 12/05/05	263,000	263,000	3.07%, 07/05/05	128,000	127,973
3.54%, 12/09/05	170,000	170,000			
U.S. Bank, N.A.					
2.86%, 08/03/05	150,000	150,000			
3.20%, 09/15/05	20,000	20,000			
3.34%, 10/03/05	304,000	304,000			

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
3.13%, 07/11/05	80,000	79,986	J.P. Morgan Securities, Inc., 144A		
3.15%, 07/18/05	45,000	44,985	3.11%, 07/01/05	200,000	200,000
3.21%, 07/21/05	467,000	466,921	Landesbank Baden-Wuerttemberg		
3.26%, 08/01/05	320,000	319,965	3.10%, 07/07/05	24,000	23,997
◆ Beta Finance, Inc., Section 3c7 / 144A			3.15%, 07/13/05	15,000	14,999
3.17%, 07/14/05	200,000	199,978	3.22%, 07/22/05	50,000	49,996
BNP Paribas			◆ Liberty Lighthouse U.S. Capital Co. L.L.C., Section 4(2) / 144A		
3.18%, 07/18/05	95,000	94,980	3.10%, 07/05/05	100,000	99,993
Canadian Imperial Bank of Commerce			3.23%, 07/19/05	20,000	19,999
3.28%, 07/15/05	100,000	100,000	3.27%, 07/26/05	75,000	74,998
◆ CC (USA), Inc., Section 3c7 / 144A			3.27%, 07/27/05	20,000	19,999
3.27%, 07/22/05	61,000	60,997	3.29%, 07/29/05	49,000	48,995
+ CFM International, Inc., 144A			◆ Links Finance, L.L.C., Section 3c7 / 144A		
3.33%, 07/07/05	18,990	18,990	3.20%, 07/14/05	27,000	27,000
+ Cook County, ILL.			3.17%, 07/15/05	22,000	21,998
Series 2004D			3.27%, 07/25/05	80,000	79,999
3.36%, 07/07/05	30,000	30,000	3.30%, 07/26/05	25,000	25,000
◆ Dorada Finance, Inc., Section 3c7 / 144A			+ Loanstar Assets Partners II, L.P.		
3.17%, 07/14/05	100,000	99,989	3.32%, 07/07/05	45,000	45,000
3.20%, 07/15/05	47,000	47,000	+ Lowndes Corp., Georgia, 144A		
Fannie Mae			Taxable Demand Bond Series 1997		
2.99%, 07/05/05	195,000	194,967	3.36%, 07/07/05	3,300	3,300
3.21%, 07/29/05	280,000	279,979	+ Merlot Trust Section 4(2) / 144A		
Federal Home Loan Bank			Series 2000B		
3.05%, 07/05/05	250,000	249,967	3.49%, 07/07/05	32,630	32,630
• GE Life & Annuity Assurance Co.			Series 2001A67		
3.19%, 07/01/05	150,000	150,000	3.49%, 07/07/05	35,065	35,065
General Electric Capital Corp.			Series 2001A7		
3.28%, 07/11/05	175,000	175,000	3.49%, 07/07/05	15,470	15,470
3.34%, 07/18/05	75,000	75,000	• Metropolitan Life Insurance Co.		
• The Goldman Sachs Group, Inc., 144A			3.18%, 07/01/05	100,000	100,000
3.23%, 07/11/05	225,000	225,000	3.16%, 07/30/05	50,000	50,000
• The Goldman Sachs Group, Inc.			• Monumental Life Insurance Co.		
3.18%, 07/05/05	25,000	25,000	3.27%, 07/01/05	100,000	100,000
3.36%, 07/28/05	140,000	140,000	Morgan Stanley		
3.32%, 07/22/05	185,000	185,000	3.13%, 07/05/05	240,000	240,000
+ HBOS Treasury Service, PLC			+ New Jersey Economic Development Authority		
3.09%, 07/05/05	26,000	26,000	Adjustable Rate Lease Revenue		
3.27%, 07/26/05	160,000	160,000	Taxable Bonds (Barnes & Noble, Inc. Distribution & Freight Consolidation Center Project)		
HSH Nordbank, AG			Series 1995A		
3.12%, 07/11/05	291,000	290,977	3.27%, 07/07/05	13,310	13,310
3.13%, 07/11/05	91,000	90,987			

Security	Maturity Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Acquisition Date, Maturity Date	Face Amount (\$ x 1,000)	Cost/ Value (\$ x 1,000)
J.P. Morgan Chase & Co.					
Tri-Party Repurchase Agreement					
Collateralized by U.S. Government					
Securities with a value of \$408,000					
3.44%, issued 06/30/05					
due 07/01/05	400,038	400,000			
Morgan Stanley & Co. Inc.					
Tri-Party Repurchase Agreement					
Collateralized by U.S. Government					
Securities with a value of \$1,280,826					
3.40%, issued 06/30/05					
due 07/01/05	655,062	655,000			
3.45%, issued 06/30/05					
due 07/01/05	600,058	600,000			
UBS Financial Services, Inc.					
Tri-Party Repurchase Agreement					
Collateralized by U.S. Government					
Securities with a value of \$1,218,906					
3.43%, issued 06/30/05					
due 07/01/05	900,086	900,000			
3.21%, issued 06/23/05					
due 07/07/05	295,368	295,000			
		7,820,973			
<hr/>					
End of investments.					
At June 30, 2005, portfolio holdings included illiquid and/or restricted securities as follows:					
Blue Spice, L.L.C., Section 4(2) / 144A					
3.29%, 06/28/05, 07/12/05					
			70,000		69,930
3.15%, 06/10/05, 07/13/05					
			82,000		81,914
3.21%, 06/16/05, 07/20/05					
			64,000		63,892
					215,736
The Goldman Sachs Group, Inc.					
3.18%, 02/03/05, 07/05/05					
			25,000		25,000
2.85%, 01/06/05, 07/06/05					
			50,000		50,000
2.93%, 01/19/05, 07/15/05					
			40,000		40,000
3.32%, 02/22/05, 07/22/05					
			185,000		185,000
3.36%, 02/28/05, 07/28/05					
			140,000		140,000
					440,000
The Goldman Sachs Group, Inc., 144A					
3.23%, 07/07/04, 07/11/05					
			225,000		225,000
GE Life & Annuity					
3.19%, 02/01/05, 07/01/05					
			150,000		150,000
Metropolitan Life Insurance Co.					
3.18%, 02/01/05, 07/01/05					
			100,000		100,000
3.16%, 12/28/00, 07/30/05					
			50,000		50,000
					150,000
Monumental Life Insurance Co.					
3.27%, 06/10/93, 07/01/05					
			100,000		100,000
Travelers Insurance Co.					
3.38%, 10/31/03, 07/29/05					
			100,000		100,000

Statement of

Assets and Liabilities

As of June 30, 2005; unaudited. All numbers x 1,000 except NAV.

Unless stated, all numbers x 1,000.

Assets

Investments, at value	\$34,453,339
Repurchase agreements, at value	7,820,973
Interest receivable	75,002
Prepaid expenses	+ 555
Total assets	42,349,869

The amortized cost of the fund's securities was \$42,274,312. Includes illiquid and/or restricted securities worth \$1,380,736, or 3.3% of the fund's total net assets. Also, includes other restricted but deemed liquid securities comprised of 144A, section 4(2) and 3c7 securities, worth \$12,865,087 or 30.5% of the fund's total net assets.

Liabilities

Payables:	
Dividends to shareholders	42,962
Investments bought	89,984
Investment adviser and administrator fees	939
Transfer agent and shareholder service fees	1,569
Trustees' fees	18
Accrued expenses	+ 1,521
Total liabilities	136,993

Net Assets

Total assets	42,349,869
Total liabilities	- 136,993
Net assets	\$42,212,876

Net Assets by Source

Capital received from investors	42,212,925
Net realized capital losses	(49)

Net Asset Value (NAV)

Net Assets	÷	Shares Outstanding	=	NAV
\$42,212,876		42,213,484		\$1.00

Federal Tax Data**Cost basis of portfolio** \$42,274,312**As of December 31, 2004:****Unused capital losses:**Expires 12/31 of: Loss amount:
2007 \$49

Statement of

Operations

For January 1, 2005 through June 30, 2005; unaudited. All numbers x 1,000.

Investment IncomeInterest **\$592,505****Expenses**

Investment adviser and administrator fees	67,705
Transfer agent and shareholder service fees	96,891
Trustees' fees	89
Custodian and portfolio accounting fees	1,753
Professional fees	93
Registration fees	313
Shareholder reports	1,876
Other expenses	+ 313
Total expenses	169,033
Expense reduction	- 9,700
Net expenses	159,333

Increase in Net Assets from Operations

Total investment income	592,505
Net expenses	- 159,333
Net investment income	433,172
Increase in net assets from operations	\$433,172

Unless stated, all numbers x 1,000.

Calculated on a graduated basis as a percentage of average daily net assets: 0.38% of the first \$1 billion, 0.35% over \$1 billion, 0.32% over \$10 billion, 0.30% over \$20 billion and 0.27% over \$40 billion. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

Calculated as a percentage of average daily net assets: for transfer agent services, 0.25% of the fund's assets; for shareholder services, 0.20% of the fund's assets. These fees are paid to Charles Schwab & Co., Inc. (Schwab).

For the fund's independent trustees only.

This reduction was made by the investment adviser (CSIM). It reflects a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the annual operating expenses of this fund through December 31, 2005 to 0.74% of average daily net assets. This limit excludes interest, taxes and certain non-routine expenses.

Statements of

Changes in Net Assets

For the current and prior report periods. All numbers x 1,000.
Figures for the current period are unaudited.

Operations

	1/1/05-6/30/05	1/1/04-12/31/04
Net investment income	\$433,172	\$316,431
Increase in net assets from operations	433,172	316,431

Distributions Paid

Dividends from net investment income	433,172	316,431
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Transactions in Fund Shares

Shares sold	65,755,636	131,897,898
Shares reinvested	384,918	310,836
Shares redeemed	+ (67,950,526)	(137,265,143)
Net transactions in fund shares	(1,809,972)	(5,056,409)

Net Assets

Beginning of period	44,022,848	49,079,257
Total decrease	+ (1,809,972)	(5,056,409)
End of period	\$42,212,876	\$44,022,848

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 12/31/04 are:

Ordinary income	\$316,431
Long-term capital gains	\$-

Because all transactions in this section took place at \$1.00 per share, figures for share quantities are the same as for dollars.

Represents the changes in net assets from operations plus the changes in value of transactions in fund shares, minus distributions paid.

Financial Notes unaudited

Business Structure of the Funds

The fund discussed in this report is a series of The Charles Schwab Family of Funds, a no-load, open-end management investment company. The company is organized as a Massachusetts business trust and is registered under the Investment Company Act of 1940, as amended. The sidebar shows the fund in this report and its trust.

The Fund offers one share class. Shares are bought and sold at \$1.00 per share. Each share has a par value of 1/1,000 of a cent, and the trust may issue as many shares as necessary.

Fund Operations

Most of the fund's investments are described in the sections earlier in this report. However, there are certain other fund operations and policies that may affect the fund's financials, as described below. Other policies concerning the fund's business operations also are described here.

The fund declares dividends every day it is open for business. These dividends, which are equal to the fund's net investment income for that day, are paid out to shareholders once a month. The fund may make distributions from any net realized capital gains once a year.

The fund may buy securities on a delayed-delivery basis. In these transactions, the fund agrees to buy a security for a stated price, with settlement generally occurring within two weeks. If the security's value falls before settlement occurs, the fund could end up paying more for the security than its market value at the time of settlement. The fund has set aside sufficient securities as collateral for those securities bought on a delayed-delivery basis.

The fund may enter into repurchase agreements.

In a repurchase agreement, the fund buys a security from another party (usually a financial institution) with the agreement that it be sold back in the future. The date, price and other conditions are all specified when the agreement is created. Any repurchase agreements with due dates later than seven days from issue dates may be subject to seven day put features for liquidity purposes.

The fund's repurchase agreements will be fully collateralized by U.S. government securities. All collateral is held by the fund's custodian (or, with tri-party agreements, the agent's bank) and is monitored daily to ensure that its market value is at least equal to the repurchase price under the agreement.

The fund pays fees to affiliates of the investment adviser for various services. Through its trust, the fund has agreements with Charles Schwab Investment Management, Inc. (CSIM) to provide Investment Advisory and administrative services and with

The Trust and Its Funds

This list shows all of the funds included in The Charles Schwab Family of Funds. The fund discussed in this report is highlighted.

The Charles Schwab Family of Funds

organized October 20, 1989

Schwab Money Market Fund

- Schwab Government Money Fund
- Schwab U.S. Treasury Money Fund
- Schwab Value Advantage Money Fund
- Schwab Municipal Money Fund
- Schwab California Municipal Money Fund
- Schwab New York Municipal Money Fund
- Schwab New Jersey Municipal Money Fund
- Schwab Pennsylvania Municipal Money Fund
- Schwab Florida Municipal Money Fund
- Schwab Massachusetts Municipal Money Fund
- Schwab Retirement Advantage Money Fund
- Schwab Retirement Money Fund
- Schwab Government Cash Reserves
- Schwab Advisor Cash Reserves
- Schwab Cash Reserves

Charles Schwab & Co., Inc. (Schwab) to provide transfer agent and shareholder services.

Although these agreements specify certain fees for these services, CSIM and Schwab have made additional agreements with the fund that may limit the total expenses charged. The rates and limitations for these fees are described in the fund's Statement of Operations.

The fund may engage in certain transactions involving affiliates. The fund may make direct transactions with certain other Schwab Funds® when practical. When one fund is seeking to sell a security that another is seeking to buy, an interfund transaction can allow both funds to benefit by reducing transaction costs. This practice is limited to funds that share the same investment adviser, trustees and officers.

Pursuant to an exemptive order issued by the SEC, the fund may enter into interfund borrowing and lending transactions within the Schwab Funds. All loans are for temporary or emergency purposes only. The interest rate charged on the loan is the average of the overnight repurchase agreement rate and the short-term bank loan rate. The interfund lending facility is subject to the oversight and periodic review of the Board of Trustees of the Schwab Funds.

Trustees may include people who are officers and/or directors of the investment adviser or Schwab. Federal securities law limits the percentage of such "interested persons" who may serve on a trust's board, and the trust was in compliance with these limitations throughout the report period. The trust did not pay any of these persons for their service as trustees, but it did pay non-interested persons (independent trustees), as noted in the fund's Statement of Operations.

The fund may borrow money from banks and custodians. The fund may obtain temporary bank loans through the trust to which the fund belongs, to use for meeting shareholder redemptions or for extraordinary or emergency purposes. The Schwab

Funds have custodian overdraft facilities and line of credit arrangements of \$150 million and \$100 million with PNC Bank, N.A. and Bank of America, N.A., respectively. The fund pays interest on the amounts that it borrows at rates that are negotiated periodically. There was no borrowing for the fund during the period.

The fund intends to meet federal income and excise tax requirements for regulated investment companies. Accordingly, the fund distributes substantially all of its net investment income and net realized capital gains (if any) to its respective shareholders each year. As long as the fund meets the tax requirements, it is not required to pay federal income tax.

Under the fund's organizational documents, its officers and trustees are indemnified against certain liability arising out of the performance of their duties to the fund.

In addition, in the normal course of business the fund enters into contracts with its vendors and others that 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. However, based on experience, the fund expects the risk of loss to be remote.

Accounting Policies

The following are the main policies the fund uses in preparing its financial statements.

The fund values its securities at amortized cost, which approximates market value.

Security transactions are recorded as of the date the order to buy or sell the security is executed.

Interest income is recorded as it accrues. If the fund buys a debt instrument at a discount (that is, for less than its face value) or a premium (more than face value), it amortizes the discount or premium from the current date up to maturity. The fund then increases (in the case of discounts) or reduces (in the case of premiums) the income it records from the security. If

the security is callable (meaning that the issuer has the option to pay it off before its maturity date), then the fund amortizes the premium to the security's call date and price, rather than the maturity date and price.

Realized gains and losses from security transactions are based on the identified costs of the securities involved.

Expenses that are specific to the fund are charged directly to that fund. Expenses that are common to all funds within the trust generally are allocated among the funds in proportion to their average daily net assets.

The fund maintains its own account for purposes of holding assets and accounting, and is considered a separate entity for tax purposes. Within its account, the fund also may keep certain assets in segregated accounts, as required by securities law.

The accounting policies described above conform with accounting principles generally accepted in the United States of America. Notwithstanding this, shareholders should understand that in order to follow these principles, fund management has to make estimates and assumptions that affect the information reported in the financial statements. It's possible that once the results are known, they may turn out to be different from these estimates.

Investment Advisory Agreement Approval

The Investment Company Act of 1940 (the “1940 Act”) requires that initial approval of, as well as the continuation of, a fund’s investment advisory agreement must be specifically approved (1) by the vote of the trustees or by a vote of the shareholders of the fund, and (2) by the vote of a majority of the trustees who are not parties to the investment advisory agreement or “interested persons” of any party (the “Independent Trustees”), cast in person at a meeting called for the purpose of voting on such approval. In connection with such approvals, the fund’s trustees must request and evaluate, and the investment adviser is required to furnish, such information as may be reasonably necessary to evaluate the terms of the advisory agreement. In addition, the Securities and Exchange Commission (the “SEC”) takes the position that, as part of their fiduciary duties with respect to fund fees, fund boards are required to evaluate the material factors applicable to a decision to approve an investment advisory agreement.

Consistent with these responsibilities, the Board of Trustees (the “Board”) calls and holds one or more meetings each year that are dedicated, in whole or in part, to considering whether to renew the investment advisory agreement between The Charles Schwab Family of Funds (the “Trust”) and CSIM (the “Agreement”) with respect to existing funds in the Trust, including the Schwab Money Market Fund, and to review certain other agreements pursuant to which CSIM provides investment advisory services to certain other registered investment companies. In preparation for the meeting(s), the Board requests and reviews a wide variety of materials provided by CSIM, including information about CSIM’s affiliates, personnel and operations. The Board also receives extensive data provided by third parties. This information is in addition to the detailed information about the funds that the Board reviews during the course of each year, including information that relates to fund

operations and fund performance. The trustees also receive a memorandum from fund counsel regarding the responsibilities of trustees for the approval of investment advisory contracts. In addition, the Independent Trustees receive advice from independent counsel to the Independent Trustees, meet in executive session outside the presence of fund management and participate in question and answer sessions with representatives of CSIM.

At the May 24, 2005 meeting of the Board, the trustees, including a majority of the Independent Trustees, approved the renewal of the Agreement on an interim basis through September 30, 2005. In connection with the interim approval of the Agreement, the Board requested that CSIM prepare responses to certain questions outlined below in advance of the next regularly scheduled Board meeting. The Board’s approval of the Agreement was based on consideration and evaluation of a variety of specific factors discussed at that meeting and at prior meetings, including:

1. the nature, extent and quality of the services provided to the funds under the Agreement, including the resources of CSIM and its affiliates dedicated to the funds;
2. each fund’s investment performance and how it compared to that of certain other comparable mutual funds;
3. each fund’s expenses and how those expenses compared to those of certain other comparable mutual funds;
4. the profitability of CSIM and its affiliates, including Schwab, with respect to each fund, including both direct and indirect benefits accruing to CSIM and its affiliates; and
5. the extent to which economies of scale would be realized as the funds grow and whether fee levels in the Agreement reflect those economies of scale for the benefit of fund investors.

Nature, Extent and Quality of Services. The Board considered the nature, extent and quality of the services provided by CSIM to the funds and the resources of CSIM and its affiliates dedicated to the funds. In this regard, the trustees evaluated, among other things, CSIM's personnel, experience, track record and compliance program. The trustees also considered the fact that Schwab's extensive branch network, Internet access, investment and research tools, telephone services, and array of account features benefit the funds. The trustees also considered Schwab's excellent reputation as a full service brokerage firm and its overall financial condition. Finally, the trustees considered that the vast majority of the funds' investors are also brokerage clients of Schwab, and that CSIM and its affiliates are uniquely positioned to provide services and support to the funds and such shareholders. Following such evaluation, the Board concluded, within the context of its full deliberations, that the nature, extent and quality of services provided by CSIM to the funds and the resources of CSIM and its affiliates dedicated to the funds supported interim renewal of the Agreement.

Fund Performance. The Board considered fund performance in determining whether to renew the Agreement. Specifically, the trustees considered each fund's performance relative to a peer group of other mutual funds and appropriate indices/benchmarks, in light of total return, yield and market trends. As part of this review, the trustees considered the composition of the peer group, selection criteria and the reputation of the third party who prepared the peer group analysis. In evaluating the performance of each fund, the trustees considered both risk and shareholder risk expectations for such fund. Following such evaluation the Board concluded, within the context of its full deliberations, that the performance of the funds supported interim renewal of the Agreement.

Fund Expenses. With respect to the funds' expenses, the trustees considered the rate of compensation called for by the Agreement, and each fund's net operating expense ratio, in each case, in comparison to those of other comparable mutual funds, such peer groups and comparisons having been selected and calculated by an independent third party. The trustees considered the effects of CSIM's and Schwab's voluntary waiver of management and other fees to prevent total fund expenses from exceeding a specified cap. The trustees also considered fees charged by CSIM to other mutual funds and to other types of accounts, such as wrap accounts and offshore funds, but, with respect to such other types of accounts, accorded less weight to such comparisons due to the unique legal, regulatory, compliance and operating features of mutual funds as compared to these other types of accounts. With respect to Schwab Money Market Fund, the Board asked CSIM to consider whether certain measures might reduce the fund's operating expenses or better allocate overall fund costs to shareholders who are more expensive for the fund to service, per dollar invested, while also permitting shareholders who are less expensive to service to enjoy lower expenses. The Board requested that CSIM report the results of its study at the next regular Board meeting. Following such evaluation and based upon CSIM's agreement to perform such study, as requested by the Board, the Board concluded, within the context of its full deliberations, that the expenses of the funds are reasonable and supported interim renewal of the Agreement.

Profitability. With regard to profitability, the trustees considered the compensation flowing to CSIM and its affiliates, directly or indirectly. In this connection, the trustees reviewed management's profitability analyses, together with certain commentary thereon from an independent accounting firm. The trustees also considered any other

benefits derived by CSIM from its relationship with the funds, such as whether, by virtue of its management of the Funds, CSIM obtains investment information or other research resources that aid it in providing advisory services to other clients. The trustees considered whether the varied levels of compensation and profitability under the Agreement and other service agreements were reasonable and justified in light of the quality of all services rendered to each fund by CSIM and its affiliates. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the profitability of CSIM is reasonable and supported interim renewal of the Agreement.

Economies of Scale. The trustees considered the existence of any economies of scale and whether those are passed along to a fund's shareholders through a graduated investment advisory fee schedule or other means, including any fee waivers by CSIM and its affiliates. In this regard, and consistent with their consideration of fund expenses, the trustees considered that CSIM and Schwab have previously committed resources to minimize the effects on shareholders of diseconomies of scale during periods when fund assets were relatively small through their contractual expense waivers. For example, such diseconomies of scale may particularly affect newer funds or funds with investment strategies that are from time to time out of favor, but shareholders may benefit from the continued availability of such funds at subsidized expense levels. The trustees also considered CSIM's agreement to contractual investment advisory fee schedules which include lower fees at higher graduated asset levels. With respect to the Schwab Money Market Fund, the Board also considered Schwab's agreement that that fund's net operating expenses (excluding interest, taxes and certain non-routine expenses) would not exceed 74 (seventy-four) basis

points for the period January 1, 2005 until April 30, 2006. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the funds obtain reasonable benefit from economies of scale.

In the course of their deliberations, the trustees did not identify any particular information or factor that was all-important or controlling. Based on the trustees' deliberation and their evaluation of the information described above, the Board, including all of the Independent Trustees, unanimously approved the interim continuation of the Agreement and concluded that the compensation under the Agreement is fair and reasonable in light of such services and expenses and such other matters as the trustees have considered to be relevant in the exercise of their reasonable judgment.

Trustees and Officers

A fund's Board of Trustees is responsible for protecting the interests of that fund's shareholders. The tables below give information about the people who serve as trustees and officers for the Schwab Funds®, including the funds covered in this report. Trustees remain in office until they resign, retire or are removed by shareholder vote.¹

Under the Investment Company Act of 1940, any officer, director, or employee of Schwab or CSIM is considered an “interested person,” meaning that he or she is considered to have a business interest in Schwab or CSIM. These individuals are listed as “interested trustees.” The “independent trustees” are individuals who, under the 1940 Act, are not considered to have a business interest in Schwab or CSIM.

Each of the 56 Schwab Funds belongs to one of these trusts: The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust or Schwab Annuity Portfolios. Currently all these trusts have the same trustees and officers. The address for all trustees and officers is 101 Montgomery Street, San Francisco, CA 94104. You can find more information about the trustees and officers in the Statement of Additional Information, which is available free by calling 1-800-435-4000.

Interested Trustees and Officers

Name and Birthdate	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
Charles R. Schwab ² 7/29/37	Chairman, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Director, The Charles Schwab Corp., Charles Schwab & Co., Inc.; Chair, Director, Charles Schwab Investment Management, Inc.; Chair, Charles Schwab Holdings (UK); Chair, Director, U.S. Trust Corp., United States Trust Co. of New York, U.S. Trust Co., N.A.; CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, Charles Schwab Bank, N.A., The Charles and Helen Schwab Foundation, All Kinds of Minds (education); Trustee, Stanford University. <i>Until 5/04</i> : Director, The Gap, Inc. (clothing retailer). <i>Until 5/03</i> : Co-CEO, The Charles Schwab Corp. <i>Until 3/02</i> : Director, Audiobase, Inc. (Internet audio solutions). <i>Until 5/02</i> : Director, Vodafone AirTouch PLC (telecommunications). <i>Until 7/01</i> : Director, The Charles Schwab Trust Co.

¹ The Schwab Funds retirement policy requires that independent trustees elected after January 1, 2000 retire at age 72 or after twenty years of service as a trustee, whichever comes first. Independent trustees elected prior to January 1, 2000 will retire on the following schedule: Messrs. Holmes and Dorward will retire on December 31, 2007, and Messrs. Stephens and Wilsley will retire on December 31, 2010.

² In addition to his position with the investment adviser and the distributor, Mr. Schwab also owns stock of The Charles Schwab Corporation.

Interested Trustees but Not Officers

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Randall W. Merk 7/25/54	2005 (all trusts).	EVP, President, AMPS Enterprise. <i>Until 7/04</i> : President, CEO, Charles Schwab Investment Management, Inc.; VP, Charles Schwab & Co., Inc. <i>Until 8/02</i> : President, Chief Investment Officer, American Century Management; Director, American Century Companies, Inc. <i>Until 6/01</i> : Chief Investment Officer, Fixed Income, American Century Companies, Inc.

Officers of the Trust

Name and Birthdate	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
Evelyn Dilsaver 5/4/55	President, CEO (all trusts).	EVP, President, Director, Charles Schwab Investment Management, Inc. <i>Until 7/04</i> : SVP for Development and Distribution, Asset Management Products and Services Enterprise. <i>Until 6/03</i> : EVP, CFO, Chief Administrative Officer, U.S. Trust.
Stephen B. Ward 4/5/55	SVP, Chief Investment Officer (all trusts).	SVP, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co.
Kimon Daifotis 7/10/59	SVP, Chief Investment Officer (all trusts).	<i>Since 9/04</i> : Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Since 6/04</i> : SVP, Charles Schwab Investment Management, Inc. <i>Until 6/04</i> : VP, Charles Schwab Investment Management, Inc.
Jeffrey Mortimer 9/29/63	SVP, Chief Investment Officer (all trusts).	<i>Since 5/04</i> : SVP, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc. <i>Since 6/04</i> : VP, Chief Investment Officer, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 5/04</i> : VP, Charles Schwab Investment Management, Inc.
Randall Fillmore 11/11/60	Chief Compliance Officer (all trusts).	<i>Since 9/04</i> : SVP, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Chief Compliance Officer, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 9/04</i> : VP, Charles Schwab & Co., Inc., Charles Schwab Investment Management, Inc. <i>Until 2002</i> : VP of Internal Audit, Charles Schwab & Co., Inc. <i>Prior to 2000</i> : PricewaterhouseCoopers.
Koji E. Felton 3/13/61	Secretary (all trusts).	SVP, Chief Counsel, Assistant Corporate Secretary, Charles Schwab Investment Management, Inc. <i>Until 6/98</i> : Branch Chief in Enforcement, U.S. Securities and Exchange Commission, San Francisco.
George Pereira 6/9/64	Treasurer, Principal Financial Officer (all trusts).	<i>Since 11/04</i> : SVP, CFO, Charles Schwab Investment Management, Inc. <i>Until 11/04</i> : SVP, Financial Reporting, Charles Schwab & Co., Inc. <i>Until 12/99</i> : CFO, Commerzbank Capital Markets. <i>Until 9/99</i> : Managing Director at the New York Stock Exchange.

Independent Trustees

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Mariann Byerwalter 8/13/60	2000 (all trusts).	Chair, JDN Corp. Advisory LLC (real estate); Trustee, Stanford University, America First Cos., Omaha, NE (venture capital/fund management), Redwood Trust, Inc. (mortgage finance), Stanford Hospitals and Clinics, SRI International (research), PMI Group, Inc. (mortgage insurance), Lucile Packard Children's Hospital. <i>Since 2/05</i> : Director, Pacific Mutual Holding Company (insurance). <i>Since 2004</i> : Laudus Trust, Laudus Variable Insurance Trust. <i>Until 2001</i> : Stanford University, Special Assistant to the President. <i>From 1996-2001</i> : VP of Business Affairs, CFO.
Donald F. Dorward 9/23/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	CEO, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999</i> : EVP, Managing Director, Grey Advertising. <i>Until 1996</i> : President, CEO, Allen & Dorward Advertising.
William A. Hasler 11/22/41	2000 (all trusts).	Dean Emeritus, Haas School of Business, University of California, Berkeley; Director, Apton Corp. (bio-pharmaceuticals); Non-Executive Chair, Solectron Corp. (manufacturing), Mission West Properties (commercial real estate), Stratex Networks (network equipment), TOUSA (home building); Public Governor, Member, executive committee, Pacific Stock & Options Exchange. <i>Since 2004</i> : Trustee, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 2/04</i> : Co-CEO, Apton Corp. (bio-pharmaceuticals).
Robert G. Holmes 5/15/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Director, Semloh Financial, Inc. (international financial services and investment advisory firm).
Gerald B. Smith 9/28/50	2000 (all trusts).	Chair, CEO, Founder, Smith Graham & Co. (investment advisers); Trustee, Cooper Industries (electrical products, tools and hardware); Chairman, audit committee, Northern Border Partners, L.P. (energy).
Donald R. Stephens 6/28/38	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chair, CEO, North American Trust (real estate investment trust).
Michael W. Wilsey 8/18/43	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Wilsey Bennett, Inc. (real estate investment and management, and other investments).

Glossary

agency discount notes Notes issued by federal agencies—known as Government Sponsored Enterprises, or GSEs—at a discount to their value at maturity. An agency discount note is a short-term investment alternative offering a high degree of credit quality.

Alternative Minimum Tax (AMT) A federal income tax designed to limit the extent to which high-income taxpayers (including individuals, estates, trusts and corporations) can benefit from certain deductions and exemptions. For example, some types of income that are exempt from regular federal income tax are not exempt from the AMT.

asset-backed securities Bonds or other debt securities that represent ownership in a pool of assets such as credit card debt.

bond A security representing a loan from the investor to the issuer. A bond typically pays interest at a fixed rate (the “coupon rate”) until a specified date (the “maturity date”), at which time the issuer returns the money borrowed (“principal” or “face value”) to the bondholder. Because of their structure, bonds are sometimes called “fixed income securities” or “debt securities.”

An individual bond is subject to the credit risk of the issuer. Changes in interest rates can affect a bond’s market value prior to call or maturity. There is no guarantee that a bond’s yield to call or maturity will provide a positive return over the rate of inflation.

bond fund A bond fund is subject to the same credit, interest rate, and inflation risks as bonds. In addition, a bond fund incurs ongoing fees and expenses. A bond fund’s net asset value will fluctuate with the price of the underlying bonds and the portfolio turnover activity; return of principal is not guaranteed.

bond anticipation notes Obligations sold by a municipality on an interim basis in anticipation of the municipality’s issuance of a longer-term bond in the future.

capital gain, capital loss The difference between the amount paid for an investment and its value at a later time. If the investment has been sold, the capital gain or loss is considered a realized gain or loss. If the investment is still held, the gain or loss is still “on paper” and is considered unrealized.

commercial paper Promissory notes issued by banks, corporations, state and local governments and other entities to finance short-term credit needs. These securities generally are structured on a discounted basis but

sometimes may be interest-bearing notes. Commercial paper, which may be unsecured, is subject to credit risk.

credit-enhanced securities Securities that are backed by the credit of an entity other than the issuer (such as a financial institution). Credit enhancements, which can equal up to 100% of the security’s value, are designed to help lower the risk of default on a security and may also make the security more liquid.

credit quality The capacity of an issuer to make its interest and principal payments. Federal regulations strictly limit the credit quality of the securities a money market fund can buy.

credit ratings Debt issuers, including corporations, states and municipalities, may arrange with a recognized independent rating organization, such as Standard & Poor’s, Fitch, Inc. and Moody’s Investor Service, to rate their creditworthiness and/or the creditworthiness of their debt issues. For example, an issuer may obtain a long-term rating within the investment grade rating category, which is, from high to low, AAA, AA, A and BBB for Standard & Poor’s and Fitch, and Aaa, Aa, A and Baa for Moody’s.

credit risk The risk that a debt issuer may be unable to pay interest or principal to its debtholders.

Portfolio terms

To help reduce the space occupied by the portfolio holdings, we use the following terms. Most of them appear within descriptions of individual securities in municipal funds, and describe features of the issuer or the security. Some of these are more fully defined elsewhere in the Glossary.

ACES	Adjustable convertible extendable security
BAN	Bond anticipation note
COP	Certificate of participation
GAN	Grant anticipation note
GO	General obligation
HDA	Housing Development Authority
HFA	Housing Finance Agency
IDA	Industrial Development Authority
IDB	Industrial Development Board
IDRB	Industrial Development Revenue Bond
M/F	Multi-family
RAN	Revenue anticipation note
RB	Revenue bond
S/F	Single-family
TAN	Tax anticipation note
TECP	Tax-exempt commercial paper
TRAN	Tax and revenue anticipation note
VRD	Variable-rate demand

dollar-weighted average maturity (DWAM) See weighted average maturity.

effective yield A measurement of a fund's yield that assumes that all dividends were reinvested in additional shares of the fund.

expense ratio The amount that is taken from a mutual fund's assets each year to cover the fund's operating expenses. An expense ratio of 0.50% means that a fund's expenses amount to half of one percent of its average net assets a year.

face value The value of a bond, note, mortgage or other security as given on the certificate or instrument. Face value is also referred to as par value or nominal value.

illiquid securities Securities are generally considered illiquid if they cannot be disposed of promptly (typically within seven days) and in the ordinary course of business at approximately the amount at which a fund has valued the instruments.

interest Payments to holders of debt securities as compensation for loaning a security's principal to the issuer.

liquidity-enhanced security A security that when tendered is paid from funds advanced by an entity other than the issuer (such as a large financial institution). Liquidity enhancements are often used on variable-rate securities where the portfolio manager has an option to tender the securities prior to their final maturity.

maturity The date a debt security is scheduled to be "retired" and its principal amount returned to the bondholder.

money market securities High-quality, short-term debt securities that may be issued by entities such as the U.S. government, corporations and financial institutions (such as banks). Money market securities include commercial paper, promissory notes, certificates of deposit, banker's acceptances, notes and time deposits.

muni, municipal bonds, municipal securities Debt securities issued by a state, its counties, municipalities, authorities and other subdivisions, or the territories and possessions of the United States and the District of Columbia, including their subdivisions, agencies and instrumentalities and corporations. These securities may be issued to obtain money for various public purposes, including the construction of a wide range of public facilities such as airports, bridges, highways, housing, hospitals, mass transportation, public utilities, schools, streets, and water and sewer works.

net asset value per share (NAV) The value of one share of a mutual fund. NAV is calculated by taking the fund's total assets, subtracting liabilities, and dividing by the number of shares outstanding. Money funds seek to maintain a steady NAV of \$1.00.

outstanding shares, shares outstanding When speaking of a company or mutual fund, indicates all shares currently held by investors.

restricted securities Securities that are subject to contractual restrictions on resale. These securities are often purchased in private placement transactions.

revenue anticipation notes Obligations that are issued in expectation of the receipt of revenue, such as income taxes, property taxes, etc.

section 3c7 securities Section 3c7 of the Investment Company Act of 1940 (the "1940 Act") exempts certain issuers from many regulatory requirements applicable to investment companies under the 1940 Act. An issuer whose outstanding securities are exclusively owned by "qualified purchasers" and who is not making or proposing to make a public offering of the securities may qualify for this exemption.

section 4(2)/144A securities Securities exempt from registration under Section 4(2) of the Securities Act of 1933. These securities may be sold only to qualified institutional buyers under Securities Act Rule 144A.

taxable-equivalent yield The yield an investor would need to get from a taxable investment in order to match the yield paid by a given tax-exempt investment, once the effect of all applicable taxes is taken into account. For example, if your tax rate were 25%, a tax-exempt investment paying 4.5% would have a taxable-equivalent yield for you of 6.0% ($4.5\% \div [1 - 0.25\%] = 6.0\%$).

total return The percentage that an investor would have earned or lost on an investment in the fund assuming dividends and distributions were reinvested.

tax anticipation notes Notes that typically are sold to finance the cash flow needs of municipalities in anticipation of the receipt of taxes on a future date.

Tier 1, Tier 2 Tier 1 is the highest category of credit quality, Tier 2 the second highest. A security's tier can be established either by an independent rating organization or by a determination of the investment adviser. Money market fund shares and U.S. government securities are automatically considered Tier 1 securities.

weighted average maturity For mutual funds, the maturity of all the debt securities in its portfolio, calculated as a weighted average. As a rule, the longer a fund's weighted average maturity, the greater its interest rate risk. Money funds are required to maintain a weighted average maturity of no more than 90 days.

yield The income paid out by an investment, expressed as a percentage of the investment's market value.

Notes

Notes

Notes

Schwab Funds® offers you a complete family of mutual funds, each one based on a clearly defined investment approach and using disciplined management strategies. The list at right shows all currently available Schwab Funds.

Whether you're an experienced investor or just starting out, Schwab Funds can help you achieve your financial goals. An investor should consider a fund's investment objectives, risks, and charges and expenses carefully before investing or sending money. This and other important information can be found in the fund's prospectus. Please call 1-800-435-4000 for a prospectus and brochure for any Schwab Fund. Please read the prospectus carefully before you invest. This report must be preceded or accompanied by a current prospectus.

Methods for Placing Orders

The following information outlines how Schwab investors can place orders. If you are investing through a third-party investment provider, methods for placing orders may be different.

Internet¹

www.schwab.com

Schwab by Phone™²

Use our automated voice service or speak to a representative. Call **1-800-435-4000**, day or night (for TDD service, call **1-800-345-2550**).

TeleBroker®

Use our automated touch-tone phone service at **1-800-272-4922**.

Mail

Write to Schwab Funds at:
P.O. Box 3812
Englewood, CO
80155-3812

When selling or exchanging shares, be sure to include the signatures of at least one of the persons whose name is on the account.

Proxy Voting Policies, Procedures and Results

A description of the proxy voting policies and procedures used to determine how to vote proxies on behalf of the funds is available without charge, upon request, by visiting Schwab's website at www.schwab.com/schwabfunds, the SEC's website at <http://www.sec.gov>, or by contacting Schwab Funds at 1-800-435-4000.

Information regarding how a fund voted proxies relating to portfolio securities during the most recent twelve-month period ended June 30 is available, without charge, by visiting Schwab's website at www.schwab.com/schwabfunds or the SEC's website at <http://www.sec.gov>.

The Schwab Funds Family®

Stock Funds

Schwab S&P 500 Index Fund
Schwab 1000 Index® Fund
Schwab Small-Cap Index Fund®
Schwab Total Stock Market Index Fund®
Schwab International Index Fund™
Schwab Premier Equity Fund™
Schwab Core Equity Fund™
Schwab Dividend Equity Fund™
Schwab Small-Cap Equity Fund™
Schwab Hedged Equity Fund™
Schwab Financial Services Fund™
Schwab Health Care Fund™
Schwab Technology Fund™
Schwab Institutional Select® S&P 500 Fund

Asset Allocation Funds

Schwab MarketTrack All Equity Portfolio™
Schwab MarketTrack Growth Portfolio™
Schwab MarketTrack Balanced Portfolio™
Schwab MarketTrack Conservative Portfolio™
Schwab Target 2010 Fund
Schwab Target 2020 Fund
Schwab Target 2030 Fund
Schwab Target 2040 Fund
Schwab Retirement Income Fund

Bond Funds

Schwab YieldPlus Fund®
Schwab Short-Term Bond Market Fund™
Schwab Total Bond Market Fund™
Schwab GNMA Fund™
Schwab Tax-Free YieldPlus Fund™
Schwab Short/Intermediate Tax-Free Bond Fund™
Schwab Long-Term Tax-Free Bond Fund™
Schwab California Tax-Free YieldPlus Fund™
Schwab California Short/Intermediate Tax-Free Bond Fund™
Schwab California Long-Term Tax-Free Bond Fund™

Schwab Money Funds

Schwab offers an array of money market funds that seek high current income consistent with safety and liquidity.³ Choose from taxable or tax-advantaged alternatives. Many can be linked to your eligible Schwab account to "sweep" cash balances automatically, subject to availability, when you're between investments. Or, for your larger cash reserves, choose one of our Value Advantage Investments®.

¹ Shares of Sweep Investments™ may not be purchased directly over the Internet.

² Orders placed in person or through a telephone representative may be subject to a service fee payable to Schwab.

³ Investments in money market funds are neither insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency and, although they seek to preserve the value of your investment at \$1 per share, it is possible to lose money.

charles SCHWAB

Investment Adviser

Charles Schwab Investment Management, Inc.
101 Montgomery Street, San Francisco, CA 94104

Distributor

Charles Schwab & Co., Inc. (Schwab)

Funds

Schwab Funds®
P.O. Box 3812, Englewood, CO 80155-3812

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Schwab Municipal Money Fund™

Semiannual Report

June 30, 2005

charles SCHWAB

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From the Chairman



Charles Schwab
Chairman

Dear Shareholder,

I have always believed that it's important to make sure that your cash is earning income between long-term investments by putting the money into a money market fund. While no investment is risk-free, money market funds carry, perhaps, the least amount of risk, as they generally are not as volatile as stocks or stock mutual funds. Money funds are good choices for investors who want to mitigate the potential fluctuations that may occur in their mostly stock portfolios.

At Schwab, we offer a range of money funds with distinct investment strategies. Our municipal money funds, for example, may be beneficial for those of you in the higher tax brackets. We also offer money funds for those interested in the added protection provided by a portfolio of U.S. government securities. In addition, several of the Schwab money funds offer share classes that carry lower expenses in exchange for higher investment minimums.

Now, as a result of the Federal Reserve having raised short-term interest rates eight times in the past 12 months (four during the six-month period covered in this report), yields on money market mutual funds are more attractive than they have been in many years. Not only that, but it's likely that the Fed will raise these rates again this year. Based on this expectation, we anticipate that the yields on money market funds will continue to move upwards over the next few months.

On behalf of Schwab Funds, I want to thank you for investing with us and remind you that our commitment to our shareholders will never waver.

Sincerely,

A handwritten signature in dark ink that reads "Charles R. Schwab". The signature is written in a cursive, flowing style.

Management's Discussion for the six months ended June 30, 2005



Evelyn Dilsaver is President and CEO of Charles Schwab Investment Management, Inc. and is president of the funds covered in this report. She joined the firm in 1992 and has held a variety of executive positions at Schwab.

Dear Shareholder,

When I assumed my new role as President and CEO of Schwab Funds® last year, I pledged that I would be committed to offering you more relevant choices and better value. I am pleased to report that we already have done both.

On July 1, 2005, Schwab Funds launched the Schwab Target Funds™, a suite of five mutual funds to help keep your retirement investments properly allocated over your lifetime. With a single investment in a Schwab Target Fund, you can avoid a common investment mistake—failing to adjust your portfolio over time.

The funds are designed to provide shareholders with investment management, asset allocation and ongoing re-allocation over time. You simply choose the fund that most closely matches the date of your retirement and our experienced portfolio managers will do the rest. They will rebalance four of the five funds from more aggressive to more conservative as you get closer to your retirement date. The fifth fund is designed to help generate income and additional growth after you've retired. It also is a good choice for investors already enjoying their retirement.

These no-load funds are a good value, as the funds have access to the lowest-priced eligible share class on the underlying Schwab affiliate funds. And because the funds invest in groups of other Schwab affiliate funds, they provide an additional layer of diversification.

At Schwab, we believe that having an asset-allocation plan that fits your retirement goals, time frame and tolerance for risk is a key element in meeting your long-term investment goals. The Schwab Target Funds are designed to help you do this. I encourage you to learn more about these funds at www.schwab.com/target, or call Schwab.

Thank you for investing in Schwab Funds.

Sincerely,

A handwritten signature in black ink that reads "Evelyn Dilsaver". The signature is written in a cursive, flowing style.

Investors should consider carefully information contained in the prospectus, including investment objectives, risks, charges and expenses. You can request a prospectus by calling Schwab at 1-800-435-4000. Please read the prospectus carefully before investing.



Kevin Shaughnessy, CFA, a vice president of the investment adviser and senior portfolio manager, is responsible for the overall management of the fund. Prior to joining the firm in 2000, he worked for more than 10 years in fixed income portfolio management.



Walter Beveridge, a portfolio manager, is responsible for day-to-day management of the fund. Prior to joining the firm in 1992, he worked for nearly 10 years in asset management.

The Investment Environment and the Fund

Oil prices hit highs never seen before and the Federal Reserve Open Market Committee continued to raise short-term interest rates to curb inflationary pressures, raising rates for the fourth time this year. At the same time, GDP continued to grow at a healthy pace and the housing market remained strong, largely due to low mortgage rates.

The firming labor market, as well as steady gains in capital spending, kept the economic expansion on a self-sustaining path. Businesses, unable to continue boosting productivity by restraining hiring, added new jobs during the six-month report period. Moreover, many leading indicators, such as the Institute for Supply Management's business activity surveys, suggested ongoing expansion, while continuing claims for unemployment benefits remained near cyclical lows.

Business investments grew only modestly, but consumers continued to spend. In fact, consumer confidence rose to a level not experienced since before September 11, 2001. With consumers in a spending mode and consumer spending comprising about 70% of GDP, first quarter GDP remained strong and retail sales were healthy. In this positive economic environment, strong labor market conditions remained positive for domestic consumption.

While high energy prices remained a significant headwind for economic performance, supply no longer was the issue; demand, especially in China, drove prices up. At the end of the six-month report period, a barrel of oil cost \$56.50 versus \$42.55 at the beginning of 2005.

Though high oil and commodity prices could have hampered growth and stirred inflationary pressures, productivity gains, slow growth in the money supply and slack in the economy have mostly kept a lid on core inflation. The productivity gains, coupled with foreign central banks buying large amounts of U.S. Treasury securities, also helped to keep long-term interest rates under control. These conditions also caused the dollar to rally unexpectedly, which took a little bit of pressure off the price of imported goods.

Amid signs of solidly expanding output and improved hiring, the Fed continued to tighten. It increased short-term interest rates at each of the four meetings in the first half of 2005, ending the six-month report

In this type of economic climate and market environment, we allowed the fund's weighted average maturity (WAM) to shorten to a more neutral position versus our peers.

period at a still moderate 3.25%. The moves have had a limited impact on overall economic growth, due primarily to the record-low level of rates from which the increases began. Nonetheless, the higher rates succeeded in moving money fund yields higher, making them a more attractive investment vehicle.

As noted above, the Fed continued in its tightening mode, raising short-term interest rates 0.25% at each of its four meetings this year. At the end of the six-month report period, the rate was 3.25%. The higher taxable rates translated into higher municipal money market yields, as well. Yields on municipal variable-rate demand notes rose significantly during this period. The Bond Market Association's seven-day muni index averaged 2.25% during the six-month report period, 0.80% higher than the prior six-month period. This change had a positive impact on muni money fund yields, which rose 0.60% on average over the report period.

In this type of economic climate and market environment, we allowed the fund's weighted average maturity (WAM) to shorten to a more neutral position versus our peers. When the opportunity arose, we added commercial paper with maturities of 30-90 days, as they offered the best relative value of any other assets during the report period. We also increased our exposure to attractively priced seven-day variable-rate notes.

Despite the ongoing rising-rate environment, municipal-note supply remained steady in the first half of 2005. During this period, issuance of commercial paper and seven-day variable-rate notes was strong.

Nothing in this report represents a recommendation of a security by the investment adviser. Manager views and portfolio holdings may have changed since the report date.

Performance and Fund Facts as of 6/30/05

Seven-Day Yields

The seven-day yields are calculated using standard SEC formulas. The effective yield includes the effect of reinvesting daily dividends. Please remember that money market fund yields fluctuate.

Ticker Symbol	Sweep Shares SWXXX	Value Advantage Shares™ SWTXX	Select Shares® SWLXX	Institutional Shares SWOXX
Seven-Day Yield¹	1.84%	2.04%	2.14%	2.25%
Seven-Day Yield—No Waiver²	1.68%	1.91%	1.91%	1.91%
Seven-Day Effective Yield¹	1.86%	2.06%	2.17%	2.28%
Seven-Day Taxable-Equivalent Effective Yield^{1, 3}	2.86%	3.17%	3.34%	3.51%

The performance data quoted represents past performance. Past performance does not guarantee future results. Current performance may be lower or higher than performance data quoted. To obtain more current performance information, please visit www.schwab.com/schwabfunds.

Statistics

Money funds must maintain a dollar-weighted average maturity of no longer than 90 days, and cannot invest in any security whose effective maturity is longer than 397 days (approximately 13 months).

Weighted Average Maturity	39 days
Credit Quality of Holdings % of portfolio	100% Tier 1
Credit-Enhanced Securities % of portfolio	75%
Minimum Initial Investment⁴	
<i>Sweep Investments™</i>	*
<i>Value Advantage Shares</i> (\$15,000 for IRA and custodial accounts)	\$25,000
<i>Select Shares</i>	\$1,000,000
<i>Institutional Shares</i>	\$3,000,000

An investment in a money fund is neither insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. Although money funds seek to preserve the value of your investment at \$1 per share, it is possible to lose money by investing in a money fund.

Portfolio holdings may have changed since the report date.

¹ Fund expenses have been partially absorbed by CSIM and Schwab.

² Yield if fund expenses had not been partially absorbed by CSIM and Schwab.

³ Taxable-equivalent effective yield assumes a 2005 maximum federal regular income tax rate of 35.00%. Investment income may be subject to the Alternative Minimum Tax.

⁴ Please see prospectus for further detail and eligibility requirements.

* Subject to the eligibility terms and conditions of your Schwab account agreement.

Fund Expenses

Examples for a \$1,000 Investment

As a fund shareholder, you incur two types of costs: transaction costs, such as redemption fees; and, ongoing costs, such as management fees, transfer agent and shareholder services fees, and other fund expenses.

The expense examples below are intended to help you understand your ongoing cost (in dollars) of investing in a fund and to compare this cost with the ongoing cost of investing in other mutual funds. These examples are based on an investment of \$1,000 invested for six-months beginning January 1, 2005 and held through June 30, 2005.

Actual Return lines in the table below provide information about actual account values and actual expenses. You may use this information, together with the amount you invested, to estimate the expenses that you paid over the period. To do so, simply divide your account value by \$1,000 (for example, an \$8,600 account value \div \$1,000 = 8.6), then multiply the result by the number given for your fund or share class under the heading entitled "Expenses Paid During Period."

Hypothetical Return lines in the table below provide information about hypothetical account values and hypothetical expenses based on a fund's or share class' actual expense ratio and an assumed return of 5% per year before expenses. Because the return used is not an actual return, it may not be used to estimate the actual ending account value or expenses you paid for the period.

You may use this information to compare the ongoing costs of investing in the fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only, and do not reflect any transactional costs, such as redemption fees. If these transactional costs were included, your costs would have been higher.

	Expense Ratio ¹ (Annualized)	Beginning Account Value at 1/1/05	Ending Account Value (Net of Expenses) at 6/30/05	Expenses Paid During Period ² 1/1/05–6/30/05
Schwab Municipal Money Fund™				
<i>Sweep Shares</i>				
Actual Return	0.66%	\$1,000	\$1,007.50	\$3.29
Hypothetical 5% Return	0.66%	\$1,000	\$1,021.52	\$3.31
<i>Value Advantage Shares™</i>				
Actual Return	0.45%	\$1,000	\$1,008.60	\$2.24
Hypothetical 5% Return	0.45%	\$1,000	\$1,022.56	\$2.26
<i>Select Shares®</i>				
Actual Return	0.35%	\$1,000	\$1,009.00	\$1.74
Hypothetical 5% Return	0.35%	\$1,000	\$1,023.06	\$1.76
<i>Institutional Shares</i>				
Actual Return	0.24%	\$1,000	\$1,009.60	\$1.20
Hypothetical 5% Return	0.24%	\$1,000	\$1,023.60	\$1.20

¹ Based on the most recent six-month expense ratio; may differ from the expense ratio provided in Financial Highlights.

² Expenses for each share class are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 181 days of the period, and divided by 365 days of the fiscal year.

Financial Statements

Financial Highlights

Sweep Shares	1/1/05– 6/30/05*	1/1/04– 12/31/04	1/1/03– 12/31/03	1/1/02– 12/31/02	1/1/01– 12/31/01	1/1/00– 12/31/00
Per-Share Data (\$)						
Net asset value at beginning of period	1.00	1.00	1.00	1.00	1.00	1.00
Income from investment operations:						
Net investment income	0.01	0.01	(0.00) ¹	0.01	0.02	0.03
Less distributions:						
Dividends from net investment income	(0.01)	(0.01)	(0.00) ¹	(0.01)	(0.02)	(0.03)
Net asset value at end of period	1.00	1.00	1.00	1.00	1.00	1.00
Total return (%)	0.75 ²	0.60	0.46	0.91	2.23	3.53

Ratios/Supplemental Data (%)

Ratios to average net assets:						
Net operating expenses	0.66 ³	0.66	0.66	0.66	0.66	0.67 ⁴
Gross operating expenses	0.81 ³	0.81	0.81	0.82	0.83	0.84
Net investment income	1.51 ³	0.60	0.46	0.90	2.21	3.47
Net assets, end of period (\$ x 1,000,000)	7,067	7,563	7,494	7,435	7,265	6,780

Value Advantage Shares	1/1/05– 6/30/05*	1/1/04– 12/31/04	1/1/03– 12/31/03	1/1/02– 12/31/02	1/1/01– 12/31/01	1/1/00– 12/31/00
Per-Share Data (\$)						
Net asset value at beginning of period	1.00	1.00	1.00	1.00	1.00	1.00
Income from investment operations:						
Net investment income	0.01	0.01	0.01	0.01	0.02	0.04
Less distributions:						
Dividends from net investment income	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	(0.04)
Net asset value at end of period	1.00	1.00	1.00	1.00	1.00	1.00
Total return (%)	0.86 ²	0.81	0.68	1.12	2.45	3.75

Ratios/Supplemental Data (%)

Ratios to average net assets:						
Net operating expenses	0.45 ³	0.45	0.45	0.45	0.45	0.46 ⁵
Gross operating expenses	0.58 ³	0.58	0.58	0.59	0.61	0.64
Net investment income	1.72 ³	0.80	0.68	1.11	2.35	3.70
Net assets, end of period (\$ x 1,000,000)	3,206	3,245	3,901	4,480	3,778	2,919

* Unaudited.

¹ Per-share amount was less than \$0.01.

² Not annualized.

³ Annualized.

⁴ The ratio of net operating expenses would have been 0.66% if certain non-routine expenses (proxy fees) had not been included.

⁵ The ratio of net operating expenses would have been 0.45% if certain non-routine expenses (proxy fees) had not been included.

Select Shares	1/1/05– 6/30/05*	1/1/04– 12/31/04	6/2/03– 12/31/03
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Per-Share Data (\$)

Net asset value at beginning of period	1.00	1.00	1.00
Income from investment operations:			
Net investment income	0.01	0.01	(0.00) ²
Less distributions:			
Dividends from net investment income	(0.01)	(0.01)	(0.00) ²
Net asset value at end of period	1.00	1.00	1.00
Total return (%)	0.90 ³	0.92	0.39 ³

Ratios/Supplemental Data (%)

Ratios to average net assets:			
Net operating expenses	0.35 ⁴	0.35	0.35 ⁴
Gross operating expenses	0.59 ⁴	0.58	0.58 ⁴
Net investment income	1.84 ⁴	0.93	0.68 ⁴
Net assets, end of period (\$ x 1,000,000)	863	727	474

Institutional Shares	1/1/05– 6/30/05*	1/1/04– 12/31/04	6/2/03– 12/31/03
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Per-Share Data (\$)

Net asset value at beginning of period	1.00	1.00	1.00
Income from investment operations:			
Net investment income	0.01	0.01	(0.00) ²
Less distributions:			
Dividends from net investment income	(0.01)	(0.01)	(0.00) ²
Net asset value at end of period	1.00	1.00	1.00
Total return (%)	0.96 ³	1.03	0.45 ³

Ratios/Supplemental Data (%)

Ratios to average net assets:			
Net operating expenses	0.24 ⁴	0.24	0.24 ⁴
Gross operating expenses	0.58 ⁴	0.58	0.58 ⁴
Net investment income	1.92 ⁴	1.08	0.80 ⁴
Net assets, end of period (\$ x 1,000,000)	1,597	1,459	718

* Unaudited.

¹ Commencement of operations.² Per-share amount was less than \$0.01.³ Not annualized.⁴ Annualized.

Portfolio Holdings as of June 30, 2005; unaudited

This section shows all the securities in the fund's portfolio and their value, as of the report date.

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on the fund's most recent Form N-Q is available by visiting Schwab's website at www.schwab.com/schwabfunds.

We use the symbols below to designate certain characteristics of the securities:

- ✦ Credit-enhanced security
- ▷ Liquidity-enhanced security
- Variable-rate security
- ◆ Delayed-delivery security
- Restricted but deemed liquid security comprised of 144A
- ▲ All or a portion of this security is held as collateral for delayed-delivery security

For fixed-rate obligations, the rate shown is the effective yield at the time of purchase. For variable-rate obligations, the rate shown is the rate as of the report date. For variable-rate obligations with scheduled maturities greater than 397 days, the maturity shown is the later of the next interest rate change date or demand date. For variable-rate obligations with scheduled maturities less than 397 days, the maturity shown is the earlier of the next interest rate change date or demand date. For variable-rate obligations without demand features, the maturity shown is the next interest rate change date.

Holdings by Category	Cost (\$x1,000)	Value (\$x1,000)
103.2% Municipal Securities	13,143,595	13,143,595
103.2% Total Investments	13,143,595	13,143,595
(3.2)% Other Assets and Liabilities		(410,672)
100.0% Net Assets		12,732,923

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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Municipal Securities	103.2% of net assets
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Alabama 0.9%**Alabama IDA**

✦■ IDRB (Scientific Utilization) Series 1996 2.65%, 07/07/05	1,620	1,620
Bessemer Medical Clinic Board		
✦▶ RB Series 1990A 2.80%, 06/15/06	14,725	14,725
Birmingham Public Educational Building Auth		
✦■ Student Housing RB Series 2005A 2.29%, 07/07/05	6,415	6,415
Birmingham Special Care Facilities Financing Auth		
✦■ Health Care Facility RB (Eastern Health System) Series 2003A 2.28%, 07/07/05	36,500	36,500
Daphne Utilities Board		
✦▶■ Water, Gas & Sewer Refunding RB Series 2000 2.31%, 07/07/05	7,630	7,630
Decatur IDB		
■ Exempt Facilities Refunding RB (Nucor Steel Decatur) Series 2003A 2.33%, 07/07/05	17,000	17,000
Dothan IDB		
✦■ IDRB (Baxley Blowpipe) Series 1997 3.03%, 07/07/05	200	200
Ft Payne IDA		
✦■ IDRB (Charleston Hosiery) Series 1997 2.39%, 07/07/05	800	800
Hoover Board of Education		
✦▶■ Capital Outlay TAN Series 2001 2.32%, 07/07/05	9,860	9,860
Indian Springs Village		
✦■ RB (Joseph Bruno Montessori Academy) Series 1999 2.50%, 07/07/05	1,190	1,190

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Scottsboro			Chandler IDA		
+■ School Warrants Series 1997 2.29%, 07/07/05	3,655	3,655	+■ IDRB (South Bay Circuits) Series 1999A 2.46%, 07/07/05	1,300	1,300
Stevenson IDB			Deer Valley Unified SD No.97		
+■ Environmental Improvement RB (Mead Corp) Series 1997 2.32%, 07/07/05	17,300	17,300	+ School Improvement Bonds Project of 2004 Series 2005A 2.64%, 07/01/06	10,000	10,133
Tuscaloosa Cnty			Maricopa Cnty IDA		
+■ IDRB (Knight Specialties) Series 1998 2.55%, 07/07/05	885	885	+■ M/F Mortgage Refunding RB (San Fernando Apts) Series 2004 2.32%, 07/07/05	7,750	7,750
		117,780	Phoenix Civic Improvement Corp		
Alaska 0.3%			+■ Subordinated Excise Tax RB (Airport Improvements) Series 1995 2.28%, 07/07/05	1,000	1,000
Alaska HFC			Pine Ridge Village/Campus Heights LLC		
+►■ General Mortgage RB Series 1999A 2.32%, 07/07/05	21,805	21,805	+►■ RB (Northern Arizona University) Series 2005 2.32%, 07/07/05	20,000	20,000
►■ General Mortgage RB Series 2002A 2.32%, 07/07/05	5,995	5,995	Salt River Pima-Maricopa Indian Community		
Alaska Industrial Development & Export Auth			+■ Bonds Series 2005 2.30%, 07/07/05	5,000	5,000
+►■ Revolving Fund Bonds Series 1997A 2.36%, 07/07/05	4,850	4,850	Sun Devil Energy Center		
		32,650	+►■ RB (Arizona State University) Series 2004 2.32%, 07/07/05	19,000	19,000
Arizona 1.6%			Tempe IDA		
Arizona Health Facilities Auth			+■ RB (ASUF Brickyard) Series 2004A 2.30%, 07/07/05	11,210	11,210
+►■ Hospital RB (Northern Arizona Healthcare System) Series 1996B 2.28%, 07/07/05	7,050	7,050	Yavapai Cnty IDA		
+►■ RB (Arizona Voluntary Hospital Federation Pooled Loan Program) Series 1985A 2.28%, 07/07/05	5,595	5,595	+►■ Hospital RB (Yavapai Regional Medical Center) Series 1997B 2.28%, 07/07/05	14,250	14,250
+►■ RB (Arizona Voluntary Hospital Federation Pooled Loan Program) Series 1985B 2.28%, 07/07/05	9,310	9,310			200,498
Arizona Higher Education Loan Auth					
■ Student Loan RB Sr Series 2005A 2.80%, 08/11/05	88,900	88,900			

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Arkansas 0.1%			Home Mortgage RB		
Arkansas Development Finance Auth			Series 2005A		
+■ IDRB (C&C Holding Co)			2.28%, 07/07/05	52,000	52,000
Series 1998			Home Mortgage RB		
2.40%, 07/07/05	850	850	Series 2005B		
Independence Cnty			2.37%, 07/01/05		
+■ IDRB (Townsend)			30,220	30,220	
Series 1996			M/F Housing RB III		
2.34%, 07/07/05	9,000	9,000	Series 2002E		
		9,850	2.29%, 07/07/05	6,330	6,330
California 3.9%			California School Cash Reserve Program Auth		
Access Loans For Learning Student Loan Corp			+ Pool Bonds Series 2004A		
+■ Student Loan Program RB			1.60%, 07/06/05	10,000	10,002
Series II-A1			California Statewide Communities Development Auth		
2.33%, 07/07/05	35,000	35,000	◆ TRAN Series 2005A-2		
Student Loan Program RB			2.62%, 06/30/06	12,500	12,668
Series II-A2			◆ TRAN Series 2005A-3		
2.35%, 07/07/05	20,000	20,000	2.62%, 06/30/06	7,500	7,600
Student Loan Program RB			TRAN Series 2005A-4		
Series II-A3			◆ 2.62%, 06/30/06	42,500	43,070
2.33%, 07/07/05	23,700	23,700	◆ 2.63%, 06/30/06	30,000	30,399
Student Loan Program RB Sr			◆ TRAN Series 2005A-5		
Series II-A8			2.62%, 06/30/06	50,000	50,670
2.35%, 07/07/05	22,150	22,150	2.63%, 06/30/06	18,000	18,240
Student Loan Program RB Sr			Los Angeles Cnty Metropolitan Transportation Auth		
Series II-A9			+ Second Subordinate Sales Tax		
2.30%, 07/07/05	74,000	74,000	Revenue TECP Series A		
California			2.37%, 07/06/05		
+■ Various Purpose GO Bonds			28,051		
2.56%, 07/07/05	110	110	San Joaquin Cnty Transportation Auth		
California Dept of Water Resources			+ Sales Tax Revenue TECP		
+■ Power Supply RB			2.45%, 07/07/05	7,000	7,000
Series 2002C-17			University of California		
2.35%, 07/07/05	1,000	1,000	TECP Series A		
California HFA			2.43%, 07/07/05		
+■ Home Mortgage RB			10,000		
Series 2003D			496,185		
2.28%, 07/07/05	13,000	13,000	Colorado 5.0%		
Home Mortgage RB			Arapahoe Cnty		
Series 2003H			+■ Refunding IDRB (Denver		
2.28%, 07/07/05	975	975	Jetcenter) Series 1997		
Arvada			3.00%, 07/30/05		
+■ Water Enterprise RB Series 2001			3,500		
2.90%, 07/01/05			3,500		
			4,100		
			4,100		

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Centerra Metropolitan Dist No.1					
+■ RB Series 2004 2.31%, 07/07/05	10,000	10,000	+■ Student Loan RB Series 1989A 2.34%, 07/07/05	49,400	49,400
Colorado			Denver City & Cnty		
■ Education Loan Program TRAN Series 2004A 2.43%, 07/07/05	34,920	34,920	+■ Airport System RB Series 1992F 2.33%, 07/07/05	17,875	17,875
General Fund TRAN Series 2005A 2.62%, 06/27/06	230,000	232,641	+■ Airport System RB Series 1992G 2.33%, 07/07/05	18,325	18,325
Colorado Dept of Transportation			+■ Airport System Refunding RB Series 2000B 2.40%, 07/07/05	10,000	10,000
+■ Transportation RAN Series 2004A 2.31%, 07/07/05	9,500	9,500	+■ Airport System Refunding RB Series 2000C 2.33%, 07/07/05	50,000	50,000
Colorado Educational & Cultural Facilities Auth			+■ Refunding COP (Wellington E Webb Municipal Office Building) Series 2003C-3 2.30%, 07/07/05	20,000	20,000
+■ Student Housing Facilities RB (Campus Village Apts) Series 2005 2.30%, 07/07/05	22,865	22,865	Lowry Economic Development Auth		
Colorado Health Facilities Auth			+■ IDRB Series 2002B 2.30%, 07/07/05	14,140	14,140
+■ Hospital Revenue RB (NCMC, Inc) Series 2005 2.28%, 07/08/05	17,000	17,000	+■ Refunding RB Series 2002A 2.30%, 07/07/05	11,260	11,260
Colorado Housing & Finance Auth			Regional Transportation Dist		
+■ Economic Development RB (Pemracs) Series 2000A 2.46%, 07/07/05	3,370	3,370	+ Subordinated Lien Sales Tax Revenue TECP Series 2001A 2.60%, 07/07/05	7,500	7,500
S/F Mortgage Class I Bonds Series 2004A-4 1.82%, 08/01/05	26,300	26,300	Westminster Economic Development Auth		
■ S/F Program Sr Bonds Series 1995D 2.43%, 07/07/05	720	720	+■ Tax Increment RB (Westminster Plaza) Series 1997A 2.46%, 07/07/05	6,310	6,310
Colorado Student Loan Auth			642,326		
+■ Sr Lien Student Loan RB Series 1999A-2 2.34%, 07/07/05	28,400	28,400	Connecticut 1.4%		
+■ Sr Lien Student Loan RB Series 1999A-3 2.34%, 07/07/05	29,800	29,800	Connecticut HFA		
+■ Student Loan Program Sr Bonds Series 1990A 2.40%, 07/07/05	14,400	14,400	+■ Housing Draw Down Bonds Series 2004B 2.33%, 07/07/05	8,205	8,205
			+■ S/F Mortgage RB Draw Down Series 2004B 2.33%, 07/07/05	138,780	138,780

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Fairfield			District of Columbia Water & Sewer Auth		
GO BAN Series 2004 1.50%, 07/28/05	25,000	25,027	+■ Public Utility Subordinated Lien RB Series 2003 2.31%, 07/07/05	13,185	13,185
		172,012			
Delaware 0.3%			Metropolitan Washington Airports Auth		
Delaware Economic Development Auth			+■ Airport System RB Series 1997B 2.36%, 07/07/05	1,655	1,655
+■ RB (Hospital Billing & Collection Service) Series 1985 2.21%, 07/07/05	1,115	1,115	+■ Airport System RB Series 2001A 2.36%, 07/07/05	5,870	5,870
New Castle Cnty			+■ Airport System Refunding RB Series 2002C 2.30%, 07/07/05	1,900	1,900
+■ Airport Facility RB (Flightsafety International) Series 2002 2.32%, 07/07/05	16,600	16,600	+■ Airport System Refunding RB Series 2004D 2.36%, 07/07/05	2,750	2,750
+■ M/F Rental Housing RB (Fairfield English Village) Series 2005 2.32%, 07/07/05	8,500	8,500			159,439
Sussex Cnty			Florida 8.8%		
+■ IDR B (Perdue-Agrirecycle) Series 2000 2.34%, 07/07/05	5,300	5,300	Alachua Cnty Health Facilities Auth		
+■ RB (Baywood) Series 1997A 2.51%, 07/07/05	2,400	2,400	+■ Health Facilities RB (Shands Hospital, University of Florida) Series 1992R 2.31%, 07/07/05	29,540	29,540
		33,915	Brevard Cnty Health Facilities Auth		
District of Columbia 1.3%			+■ RB (Wuesthoff Health Systems) Series 2004 2.29%, 07/07/05	10,800	10,800
District of Columbia			Brevard Cnty HFA		
+■ Enterprise Zone RB (Crowell & Moring) Series 2001 2.34%, 07/07/05	3,300	3,300	+■ M/F Housing RB (Manatee Cove Apts) Series 2005 2.34%, 07/07/05	5,715	5,715
Fiscal Year 2005 GO TRAN 2.50%, 09/30/05	100,000	100,234	+■ M/F Housing Refunding RB (Shore View Apts) Series 1995 2.35%, 07/07/05	1,900	1,900
+■ GO Bonds Series 2003D-3 2.27%, 07/07/05	9,000	9,000	Broward Cnty Educational Facilities Auth		
+■ GO Refunding Bonds Series 1999B 2.31%, 07/07/05	14,640	14,640	+■ Educational Facilities RB (Nova Southeastern University) Series 2000A 2.29%, 07/07/05	10,890	10,890
+■ RB (American Psychological Association) Series 2003 2.35%, 07/07/05	2,755	2,755			
+■ RB (St Coletta Special Education Public Charter School) Series 2005 2.30%, 07/07/05	4,150	4,150			

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Broward Cnty HFA			Collier Cnty Health Facilities Auth		
+■ M/F Housing RB (Landings of Inverrary Apts) Series 1985 2.39%, 07/07/05	7,500	7,500	+■ Health Facility RB (The Moorings, Inc) Series 2005 2.38%, 07/07/05	27,000	27,000
+■ M/F Housing RB (Pembroke Village Apts) Series 2004 2.31%, 07/07/05	7,000	7,000	Collier Cnty HFA		
+■ M/F Housing RB (Pier Club Village Apts) Series 2004 2.29%, 07/07/05	13,800	13,800	+■ M/F Housing RB (Brittany Bay Apts) Series 2001A 2.26%, 07/07/05	1,450	1,450
+■ M/F Housing RB (Sanctuary Apts) Series 1985 2.39%, 07/07/05	9,000	9,000	Collier Cnty IDA		
+■ M/F Housing RB (Southern Pointe) Series 1997 2.28%, 07/07/05	7,750	7,750	+■ Educational Facilities RB (Community School of Naples) Series 2002 2.30%, 07/07/05	7,650	7,650
+■ M/F Housing Refunding RB (Island Club Apts) Series 2001A 2.28%, 07/07/05	3,000	3,000	Dade Cnty		
+■ M/F Housing Refunding RB (Reflections Apts) Series 1999 2.30%, 07/07/05	10,000	10,000	+■ Water & Sewer System RB Series 1994 2.26%, 07/07/05	95,850	95,850
+■ M/F Housing Refunding RB (Water's Edge) Series 1997 2.28%, 07/07/05	100	100	Davie		
Broward County SD			+■ RB (United Jewish Community of Broward Cnty) Series 2003 2.30%, 07/07/05	4,600	4,600
+■ School Board COP Series 2005B 2.30%, 07/07/05	14,460	14,460	Escambia HFA		
Charlotte Cnty			+■ S/F RB Series 2001A 2.40%, 07/07/05	1,705	1,705
+■ Refunding RB Series 2003A 2.30%, 07/07/05	30,265	30,265	Eustis		
+■ Refunding RB Series 2003B 2.30%, 07/07/05	5,800	5,800	+■ RB Installment 1997A 2.29%, 07/07/05	3,475	3,475
Charlotte Cnty HFA			Florida HFA		
+■ M/F Housing RB (Murdock Circle Apts) Series 2000 2.34%, 07/07/05	3,240	3,240	+■ Housing RB (Ashley Lake Park II) Series 1989J 2.26%, 07/07/05	19,535	19,535
Clay Cnty Utility Auth			+■ Housing RB (Caribbean Key Apts) Series 1996F 2.34%, 07/07/05	10,000	10,000
+■ Utilities System RB Series 2003A 2.30%, 07/07/05	3,225	3,225	+■ Housing RB (Heron Park) Series 1996U 2.26%, 07/07/05	3,700	3,700
			+■ M/F Guaranteed Mortgage RB (Oaks At Regency) Series 1983K 2.30%, 07/07/05	6,925	6,925
			+■ M/F Housing RB (Cameron Cove Apts) Series 1985XX 2.41%, 07/07/05	6,100	6,100

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
+ M/F Housing Refunding RB (Reflections Apts) Series 2001K-A 2.27%, 07/07/05	10,600	10,600	Gulf Breeze		
+ M/F Mortgage RB (Arlington Apts) Series 2004G-1 2.35%, 07/07/05	11,340	11,340	+ Local Government Loan Program RB Series 1985B 2.29%, 07/07/05	12,620	12,620
+ M/F Mortgage RB (Clarcona Groves Apts) Series 2005A 2.31%, 07/07/05	1,000	1,000	+ Local Government Loan Program RB Series 1985C 2.29%, 07/07/05	4,000	4,000
+ M/F Mortgage RB (Pinnacle Pointe Apts) Series 2003N 2.31%, 07/07/05	1,200	1,200	+ Local Government Loan Program RB Series 1985E 2.29%, 07/07/05	4,900	4,900
+ M/F Mortgage Refunding RB (Monterey Lake Apts) Series 2005C 2.27%, 07/07/05	7,325	7,325	Halifax Hospital Medical Center		
+ M/F Mortgage Refunding RB (Victoria Park Apts) 2002J-1 2.28%, 07/07/05	9,370	9,370	+ RB (Florida Health Care Plan) Series 1998 2.31%, 07/07/05	5,200	5,200
+ RB (Heritage Pointe Apts) Series 1999I-1 2.34%, 07/07/05	8,500	8,500	Hillsborough Cnty Aviation Auth		
Florida Local Government Finance Commission			Airport Facilities Subordinated TECP Series B		
Pooled TECP Series 1994A			+ 2.48%, 07/14/05	23,700	23,700
+ 2.50%, 08/15/05	6,900	6,900	+ 2.92%, 07/14/05	16,400	16,400
+ 2.60%, 09/13/05	18,114	18,114	Hillsborough Cnty Educational Facilities Auth		
+ 2.58%, 09/14/05	9,000	9,000	+ RB (University of Tampa) Series 2000 2.35%, 07/07/05	5,500	5,500
Fort Lauderdale			Hillsborough Cnty IDA		
+ RB (Pine Crest Preparatory School) Series 2002 2.30%, 07/07/05	10,000	10,000	+ Educational Facilities RB (Berkeley Preparatory School, Inc) Series 1999 2.29%, 07/07/05	4,100	4,100
Gainesville			+ IDRB (University Community Hospital) Series 1994 2.85%, 06/22/06	11,470	11,470
+ IDRB (Lifesouth Community Blood Centers) Series 1999 2.29%, 07/07/05	5,100	5,100	+ RB (Tampa Metropolitan Area YMCA) Series 2000 2.35%, 07/07/05	7,600	7,600
Gainesville Utility System			Jacksonville Economic Development Commission		
+ CP Notes Series C 2.50%, 08/08/05	6,776	6,776	+ Educational Facilities RB (Episcopal High School) Series 2002 2.30%, 07/07/05	5,600	5,600
Greater Orlando Aviation Auth			+ Refunding RB (YMCA of Florida First Coast) Series 2003 2.30%, 07/07/05	4,800	4,800
+ Airport Facilities RB Series 2002E 2.30%, 07/07/05	67,790	67,790			
Airport Facilities Subordinated TECP Series B					
+ 2.48%, 07/07/05	12,650	12,650			
+ 2.90%, 07/14/05	18,000	18,000			

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
+■ Special Facility Airport RB (Holland Sheltair Aviation Group) Series 2004A-1 2.35%, 07/07/05	10,355	10,355	Miami-Dade Cnty SD RAN Series 2005 2.62%, 06/27/06	25,000	25,332
Jacksonville Health Facilities Auth			Okeechobee Cnty		
+■ Health Facilities RB (River Garden/The Coves) Series 1994 2.34%, 07/07/05	3,265	3,265	+■ Exempt Facility RB (Okeechobee Landfill) Series 1999 2.34%, 07/07/05	15,000	15,000
Lee Cnty			Orange Cnty Health Finance Auth		
+■ Educational Facilities RB (Canterbury School) Series 1999 2.29%, 07/07/05	5,900	5,900	+ Refunding Program RB (Pooled Hospital Loan) Series 1985 2.90%, 07/26/05	16,100	16,100
Manatee Cnty HFA			Orange Cnty HFA		
+■ M/F Housing RB (La Mirada Gardens) Series 2002A 2.36%, 07/07/05	4,000	4,000	+■ M/F Housing Refunding RB (Andover Place Apts) Series 1998F 2.33%, 07/07/05	7,000	7,000
+■ M/F Housing RB (Sabal Palm Harbor Apts) Series 2000A 2.34%, 07/07/05	4,200	4,200	+■ M/F Housing Refunding RB (Heather Glen Apts) Series 2001E 2.25%, 07/07/05	11,900	11,900
+■ M/F Mortgage Refunding RB (Hampton Court) Series 1989A 2.29%, 07/07/05	3,500	3,500	+■ M/F Housing Refunding RB (Post Fountains At Lee Vista) Series 1997E 2.55%, 07/07/05	7,235	7,235
Marion Cnty IDA			+■ M/F Housing Refunding RB (Smokewood/Sun Key Apts) Series 1992A 2.30%, 07/07/05	18,900	18,900
+■ M/F Housing Refunding RB (Chambrel at Pinecastle) Series 2002 2.27%, 07/07/05	4,000	4,000	Orange Cnty IDA		
Miami Health Facilities Auth			+■ Educational Facilities RB (UCF Hospitality School Student Housing Foundation) Series 2004 2.29%, 07/07/05	9,000	9,000
+■ Health Facilities RB (Miami Jewish Home & Hospital For the Aged) Series 1996 2.29%, 07/07/05	5,800	5,800	+■ IDRB (Goodwill Industries of Central Florida) Series 1999 2.29%, 07/07/05	6,000	6,000
Miami-Dade Cnty			+■ RB (Center For Drug Free Living) Series 1999 2.29%, 07/07/05	8,815	8,815
+■ Solid Waste System RB Series 2005 2.32%, 07/07/05	10,965	10,965	Orlando & Orange Cnty Expressway Auth		
Miami-Dade Cnty IDA			+■ RB Series 2005C 2.22%, 07/07/05	10,000	10,000
+■ IDRB (Airis Miami LLC) Series 1999A 2.30%, 07/07/05	14,100	14,100			
+■ RB (Belen Jesuit Preparatory School) Series 1999 2.29%, 07/07/05	6,665	6,665			

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Orlando Utilities Commission			Pinellas Cnty Industry Council		
▶■ Water & Electric RB Series 2002B 2.28%, 07/07/05	4,300	4,300	▶■ RB (Operation Par) Series 1999 2.34%, 07/07/05	4,575	4,575
Palm Beach Cnty			Port St Lucie		
▶■ Airport RB (Galaxy Aviation) Series 2000A 2.34%, 07/07/05	8,000	8,000	▶▶■ Utility System RB Series 2005 2.31%, 07/07/05	40,000	40,000
▶■ Economic Development Refunding & Improvement RB (YMCA) Series 2003 2.29%, 07/07/05	13,700	13,700	▶■ Utility System Refunding RB Series 2004A 2.32%, 07/07/05	15,000	15,000
▶■ IDBR (South Florida Blood Banks) Series 2002 2.29%, 07/07/05	7,200	7,200	Reedy Creek Improvement Dist		
▶■ IDRB (Palm Beach Day School) Series 1999 2.29%, 07/07/05	6,000	6,000	▶■ Utilities Refunding RB Series 2003-2 2.31%, 07/07/05	7,585	7,585
Palm Beach Cnty Educational Facilities Auth			Santa Rosa Cnty		
▶■ Educational Facilities RB (Lynn University) Series 2001 2.30%, 07/07/05	7,135	7,135	▶■ Health Facilities RB (Baptist Hospital) Series 2003 2.30%, 07/07/05	7,590	7,590
Palm Beach Cnty Health Facilities Auth			Sunshine State Governmental Financing Commission		
▶ Refunding Program RB (Pooled Hospital Loan Program) Series 1985 2.90%, 07/18/05	7,300	7,300	▶■ CP Revenue Notes (Miami-Dade Cnty Program) Series G 2.35%, 07/06/05	6,439	6,439
Palm Beach Cnty SD			Tallahassee-Leon Cnty Civic Center Auth		
▶ Sales Tax Revenue CP Notes 2.67%, 07/05/05	24,700	24,700	▶■ Capital Improvement RB Series 1998A 2.29%, 07/07/05	14,290	14,290
Pasco Cnty SD			Tampa		
▶▶■ COP Series 1996 2.28%, 07/07/05	7,000	7,000	▶■ RB (Tampa Preparatory School) Series 2000 2.28%, 07/07/05	4,500	4,500
Pinellas Cnty Educational Facilities Auth			Tampa Bay Water Utility		
▶■ RB (Shorecrest Preparatory School) Series 2001 2.31%, 07/07/05	905	905	▶■ Utility System RB Series 2002 2.35%, 07/07/05	6,900	6,900
Pinellas Cnty HFA			University of South Florida Research Foundation		
▶■ M/F Housing RB (Greenwood Apts) Series 2002A 2.35%, 07/07/05	6,460	6,460	▶■ RB (Interdisciplinary Research Building) Series 2004A 2.30%, 07/07/05	18,155	18,155
Pinellas Cnty IDA			Volusia Cnty Educational Facilities Auth		
▶■ RB (Pact) Series 2003 2.30%, 07/07/05	7,500	7,500	▶■ Educational Facilities RB (Bethune-Cookman College) Series 2001 2.29%, 07/07/05	10,560	10,560

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
West Palm Beach			+■ M/F Sr Housing RB (Big Bethel Village) Series 2001 2.34%, 07/07/05		
+■ Utility System Refunding RB Series 2005 2.26%, 06/30/05	9,000	9,000		4,400	4,400
		1,124,356	Augusta Housing Auth		
			+■ M/F Housing RB (G-Hope) Series 2001 2.34%, 07/07/05		
Georgia 4.3%				3,685	3,685
Atlanta			Bartow Cnty		
+■ Airport General Refunding RB Series 2000A 2.31%, 07/07/05	11,195	11,195	+■ IDRB (Bartow Paving Co) Series 1998 2.39%, 07/07/05		
+■ Airport General Refunding RB Series 2000C 2.36%, 07/07/05	3,385	3,385	Cherokee Cnty		
+■ Airport General Refunding RB Series 2003RF-D 2.36%, 07/07/05	6,180	6,180	+■ IDRB (Universal Alloy Corp) Series 1996 2.34%, 07/07/05		
+■ Water & Wastewater RB Series 2004 2.32%, 07/07/05	18,320	18,320	Clayton Cnty Development Auth		
Atlanta Urban Residential Finance Auth			+■ IDRB (Wilson Holdings) Series 1998 2.39%, 07/07/05		
+■ M/F Housing RB (Brentwood Creek Apts) Series 1999 2.34%, 07/07/05	4,425	4,425	Clayton Cnty Housing Auth		
+■ M/F Housing RB (Brentwood Meadows Apts) Series 1999 2.34%, 07/07/05	2,865	2,865	+■ M/F Housing RB (Hyde Park Club Apts) Series 1997 2.35%, 07/07/05		
+■ M/F Housing RB (Brentwood Village Apts) Series 1999 2.34%, 07/07/05	5,810	5,810	Cobb Cnty Housing Auth		
+■ M/F Housing RB (Carver Redevelopment Phase III) Series 2001 2.34%, 07/07/05	3,440	3,440	+■ M/F Housing RB (Walton Green Apts) Series 1995 2.34%, 07/07/05		
+■ M/F Housing RB (Delmonte/ Brownlee Court) Series 2001A 2.34%, 07/07/05	4,600	4,600	+■ M/F Housing RB (Woodchase Village Apts) Series 2003 2.35%, 07/07/05		
+■ M/F Housing RB (Lindbergh City Center Apts) Series 2004 2.35%, 07/07/05	5,000	5,000	+■ M/F Housing Refunding RB (Walton Park Apts) Series 2000 2.34%, 07/07/05		
+■ M/F Housing RB (M St Apts) Series 2003 2.35%, 07/07/05	7,000	7,000	Columbus Development Auth		
+■ M/F Housing RB (Peaks at West Atlanta Apts) Series 2001 2.34%, 07/07/05	5,000	5,000	+■ RB (Foundation Properties) Series 2002 2.40%, 07/07/05		
			Columbus Housing Auth		
			+■ M/F Housing RB (Eagles Trace Apts) Series 2002 2.34%, 07/07/05		
			Dalton Development Auth		
			+■ Revenue Certificates (Hamilton Health Care System) Series 2003B 2.30%, 07/07/05		
				5,245	5,245

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Dawson Cnty			Fulton Cnty Development Auth		
+■ IDRB (World Wide Manufacturing) Series 1998 2.39%, 07/07/05	1,950	1,950	+■ RB (Atlanta International School) Series 1997 2.29%, 07/07/05	2,500	2,500
Dekalb Cnty Development Auth			▶■ RB (Robert W Woodruff Arts Center) Series 2004B 2.29%, 07/07/05		
+■ RB (Arbor Montessori School) Series 1998 2.29%, 07/07/05	1,100	1,100	+■ RB (Trinity School) Series 2001 2.29%, 07/07/05	16,000	16,000
Dekalb Cnty Housing Auth			Fulton-Dekalb Hospital Auth		
+■ M/F Housing RB (Brittany Apts) Series 2001 2.32%, 07/07/05	8,000	8,000	+▶ Refunding Revenue Certificates Series 2003 2.31%, 07/07/05	4,995	4,995
+■ M/F Housing RB (Eagles Trace Apts) Series 1996 2.34%, 07/07/05	8,750	8,750	Gainesville Redevelopment Auth		
+■ M/F Housing RB (Mountain Crest Apts) Series 2002 2.34%, 07/07/05	7,775	7,775	+■ Educational Facilities RB (Riverside Military Academy) Series 1999 2.29%, 07/07/05	29,500	29,500
+■ M/F Housing RB (Villas of Friendly Heights Apts) Series 2001 2.34%, 07/07/05	3,520	3,520	Georgia		
+■ M/F Housing RB (Wesley Club Apts) Series 2002 2.34%, 07/07/05	5,945	5,945	▶■ GO Bonds Series 1998B 2.32%, 07/07/05	20,245	20,245
DeKalb Cnty Public Safety & Judicial Facilities Auth			▶■ GO Bonds Series 2002B 2.31%, 07/07/05	1,100	1,100
▶■ RB Series 2004A 2.32%, 07/07/05	19,985	19,985	Gordon Cnty Development Auth		
Douglas Cnty IDA			+■ RB (Constantine Dyeing) Series 2001 2.34%, 07/07/05	3,020	3,020
+■ IDRB (Blue Circle Aggregates) Series 1997 2.35%, 07/07/05	3,800	3,800	Gwinnett Cnty Housing Auth		
Effingham Cnty IDA			+■ M/F Housing RB (Post Court) Series 1998 2.29%, 07/07/05	5,000	5,000
+■ RB (TEMCOR) Series 2001 2.34%, 07/07/05	3,355	3,355	Hart Cnty		
Forsyth Cnty Development Auth			+■ Refunding RB & IDRB (Dundee Mills) Series 1994 2.34%, 07/07/05	1,725	1,725
+■ Economic Development RB (Federal Road) Series 2001 2.34%, 07/07/05	6,700	6,700	Houston Cnty Development Auth		
Fulton Cnty			+■ IDRB (Douglas Asphalt Co) Series 2000 2.34%, 07/07/05	1,500	1,500
+▶■ Water & Sewerage RB Series 2004 2.32%, 07/07/05	10,000	10,000	Jefferson Cnty Development Auth		
			+■ IDRB (Grove River Mills) Series 1997 2.39%, 07/07/05	1,500	1,500

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Laurens Cnty Development Auth					
+■ Solid Waste Disposal RB (Southeast Paper Manufacturing Co) Series 1993 2.34%, 07/07/05	25,000	25,000	+■ Exempt Facility RB (Home Depot) Series 1995B 2.33%, 07/07/05	5,000	5,000
+■ Solid Waste Disposal RB (Southeast Paper Manufacturing Co) Series 1997 2.34%, 07/07/05	26,000	26,000	+■ First Mortgage RB (Marshes of Skidaway Island) Series 2003C 2.39%, 07/07/05	15,000	15,000
Lawrenceville Housing Auth			Savannah Housing Auth		
+■ M/F Housing RB (Chatham Club Apts) Series 2002 2.36%, 07/07/05	7,700	7,700	+■ M/F Housing RB (Indigo Pointe Apts) Series 2001A-1 2.34%, 07/07/05	3,500	3,500
Lowndes Cnty Development Auth			+■ M/F Housing RB (Live Oak Plantation Apts) Series 2001A-1 2.34%, 07/07/05		
+■ M/F Housing RB (FMPH Valdosta) Series 1999 2.34%, 07/07/05	4,735	4,735	Summerville Development Auth		
Macon-Bibb Cnty Hospital Auth			+■ Exempt Facility RB (Image Industries) Series 1997 2.37%, 07/07/05		
+■ Revenue Anticipation Certificates (Medical Center of Central Georgia) Series 1998 2.29%, 07/07/05	4,000	4,000	Thomasville Hospital Auth		
Metropolitan Atlanta Rapid Transit Auth			+■ Revenue Anticipation Certificates (John D Archbold Memorial Hospital) Series 2003 2.29%, 07/07/05		
Sales Tax Revenue CP BAN (Third Indenture) Series 2004A			Walton Cnty Development Auth		
+ 2.55%, 08/08/05	5,000	5,000	+■ RB (Tucker Door & Trim Corp) Series 2000 2.44%, 07/07/05		
+ 2.55%, 09/12/05	5,000	5,000	Webster Cnty IDA		
+ Sales Tax Revenue CP BAN (Third Indenture) Series 2004B 2.53%, 09/08/05	9,500	9,500	+■ IDRB (Tolleson Lumber Co) Series 1999 2.34%, 07/07/05		
Miller Cnty Development Auth			Whitfield Cnty Development Auth		
+■ IDRB (Birdsong Corp) Series 2000 2.34%, 07/07/05	2,600	2,600	+■ RB (Product Concepts Residential) Series 2001 2.34%, 07/07/05		
Municipal Gas Auth of Georgia			Winder-Barrow Industrial Building Auth		
+■ Gas RB (Gas Portfolio III) Series B 2.32%, 07/07/05	54,900	54,900	+■ IDRB (Progress Container Corp) Series 2000 2.34%, 07/07/05		
Savannah Economic Development Auth			Worth Cnty		
+■ Exempt Facility RB (Georgia Kaolin Terminal) Series 1997 2.35%, 07/07/05	11,000	11,000	+■ Refunding IDRB (Seabrook Peanut Co) Series 1996B 2.34%, 07/07/05		
				1,300	1,300
					546,615

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Hawaii 0.3%			Bartlett		
Hawaii			+■ Special Service Area No.1 Unlimited Ad Valorem Tax Bonds Series 2004 2.31%, 07/07/05		
+■ GO Bonds Series 2002CZ 2.31%, 07/07/05	5,900	5,900		16,600	16,600
+■ Special Purpose Refunding RB (Hawaiian Electric Co) Series 2000 2.36%, 07/07/05	9,095	9,095	Carol Stream		
			+■ M/F Housing Refunding RB (St Charles Square) Series 1997 2.41%, 07/07/05		
Hawaii Airports System				4,415	4,415
+■ Airport System Refunding RB Series 2000B 2.36%, 07/07/05	2,215	2,215	Chicago		
Hawaii Housing Finance & Development Corp			■ Collateralized S/F Mortgage RB Series 1999A 2.43%, 07/07/05		
■ S/F Mortgage Purchase RB 2.43%, 07/07/05	2,760	2,760		1,900	1,900
Honolulu City & Cnty			+■ GO Bonds Project Series 2003C 2.31%, 07/07/05		
+■ GO Bonds Series 2003A 2.32%, 07/07/05	14,995	14,995		5,000	5,000
		34,965	+■ GO Refunding Bonds Series 2003B-1 2.29%, 07/07/05		
Idaho 0.5%				18,650	18,650
Idaho			+■ M/F Housing RB (Central Station Senior Housing) Series 2004 2.33%, 07/07/05		
◆ TAN Series 2005 2.64%, 06/30/06	50,000	50,661		9,500	9,500
Idaho HFA			+■ M/F Housing RB (Central Station) Series 2004A 2.33%, 07/07/05		
+■ Housing RB (Assisted Living Concepts) Series 1997 2.40%, 07/07/05	2,990	2,990		25,170	25,170
Idaho State University Foundation			+■ Midway Airport RB Series 1998C 2.32%, 07/07/05		
+■ RB (LE & Thelma E Stephens Performing Arts Center) Series 2001 2.30%, 07/07/05	3,955	3,955		24,480	24,480
		57,606	■ Sr Lien Water RB Series 2000 2.32%, 07/07/05		
Illinois 6.7%			Chicago Board of Education		
Aurora			+■ Unlimited Tax GO Bonds Series 1997 2.31%, 07/07/05		
+■ M/F Housing Refunding RB (Apts of Fox Valley Villages) Series 1999A 2.30%, 07/07/05	9,445	9,445		7,120	7,120
			Chicago O'Hare International Airport		
			+■ General Airport Second Lien RB Series 1988B 2.28%, 07/07/05		
				12,300	12,300
			+■ General Airport Second Lien RB Series 1994B 2.29%, 07/07/05		
				41,484	41,484
			+■ General Airport Third Lien Refunding RB Series 2003A-2 2.36%, 07/07/05		
				5,295	5,295

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
+■ General Airport Third Lien Refunding RB Series 2003B-2 2.35%, 07/07/05	10,800	10,800	+■ GO Bonds Illinois First Series 2002 2.32%, 07/07/05	14,125	14,125
Second Lien Passenger Facility Charge RB Series 2001A			+■ GO Bonds Series A of March 2004 2.31%, 07/07/05	6,675	6,675
+■ 2.36%, 07/07/05	6,315	6,315	Illinois Development Finance Auth		
+■ 2.37%, 07/07/05	11,070	11,070	+■ Economic Development RB (Korex Corp) Series 1990 2.40%, 07/07/05	4,000	4,000
+■ Special Facilities RB (O'Hare Tech Center II) Series 2002 2.37%, 07/07/05	15,500	15,500	+■ Gas Supply Refunding RB (People's Gas) Series 2003E 2.38%, 07/07/05	14,995	14,995
+■ Special Facility Refunding RB (Lufthansa German Airlines) Series 2001 2.31%, 07/07/05	43,770	43,770	+■ IDRB (Arc-Tronics) Series 1999 2.35%, 07/07/05	1,785	1,785
Cook Cnty			+■ IDRB (Camcraft Inc) Series 1993 2.51%, 07/07/05	2,000	2,000
+■ RB (Bernard Zell Anshe Emet Day School) Series 2005 2.31%, 07/07/05	7,500	7,500	+■ IDRB (Radiological Society of North America) Series 1997 2.32%, 07/07/05	3,230	3,230
+■ RB (Catholic Theological Union) Series 2005 2.31%, 07/07/05	4,000	4,000	+■ Qualified Residential Rental Bonds (River Oaks) Series 1989 2.33%, 07/07/05	32,000	32,000
Dupage Cnty			+■ RB (American College of Surgeons) Series 1996 2.59%, 07/01/05	13,100	13,100
+■ RB (Morton Arboretum) Series 2003 2.30%, 07/07/05	10,000	10,000	+■ RB (Aurora Central Catholic High School) Series 1994 2.56%, 07/07/05	1,000	1,000
East Dundee, Kane & Cook Counties			+■ RB (Carmel High School) Series 2003 2.31%, 07/07/05	6,200	6,200
+■ IDRB (Otto Engineering) Series 1998 2.40%, 07/07/05	1,685	1,685	+■ RB (Catholic Charities Housing Development Corp) Series 1993A 2.46%, 07/07/05	9,160	9,160
Elmhurst			+■ RB (Catholic Charities Housing Development Corp) Series 1993B 2.46%, 07/07/05	910	910
+■ IDRB (Elm Machining Corp) Series 1997 2.47%, 07/07/05	1,670	1,670	+■ RB (Chicago Academy of Sciences) Series 1997 2.31%, 07/07/05	2,615	2,615
Hampshire					
+■ IDRB (Poli-Film America) Series 1998A 2.37%, 07/07/05	2,500	2,500			
Illinois					
+■ Civic Center Bonds Series 1991 2.38%, 07/07/05	2,940	2,940			
GO Bonds Illinois First Series 2000					
+■ 2.32%, 07/07/05	14,000	14,000			
+■ 2.33%, 07/07/05	5,000	5,000			

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
➤■ RB (Chicago Academy of Sciences) Series 1998 2.31%, 07/07/05	5,700	5,700	➤■ RB (Wheaton Academy) Series 1998 2.31%, 07/07/05	9,000	9,000
➤■ RB (Chicago Horticultural Society) Series 1999 2.31%, 07/07/05	20,000	20,000	➤■ Residential Rental RB (FC Harris Pavilion) Series 1994 2.30%, 07/07/05	7,200	7,200
➤■ RB (Francis W Parker School) Series 1999 2.22%, 07/07/05	2,500	2,500	➤■ Water Facilities Refunding RB (Illinois-American Water Co) Series 2002 2.37%, 07/07/05	5,000	5,000
➤■ RB (Illinois Institute of Technology) Series 2004 2.31%, 07/07/05	2,500	2,500	Illinois Education Facility Auth		
➤■ RB (Joan W & Irving B Harris Theater For Music & Dance) Series 2005 2.31%, 07/07/05	8,200	8,200	➤■ RB (Chicago Historical Society) Series 1989 2.35%, 07/07/05	7,600	7,600
➤■ RB (Lake Forest Academy) Series 1994 2.31%, 07/07/05	4,000	4,000	➤■ RB (Shedd Aquarium) Series 1997 2.32%, 07/07/05	2,000	2,000
➤■ RB (Loyola Academy) Series 2001 2.31%, 07/07/05	10,000	10,000	Illinois Finance Auth		
➤■ RB (McCormick Theological Seminary) Series 2001B 2.31%, 07/07/05	20,435	20,435	➤■ M/F Housing RB (Autumn Ridge Apts) Series 2005A 2.30%, 07/07/05	12,400	12,400
➤■ RB (Perspectives Charter School) Series 2003 2.30%, 07/07/05	5,500	5,500	➤■ RB (Lake Forest Country Day School) Series 2005 2.31%, 06/30/05	4,000	4,000
➤■ RB (Presbyterian Home Lake Forest Place) Series 1996A 2.31%, 07/07/05	34,050	34,050	Illinois Health Facilities Auth		
➤■ RB (Presbyterian Homes Two Arbor Lane) Series 2001 2.31%, 07/07/05	9,000	9,000	➤■ RB (Bensenville Home Society) Series 1989A 2.30%, 07/07/05	1,975	1,975
➤■ RB (Richard H Driehaus Museum) Series 2005 2.31%, 07/07/05	3,200	3,200	➤■ RB (Ingalls Health System) Series 1994 2.18%, 07/07/05	17,810	17,810
➤■ RB (Sacred Heart Schools) Series 2003 2.31%, 07/07/05	7,100	7,100	➤■ RB (Villa St Benedict) Series 2003B 2.36%, 07/07/05	10,150	10,150
➤■ RB (Slovak American Charitable Association) Series 2000 2.31%, 07/07/05	7,685	7,685	➤■ RB (Washington & Jane Smith Home) Series 1991 2.40%, 07/07/05	2,800	2,800
➤■ RB (St Ignatius College Prep) Series 2002 2.31%, 07/07/05	2,800	2,800	Illinois Housing Development Auth		
➤■ RB (St Ignatius College) Series 1994 2.31%, 07/07/05	12,000	12,000	■ Homeowner Mortgage RB Series 2004D 1.68%, 07/27/05	15,000	15,000
			➤■ M/F Mortgage Refunding RB (Hyde Park Tower Apts) Series 2000A 2.35%, 07/07/05	4,500	4,500

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
+■ IDRB (Big Sky Park) Series 1999 2.37%, 07/07/05	4,800	4,800	+■ Economic Development RB (Pin Oaks Apts) Series 1997A 2.41%, 07/07/05	1,000	1,000
+■ IDRB (Cives Corp) Series 1998 2.34%, 07/07/05	7,150	7,150	+■ Economic Development RB (Western Manor Apts) Series 1997C 2.41%, 07/07/05	2,130	2,130
Indiana Educational Facilities Auth			University of Southern Indiana		
+■ Educational Facilities RB (St Joseph's College) Series 2004 2.30%, 07/07/05	12,000	12,000	+■ Auxiliary System RB Series 2001B 2.30%, 07/07/05	10,400	10,400
Indiana Health Facilities Financing Auth			Vigo Cnty		
+■ Hospital RB (Sisters of St Francis Health Services, Inc) Series 1999A 2.31%, 07/07/05	7,605	7,605	+■ Economic Development RB (Sisters of Providence) Series 2001 2.39%, 07/07/05	3,500	3,500
+■ Insured RB Series 1985A 2.30%, 07/07/05	11,610	11,610	Vincennes University		
RB (Ascension Health Credit Group) Series 2001A-2 1.73%, 07/05/05	9,000	9,000	+■ Student Fee Bonds Series G 2.30%, 07/07/05	5,730	5,730
Indiana HFA					204,740
▶■ S/F Mortgage RB Series 1998D-2 2.43%, 07/07/05	9,995	9,995	Iowa 1.3%		
▶■ S/F Mortgage RB Series 2000B-2 2.45%, 07/07/05	5,265	5,265	Iowa Finance Auth		
■ S/F Mortgage RB Series 2004D-2 2.30%, 12/15/05	60,650	60,650	+■ Retirement Community RB (Western Home Communities) Series 2004 2.33%, 07/07/05	1,100	1,100
Indianapolis			Iowa Higher Education Loan Auth		
+■ M/F Housing RB (Nora Pines Apts) Series 2001 2.32%, 07/07/05	9,275	9,275	+■ Private College Facility RB (Graceland University) Series 2003 2.35%, 07/07/05	2,000	2,000
+■ Thermal Energy System RB Series 2001A 2.32%, 07/07/05	9,900	9,900	+■ Private College Facility RB (St Ambrose University) Series 2003 2.30%, 07/01/05	8,100	8,100
Marion			Iowa School Corporations		
+■ Economic Development RB (Indiana Wesleyan University) Series 2000 2.30%, 07/07/05	7,500	7,500	+ Cash Anticipation Program Warrant Certificates Series 2004-2005 B 2.28%, 01/27/06	22,080	22,231
St Joseph Cnty			+ Cash Anticipation Program Warrant Certificates Series 2005-2006 A 2.63%, 06/28/06	82,000	83,085
+■ Economic Development RB (Corby Apts) Series 1997B 2.41%, 07/07/05	3,430	3,430			

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Iowa Student Loan Liquidity Corp			Kentucky Higher Education Student Loan Corp		
+■▲ Student Loan RB Series 1988B 2.31%, 07/07/05	46,500	46,500	+■ Insured Student Loan RB Series 1991E 2.30%, 07/07/05	12,600	12,600
		<u>163,016</u>	+■ Insured Student Loan RB Series 1996A 2.30%, 07/07/05	23,850	23,850
Kansas 0.8%			Kentucky Housing Corp		
Douglas Cnty Unified SD No.497 GO Temporary Notes Series 2005-1 2.64%, 07/12/06	32,200	32,639	■ Housing RB Series 1998F 2.43%, 07/07/05	19,320	19,320
Kansas Dept of Transportation ■ Highway RB Series 1999 2.32%, 07/07/05	37,500	37,500	■ Housing RB Series 2002A 2.37%, 07/07/05	4,425	4,425
Kansas Development Finance Auth +■ M/F Housing RB (Saddlewood Apts) Series 2004M 2.40%, 07/07/05	6,400	6,400	Kentucky State Property & Buildings Commission Refunding RB Project No.84		
Wichita +■ Airport Facility Refunding & Improvement RB (Flightsafety International) Series 1999II 2.32%, 07/07/05	26,170	26,170	+■ 2.31%, 07/07/05	4,500	4,500
		<u>102,709</u>	+■ 2.32%, 07/07/05	6,850	6,850
Kentucky 2.6%			Louisville & Jefferson Cnty Metropolitan Sewer Dist		
Elizabethtown +■ IDR (ALTEC) Series 1997 2.40%, 07/07/05	3,000	3,000	+■ Sewage & Drainage System RB Series 1999A 2.32%, 07/07/05	6,115	6,115
Jefferson Cnty +■ M/F Housing Refunding RB (Camden Brookside Apts) Series 2002 2.34%, 07/07/05	8,900	8,900	Richmond +■ IDR (Mikron) Series 1995 2.35%, 07/07/05		
+■ Sports Stadium RB (University of Louisville Athletic Association) Series 1997 2.42%, 07/07/05	2,600	2,600		7,175	7,175
Kentucky Asset/Liability Commission Project			<u>327,224</u>		
◆ General Fund TRAN Series 2005A 2.67%, 06/28/06	225,000	227,889	Louisiana 2.0%		
			Calcasieu Parish IDB		
			+■ Refunding IDR (Weingarten Realty Investors) Series 1995 2.33%, 07/07/05	1,990	1,990
			Ernest N Morial - New Orleans Exhibit Hall Auth		
			+■ Sr Subordinate Special Tax Bonds Series 2003A 2.32%, 07/07/05	4,995	4,995
			Lafayette Parish IDB		
			+■ Refunding IDR (Westwood Village) Series 1995 2.33%, 07/07/05	3,735	3,735
			Lafayette Public Power Auth		
			+■ Electric Refunding RB Series 2003A&B 2.32%, 07/07/05	5,310	5,310

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Lake Charles Harbor & Terminal Dist			Parish of East Baton Rouge IDB		
+■ Dock & Wharf RB (Conoco Inc) Series 2000 2.45%, 07/07/05	10,500	10,500	+■ Solid Waste Disposal RB (Georgia-Pacific Corp) Series 2004 2.34%, 07/07/05	7,100	7,100
Louisiana			St James Parish		
Gas & Fuels Tax RB Series 2005A			Pollution Control Refunding RB (Texaco) Series 1988A 2.89%, 08/09/05	44,030	44,030
+■ 2.31%, 07/07/05	15,970	15,970	Pollution Control Refunding RB (Texaco) Series 1988B 2.89%, 08/09/05	44,030	44,030
+■ 2.32%, 07/07/05	8,870	8,870			
Louisiana Local Government Environmental Facilities & Community Development Auth					256,405
+■ RB (University of Louisiana-Monroe) Series 2004A 2.30%, 07/07/05	8,000	8,000	Maine 0.1%		
+■ RB (University of Louisiana-Monroe) Series 2004C 2.30%, 07/07/05	12,515	12,515	Maine Finance Auth		
Louisiana Offshore Terminal Auth			+■ RB (Jackson Laboratory) Series 2002 2.32%, 07/07/05	5,800	5,800
+■ Deepwater Port Refunding RB First State Series 1992A 2.29%, 07/07/05	10,000	10,000	Maine Housing Auth		
+■ Deepwater Port Refunding RB Series 2003B 2.35%, 07/07/05	5,700	5,700	+■ Mortgage Purchase Bonds Series 2002F-2 2.36%, 07/07/05	4,585	4,585
Louisiana Public Facility Auth					10,385
+■ IDRB (Kenner Hotel Partnership) Series 1985 2.35%, 07/01/05	1,000	1,000	Maryland 0.9%		
+■ Lease Purchase RB Series 2003 2.33%, 07/07/05	20,000	20,000	Baltimore Cnty		
+■ RB (Tiger Athletic Foundation) Series 2004 2.38%, 07/07/05	18,800	18,800	+■ Consolidated Public Improvement TECP Series 2002 2.48%, 07/08/05	35,000	35,000
New Orleans Aviation Board			Howard Cnty		
+■ Refunding Bonds Series 1993B 2.35%, 07/07/05	4,860	4,860	+■ M/F Housing Refunding RB (Sherwood Crossing Apts) Series 2003 2.28%, 07/07/05	10,000	10,000
New Orleans IDB			Maryland Community Development Administration		
+■ M/F Housing RB (3700 Orleans) Series 2000 2.36%, 07/07/05	29,000	29,000	+■ S/F Program Bonds 1999 Third Series 2.43%, 07/07/05	32,335	32,335
			Maryland Energy Financing Administration		
			+■ Limited Obligation Local District Cooling Facilities RB (Comfort Link) Series 2001 2.34%, 07/07/05	10,000	10,000

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Maryland Health & Higher Educational Facilities Auth			<ul style="list-style-type: none"> ▶■ GO Refunding Bonds Series 2001B 2.43%, 07/07/05 4,750 4,750 ▶■ GO Refunding Bonds Series 2001C 2.43%, 07/07/05 17,800 17,800 ▶■ GO Refunding Bonds Series 2005A 2.29%, 07/07/05 10,000 10,000 		
<ul style="list-style-type: none"> ▶■ Pooled Loan Program RB Series D 2.26%, 07/07/05 18,780 18,780 			Massachusetts Bay Transportation Auth		
Maryland State Economic Development Corp			<ul style="list-style-type: none"> ▶■ General Transportation System Bonds Series 1999A 2.30%, 07/07/05 9,000 9,000 ▶■ Sr Sales Tax Bonds Series 2005A 2.31%, 07/07/05 22,810 22,810 ▶■ Sr Sales Tax RB Series 2005A 2.56%, 07/07/05 7,500 7,500 		
<ul style="list-style-type: none"> ▶■ IDRB (Dixon Valve & Coupling Co) Series 1998 2.39%, 07/07/05 1,390 1,390 			Massachusetts Development Finance Agency		
Montgomery Cnty			<ul style="list-style-type: none"> ▶■ Education RB (Dexter School) Series 2000 2.27%, 07/07/05 8,210 8,210 ▶■ M/F Housing Refunding RB (Kensington at Chelmsford) Series 2002 2.40%, 06/30/05 900 900 ▶■ RB (Assumption College) Series 2002A 2.27%, 07/07/05 11,410 11,410 ▶■ RB (Brandon Residential Treatment Center) Series 2003 2.28%, 07/07/05 2,290 2,290 ▶■ RB (Dean College) Series 1999 2.28%, 07/07/05 1,910 1,910 ▶■ RB (FIBA Technologies) Series 2003 2.38%, 07/07/05 2,000 2,000 ▶■ RB (Gordon College) Series 2002 2.27%, 06/30/05 2,100 2,100 ▶■ RB (Third Sector New England) Series 2004A 2.28%, 07/07/05 5,500 5,500 		
<ul style="list-style-type: none"> ▶■ Economic Development RB (Georgetown Preparatory School) Series 2005 2.28%, 07/07/05 12,000 12,000 		119,505			
Massachusetts 2.7%					
Cohasset BAN					
1.57%, 08/12/05	25,164	25,199			
Concord					
Unlimited Tax School BAN					
1.63%, 09/29/05	15,200	15,251			
Lawrence					
School BAN					
2.28%, 12/22/05	12,000	12,054			
Marion					
BAN					
1.68%, 07/15/05	2,000	2,001			
Massachusetts					
<ul style="list-style-type: none"> ▶■ GO Bonds Consolidated Loan Series 2000C 2.56%, 07/07/05 5,000 5,000 ▶■ GO Bonds Consolidated Loan Series 2001D 2.31%, 07/07/05 2,785 2,785 ▶■ GO Bonds Consolidated Loan Series 2004A 2.31%, 07/07/05 4,995 4,995 ▶■ GO Bonds Consolidated Loan Series 2005A 2.30%, 07/07/05 5,000 5,000 ▶■ GO Refunding Bonds Series 1998B 2.22%, 07/07/05 2,500 2,500 					

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
➔■ RB (Wentworth Institute of Technology) Series 2000 2.27%, 07/07/05	6,585	6,585	Nashoba Valley Technical High SD BAN 1.48%, 08/12/05	7,441	7,454
■ RB (Worcester Academy) Series 2000 2.30%, 07/01/05	3,000	3,000	New Bedford BAN 2.70%, 09/29/05	8,630	8,636
■ RB (YMCA of Greater Boston) Series 2004A 2.30%, 07/07/05	7,300	7,300	Ralph C Mahar Regional SD BAN 1.69%, 07/14/05	20,000	20,009
Massachusetts Health & Educational Facilities Auth			Silver Lake Regional SD GO BAN 1.61%, 08/26/05	20,000	20,042
➔■ RB (Baystate Medical Ctr) Series D 2.30%, 07/07/05	17,500	17,500	Somerville GO BAN 1.44%, 08/19/05	3,162	3,168
■ RB (Boston Home) Series 2002B 2.27%, 07/07/05	2,500	2,500			348,334
■ RB (MIT) Series K 2.31%, 07/07/05	6,710	6,710	Michigan 4.5%		
■ RB (Sherrill House) Series A-1 2.26%, 07/07/05	6,100	6,100	Allen Park Public Schools		
➔■ RB (Winchester Hospital) Series D 2.31%, 07/07/05	3,000	3,000	■ Unlimited Tax School Building Bonds Series 2003 2.32%, 07/07/05	10,760	10,760
Massachusetts HFA			Ann Arbor Economic Development Corp		
➔■ Housing Bonds Series 2003F 2.22%, 07/07/05	14,535	14,535	■ Limited Obligation RB (Glacier Hills) Series 2000A 2.33%, 07/07/05	22,100	22,100
Massachusetts IFA			■ Limited Obligation Refunding RB (Glacier Hills) Series 2000B 2.33%, 07/07/05	8,685	8,685
■ RB (New England College of Optometry) Series 1997 2.30%, 07/07/05	5,600	5,600	Detroit		
■ RB (Williston Northampton School) Series B 2.28%, 07/07/05	2,625	2,625	➔■ Sewage Disposal System RB Series 1999A 2.32%, 07/07/05	34,650	34,650
Massachusetts Turnpike Auth			➔■ Sewage Disposal System Second Lien RB Series 2001B 2.36%, 07/07/05	4,260	4,260
➔■ Metropolitan Highway System Subordinate RB Series 1999A 2.30%, 07/07/05	7,110	7,110	Detroit City SD		
Massachusetts Water Pollution Abatement Trust			➔■ School Building & Site Improvement Bonds Series 2001A 2.36%, 07/07/05	4,620	4,620
■ Water Pollution Abatement RB Subordinate Series 1999A 2.31%, 07/07/05	1,500	1,500			
Massachusetts Water Resources Auth					
➔■ General Refunding RB Series 2005A 2.30%, 07/07/05	23,995	23,995			

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Georgetown Economic Development Corp			Michigan Housing Development Auth		
+■ Limited Obligation RB (Sunset Manor) Series 2000 2.29%, 07/07/05	8,860	8,860	+▶■ S/F Mortgage RB Series 2001A 2.36%, 07/07/05	3,430	3,430
Grand Rapids Economic Development Corp			Michigan Job Development Auth		
+■ Refunding RB (Amway Hotel Corp) Series 1991A 2.38%, 07/07/05	8,755	8,755	+■ Limited Obligation RB (Frankenmuth Bavarian Inn Motor Lodge) Series 1985 2.80%, 07/30/05	7,100	7,100
Jackson Cnty Hospital Finance Auth			Michigan Municipal Bond Auth		
+■ Hospital Refunding RB (WA Foote Memorial Hospital) Series 2005B 2.30%, 07/07/05	10,000	10,000	+▶■ Revenue Notes Series 2004B-2 2.43%, 07/07/05	32,550	32,550
Macomb Cnty Hospital Finance Auth			Michigan Strategic Fund		
+■ Hospital Refunding RB (Mt Clemens General Hospital) Series 2003A-2 2.45%, 07/01/05	9,100	9,100	+■ Limited Obligation RB (Advance Plastics Corp) Series 1996 2.45%, 07/07/05	870	870
Michigan			+■ Limited Obligation RB (American Cancer Society) Series 2000 2.35%, 07/07/05	4,210	4,210
GO Notes Fiscal 2005 Series A 2.54%, 09/30/05	40,000	40,089	+■ Limited Obligation RB (EPI Printers) Series 1997 2.45%, 07/07/05	720	720
Michigan Building Auth			+■ Limited Obligation RB (Mans) Series 1991 2.45%, 07/07/05	420	420
+ TECP Series 4 2.68%, 07/21/05	50,000	50,000	+■ Limited Obligation RB (Mans) Series 1998B 2.45%, 07/07/05	935	935
Michigan Higher Education Facilities Auth			+■ Limited Obligation RB (Mechanics Uniform Rental Co) Series 1995 2.45%, 07/07/05	1,000	1,000
+■ Limited Obligation Refunding RB (Hope College) Series 2004 2.33%, 07/07/05	3,805	3,805	+■ Limited Obligation RB (United Machining) Series 1998 2.45%, 07/07/05	4,000	4,000
Michigan Higher Education Student Loan Auth			+▶■ Limited Obligation Refunding RB (Detroit Edison Co Pollution Control Bonds) Series 1999C 2.35%, 07/07/05	9,245	9,245
+▶■ Student Loan RB Series XII-X 2.34%, 07/07/05	15,000	15,000	+▶■ Limited Obligation Refunding RB (Detroit Edison Co) Series 2003A 2.36%, 07/07/05	5,995	5,995
Michigan Hospital Financing Auth					
+■ Hospital Refunding & RB (Crittenton Hospital Medical Center) Series 2003A 2.30%, 07/01/05	7,900	7,900			

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Michigan Trunk Line Fund			Burnsville		
+■ State Trunk Line Fund Refunding Bonds Series 1998A 2.32%, 07/07/05	46,666	46,666	+■ M/F Housing Refunding RB (Southwind Apts) Series 2004 2.30%, 07/07/05	8,350	8,350
Oakland Cnty			Eden Prairie		
+■ Limited Obligation RB (Husky Envelope Products) Series 1999 2.45%, 07/07/05	2,100	2,100	+■ M/F Housing RB (Eden Prairie Leased Housing Associates I) Series 2003A 2.64%, 07/07/05	6,000	6,000
+■ Limited Obligation RB (Pontiac Vision 2000 Schools) Series 2000 2.35%, 07/07/05	8,800	8,800	Hennepin Cnty		
Wayne Cnty			■ GO Refunding Bonds Series 1996C 2.40%, 07/07/05		
+■ Airport RB (Detroit Metropolitan Wayne Cnty Airport) Jr Lien Series 2001 2.57%, 07/07/05	18,075	18,075	Hennepin Cnty Housing & Redevelopment Auth		
+■ Airport RB (Detroit Metropolitan Wayne Cnty Airport) Series 2002A 2.31%, 07/07/05	139,870	139,870	+■ M/F Housing Refunding RB (Stone Arch Apts) Series 2002 2.35%, 07/07/05	2,800	2,800
+■ Airport Refunding RB (Detroit Metropolitan Wayne Cnty Airport) Series 1996B 2.31%, 07/07/05	24,940	24,940	Inver Grove Heights		
Wayne Cnty Airport Auth			+■ Sr Housing Refunding RB (PHM/Inver Grove, Inc) Series 2005 2.30%, 07/07/05		
+■ Airport RB (Detroit Metropolitan Wayne Cnty Airport) Series 2005 2.62%, 07/07/05	18,400	18,400	Mendota Heights		
		567,910	+■ Refunding IDRB (Dakota Business Plaza) Series 2000 2.55%, 07/07/05		
Minnesota 2.2%			Minneapolis		
Andover			+■ Health Care System Refunding RB (Fairview Health Services) Series 2005B 2.30%, 07/07/05		
+■ Sr Housing Refunding RB (Presbyterian Homes) Series 2003 2.30%, 07/07/05	6,500	6,500	+■ Health Care System Refunding RB (Fairview Health Services) Series 2005C 2.28%, 07/07/05	20,000	20,000
Bloomington Port Auth			+■ RB (Guthrie Theater) Series 2003A 2.28%, 07/07/05		
+■ Special Tax Refunding RB (Mall of America) Series 1999B 2.33%, 07/07/05	21,700	21,700	Minneapolis-St Paul Metropolitan Airports Commission		
			+■ Airport RB Series 2000B 2.36%, 07/07/05		
			+■ Subordinate Airport Refunding RB Series 2005B 2.36%, 07/07/05		
				6,000	6,000

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
+ Subordinate Revenue CP Notes Series A 2.50%, 07/07/05	14,119	14,119	St Louis Park		
+ Subordinate Revenue TECP Series B 2.69%, 07/01/05	6,768	6,768	+■ M/F Housing RB (Park) Series 2002A 2.65%, 07/07/05	3,300	3,300
Minnesota Agricultural & Economic Development Board			St Paul Housing & Redevelopment Auth		
+■ RB (Evangelical Lutheran Good Samaritan Society) Series 1996 2.33%, 07/07/05	7,400	7,400	+■ District Heating RB Series 1999D 2.59%, 07/01/05	3,230	3,230
Minnesota HFA					282,542
■ Residential Housing Finance Bonds Series 2003B 2.30%, 07/07/05	6,000	6,000	Mississippi 0.3%		
■ Residential Housing Finance Bonds Series 2004G 2.35%, 07/07/05	12,000	12,000	Mississippi		
Minnesota Higher Education Facilities Auth			■ GO Refunding Bonds Series 2001 2.32%, 07/07/05	14,880	14,880
+■ RB (Trustees of the Hamline University of Minnesota) Series Six-E1 2.33%, 07/07/05	3,000	3,000	Mississippi Business Finance Corp		
+■ RB (Trustees of the Hamline University of Minnesota) Series Six-E2 2.33%, 07/07/05	4,000	4,000	+■ IDRB (Electric Mills Wood Preserving) Series 1999 2.50%, 07/07/05	5,000	5,000
+■ RB (University of St Thomas) Series 4-O 2.33%, 07/07/05	9,700	9,700	+■ IDRB (Omega Motion) Series 1996 2.34%, 07/07/05	4,000	4,000
+■ RB (University of St Thomas) Series 5-1 2.33%, 07/07/05	3,600	3,600	+■ IDRB (VC Regional Assembly & Manufacturing) Series 2003 2.32%, 07/07/05	9,210	9,210
Rochester			Mississippi Home Corp		
Health Care Facilities RB (Mayo Foundation) Series 1992C 2.52%, 08/08/05	20,200	20,200	+■ S/F Mortgage RB Series 1997C 2.43%, 07/07/05	3,100	3,100
Rochester Health Care Facilities					36,190
■ RB (Mayo Foundation) Series 2001A 2.53%, 08/01/05	15,000	15,000	Missouri 0.2%		
2.50%, 08/22/05	31,400	31,400	Missouri Development Finance Board		
■ RB (Mayo Foundation) Series 2001B 2.53%, 08/01/05	13,600	13,600	+■ IDRB (Milbank Manufacturing Co) Series 1997 2.50%, 07/07/05	3,000	3,000
			St Charles Cnty IDA		
			+■ M/F Housing Refunding RB (Time Centre Apts Phase I) Series 2004A 2.34%, 07/07/05	15,600	15,600
			+■ M/F Housing Refunding RB (Time Centre Apts Phase II) Series 2004B 2.38%, 07/07/05	4,500	4,500

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
St Louis IDA			Clark Cnty SD		
+■ IDRB (Kessler Container) Series 1997A 2.35%, 07/07/05	1,900	1,900	+■ GO (Limited Tax) Building Bonds Series 2001F 2.33%, 07/07/05	21,715	21,715
Washington IDA			Las Vegas Convention & Visitors Auth		
+■ IDRB (Pauwels Transformers) Series 1995 2.60%, 07/07/05	2,600	2,600	+■ Refunding RB Series 2005 2.32%, 07/07/05	4,190	4,190
		27,600	Las Vegas Valley Water Dist		
Montana 0.0%			▶ GO (Limited Tax) Water CP Notes Series 2004 A & B 2.60%, 07/19/05		
Montana Health Facilities Auth			+■ GO Refunding Bonds Series 2005A 2.31%, 07/07/05		
+■ Health Care RB (Pooled Loan Program) Series 1985A 2.30%, 07/07/05	4,325	4,325	Nevada		
Nebraska 0.2%			+■ Highway Improvement (Motor Vehicle Fuel Tax) RB Series 2003 2.31%, 07/07/05		
Nebraska Investment Finance Auth			Nevada Housing Division		
▶ S/F Housing RB Series 1998G 2.43%, 07/07/05	10,735	10,735	+■ M/F Housing RB (Apache Pines Apts) Series 1999A 2.33%, 07/07/05	7,415	7,415
▶ S/F Housing RB Series 1999E 2.37%, 07/07/05	475	475	+■ M/F Housing RB (Banbridge Apts) Series 2000A 2.33%, 07/07/05	3,960	3,960
Stanton Cnty			+■ M/F Housing RB (Bluffs Apts) Series 2002A 2.33%, 07/07/05	17,850	17,850
■ IDRB (Nucor Corp) Series 1996 2.33%, 07/07/05	19,300	19,300	+■ M/F Housing RB (City Center) Series 2000A 2.33%, 07/07/05	7,550	7,550
		30,510	+■ M/F Housing RB (Home Suites) Series 1989A 2.27%, 07/07/05	4,800	4,800
Nevada 1.9%			+■ M/F Housing RB (Sierra Pointe Apts) Series 2005 2.50%, 07/07/05	9,985	9,985
Clark Cnty			+■ M/F Housing RB (Silver Pines Apts) Series 2002A 2.30%, 07/07/05	5,500	5,500
+■ Airport System Subordinate Lien RB Series 1995A-2 2.30%, 07/07/05	1,100	1,100	+■ M/F Housing RB (Silver Terrace Apts) Series 2003A 2.33%, 07/07/05	5,150	5,150
+■ Economic Development RB (UNLV Foundation) Series 1999 2.30%, 07/07/05	395	395			
+■ IDRB (Southwest Gas Corp) Series 2003A 2.40%, 07/07/05	12,500	12,500			
+■ Las Vegas-McCarran International Airport Passenger Facility Charge Refunding RB Series 2005A-2 2.31%, 07/07/05	26,000	26,000			

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
+■ M/F Housing RB (St Rose Senior Apts) Series 2002A 2.33%, 07/07/05	14,770	14,770	New Jersey 0.6%		
+■ M/F Housing RB (Sundance Village Apts) Series 2004 2.33%, 07/07/05	15,000	15,000	Englewood		
+■ M/F Housing Refunding RB (Oakmont) Series 2002 2.33%, 07/07/05	4,350	4,350	General Improvement BAN & Special Assessment BAN 1.63%, 07/08/05	23,750	23,756
Washoe Cnty			New Jersey Economic Development Auth		
+▶■ GO Convention Center Refunding Bonds Series 2001A 2.33%, 07/07/05	21,000	21,000	+▶■ School Facilities Construction Bonds Series 2004G 2.31%, 07/07/05	4,935	4,935
		243,023	New Jersey Turnpike Auth		
New Hampshire 0.4%			+▶■ RB Series C 2.31%, 07/07/05	2,000	2,000
New Hampshire Business Finance Auth			+▶■ Turnpike RB Series 2000A 2.31%, 07/07/05	6,100	6,100
+■ Solid Waste Disposal RB (Lonza Biologics) Series 2003 2.38%, 07/07/05	30,000	30,000	+▶■ Turnpike RB Series 2004C-2 2.31%, 07/07/05	22,490	22,490
New Hampshire Health & Educational Facilities Auth			+▶■ Turnpike Revenue RB Series 2004A 2.31%, 07/07/05	5,000	5,000
+▶■ RB (Dartmouth-Hitchcock Obligated Group) Series 2001A 2.23%, 07/07/05	815	815	Woodbridge Township		
+■ RB (Easter Seals New Hampshire) Series 2004A 2.32%, 07/07/05	6,060	6,060	General & Sewer Utility BAN 1.65%, 07/08/05	5,481	5,482
+■ RB (Frisbie Memorial Hospital) Series 2005 2.32%, 07/07/05	5,115	5,115	1.67%, 07/08/05	6,519	6,521
+■ RB (Riverwoods) Series 2003 2.38%, 07/07/05	3,085	3,085			76,284
New Hampshire HFA			New Mexico 0.2%		
+▶■ S/F Mortgage Acquisition RB Series 1997C 2.43%, 07/07/05	1,845	1,845	Farmington		
+▶■ S/F Mortgage Acquisition RB Series 1998B 2.43%, 07/07/05	9,730	9,730	+■ Hospital RB (San Juan Regional Medical Center) Series 2004B 2.31%, 07/07/05	5,000	5,000
		56,650	Santa Fe		
			+■ Gross Receipts Tax Subordinate Lien Wastewater System RB Series 1997B 2.32%, 07/07/05	16,300	16,300
					21,300
			New York 6.9%		
			Dutchess Cnty IDA		
			+■ Civic Facility RB (Trinity-Pawling School Corp) Series 1998 2.26%, 07/07/05	4,300	4,300

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Long Island Power Auth			+■ M/F Rental Housing RB (One		
+▶■ Electric System RB Series 1998A 2.31%, 07/07/05	10,970	10,970	Columbus Place) Series 1998A 2.25%, 07/07/05	5,500	5,500
Metropolitan Transportation Auth			+■ M/F Rental Housing RB		
+▶■ Dedicated Tax Fund Refunding Bonds Series 2005A 2.29%, 06/30/05	15,500	15,500	(Sierra) Series 2003A 2.25%, 07/07/05	6,115	6,115
+▶■ Transportation Refunding RB Series 2002D-1 2.20%, 07/07/05	20,000	20,000	New York City IDA		
+■ Transportation Revenue BAN Sub-Series B 2.51%, 09/13/05	17,000	17,000	+■ Special Facility RB (Korean Air		
New York City			Lines) Series 1997A 2.27%, 07/07/05		
+▶■ GO Bonds Fiscal 1998 Series D 2.31%, 07/07/05	17,825	17,825	New York City Municipal Water		
+▶■ GO Bonds Fiscal 2002 Series A 2.31%, 07/07/05	15,000	15,000	Finance Auth		
+■ GO Bonds Fiscal 2003 Series C-4 2.18%, 07/07/05	15,000	15,000	▶ TECP Notes Series 1 2.50%, 09/08/05		
+■ GO Bonds Fiscal 2004 Series A-6 2.50%, 07/07/05	23,750	23,750	+■ TECP Series 5 2.45%, 07/08/05		
+■ GO Bonds Fiscal 2004 Series H-2 2.52%, 07/07/05	42,700	42,700	+▶■ Water & Sewer System RB Fiscal 2002 Series G 2.31%, 07/07/05		
+■ GO Bonds Fiscal 2004 Series H-3 2.18%, 07/07/05	2,300	2,300	+▶■ Water & Sewer System RB Fiscal 2005 Series B 2.31%, 07/07/05		
+▶■ GO Bonds Fiscal 2005 Series N 2.29%, 07/07/05	20,340	20,340	▶■ Water & Sewer System RB Fiscal 2005 Series D 2.29%, 07/07/05		
New York City Health & Hospitals Corp			New York City Transitional		
+▶■ Health System Bonds Series 1999A 2.31%, 07/07/05	8,000	8,000	Finance Auth		
New York City Housing Development Corp			▶■ Future Tax Secured Bonds Fiscal 1999 Series C 2.31%, 07/07/05		
+■ M/F Mortgage RB (2 Gold St) Series 2003A 2.26%, 07/07/05	500	500	▶■ Future Tax Secured Bonds Fiscal 2001 Series B 2.17%, 07/01/05		
			▶■ Future Tax Secured Refunding Bonds Fiscal 2003 Series A 2.31%, 07/07/05		
			▶■ Recovery Bonds Fiscal 2003 Series 2A 2.17%, 07/01/05		
			New York State		
			+■ Environmental Quality 1986 GO Bonds Series 1998A 2.50%, 08/08/05		
			+▶■ GO Bonds Fiscal 2004 Series F 2.35%, 07/07/05		
			50,000	50,000	

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
New York State Dormitory Auth			+■ Housing RB (W33rd St)		
+■ State University Educational Facilities RB Series 2000B 2.28%, 07/07/05	20,000	20,000	Series 2003A 2.25%, 07/07/05	33,900	33,900
New York State Energy Research & Development Auth			New York State Mortgage Agency		
+■ Gas Facilities RB (Brooklyn Union Gas) Series 1996 2.29%, 07/07/05	1,570	1,570	■ Homeowner Mortgage RB Series 77A 2.31%, 07/07/05	10,700	10,700
New York State HFA			■ Homeowner Mortgage RB Series 79 2.31%, 07/07/05	14,995	14,995
+■ Housing RB (101 West End Ave) Series 1998A 2.29%, 07/07/05	13,200	13,200	■ S/F Mortgage RB Series 92 2.31%, 07/07/05	3,230	3,230
+■ Housing RB (101 West End Ave) Series 1999A 2.29%, 07/07/05	25,750	25,750	Port Auth of New York & New Jersey		
+■ Housing RB (150 E44th St) Series 2000A 2.29%, 07/07/05	27,200	27,200	+■ Consolidated Bonds 139th Series 2.59%, 07/07/05	20,000	20,000
+■ Housing RB (345 E94th St) Series 1998A 2.29%, 07/07/05	565	565	Triborough Bridge & Tunnel Auth		
+■ Housing RB (345 E94th St) Series 1999A 2.29%, 07/07/05	6,500	6,500	■ General Refunding RB Series 2002B 2.31%, 07/07/05	9,995	9,995
+■ Housing RB (350 W43rd St) Series 2002A 2.25%, 07/07/05	6,400	6,400	Westchester Cnty IDA		
+■ Housing RB (Avalon Chrystie Place I) Series 2004A 2.27%, 07/07/05	17,400	17,400	+■ IDR (Levister Redevelopment Co) Series 2001A 2.25%, 07/07/05	1,000	1,000
+■ Housing RB (Clinton Green North) Series 2005A 2.60%, 07/07/05	48,500	48,500	William Floyd Union Free SD		
+■ Housing RB (Clinton Green South) Series 2005A 2.60%, 07/07/05	12,000	12,000	TAN 2005 2.70%, 06/27/06	23,000	23,288
+■ Housing RB (The Helena) Series 2003A 2.25%, 07/07/05	12,200	12,200	Yonkers IDA		
+■ Housing RB (W20th St) Series 2001A 2.26%, 07/07/05	33,000	33,000	+■ Civic Facility RB (Consumers Union) Series 1994 2.35%, 07/07/05	440	440
+■ Housing RB (W23rd St) Series 2002A 2.29%, 07/07/05	72,100	72,100	876,108		
			North Carolina 1.4%		
			Charlotte		
			+■ Airport Refunding RB Series 1997A 2.31%, 07/07/05	37,400	37,400
			Durham Housing Auth		
			+■ M/F Housing RB (Pendleton Townhomes) Series 2001 2.34%, 07/07/05	5,490	5,490

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Forsyth Cnty			Rockingham Cnty Industrial Facilities & Pollution Control Financing Auth		
+■ RB (Plymouth Printing Co) Series 1998 2.39%, 07/07/05	870	870	+■ IDRB (McMichael Mills) Series 1997 2.34%, 07/07/05	1,100	1,100
Guilford Cnty Industrial Facilities & Pollution Control Financing Auth			Rowan Cnty Industrial Facilities & Pollution Control Financing Auth		
+■ IDRB (Metalcraft of Mayville SE Manufacturing) Series 1997 2.35%, 07/07/05	1,300	1,300	+■ IDRB (Taylor Clay Products) Series 1999 2.34%, 07/07/05	3,400	3,400
Hertford Cnty Industrial Facilities & Pollution Control Financing Auth			Sampson Cnty Industrial Facilities & Pollution Control Finance Auth		
IDRB (Nucor Corp) Series 2000A			+■ IDRB (Crumpler Plastic Pipe) Series 1999 2.39%, 07/07/05	2,600	2,600
■ 2.32%, 07/07/05	17,500	17,500	Union Cnty Industrial Facilities & Pollution Control Financing Auth		
■ 2.45%, 07/07/05	26,500	26,500	+■ RB (Rock-Tenn Converting Co) Series 1997 2.34%, 07/07/05	1,750	1,750
Johnston Cnty Industrial Facilities & Pollution Control Financing Auth			Wake Cnty Housing Auth		
+■ IDRB (Flanders Corp) Series 1998 2.35%, 07/07/05	4,500	4,500	+■ M/F Housing RB (Walnut Ridge Apts) Series 2000 2.34%, 07/07/05	9,920	9,920
Mecklenburg Cnty			Wilmington Housing Auth		
+■ M/F Housing RB (Sycamore Green Apts) Series 2001 2.30%, 07/07/05	8,240	8,240	+■ M/F Housing RB (Garden Lakes Estates) Series 1999 2.34%, 07/07/05	7,055	7,055
North Carolina Educational Facilities Finance Agency			<hr/>		
+■ Educational Facilities RB (High Point University) Series 1997 2.29%, 07/07/05	4,410	4,410	173,735		
+■ Educational Facilities RB (Queens College) Series 1999B 2.29%, 07/07/05	5,520	5,520	North Dakota 0.4%		
North Carolina HFA			North Dakota HFA		
■ Home Ownership RB Series 1A 1.62%, 07/14/05	12,000	12,000	■ Home Mortgage Finance Program Series 2004B 2.31%, 07/07/05	24,680	24,680
Piedmont Triad Airport Auth			■ Home Mortgage Finance Program Series 2005A 2.31%, 07/07/05		
+■ Airport RB Series 2004B 2.35%, 07/07/05	19,500	19,500	Richland Cnty		
Raleigh-Durham Airport Auth			+■ Solid Waste Disposal RB (Minn-Dak Farmers Coop) Series 1996A 2.60%, 07/07/05		
+■ Airport RB Series 2005B 2.36%, 07/07/05	4,680	4,680	6,370	6,370	

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
+■ Solid Waste Disposal RB (Minn-Dak Farmers Coop) Series 1996B 2.60%, 07/07/05	585	585	Ohio Higher Educational Facility Commission		
		53,735	+■ Higher Educational Facility RB (Pooled Financing) Series 2003B 2.30%, 07/07/05	4,900	4,900
Ohio 0.9%			+■ RB (The Cleveland Institute of Music) Series 2005 2.33%, 07/07/05	5,000	5,000
Akron, Bath & Copley Joint Township Hospital Dist			Port of Greater Cincinnati Development Auth		
+■ Hospital Facilities RB (Summa Health System) Series 2004B 2.32%, 07/07/05	7,500	7,500	+■ RB (National Underground Railroad Freedom Center) Series 2003A 2.40%, 07/07/05	15,000	15,000
Cleveland					115,810
+■ Airport System RB Series 1997D 2.31%, 07/07/05	34,760	34,760	Oklahoma 1.1%		
Cuyahoga Cnty			Muldrow Public Works Auth		
+■ Economic Development RB (Hathaway Brown School) Series 1999 2.32%, 07/07/05	12,520	12,520	+■ IDRB (OK Foods) Series 1995 2.60%, 07/07/05	4,500	4,500
Franklin Cnty			Oklahoma Cnty Industrial Auth		
+■ Hospital RB (The Children's Hospital) Series 2003 2.56%, 07/07/05	5,000	5,000	+■ RB (National Cowboy Hall of Fame) Series 1999 2.30%, 07/07/05	995	995
Hamilton Cnty			Oklahoma Development Finance Auth		
+■ Healthcare Facilities Improvement & Refunding RB (Episcopal Retirement Homes, Inc) Series 2005A 2.28%, 07/07/05	6,500	6,500	+■ RB (Shawnee Funding) Series 1996 2.34%, 07/07/05	3,100	3,100
Ohio			Oklahoma Student Loan Auth		
■ Infrastructure Improvement Refunding GO Bonds Series 2004A 2.22%, 07/07/05	1,000	1,000	+■ Student Loan Bonds & Notes Series 1996A 2.27%, 07/07/05	32,580	32,580
+■ RB (Pooled Financing) Series 2004 2.30%, 07/07/05	9,385	9,385	+■ Student Loan Bonds & Notes Series 1997A 2.34%, 07/07/05	33,000	33,000
Ohio HFA			+■ Student Loan Bonds & Notes Series 1998A 2.34%, 07/07/05	33,100	33,100
+■ M/F Refunding RB (10 Wilmington Place) Series 1991B 2.59%, 07/01/05	8,945	8,945	+■ Student Loan Bonds & Notes Series 2000A-4 2.34%, 07/07/05	10,945	10,945
■ Residential Mortgage RB Series 2001C 2.40%, 07/07/05	5,300	5,300	+■ Student Loan Bonds & Notes Series 2005A 2.34%, 07/07/05	15,045	15,045

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Payne Cnty Economic Development Auth			Port of Portland		
+■ Student Housing RB (OSUF Phase III Student Housing) Series 2005 2.29%, 07/07/05	8,500	8,500	+■ Special Obligation RB (Portland Bulk Terminals) Series 1996 2.35%, 07/07/05	28,000	28,000
Tulsa IDA			+■ Special Obligation RB (Portland Bulk Terminals) Series 1999 2.35%, 07/07/05	4,500	4,500
+■ RB (YMCA) Series 1999 2.30%, 07/07/05	2,400	2,400	Portland		
		144,165	+■ M/F Housing RB (Village of Lovejoy Fountain) Series 1997 2.37%, 07/07/05	8,500	8,500
					88,385
Oregon 0.7%			Pennsylvania 6.6%		
Oregon			Allegheny Cnty Hospital Development Auth		
+■ Economic Development RB (Kettle Foods) Series 1998-196 2.37%, 07/07/05	4,500	4,500	+■ Hospital RB (Magee-Womens Hospital) Series 1993 2.31%, 07/07/05	5,000	5,000
Oregon Economic Development Commission			Bermudian Springs SD		
+■ Economic Development RB (Pendleton Flour Mills) Series 1997-182 2.35%, 07/07/05	3,875	3,875	+■ GO Bonds Series 2005 2.30%, 07/07/05	2,100	2,100
Oregon Facilities Auth			Central Bucks SD		
+■ (Quatama Crossing Housing) Series 2005A 2.45%, 07/07/05	10,000	10,000	+■ GO Series 2000A 2.33%, 07/07/05	350	350
Oregon Health & Science University			Chester IDA		
+■ Special RB (OHSU Medical Group) Series 2004A 2.26%, 07/07/05	10,000	10,000	+■ RB (Archdiocese of Philadelphia) Series 2001 2.42%, 07/01/05	10,900	10,900
Oregon Health, Housing, Educational & Cultural Facilities Auth			Daniel Boone Area SD		
+■ RB (Quatama Crossing) Series 1998A 2.35%, 07/07/05	8,510	8,510	+■ GO Bonds Series 2004 2.29%, 07/07/05	5,795	5,795
Oregon Housing & Community Services Dept			Dauphin Cnty General Auth		
■ S/F Mortgage RB Series 2004L 2.33%, 07/07/05	5,000	5,000	+■ RB (Education & Health Loan) Series 1997 2.33%, 07/07/05	6,880	6,880
S/F Mortgage RB Series 2004R 2.15%, 09/01/05	5,500	5,500	Delaware Cnty IDA		
			+■ RB (YMCA of Philadelphia) Series 1999 2.39%, 07/07/05	100	100
			+■ Water Facilities RB (Aqua Pennsylvania Inc) Series 2005A 2.33%, 07/07/05	600	600

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)		
Delaware Valley Regional Finance Auth			Montgomery Cnty IDA				
Local Government RB			+ Pollution Control Refunding RB (Peco Energy Co)				
Series 1998A			Series 1994A				
+ 2.36%, 07/07/05	14,510	14,510	2.56%, 10/18/05	27,560	27,560		
+ 2.34%, 07/07/05	500	500	+ Pollution Control Refunding RB (Peco Energy Co)				
Easton Area SD			Series 1999A				
+ GO Bonds Series 2005			2.24%, 07/07/05				
2.30%, 07/07/05			9,000			9,000	
Emmaus General Auth			+ School RB (Friends' Central School) Series 2002				
+ Bonds Series 1996			2.33%, 07/07/05			4,225	4,225
2.29%, 07/07/05			3,125			3,125	
Erie SD			Montgomery Cnty Redevelopment Auth				
+ GO Bonds Series 2001A			+ M/F Housing Refunding RB (Glenmore Associates)				
2.32%, 07/07/05			Series 1995A				
17,095			2.59%, 07/07/05			2,750	2,750
Hanover Public SD			Northhampton Cnty				
+ GO Series 2005			+ County Agreement RB				
2.30%, 07/07/05			Series 2001				
5,000			2.32%, 07/07/05			6,995	6,995
Harrisburg Auth			Norwin SD				
+ Water Refunding RB			+ GO Bonds Series 2001A				
Series 2002B			2.65%, 01/25/06			11,500	11,500
2.33%, 07/07/05			6,400			6,400	
+ Water Refunding RB			Owen J Roberts SD				
Series 2003A			+ GO Bonds Series 2003				
2.33%, 07/07/05			2.30%, 07/07/05			10,000	10,000
Lampeter-Strasburg SD			Pennsylvania				
+ GO Bonds Series 2004A			+ GO Bonds First Series 2001				
2.30%, 07/07/05			2.36%, 07/07/05			6,860	6,860
6,000			+ GO Bonds First Series 2003			300	300
Lancaster Cnty Hospital Auth			+ GO Bonds Second Series 2002			14,995	14,995
+ Health Center RB (Masonic Homes) Series 2002			2.31%, 07/07/05				
2.29%, 07/07/05			17,030			17,030	
Manheim Township SD			Pennsylvania Convention Center Auth				
+ GO Bonds Series 2004			+ RB Series 1989A				
2.30%, 07/07/05			2.31%, 07/07/05			4,500	4,500
7,000			Pennsylvania Economic Development Financing Auth				
Mercer Cnty			+ Exempt Facilities RB (Amtrak) Series 2001B				
+ GO Bonds Series 2001			2.45%, 07/07/05			200	200
2.32%, 07/07/05			+ Exempt Facilities RB (Merck & Co) Series 2001				
7,725			2.35%, 07/07/05			15,000	15,000
Montgomery Cnty Higher Education & Health Auth			+ RB (Madlyn & Leonard Abramson Center For Jewish Life) Series 2001				
2.33%, 07/07/05			2.33%, 07/07/05			5,500	5,500

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Pennsylvania Energy Development Auth			Student Loan RB		
+■ Energy Development RB (B&W Ebsenburg) Series 1986 2.31%, 07/07/05	6,365	6,365	Series 2003A-2 2.45%, 07/07/05	38,000	38,000
Pennsylvania HFA			Student Loan RB Series 2000A		
+■ S/F Mortgage RB Drawdown Series 2003 2.35%, 07/07/05	5,030	5,030	2.45%, 07/07/05	36,775	36,775
■ S/F Mortgage RB Series 1999A 2.15%, 08/11/05	18,820	18,820	+■ Student Loan RB Series 2001A 2.45%, 07/07/05	22,950	22,950
■ S/F Mortgage RB Series 2004-83B 2.27%, 07/07/05	10,000	10,000	Pennsylvania Higher Educational Facilities Auth		
■ S/F Mortgage RB Series 2004-84C 2.26%, 07/07/05	8,350	8,350	+■ Drexel University RB Series 2005B 2.29%, 07/07/05	5,000	5,000
■ S/F Mortgage RB Series 2004-84D 2.26%, 07/07/05	3,850	3,850	+■ University of Pennsylvania Health System RB Series 2005A 2.80%, 06/15/06	5,990	5,990
■ S/F Mortgage RB Series 2005-88B 2.26%, 07/07/05	50,000	50,000	Pennsylvania Public School Building Auth		
■ S/F RB Series 1998-64 2.37%, 07/07/05	495	495	+■ School Lease RB (Philadelphia SD) Series 2003 2.31%, 07/07/05	5,900	5,900
Pennsylvania Higher Education Assistance Agency			+■ School RB (Parkland SD) Series 1999D 2.33%, 07/07/05	8,665	8,665
+■ Student Loan RB Series 1988A 2.33%, 07/07/05	76,000	76,000	Pennsylvania Turnpike Commission		
+■ Student Loan RB Series 1988B 2.33%, 07/07/05	36,700	36,700	■ Turnpike RB Series 2001U 2.22%, 07/07/05	2,950	2,950
+■ Student Loan RB Series 1994A 2.33%, 07/07/05	31,800	31,800	Philadelphia		
+■ Student Loan RB Series 1997A 2.45%, 07/07/05	28,900	28,900	+■ Airport RB Series 2005B 2.28%, 07/07/05	9,000	9,000
+■ Student Loan RB Series 1999A 2.31%, 07/07/05	36,000	36,000	+■ Airport Refunding RB Series 2005C 2.40%, 07/07/05	53,900	53,900
+■ Student Loan RB Series 2003A-1 2.45%, 07/07/05	7,000	7,000	Philadelphia Gas Works		
			+■ RB Third Series 2001 2.31%, 07/07/05	4,295	4,295
			Philadelphia IDA		
			+■ Airport RB Series 1998A 2.15%, 08/11/05	12,710	12,710
			+■ RB (City Line Holiday Inn) Series 1996 2.25%, 07/07/05	6,800	6,800
			Reading SD		
			+■ GO Bonds Series 2003A 2.32%, 07/07/05	4,225	4,225

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Scranton Redevelopment Auth			Rhode Island IDA		
+■ Guaranteed Lease RB Series 2004 2.33%, 07/07/05	2,000	2,000	+■ IDRB (Greystone of Lincoln) Series 2000 2.55%, 07/07/05	1,700	1,700
University of Pittsburgh			Rhode Island Student Loan Auth		
Pitt Asset Notes Series 2004 1.57%, 10/14/05	8,000	8,033	+▶■ Student Loan Program RB Series 1995-1 2.31%, 07/07/05	30,000	30,000
2.13%, 10/14/05	10,000	10,024	+▶■ Student Loan Program RB Series 1996-1 2.31%, 07/07/05	19,000	19,000
▶■ University Capital Project Bonds Series 2005A 2.40%, 07/07/05	2,900	2,900	+▶■ Student Loan Program RB Series 1996-2 2.31%, 07/07/05	20,000	20,000
▶■ University Capital Project Bonds Series 2005B 2.28%, 07/07/05	10,000	10,000	+▶■ Student Loan Program RB Series 1996-3 2.31%, 07/07/05	23,000	23,000
▶■ University Capital Project Bonds Series 2005C 2.20%, 07/07/05	5,000	5,000			125,895
West Cornwall Township Municipal Auth			South Carolina 1.2%		
+■ RB (Lebanon Valley Brethren Home) Series 1995 2.34%, 07/07/05	1,720	1,720	Beaufort-Jasper Higher Education Commission		
		846,642	+■ Student Housing RB (University of South Carolina-Beaufort Student Housing) Series 2005 2.35%, 07/07/05	16,540	16,540
Puerto Rico 0.0%			Berkeley Cnty SD		
Puerto Rico Highway & Transportation Auth			+▶■ School Building Bonds Series 2002 2.32%, 07/07/05	7,575	7,575
+▶■ Highway RB Series Y 2.28%, 07/07/05	800	800	Florence Cnty Public Facilities Corp		
Rhode Island 1.0%			+▶■ Refunding COP (Law Enforcement & Civic Centers) Series 2003 2.37%, 07/07/05	24,985	24,985
Rhode Island Economic Development Corp			Greenville IDA		
+▶■ Airport RB Series 2005A 2.36%, 07/07/05	2,255	2,255	+■ IDRB (Stevens Aviation Technical Services) Series 1997 2.39%, 07/07/05	3,500	3,500
+▶■ 2.36%, 07/07/05	3,925	3,925	South Carolina Housing & Development Auth		
+▶■ Airport Refunding RB Series 2005C 2.32%, 07/07/05	6,995	6,995	+■ M/F Rental Housing RB (Ashley Apts) Series 1999 2.34%, 07/07/05	4,000	4,000
Rhode Island Housing & Mortgage Finance Corp					
▶■ Home Ownership Opportunity Bonds Series 1998-29A 2.43%, 07/07/05	19,020	19,020			

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
+■ M/F Rental Housing RB (Piedmont Manor Apts) Series 2000B-1 2.34%, 07/07/05	5,755	5,755	South Dakota Housing Development Auth		
+■ M/F Rental Housing RB (Spartanburg Terrace Apts) Series 2000C-1 2.34%, 07/07/05	1,960	1,960	▶■ Homeownership Mortgage Bonds Series 2004G 2.31%, 07/07/05	11,000	11,000
+■ M/F Rental Housing Refunding RB (Fairway Apts) Series 2001A 2.34%, 07/07/05	7,735	7,735	+■ M/F Housing RB (Harmony Heights) Series 2001 2.40%, 07/07/05	6,500	6,500
South Carolina Jobs Economic Development Auth					44,740
+■ Economic Development RB (Holcim) Series 2003 2.45%, 07/07/05	6,250	6,250	Tennessee 3.5%		
+■ Economic Development RB (Thomas & Betts Corp) Series 1997 2.39%, 07/07/05	3,250	3,250	Bristol Health & Educational Facilities Board		
+■ IDRB (Sanders Brothers Construction Co) Series 1996 2.39%, 07/07/05	350	350	+■ RB (King College) Series 2001 2.30%, 07/07/05	6,450	6,450
South Carolina Public Service Auth			Carter Cnty IDB		
▶ 2.40%, 08/04/05	12,000	12,000	+■ M/F Housing Refunding RB (Willow Run Apts) Series 1990 2.65%, 07/07/05	6,675	6,675
▶ 2.60%, 09/07/05	29,701	29,701	Chattanooga Health, Education & Housing Facilities Board		
South Carolina Transportation Infrastructure Bank			+■ RB (Baylor School) Series 1996 2.29%, 07/07/05	2,035	2,035
+▶■ RB Series 1999A 2.32%, 07/07/05	22,610	22,610	+■▲ THA Program RB (Cumberland Medical Center) Series 2004A 2.28%, 07/07/05	46,000	46,000
Spartanburg Cnty IDA			Clarksville Public Building Auth		
+■ Refunding IDRB (Bemis Co) Series 1991 2.34%, 07/07/05	4,750	4,750	+■ Pooled Financing RB (Tennessee Municipal Bond Fund) Series 1997 2.30%, 07/07/05	4,800	4,800
		150,961	Franklin Cnty IDB		
South Dakota 0.4%			+■ IDRB (Hi-Tech) Series 1997 2.40%, 07/07/05	3,800	3,800
South Dakota Health & Educational Facilities Auth			Grundy Cnty IDB		
+▶■ RB (McKenna Hospital) Series 1994 2.59%, 07/07/05	27,240	27,240	+■ Limited Obligation RB (Toyo Seat USA Corp) Series 2001 2.50%, 07/07/05	3,330	3,330
			Hendersonville IDB		
			+■ Refunding IDRB (Betty Machine Co) Series 2001 2.34%, 07/07/05	3,445	3,445
			Huntingdon IDB		
			+■ IDRB (Associated Rubber Co) Series 1999 2.34%, 07/07/05	2,200	2,200

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Jackson Energy Auth			Metropolitan Govt of Nashville & Davidson Cnty IDB		
+■ Gas System RB Series 2002 2.28%, 07/07/05	5,730	5,730	+■ Educational Facilities Refunding RB (David Lipscomb University) Series 2003 2.29%, 07/07/05	8,300	8,300
+■ Water System RB Series 2002 2.28%, 07/07/05	4,800	4,800	+■ IDRB (Bindtech) Series 1997 2.35%, 07/07/05	2,550	2,550
Jackson Health, Educational & Housing Facilities Board			+■ M/F Housing RB (Arbor Crest) 1985B 2.33%, 07/07/05	12,750	12,750
+■ M/F Housing RB (Patrician Terrace Apts) Series 2005 2.32%, 07/07/05	2,400	2,400	+■ M/F Housing RB (Arbor Knoll) 1985A 2.33%, 07/07/05	13,400	13,400
Jackson IDB			Metropolitan Nashville Airport Auth		
+■ Solid Waste Facility Bonds (Ameristeel Corp) Series 1997 2.35%, 07/07/05	3,800	3,800	+■ Passenger Facility Charge Refunding Bonds Series 2003 2.34%, 07/07/05	6,300	6,300
McMinn Cnty IDA			Sevier Cnty Public Building Auth		
+■ Solid Waste Disposal Facilities RB (Bowater) Series 1999 2.34%, 07/07/05	13,500	13,500	+■ Public Improvement Bonds Series 1995C-1 2.30%, 07/07/05	2,775	2,775
Memphis			+■ Public Improvement Bonds Series 1996E-4 2.30%, 07/07/05	2,155	2,155
+■ Electric System Subordinate RB Series 2003A 2.31%, 07/07/05	2,800	2,800	+■ Public Improvement Bonds Series 1996E-5 2.30%, 07/07/05	1,225	1,225
+■ General Improvement Refunding Bonds Series 2005 2.31%, 07/07/05	5,639	5,639	+■ Public Improvement Bonds Series 1996F-1 2.30%, 07/07/05	8,150	8,150
Metropolitan Govt of Nashville & Davidson Cnty			+■ Public Improvement Bonds Series 1996F-2 2.30%, 07/07/05	4,350	4,350
GO TECP			+■ Public Improvement Bonds Series 1996G 2.30%, 07/07/05	4,810	4,810
2.25%, 08/15/05	15,000	15,000	+■ Public Improvement Bonds Series 1996II-C 2.30%, 07/07/05	755	755
2.55%, 10/25/05	6,250	6,250	+■ Public Improvement Bonds Series 1998III-C-1 2.30%, 07/07/05	7,400	7,400
2.60%, 11/15/05	12,500	12,500			
Metropolitan Govt of Nashville & Davidson Cnty Health & Educational Facilities Board					
+■ Educational Facilities RB (Belmont University) Series 2005 2.28%, 07/07/05	13,000	13,000			
+■ M/F Housing RB (Burning Tree Apts) Series 2005 2.32%, 07/07/05	8,815	8,815			
+■ RB (Ascension Health Credit Group) Series 2001B-1 1.65%, 08/03/05	4,000	4,000			
+■ RB (Ensworth School) Series 2002 2.29%, 07/07/05	7,525	7,525			

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Shelby Cnty Health, Education & Housing Facilities Board			+D■ Public Improvement Refunding		
+■ Educational Facilities RB (Rhodes College) Series 2000 2.30%, 07/07/05	9,545	9,545	Bonds Series 2005 2.32%, 07/07/05	4,080	4,080
+■ M/F Housing RB (TUP I) Series 1997A 2.45%, 07/07/05	5,000	5,000	+D■ Water & Wastewater Refunding RB Series 2001 A&B 2.32%, 07/07/05	1,225	1,225
+■ RB (St Benedict at Auburndale High School) Series 2003 2.32%, 07/07/05	5,000	5,000	Bexar Cnty Health Facilities Development Corp		
+■ RB (The Hutchison School) Series 2005 2.29%, 07/07/05	10,000	10,000	+■ Health Care RB (Chandler Memorial Home) Series 1995 2.31%, 07/07/05	3,445	3,445
Tennessee			Brazos River Auth		
GO TECP Series A 2.70%, 07/06/05	34,425	34,425	+■ Pollution Control Refunding RB (TXU Electric Co) Series 2001D-1 2.33%, 07/07/05	14,300	14,300
2.60%, 09/13/05	10,000	10,000	Collin Cnty HFA		
2.55%, 09/14/05	20,000	20,000	+■ M/F Housing RB (Huntington Apts) Series 1996 2.40%, 07/07/05	6,150	6,150
Tennessee Housing Development Agency			Cypress-Fairbanks Independent SD		
D■ Homeownership Program Bonds Series 2001-1C 2.41%, 07/07/05	6,750	6,750	+D■ Unlimited Tax GO Refunding Bonds Series 2005 2.31%, 07/07/05	5,160	5,160
Volunteer Student Loan Funding Corp			Dallas Area Rapid Transit		
+■ Student Loan RB Series 1987A-1 2.32%, 07/07/05	15,000	15,000	+D■ Dallas/Ft Worth International Airport Joint RB Series 2003A 2.35%, 07/07/05	2,500	2,500
+■ Student Loan RB Series 1987A-2 2.32%, 07/07/05	13,700	13,700	+D■ Sr Lien Sales Tax RB Series 2001 2.32%, 07/07/05	16,130	16,130
+■ Student Loan RB Series 1987A-3 2.32%, 07/07/05	59,700	59,700	Dallas Fort Worth International Airport		
		448,534	+D■ Airport Joint Improvement RB Series 2003A 2.36%, 07/07/05	14,990	14,990
Texas 12.0%			+D■ Joint Improvement & Refunding RB Series 2002A 2.36%, 07/07/05	8,995	8,995
Amarillo Health Facility Corp			+D■ Joint RB Series 2003A 2.36%, 07/07/05	3,370	3,370
+■ Hospital RB (Panhandle Pooled Health Care Loan) Series 1985 2.45%, 07/07/05	3,000	3,000	Dallas Independent SD		
Austin			+D■ Unlimited Tax School Building & Refunding Bonds Series 2004A 2.31%, 07/07/05	1,200	1,200
D■ Public Improvement Bonds Series 2000 2.32%, 07/07/05	6,000	6,000			

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Denton Utility System			Gulf Coast Waste Disposal Auth		
+►■ Utility System RB Series 2000A 2.31%, 07/07/05	5,230	5,230	■ Solid Waste Disposal RB (Amoco Oil Co) Series 1991 2.60%, 10/01/05	9,200	9,200
El Paso			Harris Cnty		
+►■ Water & Sewer Refunding RB Series 1998 2.43%, 07/07/05	9,635	9,635	+►■ Jr Lien Special RB (Rodeo) Series 2001C 2.30%, 07/07/05	1,900	1,900
Grand Prairie IDA			Harris Cnty Flood Control Dist		
+■ IDRB (NTA Leasing Co) Series 1994 2.45%, 07/07/05	1,280	1,280	+ Contract Tax TECP Series F 2.56%, 09/14/05	17,905	17,905
Grapevine IDA			Harris Cnty Health Facility Development Corp		
+■ Airport Improvement RB (Simuflite Training International) Series 1983A 2.70%, 04/03/06	19,000	19,000	+►■ RB (SCH Health Care) Series 1997B 2.32%, 07/07/05	14,850	14,850
Greater East Texas Student Loan Corp			Harris Cnty HFA		
Student Loan RB Series 1992B			+■ M/F Housing RB (Dominion Square Apts) Series 2000 2.43%, 07/07/05	2,825	2,825
+■▲ 2.35%, 07/07/05	30,200	30,200	+■ M/F Housing RB (Village At Cornerstone Apts) Series 2004 2.32%, 07/07/05	8,360	8,360
+■ 1.80%, 07/01/05	14,000	14,000	Hays Consolidated Independent SD		
+■ Student Loan RB Series 1995B 1.80%, 07/01/05	10,000	10,000	+►■ Unlimited Tax Refunding Bonds Series 2005 2.31%, 07/07/05	3,690	3,690
+■▲ Student Loan Refunding RB Series 1993A 2.35%, 07/07/05	48,150	48,150	Houston		
+■▲ Student Loan Refunding RB Series 1993B 2.35%, 07/07/05	23,400	23,400	+►■ Airport System Subordinate Lien Refunding RB Series 2005A 2.31%, 07/07/05	18,000	18,000
+■ Student Loan Refunding RB Series 1995A 2.45%, 07/07/05	35,700	35,700	►■ Public Improvement Refunding Bonds Series 1998A 2.32%, 07/07/05	21,655	21,655
Greater Texas Student Loan Corp			+►■ Water & Sewer System Jr Lien Refunding RB Series 2002A 2.36%, 07/07/05	6,530	6,530
+■ Student Loan RB Series 1998A 2.35%, 07/07/05	10,250	10,250	Houston Combined Utility System		
Gregg Cnty Health Facilities Development Corp			► TECP Series A 2.60%, 07/06/05	10,000	10,000
+■ Hospital RB (Good Shepherd Medical Center) Series 2004 2.28%, 07/07/05	21,400	21,400	Jewett Economic Development Corp		
Gulf Coast IDA			■ IDRB (Nucor Corp) Series 2003 2.33%, 07/07/05	6,200	6,200
+■ IDRB (Gruma Corp) Series 1994 2.40%, 07/07/05	6,440	6,440			

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Katy Independent SD			North Texas Tollway Auth		
+►■ Unlimited Tax School Building Bonds Series 2000A 2.32%, 07/07/05	10,145	10,145	+►■ Dallas North Tollway System RB Series 2005A 2.31%, 07/07/05	5,985	5,985
■ Unlimited Tax School Building Bonds Series 2004C 2.28%, 07/07/05	28,200	28,200	Panhandle Plains Higher Education Auth		
Lavaca-Navidad River Auth			+►■ Student Loan RB Series 1991A 2.31%, 07/07/05	27,400	27,400
+■ Water Supply System Contract RB (Formosa Plastics Corp) Series 1990 2.38%, 07/07/05	13,600	13,600	+►■ Student Loan RB Series 1992A 2.31%, 07/07/05	44,100	44,100
Leander Independent SD			+►■ Student Loan RB Series 1993A 2.31%, 07/07/05	44,200	44,200
+►■ Unlimited Tax School Building & Refunding Bonds Series 2003 2.33%, 07/07/05	10,000	10,000	Pflugerville Independent SD		
Lower Colorado River Auth			+►■ Unlimited Tax Refunding Bonds Series 2005 2.31%, 07/07/05	4,000	4,000
+►■ Refunding RB Series 1999A 2.32%, 07/07/05	10,770	10,770	Port Arthur Independent SD		
Lubbock Independent SD			+►■ Unlimited Tax School Building Bonds Series 2005 2.34%, 07/07/05	23,395	23,395
+►■ Unlimited Tax School Building Bonds Series 2005A 2.20%, 12/15/05	23,050	23,172	San Antonio		
Mansfield IDA			+►■ Airport System Revenue Improvement Bonds Series 2002 2.36%, 07/07/05	9,240	9,240
+■ IDRB (Southern Champion Tray) Series 1999 2.34%, 07/07/05	1,900	1,900	San Antonio IDA		
Matagorda Cnty Navigation Dist No.1			+■ IDRB (Gruma Corp) Series 1994 2.40%, 07/07/05	4,095	4,095
+►■ Refunding RB (Houston Lighting & Power Co) 2.37%, 07/07/05	19,385	19,385	Southeast Texas HFA		
Midlothian Independent SD			S/F Mortgage Refunding & RB Series 1998A		
+►■ Unlimited Tax School Building & Refunding Bonds Series 2004 2.34%, 07/07/05	8,840	8,840	+►■ 2.36%, 07/07/05	4,165	4,165
North Texas Higher Education Auth			■ 2.36%, 07/07/05	4,210	4,210
+■▲ Student Loan RB Series 1987 2.34%, 07/07/05	87,750	87,750	Spring Independent SD		
+■ Student Loan RB Series 1998 2.30%, 07/07/05	9,000	9,000	+►■ Unlimited Tax Schoolhouse Bonds Series 2005 2.32%, 07/07/05	6,000	6,000
+►■ Student Loan RB Series 2005A 2.30%, 07/07/05	20,600	20,600	Texas		
			■ GO Bonds Veterans' Housing Assistance Program Fund II Series 2002A-2 2.33%, 07/07/05	6,000	6,000

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
GO Bonds Veterans' Housing Assistance Program Fund II Series 2005A 2.29%, 07/07/05	16,700	16,700	Residential Mortgage RB Series 1998A 2.43%, 07/07/05	14,950	14,950
GO College Student Loan & Refunding Bonds Series 2003 1.80%, 07/01/05 TRAN Series 2004	25,690	25,690	Residential Mortgage Refunding RB Series 2003A 2.36%, 07/07/05	10,000	10,000
2.43%, 07/07/05 1.60%, 08/31/05 2.04%, 08/31/05 2.08%, 08/31/05 2.09%, 08/31/05 2.25%, 08/31/05 2.50%, 08/31/05 2.52%, 08/31/05 2.63%, 08/31/05	58,000 100,820 39,920 35,000 25,000 19,935 35,000 3,300 8,975	58,000 101,052 39,982 35,052 25,036 19,958 35,026 3,302 8,980	S/F Mortgage RB Series 2002A&B 2.36%, 07/07/05 S/F Mortgage RB Series 2004D 2.35%, 07/07/05	4,125 15,100	4,125 15,100
Texas A&M Board of Regents Permanent University Fund Bonds Series 2004B 2.31%, 07/07/05	6,500	6,500	Texas Municipal Gas Corp Sr Lien Gas Reserve RB Series 1998 2.30%, 07/07/05	2,185	2,185
Texas A&M University Permanent University Fund Bonds Series 1998 2.32%, 07/07/05	28,445	28,445	Texas Public Finance Authority Unemployment Compensation Obligation Assessment RB Series 2003C-1 2.55%, 07/07/05	50,000	50,000
Texas Dept of Housing & Community Affairs M/F Housing RB (Atascocita Pines Apts) Series 2005 2.35%, 07/07/05	11,900	11,900	Texas Transportation Commission Mobility Fund Bonds Series 2005A 2.31%, 07/07/05 2.32%, 07/07/05	50,000 6,000	50,000 6,000
M/F Housing RB (Bristol Apts) Series 2004 2.32%, 07/07/05	8,625	8,625	Trinity River Auth Solid Waste Disposal RB (Community Waste Disposal) Series 1999 2.36%, 07/07/05	4,070	4,070
M/F Housing RB (Creek Point Apts) Series 2000 2.35%, 07/07/05	6,785	6,785	University of Texas Permanent University Fund Flexible Rate Notes Series A 2.53%, 09/08/05 2.60%, 10/05/05	5,000 22,000	5,000 22,000
M/F Housing RB (Lafayette Village Apts) Series 2005 2.35%, 07/07/05	7,100	7,100			
M/F Housing RB (Montgomery Pines Apts) Series 2004 2.32%, 07/07/05	12,300	12,300	Utah 1.7% Intermountain Power Agency Power Supply Refunding RB Series 1985E 1.60%, 09/15/05	43,150	43,143
M/F Housing RB (Pinnacle Apts) Series 2004 2.32%, 07/07/05	7,000	7,000	Power Supply Refunding RB Series 1996C 2.31%, 07/07/05	15,330	15,330
M/F Housing RB (Tower Ridge Apts) Series 2005 2.50%, 07/07/05	15,000	15,000			
					1,528,360

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
➔ Power Supply Refunding RB Series 1998A 2.70%, 07/07/05	9,995	9,995	Virginia 0.6%		
Salt Lake City			Arlington Cnty IDA		
➔ Hospital RB (IHC Health Services) Series 2001 2.32%, 07/07/05	26,730	26,730	➔ M/F Housing RB (Gates of Ballston Apts) Series 2005 2.37%, 07/07/05	14,500	14,500
➔ RB (Rowland Hall - St Mark's School) Series 2001 2.28%, 07/07/05	9,280	9,280	Fairfax Cnty		
University of Utah			➔ Public Improvement & Refunding Bonds Series 2004A 2.31%, 07/07/05	1,000	1,000
➔ Auxiliary & Campus Facilities System Refunding RB Series 1998A 2.32%, 07/07/05	30,060	30,060	King George Cnty		
➔ Student Loan RB Series 1993A 2.30%, 07/07/05	5,000	5,000	➔ Solid Waste Disposal Facility RB (Garnet) Series 1996 2.35%, 07/07/05	3,700	3,700
➔ Student Loan RB Series 1995I 2.30%, 07/07/05	27,500	27,500	Montgomery Cnty IDA		
Utah			➔ RB (Virginia Tech Foundation) Series 2001A 2.29%, 07/07/05	8,500	8,500
➔ GO Highway Bonds Series 1998A 2.31%, 07/07/05	5,000	5,000	➔ RB (Virginia Tech Foundation) Series 2001B 2.38%, 07/07/05	1,015	1,015
Utah Building Ownership Auth			➔ RB (Virginia Tech Foundation) Series 2002 2.29%, 07/07/05	4,305	4,305
➔ Lease Refunding RB Series 1998C 2.32%, 07/07/05	9,695	9,695	Newport News IDA		
Utah State Board of Regents			➔ RB (CNU Warwick Student Apts) Series 2004 2.30%, 07/07/05	4,300	4,300
➔ Student Loan RB Series 2005W 2.30%, 07/07/05	35,280	35,280	Norfolk		
Woods Cross City			➔ Parking System Refunding RB Series 2000B 2.32%, 07/07/05	9,450	9,450
➔ M/F Housing Refunding RB (Springwood Apts) Series 2001A 2.29%, 07/07/05	3,605	3,605	Norfolk Redevelopment & Housing Auth		
		220,618	➔ RB (E2F Student Housing I) Series 2005 2.30%, 07/07/05	7,000	7,000
Vermont 0.1%			➔ RB (Old Dominion University Real Estate Foundation Student Housing) Series 2004B 2.30%, 07/07/05	6,000	6,000
Vermont Economic Development Auth			Portsmouth Redevelopment & Housing Auth		
➔ IDR (Agri-Mark) Series 1999A 2.50%, 07/07/05	17,000	17,000	➔ M/F Housing RB (Churchland North Apts) Series 1999 2.34%, 07/07/05	6,395	6,395
➔ IDR (Agri-Mark) Series 1999B 2.50%, 07/07/05	1,000	1,000			
		18,000			

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Virginia Beach Development Auth			Olympia		
+■ M/F Residential Rental Housing RB (Silver Hill at Thalia) Series 1999 2.34%, 07/07/05	4,100	4,100	+■ Solid Waste RB (LeMay Enterprises) Series 1999 2.36%, 07/07/05	5,905	5,905
Virginia Port Auth			Pierce Cnty		
+▶■ Commonwealth Port Fund RB (2002 Resolution) Series 2005A 2.61%, 07/07/05	2,645	2,645	+■ IDRB (McFarland Cascade) Series 1996 2.40%, 07/07/05	3,945	3,945
Commonwealth Port Fund Refunding RB Series 1998 1.70%, 07/01/05	8,630	8,630	+▶■ Unlimited Tax GO Bonds Series 2001 2.32%, 07/07/05	43,655	43,655
		81,540	Pierce Cnty Economic Development Corp		
Washington 3.7%			+■ RB (Flex-A-Lite Consolidated) Series 1996 2.35%, 07/07/05		
Central Puget Sound Regional Transit Auth			+■ RB (K&M Holdings II) Series 1997 2.61%, 07/07/05		
+▶■ Sales Tax RB Series 2005A 2.32%, 07/07/05	8,000	8,000	+■ Solid Waste RB (LeMay Enterprises) Series 1999 2.36%, 07/07/05		
Douglas Cnty Development Corp			Port of Centralia IDA		
+■ RB (Executive Flight) Series 1998 2.35%, 07/07/05	6,300	6,300	+■ Solid Waste RB (LeMay Enterprises) Series 1999 2.36%, 07/07/05		
Energy Northwest			Port of Moses Lake Public Corp		
+▶■ Columbia Generating Station & Project No.3 Refunding Electric RB Series 2001A 2.32%, 07/07/05	29,700	29,700	+■ RB (National Frozen Foods Corp) Series 1997 2.30%, 07/07/05		
Project No.1 Refunding Electric RB Series 2002A 2.31%, 07/07/05	32,460	32,460	Port of Seattle		
+▶■ 2.32%, 07/07/05	4,195	4,195	+▶■ RB Series 2001B 2.36%, 07/07/05		
+▶■ Project No.3 Refunding Electric RB Series 2003A 2.31%, 07/07/05	8,690	8,690	+▶■ RB Series 2003A 2.31%, 07/07/05		
Everett IDA			+▶■ Special Facility RB (Terminal 18) Series 1999B 2.37%, 07/07/05		
■ Exempt Facilities RB (Kimberly-Clark Corp) Series 2002 2.35%, 07/07/05			+▶■ Subordinated Lien RB Series 1999B 2.36%, 07/07/05		
+■ RB (Partners Trust I/Synsor) Series 1996 2.35%, 07/07/05	3,300	3,300	Seattle		
			+▶■ Drainage & Wastewater Refunding RB Series 2002 2.31%, 07/07/05		
				6,875	6,875

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Seattle Housing Auth			+■ Solid Waste Disposal RB		
+■ RB (CHHIP & HRG) Series 1996 2.35%, 07/07/05	3,410	3,410	(Waste Management) Series 2000H 2.37%, 07/07/05	6,825	6,825
+■ RB (Casa Pacifica Apts) Series 1997 2.35%, 07/07/05	2,900	2,900	Washington Health Care Facilities Auth		
Tacoma Housing Auth			+■ RB (Yakima Valley Farm Workers Clinic) Series 1997 2.30%, 07/07/05	3,000	3,000
+■ RB (Crown Assisted Living) Series 1998 2.37%, 07/07/05	3,110	3,110	Washington Housing Finance Commission		
Washington			+■ M/F Housing RB (Anchor Village Apts) Series 1997 2.32%, 07/07/05	10,750	10,750
▶■ GO Bonds Series 1998C 2.32%, 07/07/05	12,150	12,150	+■ M/F Housing RB (Highlander Apts) Series 2004A 2.32%, 07/07/05	7,000	7,000
▶■ GO Bonds Series 2000B 2.32%, 07/07/05	13,380	13,380	+■ M/F Housing RB (Lakewood Meadows Apts) Series 2000A 2.35%, 07/07/05	3,140	3,140
+▶■ GO Bonds Series 2003A 2.34%, 07/07/05	5,170	5,170	+■ M/F Housing RB (Rainier Court Apts) Series 2003A 2.32%, 07/07/05	12,750	12,750
+▶■ Unlimited GO Bonds Series B 2.32%, 07/07/05	30,485	30,485	+■ M/F Housing RB (Silver Creek Apts) Series 2004 2.32%, 07/07/05	4,100	4,100
Various Purpose GO Bonds Series 2005D			+■ M/F Housing RB (Vintage at Burien) Series 2004A 2.32%, 07/07/05	6,570	6,570
+▶■ 2.31%, 07/07/05	5,930	5,930	+■ M/F Housing RB (Woodrose Apts) Series 1999A 2.32%, 07/07/05	6,750	6,750
+▶■ 2.32%, 07/07/05	6,500	6,500	+■ M/F Mortgage RB (Canyon Lakes) Series 1993 2.63%, 07/07/05	4,295	4,295
Washington Economic Development Finance Auth			+■ M/F Mortgage RB (Lake Washington Apts) Series 1996 2.35%, 07/07/05	8,050	8,050
+■ Economic Development RB (Skills) Series 1998N 2.37%, 07/07/05	2,735	2,735	+■ M/F Mortgage RB (Meridian Court Apts) Series 1996 2.35%, 07/07/05	6,700	6,700
+■ IDR B (Tonkin Building Associates) Series 1997A 2.40%, 07/07/05	1,000	1,000	+■ M/F RB (Brittany Park Phase II) Series 1998A 2.32%, 07/07/05	3,480	3,480
+■ RB (Hunter Douglas) Series 1997A 2.34%, 07/07/05	3,500	3,500	+■ M/F RB (Brittany Park) Series 1996A 2.32%, 07/07/05	8,930	8,930
+■ Solid Waste Disposal RB (Cedar Grove Composting) Series 2004B 2.36%, 07/07/05	5,905	5,905			
+■ Solid Waste Disposal RB (Lemay Enterprises) Series 2005B 2.36%, 07/07/05	5,670	5,670			
+■ Solid Waste Disposal RB (Waste Management) Series 2000C 2.37%, 07/07/05	5,500	5,500			
Solid Waste Disposal RB (Waste Management) Series 2000I					
+■ 2.33%, 07/07/05	10,240	10,240			
+■ 2.37%, 07/07/05	7,235	7,235			

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
+■ M/F RB (Merrill Gardens at Queen Anne) Series 2004A 2.35%, 07/07/05	11,000	11,000	Kimberly Area SD		
+■ M/F RB (Merrill Gardens) Series 1997A 2.32%, 07/07/05	6,125	6,125	+■ GO Refunding Bonds 2.32%, 07/07/05	6,075	6,075
+■ M/F RB (Rosecreek Apts) Series 1998A 2.35%, 07/07/05	3,570	3,570	Milwaukee Cnty		
Yakama Indian Nation			+■ Airport RB Series 2000A 2.36%, 07/07/05	18,470	18,470
+■ RB (Yakama Forest Products) Series 1997 2.35%, 07/07/05	2,100	2,100	Southeast Wisconsin Professional Baseball Park Dist		
Yakima Cnty Public Corp			+■ Sales Tax Refunding Bonds Series 1998 2.32%, 07/07/05	5,000	5,000
+■ IDRB (Cowiche Growers) Series 1998 2.35%, 07/07/05	2,500	2,500	Wisconsin		
+■ RB (Michelsen Packaging) Series 1996 2.35%, 07/07/05	1,100	1,100	+■ GO Bonds Series 2005-1 2.31%, 07/07/05	8,190	8,190
		466,920	+■ GO Refunding Bonds Series 2005-1 2.32%, 07/07/05	4,600	4,600
West Virginia 0.3%			+■ Transportation RB Series 2005A 2.32%, 07/07/05	9,690	9,690
Marion Cnty			Wisconsin Health & Educational Facilities Auth		
+■ Solid Waste Disposal Facility RB (Grant Town Cogeneration) Series 1990B 2.32%, 07/07/05	19,925	19,925	+■ RB (Sisters of the Sorrowful Mother) Series 1993C 2.31%, 07/07/05	22,015	22,015
+■ Solid Waste Disposal Facility RB (Grant Town Cogeneration) Series 1990C 2.32%, 07/07/05	17,000	17,000	Wisconsin Housing & Economic Development Auth		
+■ Solid Waste Disposal Facility RB (Grant Town Cogeneration) Series 1990D 2.32%, 07/07/05	3,200	3,200	+■ Business Development RB (Ultratec) Series 1995-7 2.55%, 07/07/05	2,205	2,205
		40,125	■ Home Ownership RB Series 2002C 2.28%, 07/07/05	3,000	3,000
Wisconsin 2.4%			■ Home Ownership RB Series 2002D 2.33%, 07/07/05	830	830
Colburn IDA			■ Home Ownership RB Series 2003B 2.33%, 07/07/05	14,300	14,300
+■ IDRB (Heartland Farms) Series 1994 2.55%, 07/07/05	5,800	5,800	Home Ownership RB Series 2004A 2.33%, 07/07/05	8,000	8,000
Kenosha			■ 2.33%, 07/07/05	11,020	11,020
+■ IDRB (Asyst Technologies) Series 1997 2.37%, 07/07/05	5,000	5,000	■ 2.33%, 07/07/05	10,000	10,000
			■ Home Ownership RB Series 2004D 2.29%, 07/07/05	73,800	73,800

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
+▶■ Housing RB Series 2002B 2.31%, 07/07/05	15,655	15,655
Wisconsin Housing & Economic Development Auth-1987 Homeownership Resolution		
▶■ Home Ownership RB Series 2005A 2.29%, 07/07/05	20,725	20,725
+▶■ S/F Draw Down RB Series 2003-1 2.37%, 07/07/05	21,875	21,875
Wisconsin Housing & Economic Development Auth-1988 Homeownership Resolution		
▶■ Home Ownership RB Series 2005C 2.33%, 07/07/05	28,500	28,500
Wisconsin Rapids		
+■ IDR (Thiele Kaolin) Series 1998 2.34%, 07/07/05	4,500	4,500
		299,250
Wyoming 0.4%		
Lincoln Cnty		
■ Pollution Control RB (Exxon) Series 1987C 2.38%, 07/01/05	3,000	3,000
Wyoming		
◆ Education Fund TRAN Series 2005A 2.63%, 06/28/06	45,000	45,589
Wyoming Community Development Auth		
▶■ Housing RB 2001 Series 1 2.36%, 07/07/05	4,965	4,965
		53,554

End of investments.

Statement of

Assets and Liabilities

As of June 30, 2005; unaudited. All numbers x 1,000 except NAV.

Assets

Investments, at value	\$13,143,595
Cash	178
Receivables:	
Fund shares sold	55,595
Investments sold	250,489
Interest	59,931
Prepaid expenses	+ 809
Total assets	13,510,597

Liabilities

Payables:	
Fund shares redeemed	47,360
Dividends to shareholders	10,100
Investments bought	719,545
Investment adviser and administrator fees	220
Transfer agent and shareholder service fees	313
Trustees' fees	4
Accrued expenses	+ 132
Total liabilities	777,674

Net Assets

Total assets	13,510,597
Total liabilities	- 777,674
Net assets	\$12,732,923

Net Assets by Source

Capital received from investors	12,737,197
Net investment income not yet distributed	305
Net realized capital losses	(4,579)

Net Asset Value (NAV) by Share Class

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Sweep Shares	\$7,066,536		7,070,522		\$1.00
Value Advantage Shares	\$3,205,939		3,206,462		\$1.00
Select Shares	\$863,474		863,595		\$1.00
Institutional Shares	\$1,596,974		1,597,223		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost for the fund's securities was \$13,143,595. Includes restricted but deemed liquid securities comprised of 144A securities worth \$1,523,760 or 12.0% of the fund's total net assets. During the reporting period, the fund had \$3,124,514 in transactions with other Schwab Funds.

Federal Tax Data

Cost basis of portfolio	\$13,143,807
As of June 30, 2005:	
Unrealized loss	(\$212)
As of December 31, 2004:	
Unused capital losses:	
Expires 12/31 of:	Loss amount:
2005	\$523
2007	775
2008	873
2011	241
2012	+ 1,479
	\$3,891

Statement of

Operations

For January 1, 2005 through June 30, 2005; unaudited. All numbers x 1,000.

Investment IncomeInterest **\$140,260****Net Realized Gains and Losses**

Net realized losses on investments sold (476)

Expenses

Investment adviser and administrator fees 22,319

Transfer agent and shareholder service fees:

Sweep Shares 16,619

Value Advantage Shares 3,508

Select Shares 886

Institutional Shares 1,701

Trustees' fees 32

Custodian and portfolio accounting fees 531

Professional fees 38

Registration fees 415

Shareholder reports 127

Other expenses + 87

Total expenses 46,263

Expense reduction - 11,570

Net expenses 34,693**Increase in Net Assets from Operations****Total investment income 140,260****Net expenses - 34,693****Net investment income 105,567****Net realized losses + (476)****Increase in net assets from operations \$105,091**

Unless stated, all numbers x 1,000.

Calculated on a graduated basis as a percentage of average daily net assets: 0.38% of the first \$1 billion, 0.35% over \$1 billion, 0.32% over \$10 billion, 0.30% over \$20 billion and 0.27% over \$40 billion. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

Calculated as a percentage of average daily net assets as follows:

Transfer Agent Services:

Share Class	% of Average Daily Net Assets
Sweep Shares	0.25
Value Advantage Shares	0.05
Select Shares	0.05
Institutional Shares	0.05

Shareholder Services:

Share Class	% of Average Daily Net Assets
Sweep Shares	0.20
Value Advantage Shares	0.17
Select Shares	0.17
Institutional Shares	0.17

These fees are paid to Charles Schwab & Co., Inc. (Schwab).

For the fund's independent trustees only.

Includes \$8,683 from the investment adviser (CSIM) and \$2,887 from the transfer agent and shareholder service agent (Schwab). These reductions reflect a guarantee by CSIM and Schwab to limit the operating expenses of this fund through April 29, 2006, as follows:

Share Class	% of Average Daily Net Assets
Sweep Shares	0.65
Value Advantage Shares	0.45
Select Shares	0.35
Institutional Shares	0.24

Prior to April 30, 2005, the limit was 0.66% for sweep shares.

This limit excludes interest, taxes and certain non-routine expenses.

Statements of

Changes in Net Assets

For the current and prior report periods. All numbers x 1,000.
 Figures for the current period are unaudited.

Unless stated, all numbers x 1,000.

Operations

	1/1/05-6/30/05	1/1/04-12/31/04
Net investment income	\$105,567	\$95,108
Net realized losses	+ (476)	(1,704)
Increase in net assets from operations	105,091	93,404

Distributions Paid**Dividends from Net Investment Income**

Sweep Shares	55,826	45,088
Value Advantage Shares	27,369	29,727
Select Shares	7,393	5,971
Institutional Shares	+ 14,870	14,086
Total dividends from net investment income	105,458	94,872

Transactions in Fund Shares**Shares Sold**

Sweep Shares	16,998,946	32,230,523
Value Advantage Shares	1,984,574	3,977,079
Select Shares	975,890	1,518,310
Institutional Shares	+ 1,727,193	4,180,409
Total shares sold	21,686,603	41,906,321

Shares Reinvested

Sweep Shares	49,630	44,201
Value Advantage Shares	22,083	26,335
Select Shares	5,672	5,139
Institutional Shares	+ 11,771	11,892
Total shares reinvested	89,156	87,567

Shares Redeemed

Sweep Shares	(17,544,928)	(32,204,616)
Value Advantage Shares	(2,045,500)	(4,658,834)
Select Shares	(845,099)	(1,270,436)
Institutional Shares	+ (1,600,599)	(3,451,756)
Total shares redeemed	(22,036,126)	(41,585,642)

Net transactions in fund shares

(260,367) 408,246

Net Assets

Beginning of period	12,993,657	12,586,879
Total increase or decrease	+ (260,734)	406,778
End of period	\$12,732,923	\$12,993,657

Because all transactions in this section took place at \$1.00 per share, figures for share quantities are the same as for dollars. The fund started offering Select Shares and Institutional Shares on June 2, 2003.

Represents shares sold plus shares reinvested, minus shares redeemed.

Represents the changes in net assets from operations plus the changes in value of transactions in fund shares, minus distributions paid.

Includes net investment income not yet distributed in the amount of \$305 and \$196 at the end of the current and prior period, respectively.

Financial Notes unaudited

Business Structure of the Fund

The fund discussed in this report is a series of The Charles Schwab Family of Funds, a no-load, open-end management investment company. The company is organized as a Massachusetts business trust and is registered under the Investment Company Act of 1940, as amended. The sidebar shows the fund in this report and its trust.

The fund offers four share classes: Sweep Shares, Value Advantage Shares, Select Shares and Institutional Shares. Shares of each class represent interest in the same portfolio, but each class has different expenses and investment minimums.

Shares are bought and sold at \$1.00 per share. Each share has a par value of 1/1,000 of a cent, and the trust may issue as many shares as necessary.

Fund Operations

Most of the fund's investments are described in sections earlier in this report. However, there are certain other fund operations and policies that may affect the fund's financials, as described below. Other policies concerning the fund's business operations also are described here.

The fund declares dividends every day it is open for business. These dividends, which are equal to the fund's net investment income for that day, are paid out to shareholders once a month. The fund may make distributions from any net realized capital gains once a year.

The fund may buy securities on a delayed-delivery basis. In these transactions, the fund agrees to buy a security for a stated price, with settlement generally occurring within two weeks. If the security's value falls before settlement occurs, the fund could end up paying more for the security than its market value

at the time of settlement. The fund has set aside sufficient securities as collateral for those securities bought on a delayed-delivery basis.

The fund pays fees to affiliates of the Investment Adviser for various services. Through its trust, the fund has agreements with Charles Schwab Investment Management, Inc. (CSIM) to provide investment advisory and administrative services and with Charles Schwab & Co., Inc. (Schwab) to provide transfer agent and shareholder services.

Although these agreements specify certain fees for these services, CSIM and Schwab have made additional agreements with the fund that may limit the total expenses charged. The rates and limitations for these fees are described in the fund's Statement of Operations.

The fund may engage in certain transactions involving affiliates. The fund may make direct transactions with certain other Schwab Funds when practical. When

The Trust and Its Funds

This list shows all of the funds included in The Charles Schwab Family of Funds. The fund discussed in this report is highlighted.

The Charles Schwab Family of Funds

organized October 20, 1989

Schwab Money Market Fund

Schwab Government Money Fund

Schwab U.S. Treasury Money Fund

Schwab Value Advantage Money Fund

Schwab Municipal Money Fund

Schwab California Municipal Money Fund

Schwab New York Municipal Money Fund

Schwab New Jersey Municipal Money Fund

Schwab Pennsylvania Municipal Money Fund

Schwab Florida Municipal Money Fund

Schwab Massachusetts Municipal Money Fund

Schwab Retirement Advantage Money Fund

Schwab Retirement Money Fund

Schwab Advisor Cash Reserves

Schwab Cash Reserves

Schwab Government Cash Reserves

one fund is seeking to sell a security that another is seeking to buy, an interfund transaction can allow both funds to benefit by reducing transaction costs. This practice is limited to funds that share the same investment adviser, trustees and officers.

Pursuant to an exemptive order issued by the SEC, the funds may enter into interfund borrowing and lending transactions within the Schwab Funds®. All loans are for temporary or emergency purposes only. The interest rate charged on the loan is the average of the overnight repurchase agreement rate and the short-term bank loan rate. The interfund lending facility is subject to the oversight and periodic review of the Board of Trustees of the Schwab Funds.

Trustees may include people who are officers and/or directors of the investment adviser or Schwab. Federal securities law limits the percentage of such “interested persons” who may serve on a trust’s board, and the trust was in compliance with these limitations throughout the report period. The trust did not pay any of these persons for their service as trustees, but it did pay non-interested persons (independent trustees), as noted in each fund’s Statement of Operations.

The fund may borrow money from banks and custodians. The fund may obtain temporary bank loans through the trust to which the fund belongs, to use for meeting shareholder redemptions or for extraordinary or emergency purposes. The Schwab Funds has custodian overdraft facilities and line of credit arrangements of \$150 million and \$100 million with PNC Bank, N.A. and Bank of America, N.A., respectively. The fund pays interest on the amounts it borrows at rates that are negotiated periodically. There was no borrowing for the fund during the period.

The fund intends to meet federal income and excise tax requirements for regulated investment companies. Accordingly, the fund distributes substantially all of their net investment income and net realized capital gains (if any) to its respective shareholders each year.

As long as the fund meets the tax requirements, it is not required to pay federal income tax. The net investment income and net realized capital gains and losses may differ for financial statement and tax purpose primarily due to differing treatments of wash sale losses and market discount.

Under the fund’s organizational documents, its officers and trustees are indemnified against certain liability arising out of the performance of their duties to the fund. In addition, in the normal course of business the fund enters into contracts with its vendors and others that 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. However, based on experience, the fund expects the risk of loss to be remote.

Accounting Policies

The following are the main policies the fund uses in preparing its financial statements.

The fund values its securities at amortized cost, which approximates market value.

Security transactions are recorded as of the date the order to buy or sell the security is executed.

Interest income is recorded as it accrues. If the fund buys a debt instrument at a discount (that is, for less than its face value) or a premium (more than its face value), it amortizes the discount or premium from the current date up to maturity. The fund then increases (in the case of discounts) or reduces (in the case of premiums) the income it records from the security. If the security is callable (meaning that the issuer has the option to pay it off before its maturity date), then the fund amortizes the premium to the security’s call date and price, rather than the maturity date and price.

Realized gains and losses from security transactions are based on the identified costs of the securities involved.

Expenses that are specific to the fund or a class are charged directly to the fund or class. Expenses that are common to all funds within the trust generally are allocated among the funds in proportion to their average daily net assets.

For funds offering multiple share classes, all of the realized and unrealized gains or losses and net investment income, other than class specific expenses, are allocated daily to each class in proportion to its net assets.

The fund maintains its own account for purposes of holding assets and accounting, and is considered a separate entity for tax purposes. Within its account, the fund also may keep certain assets in segregated accounts, as required by securities law.

The accounting policies described above conform with accounting principles generally accepted in the United States of America. Notwithstanding this, shareholders should understand that in order to follow these principles, fund management has to make estimates and assumptions that affect the information reported in the financial statements. It's possible that once the results are known, they may turn out to be different from these estimates.

Investment Advisory Agreement Approval

The Investment Company Act of 1940 (the “1940 Act”) requires that initial approval of, as well as the continuation of, a fund’s investment advisory agreement must be specifically approved (1) by the vote of the trustees or by a vote of the shareholders of the fund, and (2) by the vote of a majority of the trustees who are not parties to the investment advisory agreement or “interested persons” of any party (the “Independent Trustees”), cast in person at a meeting called for the purpose of voting on such approval. In connection with such approvals, the fund’s trustees must request and evaluate, and the investment adviser is required to furnish, such information as may be reasonably necessary to evaluate the terms of the advisory agreement. In addition, the Securities and Exchange Commission (the “SEC”) takes the position that, as part of their fiduciary duties with respect to fund fees, fund boards are required to evaluate the material factors applicable to a decision to approve an investment advisory agreement.

Consistent with these responsibilities, the Board of Trustees (the “Board”) calls and holds one or more meetings each year that are dedicated, in whole or in part, to considering whether to renew the investment advisory agreement between The Charles Schwab Family of Funds (the “Trust”) and CSIM (the “Agreement”) with respect to existing funds in the Trust, including the Schwab Municipal Money Fund, and to review certain other agreements pursuant to which CSIM provides investment advisory services to certain other registered investment companies. In preparation for the meeting(s), the Board requests and reviews a wide variety of materials provided by CSIM, including information about CSIM’s affiliates, personnel and operations. The Board also receives extensive data provided by third parties. This information is in addition to the detailed information about the funds that the Board reviews during the course of each year, including information that relates to fund

operations and fund performance. The trustees also receive a memorandum from fund counsel regarding the responsibilities of trustees for the approval of investment advisory contracts. In addition, the Independent Trustees receive advice from independent counsel to the Independent Trustees, meet in executive session outside the presence of fund management and participate in question and answer sessions with representatives of CSIM.

At the May 24, 2005 meeting of the Board, the trustees, including a majority of the Independent Trustees, approved the renewal of the Agreement on an interim basis through September 30, 2005. In connection with the interim approval of the Agreement, the Board requested that CSIM prepare responses to certain questions outlined below in advance of the next regularly scheduled Board meeting. The Board’s approval of the Agreement was based on consideration and evaluation of a variety of specific factors discussed at that meeting and at prior meetings, including:

1. the nature, extent and quality of the services provided to the funds under the Agreement, including the resources of CSIM and its affiliates dedicated to the funds;
2. each fund’s investment performance and how it compared to that of certain other comparable mutual funds;
3. each fund’s expenses and how those expenses compared to those of certain other comparable mutual funds;
4. the profitability of CSIM and its affiliates, including Schwab, with respect to each fund, including both direct and indirect benefits accruing to CSIM and its affiliates; and
5. the extent to which economies of scale would be realized as the funds grow and whether fee levels in the Agreement reflect those economies of scale for the benefit of fund investors.

Nature, Extent and Quality of Services. The Board considered the nature, extent and quality of the services provided by CSIM to the funds and the resources of CSIM and its affiliates dedicated to the funds. In this regard, the trustees evaluated, among other things, CSIM's personnel, experience, track record and compliance program. The trustees also considered the fact that Schwab's extensive branch network, Internet access, investment and research tools, telephone services, and array of account features benefit the funds. The trustees also considered Schwab's excellent reputation as a full service brokerage firm and its overall financial condition. Finally, the trustees considered that the vast majority of the funds' investors are also brokerage clients of Schwab, and that CSIM and its affiliates are uniquely positioned to provide services and support to the funds and such shareholders. Following such evaluation, the Board concluded, within the context of its full deliberations, that the nature, extent and quality of services provided by CSIM to the funds and the resources of CSIM and its affiliates dedicated to the funds supported interim renewal of the Agreement.

Fund Performance. The Board considered fund performance in determining whether to renew the Agreement. Specifically, the trustees considered each fund's performance relative to a peer group of other mutual funds and appropriate indices/benchmarks, in light of total return, yield and market trends. As part of this review, the trustees considered the composition of the peer group, selection criteria and the reputation of the third party who prepared the peer group analysis. In evaluating the performance of each fund, the trustees considered both risk and shareholder risk expectations for such fund. The Board noted that certain funds, including the Municipal Money Fund—Sweep Shares, had lower performance relative to their respective peer

groups than other funds, and inquired as to the underlying reasons for this relative performance. The Board also requested that CSIM evaluate the reasons for such funds' relative performance, consider appropriate measures to address the performance and report the results of their findings at the next Board meeting. Following such evaluation the Board concluded, within the context of its full deliberations, that the performance of the funds supported interim renewal of the Agreement.

Fund Expenses. With respect to the funds' expenses, the trustees considered the rate of compensation called for by the Agreement, and each fund's net operating expense ratio, in each case, in comparison to those of other comparable mutual funds, such peer groups and comparisons having been selected and calculated by an independent third party. The trustees considered the effects of CSIM's and Schwab's voluntary waiver of management and other fees to prevent total fund expenses from exceeding a specified cap. The trustees also considered fees charged by CSIM to other mutual funds and to other types of accounts, such as wrap accounts and offshore funds, but, with respect to such other types of accounts, accorded less weight to such comparisons due to the unique legal, regulatory, compliance and operating features of mutual funds as compared to these other types of accounts. Following such evaluation the Board concluded, within the context of its full deliberations, that the expenses of the funds are reasonable and supported interim renewal of the Agreement.

Profitability. With regard to profitability, the trustees considered the compensation flowing to CSIM and its affiliates, directly or indirectly. In this connection, the trustees reviewed management's profitability analyses, together with certain commentary thereon from an independent accounting firm. The trustees also considered any other benefits

derived by CSIM from its relationship with the funds, such as whether, by virtue of its management of the Funds, CSIM obtains investment information or other research resources that aid it in providing advisory services to other clients. The trustees considered whether the varied levels of compensation and profitability under the Agreement and other service agreements were reasonable and justified in light of the quality of all services rendered to each fund by CSIM and its affiliates. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the profitability of CSIM is reasonable and supported interim renewal of the Agreement.

Economies of Scale. The trustees considered the existence of any economies of scale and whether those are passed along to a fund's shareholders through a graduated investment advisory fee schedule or other means, including any fee waivers by CSIM and its affiliates. In this regard, and consistent with their consideration of fund expenses, the trustees considered that CSIM and Schwab have previously committed resources to minimize the effects on shareholders of diseconomies of scale during periods when fund assets were relatively small through their contractual expense waivers. For example, such diseconomies of scale may particularly affect newer funds or funds with investment strategies that are from time to time out of favor, but shareholders may benefit from the continued availability of such funds at subsidized expense levels. The trustees also considered CSIM's agreement to contractual investment advisory fee schedules which include lower fees at higher graduated asset levels. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the funds obtain reasonable benefit from economies of scale.

In the course of their deliberations, the trustees did not identify any particular information or factor that was all-important or controlling. Based on the trustees' deliberation and their evaluation of the information described above, the Board, including all of the Independent Trustees, unanimously approved the interim continuation of the Agreement and concluded that the compensation under the Agreement is fair and reasonable in light of such services and expenses and such other matters as the trustees have considered to be relevant in the exercise of their reasonable judgment.

Trustees and Officers

A fund's Board of Trustees is responsible for protecting the interests of that fund's shareholders. The tables below give information about the people who serve as trustees and officers for the Schwab Funds®, including the funds covered in this report. Trustees remain in office until they resign, retire or are removed by shareholder vote.¹

Under the Investment Company Act of 1940, any officer, director, or employee of Schwab or CSIM is considered an “interested person,” meaning that he or she is considered to have a business interest in Schwab or CSIM. These individuals are listed as “interested trustees.” The “independent trustees” are individuals who, under the 1940 Act, are not considered to have a business interest in Schwab or CSIM.

Each of the 56 Schwab Funds belongs to one of these trusts: The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust or Schwab Annuity Portfolios. Currently all these trusts have the same trustees and officers. The address for all trustees and officers is 101 Montgomery Street, San Francisco, CA 94104. You can find more information about the trustees and officers in the Statement of Additional Information, which is available free by calling 1-800-435-4000.

Interested Trustees and Officers

Name and Birthdate	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
Charles R. Schwab ² 7/29/37	Chairman, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Director, The Charles Schwab Corp., Charles Schwab & Co., Inc.; Chair, Director, Charles Schwab Investment Management, Inc.; Chair, Charles Schwab Holdings (UK); Chair, Director, U.S. Trust Corp., United States Trust Co. of New York, U.S. Trust Co., N.A.; CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, Charles Schwab Bank, N.A., The Charles and Helen Schwab Foundation, All Kinds of Minds (education); Trustee, Stanford University. <i>Until 5/04</i> : Director, The Gap, Inc. (clothing retailer). <i>Until 5/03</i> : Co-CEO, The Charles Schwab Corp. <i>Until 3/02</i> : Director, Audiobase, Inc. (Internet audio solutions). <i>Until 5/02</i> : Director, Vodafone AirTouch PLC (telecommunications). <i>Until 7/01</i> : Director, The Charles Schwab Trust Co.

¹ The Schwab Funds retirement policy requires that independent trustees elected after January 1, 2000 retire at age 72 or after twenty years of service as a trustee, whichever comes first. Independent trustees elected prior to January 1, 2000 will retire on the following schedule: Messrs. Holmes and Dorward will retire on December 31, 2007, and Messrs. Stephens and Wilsey will retire on December 31, 2010.

² In addition to his position with the investment adviser and the distributor, Mr. Schwab also owns stock of The Charles Schwab Corporation.

Interested Trustees but Not Officers

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Randall W. Merk 7/25/54	2005 (all trusts).	EVP, President, AMPS Enterprise. <i>Until 7/04</i> : President, CEO, Charles Schwab Investment Management, Inc.; VP, Charles Schwab & Co., Inc. <i>Until 8/02</i> : President, Chief Investment Officer, American Century Management; Director, American Century Companies, Inc. <i>Until 6/01</i> : Chief Investment Officer, Fixed Income, American Century Companies, Inc.

Officers of the Trust

Name and Birthdate	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
Evelyn Dilsaver 5/4/55	President, CEO (all trusts).	EVP, President, Director, Charles Schwab Investment Management, Inc. <i>Until 7/04</i> : SVP for Development and Distribution, Asset Management Products and Services Enterprise. <i>Until 6/03</i> : EVP, CFO, Chief Administrative Officer, U.S. Trust.
Stephen B. Ward 4/5/55	SVP, Chief Investment Officer (all trusts).	SVP, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co.
Kimon Daifotis 7/10/59	SVP, Chief Investment Officer (all trusts).	<i>Since 9/04</i> : Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Since 6/04</i> : SVP, Charles Schwab Investment Management, Inc. <i>Until 6/04</i> : VP, Charles Schwab Investment Management, Inc.
Jeffrey Mortimer 9/29/63	SVP, Chief Investment Officer (all trusts).	<i>Since 5/04</i> : SVP, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc. <i>Since 6/04</i> : VP, Chief Investment Officer, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 5/04</i> : VP, Charles Schwab Investment Management, Inc.
Randall Fillmore 11/11/60	Chief Compliance Officer (all trusts).	<i>Since 9/04</i> : SVP, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Chief Compliance Officer, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 9/04</i> : VP, Charles Schwab & Co., Inc., Charles Schwab Investment Management, Inc. <i>Until 2002</i> : VP of Internal Audit, Charles Schwab & Co., Inc. <i>Prior to 2000</i> : PricewaterhouseCoopers.
Koji E. Felton 3/13/61	Secretary (all trusts).	SVP, Chief Counsel, Assistant Corporate Secretary, Charles Schwab Investment Management, Inc. <i>Until 6/98</i> : Branch Chief in Enforcement, U.S. Securities and Exchange Commission, San Francisco.
George Pereira 6/9/64	Treasurer, Principal Financial Officer (all trusts).	<i>Since 11/04</i> : SVP, CFO, Charles Schwab Investment Management, Inc. <i>Until 11/04</i> : SVP, Financial Reporting, Charles Schwab & Co., Inc. <i>Until 12/99</i> : CFO, Commerzbank Capital Markets. <i>Until 9/99</i> : Managing Director at the New York Stock Exchange.

Independent Trustees

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Mariann Byerwalter 8/13/60	2000 (all trusts).	Chair, JDN Corp. Advisory LLC (real estate); Trustee, Stanford University, America First Cos., Omaha, NE (venture capital/fund management), Redwood Trust, Inc. (mortgage finance), Stanford Hospitals and Clinics, SRI International (research), PMI Group, Inc. (mortgage insurance), Lucile Packard Children's Hospital. <i>Since 2/05</i> : Director, Pacific Mutual Holding Company (insurance). <i>Since 2004</i> : Laudus Trust, Laudus Variable Insurance Trust. <i>Until 2001</i> : Stanford University, Special Assistant to the President. <i>From 1996-2001</i> : VP of Business Affairs, CFO.
Donald F. Dorward 9/23/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	CEO, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999</i> : EVP, Managing Director, Grey Advertising. <i>Until 1996</i> : President, CEO, Allen & Dorward Advertising.
William A. Hasler 11/22/41	2000 (all trusts).	Dean Emeritus, Haas School of Business, University of California, Berkeley; Director, Apton Corp. (bio-pharmaceuticals); Non-Executive Chair, Solectron Corp. (manufacturing), Mission West Properties (commercial real estate), Stratex Networks (network equipment), TOUSA (home building); Public Governor, Member, executive committee, Pacific Stock & Options Exchange. <i>Since 2004</i> : Trustee, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 2/04</i> : Co-CEO, Apton Corp. (bio-pharmaceuticals).
Robert G. Holmes 5/15/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Director, Semloh Financial, Inc. (international financial services and investment advisory firm).
Gerald B. Smith 9/28/50	2000 (all trusts).	Chair, CEO, Founder, Smith Graham & Co. (investment advisers); Trustee, Cooper Industries (electrical products, tools and hardware); Chairman, audit committee, Northern Border Partners, L.P. (energy).
Donald R. Stephens 6/28/38	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chair, CEO, North American Trust (real estate investment trust).
Michael W. Wilsey 8/18/43	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Wilsey Bennett, Inc. (real estate investment and management, and other investments).

Glossary

agency discount notes Notes issued by federal agencies—known as Government Sponsored Enterprises, or GSEs—at a discount to their value at maturity. An agency discount note is a short-term investment alternative offering a high degree of credit quality.

Alternative Minimum Tax (AMT) A federal income tax designed to limit the extent to which high-income taxpayers (including individuals, estates, trusts and corporations) can benefit from certain deductions and exemptions. For example, some types of income that are exempt from regular federal income tax are not exempt from the AMT.

asset-backed securities Bonds or other debt securities that represent ownership in a pool of assets such as credit card debt.

bond A security representing a loan from the investor to the issuer. A bond typically pays interest at a fixed rate (the “coupon rate”) until a specified date (the “maturity date”), at which time the issuer returns the money borrowed (“principal” or “face value”) to the bondholder. Because of their structure, bonds are sometimes called “fixed income securities” or “debt securities.”

An individual bond is subject to the credit risk of the issuer. Changes in interest rates can affect a bond’s market value prior to call or maturity. There is no guarantee that a bond’s yield to call or maturity will provide a positive return over the rate of inflation.

bond fund A bond fund is subject to the same credit, interest rate, and inflation risks as bonds. In addition, a bond fund incurs ongoing fees and expenses. A bond fund’s net asset value will fluctuate with the price of the underlying bonds and the portfolio turnover activity; return of principal is not guaranteed.

bond anticipation notes Obligations sold by a municipality on an interim basis in anticipation of the municipality’s issuance of a longer-term bond in the future.

capital gain, capital loss The difference between the amount paid for an investment and its value at a later time. If the investment has been sold, the capital gain or loss is considered a realized gain or loss. If the investment is still held, the gain or loss is still “on paper” and is considered unrealized.

commercial paper Promissory notes issued by banks, corporations, state and local governments and other entities to finance short-term credit needs. These securities generally are structured on a discounted basis but

sometimes may be interest-bearing notes. Commercial paper, which may be unsecured, is subject to credit risk.

credit-enhanced securities Securities that are backed by the credit of an entity other than the issuer (such as a financial institution). Credit enhancements, which can equal up to 100% of the security’s value, are designed to help lower the risk of default on a security and may also make the security more liquid.

credit quality The capacity of an issuer to make its interest and principal payments. Federal regulations strictly limit the credit quality of the securities a money market fund can buy.

credit ratings Debt issuers, including corporations, states and municipalities, may arrange with a recognized independent rating organization, such as Standard & Poor’s, Fitch, Inc. and Moody’s Investor Service, to rate their creditworthiness and/or the creditworthiness of their debt issues. For example, an issuer may obtain a long-term rating within the investment grade rating category, which is, from high to low, AAA, AA, A and BBB for Standard & Poor’s and Fitch, and Aaa, Aa, A and Baa for Moody’s.

credit risk The risk that a debt issuer may be unable to pay interest or principal to its debtholders.

Portfolio terms

To help reduce the space occupied by the portfolio holdings, we use the following terms. Most of them appear within descriptions of individual securities in municipal funds, and describe features of the issuer or the security. Some of these are more fully defined elsewhere in the Glossary.

ACES	Adjustable convertible extendable security
BAN	Bond anticipation note
COP	Certificate of participation
GAN	Grant anticipation note
GO	General obligation
HDA	Housing Development Authority
HFA	Housing Finance Agency
IDA	Industrial Development Authority
IDB	Industrial Development Board
IDRB	Industrial Development Revenue Bond
M/F	Multi-family
RAN	Revenue anticipation note
RB	Revenue bond
S/F	Single-family
TAN	Tax anticipation note
TECP	Tax-exempt commercial paper
TRAN	Tax and revenue anticipation note
VRD	Variable-rate demand

dollar-weighted average maturity (DWAM) See weighted average maturity.

effective yield A measurement of a fund's yield that assumes that all dividends were reinvested in additional shares of the fund.

expense ratio The amount that is taken from a mutual fund's assets each year to cover the fund's operating expenses. An expense ratio of 0.50% means that a fund's expenses amount to half of one percent of its average net assets a year.

face value The value of a bond, note, mortgage or other security as given on the certificate or instrument. Face value is also referred to as par value or nominal value.

illiquid securities Securities are generally considered illiquid if they cannot be disposed of promptly (typically within seven days) and in the ordinary course of business at approximately the amount at which a fund has valued the instruments.

interest Payments to holders of debt securities as compensation for loaning a security's principal to the issuer.

liquidity-enhanced security A security that when tendered is paid from funds advanced by an entity other than the issuer (such as a large financial institution). Liquidity enhancements are often used on variable-rate securities where the portfolio manager has an option to tender the securities prior to their final maturity.

maturity The date a debt security is scheduled to be "retired" and its principal amount returned to the bondholder.

money market securities High-quality, short-term debt securities that may be issued by entities such as the U.S. government, corporations and financial institutions (such as banks). Money market securities include commercial paper, promissory notes, certificates of deposit, banker's acceptances, notes and time deposits.

muni, municipal bonds, municipal securities Debt securities issued by a state, its counties, municipalities, authorities and other subdivisions, or the territories and possessions of the United States and the District of Columbia, including their subdivisions, agencies and instrumentalities and corporations. These securities may be issued to obtain money for various public purposes, including the construction of a wide range of public facilities such as airports, bridges, highways, housing, hospitals, mass transportation, public utilities, schools, streets, and water and sewer works.

net asset value per share (NAV) The value of one share of a mutual fund. NAV is calculated by taking the fund's total assets, subtracting liabilities, and dividing by the number of shares outstanding. Money funds seek to maintain a steady NAV of \$1.00.

outstanding shares, shares outstanding When speaking of a company or mutual fund, indicates all shares currently held by investors.

restricted securities Securities that are subject to contractual restrictions on resale. These securities are often purchased in private placement transactions.

revenue anticipation notes Obligations that are issued in expectation of the receipt of revenue, such as income taxes, property taxes, etc.

section 3c7 securities Section 3c7 of the Investment Company Act of 1940 (the "1940 Act") exempts certain issuers from many regulatory requirements applicable to investment companies under the 1940 Act. An issuer whose outstanding securities are exclusively owned by "qualified purchasers" and who is not making or proposing to make a public offering of the securities may qualify for this exemption.

section 4(2)/144A securities Securities exempt from registration under Section 4(2) of the Securities Act of 1933. These securities may be sold only to qualified institutional buyers under Securities Act Rule 144A.

taxable-equivalent yield The yield an investor would need to get from a taxable investment in order to match the yield paid by a given tax-exempt investment, once the effect of all applicable taxes is taken into account. For example, if your tax rate were 25%, a tax-exempt investment paying 4.5% would have a taxable-equivalent yield for you of 6.0% ($4.5\% \div [1 - 0.25\%] = 6.0\%$).

total return The percentage that an investor would have earned or lost on an investment in the fund assuming dividends and distributions were reinvested.

tax anticipation notes Notes that typically are sold to finance the cash flow needs of municipalities in anticipation of the receipt of taxes on a future date.

Tier 1, Tier 2 Tier 1 is the highest category of credit quality, Tier 2 the second highest. A security's tier can be established either by an independent rating organization or by a determination of the investment adviser. Money market fund shares and U.S. government securities are automatically considered Tier 1 securities.

weighted average maturity For mutual funds, the maturity of all the debt securities in its portfolio, calculated as a weighted average. As a rule, the longer a fund's weighted average maturity, the greater its interest rate risk. Money funds are required to maintain a weighted average maturity of no more than 90 days.

yield The income paid out by an investment, expressed as a percentage of the investment's market value.

Notes

Schwab Funds® offers you a complete family of mutual funds, each one based on a clearly defined investment approach and using disciplined management strategies. The list at right shows all currently available Schwab Funds.

Whether you're an experienced investor or just starting out, Schwab Funds can help you achieve your financial goals. An investor should consider a fund's investment objectives, risks, and charges and expenses carefully before investing or sending money. This and other important information can be found in the fund's prospectus. Please call 1-800-435-4000 for a prospectus and brochure for any Schwab Fund. Please read the prospectus carefully before you invest. This report must be preceded or accompanied by a current prospectus.

Methods for Placing Orders

The following information outlines how Schwab investors can place orders. If you are investing through a third-party investment provider, methods for placing orders may be different.

Internet¹

www.schwab.com

Schwab by Phone™²

Use our automated voice service or speak to a representative. Call **1-800-435-4000**, day or night (for TDD service, call **1-800-345-2550**).

TeleBroker®

Use our automated touch-tone phone service at **1-800-272-4922**.

Mail

Write to Schwab Funds at:
P.O. Box 3812
Englewood, CO
80155-3812

When selling or exchanging shares, be sure to include the signatures of at least one of the persons whose name is on the account.

Proxy Voting Policies, Procedures and Results

A description of the proxy voting policies and procedures used to determine how to vote proxies on behalf of the funds is available without charge, upon request, by visiting Schwab's website at www.schwab.com/schwabfunds, the SEC's website at <http://www.sec.gov>, or by contacting Schwab Funds at 1-800-435-4000.

Information regarding how a fund voted proxies relating to portfolio securities during the most recent twelve-month period ended June 30 is available, without charge, by visiting Schwab's website at www.schwab.com/schwabfunds or the SEC's website at <http://www.sec.gov>.

The Schwab Funds Family®

Stock Funds

Schwab S&P 500 Index Fund
Schwab 1000 Index® Fund
Schwab Small-Cap Index Fund®
Schwab Total Stock Market Index Fund®
Schwab International Index Fund™
Schwab Premier Equity Fund™
Schwab Core Equity Fund™
Schwab Dividend Equity Fund™
Schwab Small-Cap Equity Fund™
Schwab Hedged Equity Fund™
Schwab Financial Services Fund™
Schwab Health Care Fund™
Schwab Technology Fund™
Schwab Institutional Select® S&P 500 Fund

Asset Allocation Funds

Schwab MarketTrack All Equity Portfolio™
Schwab MarketTrack Growth Portfolio™
Schwab MarketTrack Balanced Portfolio™
Schwab MarketTrack Conservative Portfolio™
Schwab Target 2010 Fund
Schwab Target 2020 Fund
Schwab Target 2030 Fund
Schwab Target 2040 Fund
Schwab Retirement Income Fund

Bond Funds

Schwab YieldPlus Fund®
Schwab Short-Term Bond Market Fund™
Schwab Total Bond Market Fund™
Schwab GNMA Fund™
Schwab Tax-Free YieldPlus Fund™
Schwab Short/Intermediate Tax-Free Bond Fund™
Schwab Long-Term Tax-Free Bond Fund™
Schwab California Tax-Free YieldPlus Fund™
Schwab California Short/Intermediate Tax-Free Bond Fund™
Schwab California Long-Term Tax-Free Bond Fund™

Schwab Money Funds

Schwab offers an array of money market funds that seek high current income consistent with safety and liquidity.³ Choose from taxable or tax-advantaged alternatives. Many can be linked to your eligible Schwab account to "sweep" cash balances automatically, subject to availability, when you're between investments. Or, for your larger cash reserves, choose one of our Value Advantage Investments®.

¹ Shares of Sweep Investments™ may not be purchased directly over the Internet.

² Orders placed in person or through a telephone representative may be subject to a service fee payable to Schwab.

³ Investments in money market funds are neither insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency and, although they seek to preserve the value of your investment at \$1 per share, it is possible to lose money.

charles SCHWAB

Investment Adviser

Charles Schwab Investment Management, Inc.
101 Montgomery Street, San Francisco, CA 94104

Distributor

Charles Schwab & Co., Inc. (Schwab)

Funds

Schwab Funds®
P.O. Box 3812, Englewood, CO 80155-3812

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Schwab Municipal Money Funds

Semiannual Report

June 30, 2005

Schwab New York
Municipal Money Fund™

Schwab New Jersey
Municipal Money Fund™

Schwab Pennsylvania
Municipal Money Fund™

Schwab Florida
Municipal Money Fund™

Schwab Massachusetts
Municipal Money Fund™

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From the Chairman



Charles Schwab
Chairman

Dear Shareholder,

I have always believed that it's important to make sure that your cash is earning income between long-term investments by putting the money into a money market fund. While no investment is risk-free, money market funds carry, perhaps, the least amount of risk, as they generally are not as volatile as stocks or stock mutual funds. Money funds are good choices for investors who want to mitigate the potential fluctuations that may occur in their mostly stock portfolios.

At Schwab, we offer a range of money funds with distinct investment strategies. Our municipal money funds, for example, may be beneficial for those of you in the higher tax brackets. We also offer money funds for those interested in the added protection provided by a portfolio of U.S. government securities. In addition, several of the Schwab money funds offer share classes that carry lower expenses in exchange for higher investment minimums.

Now, as a result of the Federal Reserve having raised short-term interest rates eight times in the past 12 months (four during the six-month period covered in this report), yields on money market mutual funds are more attractive than they have been in many years. Not only that, but it's likely that the Fed will raise these rates again this year. Based on this expectation, we anticipate that the yields on money market funds will continue to move upwards over the next few months.

On behalf of Schwab Funds, I want to thank you for investing with us and remind you that our commitment to our shareholders will never waver.

Sincerely,

A handwritten signature in cursive script that reads "Charles R. Schwab". The signature is written in dark ink and is positioned below the typed name.

Management's Discussion for the six months ended June 30, 2005



Evelyn Dilsaver is President and CEO of Charles Schwab Investment Management, Inc. and is president of the funds covered in this report. She joined the firm in 1992 and has held a variety of executive positions at Schwab.

Dear Shareholder,

When I assumed my new role as President and CEO of Schwab Funds® last year, I pledged that I would be committed to offering you more relevant choices and better value. I am pleased to report that we already have done both.

On July 1, 2005, Schwab Funds launched the Schwab Target Funds™, a suite of five mutual funds to help keep your retirement investments properly allocated over your lifetime. With a single investment in a Schwab Target Fund, you can avoid a common investment mistake—failing to adjust your portfolio over time.

The funds are designed to provide shareholders with investment management, asset allocation and ongoing re-allocation over time. You simply choose the fund that most closely matches the date of your retirement and our experienced portfolio managers will do the rest. They will rebalance four of the five funds from more aggressive to more conservative as you get closer to your retirement date. The fifth fund is designed to help generate income and additional growth after you've retired. It also is a good choice for investors already enjoying their retirement.

These no-load funds are a good value, as the funds have access to the lowest-priced eligible share class on the underlying Schwab affiliate funds. And because the funds invest in groups of other Schwab affiliate funds, they provide an additional layer of diversification.

At Schwab, we believe that having an asset-allocation plan that fits your retirement goals, time frame and tolerance for risk is a key element in meeting your long-term investment goals. The Schwab Target Funds are designed to help you do this. I encourage you to learn more about these funds at www.schwab.com/target, or call Schwab.

Thank you for investing in Schwab Funds.

Sincerely,

A handwritten signature in black ink that reads "Evelyn Dilsaver".

Investors should consider carefully information contained in the prospectus, including investment objectives, risks, charges and expenses. You can request a prospectus by calling Schwab at 1-800-435-4000. Please read the prospectus carefully before investing.



Kevin Shaughnessy, CFA, a vice president of the investment adviser and senior portfolio manager, is responsible for the day-to-day management of the Schwab New York, New Jersey and Massachusetts municipal money funds. Prior to joining the firm in 2000, he worked for more than 10 years in fixed income portfolio management.



Walter Beveridge, a portfolio manager, has been responsible for day-to-day management of the Schwab Pennsylvania and Florida municipal money funds since their inception in 1998. Prior to joining the firm in 1992, he worked for nearly 10 years in asset management.

The Investment Environment and the Fund

Oil prices hit highs never seen before and the Federal Reserve Open Market Committee continued to raise short-term interest rates to curb inflationary pressures, raising rates for the fourth time this year. At the same time, GDP continued to grow at a healthy pace and the housing market remained strong, largely due to low mortgage rates.

The firming labor market, as well as steady gains in capital spending, kept the economic expansion on a self-sustaining path. Businesses, unable to continue boosting productivity by restraining hiring, added new jobs during the six-month report period. Moreover, many leading indicators, such as the Institute for Supply Management's business activity surveys, suggested ongoing expansion, while continuing claims for unemployment benefits remained near cyclical lows.

Business investments grew only modestly, but consumers continued to spend. In fact, consumer confidence rose to a level not experienced since before September 11, 2001. With consumers in a spending mode and consumer spending comprising about 70% of GDP, first quarter GDP remained strong and retail sales were healthy. In this positive economic environment, strong labor market conditions remained positive for domestic consumption.

While high energy prices remained a significant headwind for economic performance, supply no longer was the issue; demand, especially in China, drove prices up. At the end of the six-month report period, a barrel of oil cost \$56.50 versus \$42.55 at the beginning of 2005.

Though high oil and commodity prices could have hampered growth and stirred inflationary pressures, productivity gains, slow growth in the money supply and slack in the economy have mostly kept a lid on core inflation. The productivity gains, coupled with foreign central banks buying large amounts of U.S. Treasury securities, also helped to keep long-term interest rates under control. These conditions also caused the dollar to rally unexpectedly, which took a little bit of pressure off the price of imported goods.

Amid signs of solidly expanding output and improved hiring, the Fed continued to tighten. It increased short-term interest rates at each of the four meetings in the first half of 2005, ending the six-month report period at a still moderate 3.25%. The moves have had a limited impact on overall economic growth, due primarily to the record-low level

Though high oil and commodity prices could have hampered growth and stirred inflationary pressures, productivity gains, slow growth in the money supply and slack in the economy have mostly kept a lid on core inflation.

of rates from which the increases began. Nonetheless, the higher rates succeeded in moving money fund yields higher, making them a more attractive investment vehicle.

As noted above, the Fed continued in its tightening mode, raising short-term interest rates 0.25% at each of its four meetings this year. At the end of the six-month report period, the rate was 3.25%. The higher taxable rates translated into higher municipal money market yields, as well. Yields on municipal variable-rate demand notes rose significantly during this period. The Bond Market Association's seven-day muni index averaged 2.25% during the six-month report period, 0.80% higher than the prior six-month period. This change had a positive impact on muni money fund yields, which rose 0.60% on average over the report period.

In this type of economic climate and market environment, we allowed the funds' weighted average maturity (WAM) to shorten to a more neutral position versus our peers. When the opportunity arose, we added commercial paper with maturities of 30-90 days, as they offered the best relative value of any other assets during the report period. We also increased our exposure to attractively priced seven-day variable-rate notes.

Despite the ongoing rising-rate environment, municipal-note supply remained steady in the first half of 2005. During this period, issuance of commercial paper and seven-day variable-rate notes was strong.

For the first time in 21 years, New York passed its budget prior to the close of the fiscal year on March 31, 2005, with some amendments completed in the following two weeks. The State ended fiscal 2005 with a \$1.22 billion surplus due to higher personal and corporate income tax receipts. The surplus represents 2.8% of spending for the year.

The fiscal 2006 budget includes \$46.21 billion in spending and projects and is slated to end fiscal 2006 with a \$1.81 billion fund balance. The State increased funding for education, but not to the levels mandated by a court order requiring higher funding for New York City schools. The budget includes some relief to local governments for state-mandated Medicaid costs in exchange for lower increases in local property taxes.

The improved economy also was evident in the State's employment figures. Between May 2004 and May 2005, job growth expanded 1.8%, while unemployment fell from 5.8% down to 5.0%.

New York City passed its fiscal 2006 budget on June 29, 2005 for the fiscal year beginning July 1, 2006. The City ended its fiscal 2005 year with a \$2.3 billion surplus, which it used to prepay expenses occurring in fiscal 2006. The State's economy remains very strong in the New York

New York remains a strong investment-grade credit due to the diversity of the State economy as well as its revenue raising ability.

City metropolitan area. Many local governments in northern and western New York state, however, are operating under tremendous financial pressure, as their manufacturing economies have shrunk over the last several decades. Both the City of Buffalo and Erie County are operating under State-ordered Financial Control Boards to address fiscal problems associated with declining or stagnant tax bases and soaring benefit costs. Nonetheless, New York remains a strong investment-grade credit due to the diversity of the State economy as well as its revenue raising ability. The State's general obligation credit ratings were A1 from Moody's Investors Service, AA from Standard & Poor's and AA- from Fitch at the end of the report period.

New Jersey passed its fiscal 2006 budget on July 2, 2005, two days after the close of fiscal 2005. The \$27.9 billion fiscal 2006 budget holds spending slightly below the fiscal 2005 budget of \$28 billion, an improvement over last year's 14% increase in spending. Despite heading into statewide election season, the budget relies on only minor non-recurring revenues, unlike the last three years' budgets that included \$5.5 billion in deficit bonds for balance. The improved economy plus tax-rate increases have bolstered state revenues sufficiently to balance the budget without deficit bonds, which were ruled unconstitutional by the State's Supreme Court after last year's budget passed.

The improved economy also was evident in the State's employment rate, where job growth increased 1.5% between May 2004 and May 2005. At the same time, unemployment fell a full percentage point, dropping from 4.9% down to 3.9%.

Fiscal 2006 expenditures were held steady by reducing property tax rebates by \$600 million to \$1.1 billion. This required the State to make small cuts in state employment and budgeting for only \$400 million of the State's \$1.1 billion annual pension costs. The rebates helped to offset the pressure of the nation's highest per-capita property taxes. The 2006 budget anticipates the State will add \$200 million to its fund balance by fiscal year end on June 30, 2006, ending the year with a \$600 million balance, or 2.1% of expenditures.

New Jersey remains a strong investment-grade credit, due to the diversity of the State's economy and its revenue-raising ability. New Jersey's ratings were: Aa3 from Moody's Investors Service, AA- from Fitch, and AA from Standard & Poor's (upgraded from AA- in mid-July 2005) at the end of the report period.

As Florida does not levy a personal income tax, it is more reliant on sales-tax receipts, which has worked in its favor in recent years.

The economic recovery and the Commonwealth of Pennsylvania's conservative budgeting produced a 5.8% increase in its projected fiscal 2005 general fund revenues, bringing the total to \$24.2 billion. At the same time, spending growth was held to 3.8% for the year. Consequently, the general fund, after adding \$67 million to reserves, is expected to have ended the fiscal year with a \$201 million balance, or 0.9% of expenditures. The Commonwealth continues to add to reserves after completely depleting them to balance the fiscal 2002 and 2003 budgets. In addition, job growth has reduced the unemployment rate to 4.8% in May 2005, down from 5.6% one year earlier.

Governor Ed Rendell signed a \$24.3 billion budget for fiscal 2006 on July 7, a week after the beginning of the fiscal year. The budget restricts spending growth to 3.6% to limit the use of one-time revenues. Most of the additional spending is for Medicaid, child welfare and debt service. The proposed budget includes the use of a small amount of reserves; however, revenue collections have exceeded the budget in recent months. This excess may provide additional revenues, which might serve to avoid using reserves in fiscal 2006.

The Commonwealth's above-average credit quality is derived from its conservative financial management, increasing economic diversification and moderate debt levels. The Commonwealth's ratings were: Aa2 from Moody's Investors Service, AA from Standard & Poor's and AA from Fitch.

With its strong economic performance, Florida expects to have taken in \$1.1 billion in revenues over November 2004 projections for fiscal year 2005, which ended on June 30, 2005. This growth was led by increased sales, corporate income, and documentary stamp taxes. The State expects to report a combined general and stabilization fund balance of \$4.0 billion as of June 30, 2005, equal to 16% of annual expenditures. As Florida does not levy a personal income tax, it is more reliant on sales-tax receipts, which has worked in its favor in recent years. While the State endured four serious hurricanes in August and September 2004, much of the direct state costs associated with these events were expected to be reimbursed through the Federal Emergency Management Agency. In addition, reconstruction activity related to the hurricanes was reflected in the State's sales-tax collections, which helped to fuel the sales-tax revenue growth. The budget for fiscal 2006, which commenced on July 1, 2005, projects moderate economic growth and provides for \$225 million in tax reductions. Net revenues for the State are projected

The recent rise in personal income tax revenues suggests vibrant job growth, as reflected in a drop in the unemployment rate to 4.5% in May from 5.1% in 2004.

to grow 3.8%, while appropriations were up 3.9%. The spending plan allocates \$750 million of general fund balance to growth-management projects, but year-end balances are still over \$2.4 billion.

Florida's total non-farm jobs were up a strong 3.3% in 2004, improving on 1.1% growth in the prior year, and have grown over 3% on a month-over-month basis through May 2005. The average unemployment rate for 2004 was 4.8%, down from 5.3% in 2003. Reflecting the State's strong economic performance and strengthened reserves, Moody's raised the State's rating to Aa1 in January 2005, while S&P raised its rating to AAA in February 2005 and Fitch raised its rating to AA+ in March 2005. These ratings remained in effect as of the end of the report period.

The estimated fiscal 2005 results for Massachusetts (year ending June 30, 2005) were \$1 billion more than the amount budgeted. Tax revenues, which were estimated to increase just 1.8% for the year, were up 7.5% through April, mostly in income tax payments. Much of the excess revenue will be used to replenish \$800 million in reserves that were used to balance the 2005 budget. The rest is expected to be added to reserves or used to support additional spending in the new fiscal year.

On June 30, 2005, Governor Mitt Romney signed the \$23.8 billion fiscal 2006 budget, which includes the use of \$600 million in reserves to support a 3.5% increase in spending. These reserves will be used predominantly to restore previous years' cuts in funding for education and local government support. Estimates for revenue growth in the new budget are below the growth rate experienced in recent months, however, so the reserves may not need to be utilized as budgeted.

The Commonwealth's economy continues to recover. The recent rise in personal income tax revenues suggests vibrant job growth, as reflected in a drop in the unemployment rate to 4.5% in May from 5.1% in 2004. Due to the diversity of the Commonwealth's economy, its high personal-wealth levels and its associated revenue-raising ability, Massachusetts remains a strong investment-grade credit. As of the report date, the Commonwealth's credit ratings were Aa2 from Moody's, AA from Standard & Poor's and AA from Fitch.

Performance and Fund Facts as of 6/30/05

Seven-Day Yields

The seven-day yields are calculated using standard SEC formulas. The effective yields include the effect of reinvesting daily dividends. Please remember that money market fund yields fluctuate.

Ticker Symbol	Municipal Money Funds					
	New York	New Jersey	Pennsylvania	Florida	Massachusetts	
	Sweep Shares	Value Advantage Shares™				
	SWNXX	SWYXX	SWJXX	SWEXX	SWFXX	SWDXX
Seven-Day Yield¹	1.83%	2.03%	1.86%	1.85%	1.88%	1.80%
Seven-Day Yield—No Waiver²	1.64%	1.92%	1.65%	1.62%	1.67%	1.59%
Seven-Day Effective Yield¹	1.85%	2.05%	1.88%	1.87%	1.89%	1.82%
Seven-Day Taxable-Equivalent Effective Yield^{1,3}	3.24%	3.59%	3.18%	2.97%	2.91%	2.96%

The performance data quoted represents past performance. Past performance does not guarantee future results. Current performance may be lower or higher than performance data quoted. To obtain more current performance information, please visit www.schwab.com/schwabfunds.

Statistics

Money funds must maintain a dollar-weighted average maturity of no longer than 90 days, and cannot invest in any security whose effective maturity is longer than 397 days (approximately 13 months).

	Municipal Money Funds				
	New York	New Jersey	Pennsylvania	Florida	Massachusetts
Weighted Average Maturity	18 days	20 days	36 days	36 days	36 days
Credit Quality of Holdings % of portfolio	100% Tier 1	100% Tier 1	100% Tier 1	100% Tier 1	100% Tier 1
Credit-Enhanced Securities % of portfolio	80%	83%	70%	83%	58%
Minimum Initial Investment⁴					
<i>Sweep Investments™</i>	*	*	*	*	*
<i>Value Advantage Shares</i>	\$25,000	n/a	n/a	n/a	n/a
(\$15,000 for IRA and custodial accounts)					

An investment in a money fund is neither insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. Although money funds seek to preserve the value of your investment at \$1 per share, it is possible to lose money by investing in a money fund.

Portfolio holdings may have changed since the report date.

¹ Fund expenses have been partially absorbed by CSIM and Schwab.

² Yield if fund expenses had not been partially absorbed by CSIM and Schwab.

³ Taxable-equivalent effective yields assume the following 2005 maximum tax rates: New York 42.90% (federal regular income, New York state and New York city taxes); New Jersey 40.83%, Pennsylvania 37.00%, and Massachusetts 38.45% (federal regular and state personal income taxes); Florida 35.00% (federal regular income tax). Investment income may be subject to the Alternative Minimum Tax.

⁴ Please see prospectus for further detail and eligibility requirements.

* Subject to the eligibility terms and conditions of your Schwab account agreement.

Fund Expenses

Examples for a \$1,000 Investment

As a fund shareholder, you incur two types of costs: transaction costs, such as redemption fees; and, ongoing costs, such as management fees, transfer agent and shareholder services fees, and other fund expenses.

The expense examples below are intended to help you understand your ongoing cost (in dollars) of investing in a fund and to compare this cost with the ongoing cost of investing in other mutual funds. These examples are based on an investment of \$1,000 invested for six-months beginning January 1, 2005 and held through June 30, 2005

Actual Return lines in the table below provide information about actual account values and actual expenses. You may use this information, together with the amount you invested, to estimate the expenses that you paid over the period. To do so, simply divide your account value by \$1,000 (for example, an \$8,600 account value \div \$1,000 = 8.6), then multiply the result by the number given for your fund or share class under the heading entitled "Expenses Paid During Period."

Hypothetical Return lines in the table below provide information about hypothetical account values and hypothetical expenses based on a fund's or share class' actual expense ratio and an assumed return of 5% per year before expenses. Because the return used is not an actual return, it may not be used to estimate the actual ending account value or expenses you paid for the period.

You may use this information to compare the ongoing costs of investing in the fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only, and do not reflect any transactional costs, such as redemption fees. If these transactional costs were included, your costs would have been higher.

	Expense Ratio ¹ (Annualized)	Beginning Account Value at 1/1/05	Ending Account Value (Net of Expenses) at 6/30/05	Expenses Paid During Period ² 1/1/05– 6/30/05
Schwab New York Municipal Money Fund™				
<i>Sweep Shares</i>				
Actual Return	0.68%	\$1,000	\$1,007.40	\$3.38
Hypothetical 5% Return	0.68%	\$1,000	\$1,021.42	\$3.41
<i>Value Advantage Shares™</i>				
Actual Return	0.45%	\$1,000	\$1,008.60	\$2.24
Hypothetical 5% Return	0.45%	\$1,000	\$1,022.56	\$2.26
Schwab New Jersey Municipal Money Fund™				
Actual Return	0.65%	\$1,000	\$1,007.60	\$3.24
Hypothetical 5% Return	0.65%	\$1,000	\$1,021.57	\$3.26
Schwab Pennsylvania Municipal Money Fund™				
Actual Return	0.65%	\$1,000	\$1,008.00	\$3.24
Hypothetical 5% Return	0.65%	\$1,000	\$1,021.57	\$3.26
Schwab Florida Municipal Money Fund™				
Actual Return	0.66%	\$1,000	\$1,007.70	\$3.29
Hypothetical 5% Return	0.66%	\$1,000	\$1,021.52	\$3.31
Schwab Massachusetts Municipal Money Fund™				
Actual Return	0.62%	\$1,000	\$1,007.60	\$3.09
Hypothetical 5% Return	0.62%	\$1,000	\$1,021.72	\$3.11

¹ Based on the most recent six-month expense ratio; may differ from the expense ratio provided in Financial Highlights.

² Expenses for each fund or share class are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 181 days of the period, and divided by 365 days of the fiscal year.

Schwab New York Municipal Money Fund™

Financial Statements

Financial Highlights

Sweep Shares	1/1/05– 6/30/05*	1/1/04– 12/31/04	1/1/03– 12/31/03	1/1/02– 12/31/02	1/1/01– 12/31/01	1/1/00– 12/31/00
Per-Share Data (\$)						
Net asset value at beginning of period	1.00	1.00	1.00	1.00	1.00	1.00
Income from investment operations:						
Net investment income	0.01	0.01	0.00 ¹	0.01	0.02	0.03
Less distributions:						
Dividends from net investment income	(0.01)	(0.01)	(0.00) ¹	(0.01)	(0.02)	(0.03)
Net asset value at end of period	1.00	1.00	1.00	1.00	1.00	1.00
Total return (%)	0.74 ²	0.56	0.41	0.80	2.06	3.39
Ratios/Supplemental Data (%)						
Ratios to average net assets:						
Net operating expenses	0.68 ³	0.69	0.69	0.69	0.69	0.70 ⁴
Gross operating expenses	0.84 ³	0.84	0.84	0.85	0.86	0.88
Net investment income	1.50 ³	0.55	0.41	0.80	2.04	3.35
Net assets, end of period (\$ x 1,000,000)	1,074	1,073	1,038	944	889	798
Value Advantage Shares						
Per-Share Data (\$)						
Net asset value at beginning of period	1.00	1.00	1.00	1.00	1.00	1.00
Income from investment operations:						
Net investment income	0.01	0.01	0.01	0.01	0.02	0.04
Less distributions:						
Dividends from net investment income	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	(0.04)
Net asset value at end of period	1.00	1.00	1.00	1.00	1.00	1.00
Total return (%)	0.86 ²	0.80	0.66	1.04	2.30	3.64
Ratios/Supplemental Data (%)						
Ratios to average net assets:						
Net operating expenses	0.45 ³	0.45	0.45	0.45	0.45	0.46 ⁵
Gross operating expenses	0.61 ³	0.61	0.61	0.62	0.64	0.68
Net investment income	1.74 ³	0.79	0.65	1.04	2.23	3.59
Net assets, end of period (\$ x 1,000,000)	764	654	690	676	604	419

* Unaudited.

¹ Per share amount was less than \$0.01.

² Not annualized.

³ Annualized.

⁴ The ratio of net operating expenses would have been 0.69% if certain non-routine expenses (proxy fees) had not been included.

⁵ The ratio of net operating expenses would have been 0.45% if certain non-routine expenses (proxy fees) had not been included.

Portfolio Holdings as of June 30, 2005; unaudited

This section shows all the securities in the fund's portfolio and their value, as of the report date.

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on the fund's most recent Form N-Q is available by visiting Schwab's website at www.schwab.com/schwabfunds.

We use the symbols below to designate certain characteristics of the securities:

- + Credit-enhanced security
- ▶ Liquidity-enhanced security
- Variable-rate security
- Restricted but deemed liquid security comprised of 144A

For fixed-rate obligations, the rate shown is the effective yield at the time of purchase. For variable-rate obligations, the rate shown is the rate as of the report date. For variable-rate obligations with scheduled maturities greater than 397 days, the maturity shown is the later of the next interest rate change date or demand date. For variable-rate obligations with scheduled maturities less than 397 days, the maturity shown is the earlier of the next interest rate change date or demand date. For variable-rate obligations without demand features, the maturity shown is the next interest rate change date.

Holdings by Category	Cost (\$x1,000)	Value (\$x1,000)
97.2% Municipal Securities	1,785,664	1,785,664
97.2% Total Investments	1,785,664	1,785,664
2.8% Other Assets and Liabilities		52,053
100.0% Net Assets		1,837,717

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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Municipal Securities	97.2% of net assets
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New York 97.2%**Albany IDA**

+■ IDRB (Newkirk Products) Series 1995A 2.39%, 07/07/05	900	900
+■ Refunding IDRB (United Cerebral Palsy Association-Capital Dist) Series 1997B 2.35%, 07/07/05	10,000	10,000

Broome Cnty IDA

+■ Civic Facility RB (Elizabeth Church Manor Nursing Home) Series 2003 2.30%, 07/07/05	6,050	6,050
+■ Civic Facility RB (Methodist Homes For the Aging) Series 2003 2.30%, 07/07/05	5,415	5,415

Chautauqua Cnty

+■ Civic Facility RB (Jamestown Center City Development Corp) Series 2000A 2.32%, 07/07/05	11,610	11,610
+■ IDRB (GrafcO Industries) Series 2002 2.33%, 07/07/05	6,130	6,130

East Meadow Union Free SD

BAN 2004 1.50%, 08/17/05	10,000	10,019
2.53%, 08/17/05	7,000	7,000

Herkimer Cnty

+■ Civic Facility RB (Templeton Foundation) Series 2000 2.37%, 07/07/05	1,800	1,800
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Long Island Power Auth

+ CP Notes Series CP-1 2.73%, 08/04/05	15,000	15,000
+ CP Notes Series CP-2 2.68%, 08/11/05	5,000	5,000
+▶■ Electric System General RB Series 1998A 2.31%, 07/07/05	21,000	21,000

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
+D■ Electric System General RB Series 2001A 2.31%, 07/07/05	4,365	4,365	+D■ GO Bonds Fiscal 2002 Series A-8 2.18%, 07/07/05	1,000	1,000
+D■ Electric System RB Series 1998A 2.57%, 07/07/05	1,900	1,900	+D■ GO Bonds Fiscal 2002 Series G 2.31%, 07/07/05	16,400	16,400
Metropolitan Transportation Auth			+■ GO Bonds Fiscal 2003 Series C-2 2.23%, 07/07/05	6,265	6,265
■ Dedicated Tax Fund Bonds Series 1998A 2.31%, 07/07/05	9,440	9,440	+■ GO Bonds Fiscal 2004 Series H-1 2.17%, 07/01/05	2,000	2,000
■ Dedicated Tax Fund Bonds Series 1999A 2.28%, 07/07/05	10,800	10,800	+D■ GO Bonds Fiscal 2004 Series J 2.31%, 07/07/05	9,160	9,160
+D■ Dedicated Tax Fund Bonds Series 2002A 2.57%, 07/07/05	10,980	10,980	+D■ GO Bonds Fiscal 2005 Series N 2.57%, 07/07/05	10,825	10,825
+D■ Transportation RB Series 2003B 2.31%, 07/07/05	3,500	3,500	+D■ GO Bonds Fiscal 2005 Series P 2.31%, 07/07/05	7,000	7,000
+D■ Transportation Refunding RB Series 2002A 2.29%, 07/07/05	22,000	22,000	New York City Health & Hospitals Corp		
Transportation Revenue BAN Series CP-1A			+D■ Health System Bonds Series 1999A 2.31%, 07/07/05	9,620	9,620
+ 2.42%, 08/04/05	17,000	17,000	New York City Housing Development Corp		
+ 2.48%, 08/04/05	28,000	28,000	+■ M/F Mortgage RB (Atlantic Court Apts) Series 2003A 2.25%, 07/07/05	41,250	41,250
+ 2.42%, 08/10/05	12,000	12,000	+■ M/F Mortgage RB (First Avenue) Series 2002A 2.25%, 07/07/05	7,445	7,445
+ Transportation Revenue BAN Sub-Series B 2.57%, 07/05/05	25,000	25,000	+■ M/F Mortgage RB (Upper East) Series 2003A 2.36%, 07/07/05	4,000	4,000
Nassau Health Care Corp			+■ M/F Rental Housing RB (100 Jane St) Series 1998A 2.25%, 07/07/05	6,525	6,525
+D■ Bonds Series 2004C-1 2.20%, 07/07/05	5,000	5,000	+■ M/F Rental Housing RB (One Columbus Place) Series 1998A 2.25%, 07/07/05	44,500	44,500
+D■ Bonds Series 2004C-2 2.46%, 07/07/05	5,000	5,000	+■ M/F Rental Housing RB (Sierra) Series 2003A 2.25%, 07/07/05	18,585	18,585
New York City			+■ M/F Rental Housing RB (Tribeca Tower) Series 1997A 2.25%, 07/07/05	2,300	2,300
+■ GO Bonds Fiscal 1994 Series H-4 2.21%, 07/01/05	20,500	20,500	New York City IDA		
+D■ GO Bonds Fiscal 1998 Series D 2.31%, 07/07/05	26,000	26,000	+■ Civic Facility RB (2000 Jewish Board of Family & Childrens Services) 2.29%, 07/07/05	15,820	15,820
+D■ GO Bonds Fiscal 2000 Series A 2.31%, 07/07/05	3,395	3,395			
+D■ GO Bonds Fiscal 2001 Series A 2.31%, 07/07/05	7,385	7,385			
+D■ GO Bonds Fiscal 2001 Series B 2.29%, 07/07/05	3,460	3,460			
+D■ GO Bonds Fiscal 2002 Series A 2.31%, 07/07/05	9,750	9,750			
+D■ GO Bonds Fiscal 2002 Series A-6 2.17%, 07/01/05	1,300	1,300			

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
+■ Refunding IDRB (Allway Tools) Series 1997 2.38%, 07/07/05	1,480	1,480	+▶■ Future Tax Secured Bonds Fiscal 2000 Series A 2.31%, 07/07/05	15,720	15,720
+■ Special RB (NYSE) Fiscal 2004 Series B 2.28%, 07/07/05	7,000	7,000	▶■ Future Tax Secured Bonds Fiscal 2000 Series C 2.31%, 07/07/05	14,545	14,545
New York City Municipal Water Finance Auth			▶■ Future Tax Secured Bonds Fiscal 2001 Series B 2.17%, 07/01/05	8,400	8,400
CP Notes Series 6 2.13%, 07/14/05	35,000	35,000	▶■ Future Tax Secured Refunding Bonds Fiscal 2003 Series A 2.31%, 07/01/05	6,000	6,000
▶■ Crossover Refunding Bonds Series 2002F 2.31%, 07/01/05	7,495	7,495	▶■ Future Tax Secured Refunding Bonds Fiscal 2005 Series A 2.31%, 07/07/05	26,305	26,305
▶TECP Notes Series 1 2.48%, 08/08/05	18,500	18,500	▶■ Future Tax Secured Refunding Bonds Fiscal 2005 Series A-1 2.31%, 07/07/05	8,650	8,650
TECP Series 5 2.45%, 07/08/05	20,000	20,000	▶■ Recovery Bonds Fiscal 2003 Series 2D 2.18%, 07/07/05	3,500	3,500
+ 2.15%, 07/14/05	14,000	14,000	▶■ Recovery Bonds Fiscal 2003 Series 2F 2.26%, 07/01/05	1,600	1,600
▶TECP Series 6 2.88%, 07/13/05	25,000	25,000	▶■ Recovery Bonds Fiscal 2003 Series 3H 2.18%, 07/01/05	1,300	1,300
+▶■ Water & Sewer System RB Fiscal 1995 Series A 2.17%, 07/01/05	6,600	6,600	New York Power Auth		
+▶■ Water & Sewer System RB Fiscal 1998 Series B 2.31%, 07/07/05	4,735	4,735	▶CP Notes Series 2 2.45%, 08/05/05	17,800	17,800
▶■ Water & Sewer System RB Fiscal 2001 Series D 2.33%, 07/07/05	4,995	4,995	▶■ Tender Notes Series 1985 2.15%, 09/01/05	22,500	22,500
▶■ Water & Sewer System RB Fiscal 2002 & Fiscal 2003A 2.31%, 07/07/05	8,500	8,500	New York State		
+▶■ Water & Sewer System RB Fiscal 2002 Series G 2.31%, 07/07/05	10,000	10,000	+ Environmental Quality 1986 GO Bonds Series 1998A 2.50%, 08/08/05	20,000	20,000
+▶■ Water & Sewer System RB Fiscal 2005 Series B 2.57%, 07/07/05	9,645	9,645	+▶■ GO Bonds Fiscal 2004 Series F 2.35%, 07/07/05	50,000	50,000
+▶■ Water & Sewer System RB Fiscal 2005 Series C 2.31%, 07/07/05	2,750	2,750	New York State Dormitory Auth		
▶■ Water & Sewer System RB Fiscal 2005 Series D 2.29%, 07/07/05	10,965	10,965	+▶■ City University System Consolidated Fifth General Resolution RB Series 2003A 2.31%, 07/07/05	7,295	7,295
New York City Transitional Finance Auth			+▶■ Court Facilities Lease RB (New York City) Series 2005A 2.57%, 07/07/05	17,880	17,880
▶■ Future Tax Secured Bonds Fiscal 1999 Series A 2.57%, 07/07/05	4,970	4,970			

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
+D■ Insured RB (Mt Sinai School of Medicine) Series 1994A 2.31%, 07/07/05	2,900	2,900	+■ Facilities RB Series 2004C-1 2.27%, 07/07/05	6,000	6,000
+■ Lease RB (Suny Dorm Facilities) Series 2005A 2.31%, 07/07/05	5,675	5,675	+■ Facilities RB Series 2004C-2 2.18%, 07/07/05	5,500	5,500
+■ Mental Health Services Facilities Improvement RB Series 2005D-1 2.31%, 07/07/05	7,115	7,115	+■ Facilities RB Series 2004C-3 2.36%, 07/07/05	10,000	10,000
+■ RB (Park Ridge Hospital, Inc) Series 2005 2.28%, 07/07/05	10,000	10,000	+D■ Gas Facilities RB (Brooklyn Union Gas) Series 1996 2.29%, 07/07/05	14,125	14,125
+D■ State Personal Income Tax Refunding RB (Education) Series 2005B 2.31%, 07/07/05	11,865	11,865	New York State Environmental Facilities Corp		
+D■ State University Educational Facilities RB Series 1993A 2.31%, 07/07/05	9,995	9,995	+■ State Clean & Drinking Water Revolving Funds RB Series 2002B 2.31%, 07/07/05	24,225	24,225
+■ State University Educational Facilities RB Series 2000B 2.28%, 07/07/05	27,030	27,030	+■ State Water Pollution Control Revolving Fund RB Series 1994D 2.31%, 07/07/05	660	660
+■ State University Educational Facilities RB Series 2000B 2.31%, 07/07/05	12,375	12,375	New York State HFA		
+■ Third General Resolution RB (State University Educational Facilities) Series 2005A 2.57%, 07/07/05	7,130	7,130	+■ Housing RB (101 West End Ave) Series 1999A 2.29%, 07/07/05	13,000	13,000
+D■ Upstate Community Colleges RB Series 2005A 2.31%, 07/07/05	3,880	3,880	+■ Housing RB (150 E44th St) Series 2000A 2.29%, 07/07/05	45,800	45,800
New York State Energy Research & Development Auth			+■ Housing RB (250 W50th St) Series 1997A 2.25%, 07/07/05	4,800	4,800
+■ Facilities RB (Consolidated Edison Company of New York, Inc) Series 2005A-1 2.24%, 07/07/05	10,000	10,000	+■ Housing RB (250 W93rd St) Series 2005A 2.30%, 07/07/05	7,500	7,500
+■ Facilities RB (Consolidated Edison Company of New York, Inc) Series 2005A-2 2.31%, 07/07/05	9,000	9,000	+■ Housing RB (345 E94th St) Series 1998A 2.29%, 07/07/05	4,700	4,700
+■ Facilities RB (Consolidated Edison Company of New York, Inc) Series 2005A-3 2.19%, 07/07/05	10,000	10,000	+■ Housing RB (345 E94th St) Series 1999A 2.29%, 07/07/05	3,400	3,400
			+■ Housing RB (350 W43rd St) Series 2002A 2.25%, 07/07/05	14,000	14,000
			+■ Housing RB (70 Battery Place) Series 1997A 2.25%, 07/07/05	23,300	23,300
			+■ Housing RB (Avalon Chrystie Place I) Series 2004A 2.27%, 07/07/05	27,900	27,900

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
+ ■ Housing RB (Clinton Green South) Series 2005A 2.60%, 07/07/05	35,000	35,000	New York State Thruway Auth		
+ ■ Housing RB (E84th St) Series 1995A 2.53%, 07/07/05	44,100	44,100	+ ■■ General RB Series 2005F 2.31%, 07/07/05	25,880	25,880
+ ■ Housing RB (Normandie Court I) Series 1991A 2.20%, 07/07/05	5,395	5,395	+ ■■ General RB Series F 2.31%, 07/07/05	15,590	15,590
+ ■ Housing RB (Sea Park East) Series 2004A 2.32%, 07/07/05	18,500	18,500	■ ■ General Refunding RB Series E 2.29%, 07/07/05	6,995	6,995
+ ■ Housing RB (Sea Park West) Series 2004A 2.32%, 07/07/05	7,600	7,600	New York State Urban Development Corp		
+ ■ Housing RB (The Helena) Series 2003A 2.25%, 07/07/05	7,800	7,800	+ ■■ State Personal Income Tax RB (State Facilities & Equipment) Series 2004A-2 2.31%, 07/07/05	4,300	4,300
+ ■ Housing RB (The Helena) Series 2004A 2.25%, 07/07/05	39,000	39,000	New York Tobacco Settlement Financing Corp		
+ ■ Housing RB (Tribeca Park) Series 1997A 2.25%, 07/07/05	7,000	7,000	+ ■■ Asset Backed RB Series 2003A-1C 2.58%, 07/07/05	5,815	5,815
+ ■ Housing RB (Union Square South) Series 1996A 2.25%, 07/07/05	16,800	16,800	North Syracuse Central SD		
+ ■ Service Contract Refunding RB Series 2003E 2.23%, 07/07/05	7,000	7,000	BAN 2005 2.72%, 06/23/06	6,331	6,393
New York State Local Assistance Corp			Oneida Cnty IDA		
+ ■ RB Series 1995D 2.10%, 07/07/05	6,120	6,120	+ ■ Civic Facility RB (Mohawk Valley Community College Dormitory Corp) Series 2004A 2.27%, 07/07/05	8,470	8,470
+ ■■ Refunding RB Series 1993C 2.31%, 07/07/05	9,900	9,900	Oyster Bay		
+ ■■ Refunding RB Series 1997B 2.30%, 07/07/05	20,965	20,965	BAN Series 2005B 2.63%, 03/17/06	10,000	10,059
New York State Mortgage Agency			Port Auth of New York & New Jersey		
▶ ■■ Homeowner Mortgage RB Series 65 2.33%, 07/07/05	3,780	3,780	+ ■■ Consolidated Bonds 127th Series 2.33%, 07/07/05	3,000	3,000
▶ ■■ Homeowner Mortgage RB Series 77A 2.31%, 07/07/05	24,795	24,795	■ ■ Consolidated Bonds 135th Series 2.33%, 07/07/05	20,000	20,000
▶ ■■ Homeowner Mortgage RB Series 87 2.31%, 07/07/05	9,550	9,550	+ ■■ Consolidated Bonds 140th Series 2.57%, 07/07/05	34,115	34,115
			Special Project Bonds (JFK International Air Terminal) Series 6 2.36%, 07/07/05	1,475	1,475
			+ ■■ 2.32%, 07/07/05 ▶ ■■ TECP Series B 2.75%, 07/08/05	1,100	1,100
			Sales Tax Asset Receivable Corp		
			+ ■■ Sales Tax Asset RB Fiscal 2005 Series A 2.31%, 07/07/05	1,750	1,750

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Schenectady IDA		
+■ IDRB (Fortitech Holding Corp) Series 1995A 2.64%, 07/07/05	700	700
Tompkins Cnty IDA		
+▶■ Civic Facility RB (Ithaca College) Series 2004 2.35%, 07/07/05	7,500	7,500
Triborough Bridge & Tunnel Auth		
+▶■ General Purpose RB Series 2001A 2.30%, 07/07/05	20,000	20,000
+▶■ General Refunding RB Series 2002B 2.31%, 07/07/05	8,960	8,960
▶■ 2.33%, 07/07/05	14,000	14,000
+▶■ General Refunding RB Series 2002C 2.19%, 07/07/05	4,600	4,600
Westchester Cnty IDA		
+■ IDRB (Levister Redevelopment Co) Series 2001B 2.25%, 07/07/05	8,000	8,000
William Floyd Union Free SD		
TAN 2005 2.70%, 06/27/06	25,000	25,313
Yonkers IDA		
+■ Civic Facility RB (Consumers Union) Series 1989 2.35%, 07/07/05	1,200	1,200
+■ Civic Facility RB (Consumers Union) Series 1991 2.35%, 07/07/05	700	700
+▶■ Civic Facility RB (Consumers Union) Series 1994 2.35%, 07/07/05	1,660	1,660
		1,785,464
Puerto Rico 0.0%		
Puerto Rico		
+▶■ Public Improvement Bonds Series 2001A 2.31%, 07/07/05	200	200

End of investments.

Statement of

Assets and Liabilities

As of June 30, 2005; unaudited. All numbers x 1,000 except NAV.

Unless stated, all numbers x 1,000.

Assets

Investments, at value	\$1,785,664
Cash	164
Receivables:	
Fund shares sold	3,617
Investment sold	44,564
Interest	6,180
Prepaid expenses	+ 29
Total assets	1,840,218

The amortized cost for the fund's securities was \$1,785,664. Includes restricted but deemed liquid securities comprised of 144A securities worth \$605,320 or 32.9% of the fund's total net assets. During the reporting period, the fund had \$539,020 in transactions with other Schwab Funds®.

Liabilities

Payables:	
Fund shares redeemed	978
Dividends to shareholders	1,396
Investment adviser and administrator fees	32
Transfer agent and shareholder service fees	51
Trustees' fees	3
Accrued expenses	+ 41
Total liabilities	2,501

Net Assets

Total assets	1,840,218
Total liabilities	- 2,501
Net assets	\$1,837,717

Net Assets by Source

Capital received from investors	1,838,093
Net realized capital losses	(376)

Net Asset Value (NAV) by Share Class

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Sweep Shares	\$1,074,071		1,074,381		\$1.00
Value Advantage Shares	\$763,646		763,775		\$1.00

Federal Tax Data

Cost basis of portfolio	\$1,785,664
As of December 31, 2004:	
Unused capital losses:	
Expires 12/31 of:	Loss amount:
2009	\$12
2012	+ 244
	\$256

Statement of

Operations

For January 1, 2005 through June 30, 2005; unaudited. All numbers x 1,000.

Investment IncomeInterest **\$19,340****Net Realized Gains and Losses**Net realized losses on investments sold (88)**Expenses**Investment adviser and administrator fees 3,257

Transfer agent and shareholder service fees:

 Sweep Shares 2,459 Value Advantage Shares 752Trustees' fees 12Custodian and portfolio accounting fees 85Professional fees 19Registration fees 20Shareholder reports 23Other expenses + 13Total expenses 6,640Expense reduction - 1,405**Net expenses** **5,235****Increase in Net Assets from Operations****Total investment income** 19,340**Net expenses** - 5,235**Net investment income** **14,105****Net realized losses** + (88)**Increase in net assets from operations** **\$14,017**

Unless stated, all numbers x 1,000.

Calculated on a graduated basis as a percentage of average daily net assets: 0.38% of the first \$1 billion, 0.35% over \$1 billion, 0.32% over \$10 billion, 0.30% over \$20 billion and 0.27% over \$40 billion. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

Calculated as a percentage of average daily net assets as follows:

Transfer Agent Services:

Share Class	% of Average Daily Net Assets
Sweep Shares	0.25%
Value Advantage Shares	0.05%

Shareholder Services:

Share Class	% of Average Daily Net Assets
Sweep Shares	0.20%
Value Advantage Shares	0.17%

These fees are paid to Charles Schwab & Co., Inc. (Schwab).

For the fund's independent trustees only.

Includes \$1,330 from the investment adviser (CSIM) and \$75 from the transfer agent and shareholder service agent (Schwab). These reductions reflect a guarantee by CSIM and Schwab to limit the annual operating expenses of this fund through April 29, 2006, as follows:

Share Class	% of Average Daily Net Assets
Sweep Shares	0.65%
Value Advantage Shares	0.45%

Prior to April 30, 2005, the limit was 0.69% for sweep shares.

This limit excludes interest, taxes and certain non-routine expenses.

Statements of

Changes in Net Assets

For the current and prior report periods. All numbers x 1,000.
Figures for the current period are unaudited.

Unless stated, all numbers x 1,000.

Operations

	1/1/05-6/30/05	1/1/04-12/31/04
Net investment income	\$14,105	\$11,141
Net realized losses	+ (88)	(276)
Increase in net assets from operations	14,017	10,865

Distributions Paid

Dividends from net investment income		
Sweep Shares	8,175	5,821
Value Advantage Shares	+ 5,930	5,320
Total dividends from net investment income	14,105	11,141

Transactions in Fund Shares**Shares Sold**

Sweep Shares	2,375,490	4,091,385
Value Advantage Shares	+ 567,599	724,557
Total shares sold	2,943,089	4,815,942

Shares Reinvested

Sweep Shares	7,239	5,721
Value Advantage Shares	+ 4,942	4,941
Total shares reinvested	12,181	10,662

Shares Redeemed

Sweep Shares	(2,381,939)	(4,061,536)
Value Advantage Shares	+ (462,354)	(765,643)
Total shares redeemed	(2,844,293)	(4,827,179)

Net transactions in fund shares

110,977 **(575)**

Because all transactions in this section took place at \$1.00 per share, figures for share quantities are the same as for dollars.

Represents shares sold plus shares reinvested, minus shares redeemed.

Net Assets

Beginning of period	1,726,828	1,727,679
Total increase or decrease	+ 110,889	(851)
End of period	\$1,837,717	\$1,726,828

Represents the changes in net assets from operations plus the changes in value of transactions in fund shares, minus distributions paid.

Schwab New Jersey Municipal Money Fund™

Financial Statements

Financial Highlights

	1/1/05– 6/30/05*	1/1/04– 12/31/04	1/1/03– 12/31/03	1/1/02– 12/31/02	1/1/01– 12/31/01	1/1/00– 12/31/00
Per-Share Data (\$)						
Net asset value at beginning of period	1.00	1.00	1.00	1.00	1.00	1.00
Income from investment operations:						
Net investment income	0.01	0.01	0.00 ¹	0.01	0.02	0.03
Less distributions:						
Dividends from net investment income	(0.01)	(0.01)	(0.00) ¹	(0.01)	(0.02)	(0.03)
Net asset value at end of period	1.00	1.00	1.00	1.00	1.00	1.00
Total return (%)	0.76 ²	0.57	0.43	0.84	2.13	3.38
Ratios/Supplemental Data (%)						
Ratios to average net assets:						
Net operating expenses	0.65 ³	0.65	0.65	0.66 ⁴	0.65	0.66 ⁵
Gross operating expenses	0.86 ³	0.86	0.86	0.89	0.90	0.93
Net investment income	1.53 ³	0.57	0.43	0.83	2.08	3.35
Net assets, end of period (\$ x 1,000,000)	456	448	463	425	382	321

* Unaudited.

¹ Per share amount was less than \$0.01.

² Not annualized.

³ Annualized.

⁴ The ratio of net operating expenses would have been 0.65% if certain non-routine expenses (taxes) had not been included.

⁵ The ratio of net operating expenses would have been 0.65% if certain non-routine expenses (proxy fees) had not been included.

Portfolio Holdings as of June 30, 2005; unaudited

This section shows all the securities in the fund's portfolio and their value, as of the report date.

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on the fund's most recent Form N-Q is available by visiting Schwab's website at www.schwab.com/schwabfunds.

We use the symbols below to designate certain characteristics of the securities.

- ⊕ Credit-enhanced security
- ▶ Liquidity-enhanced security
- Variable-rate security
- Restricted but deemed liquid security comprised of 144A

For fixed-rate obligations, the rate shown is the effective yield at the time of purchase. For variable-rate obligations, the rate shown is the rate as of the report date. For variable-rate obligations with scheduled maturities greater than 397 days, the maturity shown is the later of the next interest rate change date or demand date. For variable-rate obligations with scheduled maturities less than 397 days, the maturity shown is the earlier of the next interest rate change date or demand date. For variable-rate obligations without demand features, the maturity shown is the next interest rate change date.

Holdings by Category	Cost (\$x1,000)	Value (\$x1,000)
93.7% Municipal Securities	427,156	427,156
93.7% Total Investments	427,156	427,156
6.3% Other Assets and Liabilities		28,492
100.0% Net Assets		455,648

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
-------------------------------	-----------------------------	-----------------------

Municipal Securities 93.7% of net assets**New Jersey 89.9%****Delaware River Port Auth**

RB Series 1999

⊕■ 2.31%, 07/07/05	4,495	4,495
⊕■ 2.31%, 07/07/05	10,100	10,100

Englewood

General Improvement BAN &
Special Assessment BAN
1.63%, 07/08/05

7,000 7,002

Essex Cnty Improvement Auth

⊕■ Project Consolidation RB
Series 2004
2.31%, 07/07/05

5,895 5,895

Ft Lee

BAN
1.55%, 07/29/05

5,250 5,255

Garden State Preservation Trust

⊕■ Open Space & Farmland
Preservation Bonds
Series 2003A
2.30%, 07/07/05

5,000 5,000

Hammonton

BAN
2.25%, 01/12/06

5,142 5,162

Jersey City

School Promissory Notes
Series 2005A
2.45%, 02/24/06

4,000 4,020

New Jersey Economic Development Auth

⊕■ Economic Development RB
(ENCAP Golf Holdings)
Series 2004
2.30%, 07/07/05

21,910 21,910

⊕■ Economic Development RB
(Omni Baking Co)
Series 2001
2.30%, 07/07/05

3,600 3,600

⊕■ Economic Development RB
(Stone Brothers Secaucus)
Series 2001
2.59%, 07/01/05

1,755 1,755

⊕ Exempt Facility RB (Chambers
Co-Generation)
2.93%, 08/05/05

12,100 12,100

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
+ Exempt Facility RB (Keystone) 2.75%, 07/08/05	5,000	5,000	+■ Thermal Energy Facilities RB (Marina Energy LLC - 2001 Project) Series A 2.22%, 07/07/05	2,500	2,500
+■ Market Transition Facility Sr Lien Refunding RB Series 2001A 2.31%, 07/07/05	5,000	5,000	+■ Thermal Energy Facilities RB (Thermal Energy Limited Partnership I) Series 1997 2.37%, 07/07/05	5,000	5,000
+■ Motor Vehicle Surcharge RB Series 2004A 2.31%, 07/07/05	3,080	3,080	New Jersey Educational Facilities Auth		
+■ 2.34%, 07/07/05	7,420	7,420	+■ Higher Education Capital Improvement Fund Issue RB Series 2002A 2.31%, 07/07/05	8,610	8,610
+■ Natural Gas Facilities Refunding RB (Nui Corp) Series 1997A 2.33%, 07/07/05	1,525	1,525	New Jersey Health Care Facilities Financing Auth		
+■ RB (Baptist Home Society of New Jersey) Series 2003 2.51%, 07/07/05	3,520	3,520	+■ RB (JFK Health Systems Obligated Group) Series 1993 2.30%, 07/07/05	11,800	11,800
+■ RB (G&W Laboratories) Series 2003 2.37%, 07/07/05	5,505	5,505	+■ RB (Jersey Shore Medical Center Obligated Group) Series 1994 2.31%, 07/07/05	7,500	7,500
+■ RB (Geriatric Services Housing Corp) Series 2001 2.26%, 07/07/05	1,500	1,500	+■ RB (Somerset Medical Ctr) Series A 2.32%, 07/07/05	13,600	13,600
+■ RB (Hamilton Industrial Development) Series 1998 2.37%, 07/07/05	5,665	5,665	+■ RB Composite Program Series 2003A-6 2.30%, 07/07/05	6,100	6,100
+■ RB (Meridian Assisted Living at Shrewsbury) Series 2004 2.33%, 07/07/05	5,250	5,250	+■ RB Composite Program Series 2004A-3 2.24%, 07/07/05	3,200	3,200
+■ RB (St James Preparatory School & St James Social Service Corp) Series 1998 2.32%, 07/07/05	4,450	4,450	+ Refunding RB (Saint Clare's Hospital) Series 2004B 2.00%, 07/01/05	1,895	1,895
+■ Refunding RB (Crane's Mill) Series 2005B 2.60%, 07/07/05	6,125	6,125	+■ Refunding RB (St Barnabas Health Care System) Series 1998B 2.31%, 07/07/05	1,950	1,950
+■ Refunding RB (Station Plaza Park & Ride) Series 2003 2.37%, 07/07/05	2,945	2,945	New Jersey Housing & Mortgage Finance Agency		
+■ School Facilities Construction Bonds Series 2004G 2.31%, 07/07/05	6,000	6,000	+■ Home Buyer RB Series 2000CC 2.33%, 07/07/05	2,540	2,540
+■ School Facilities Construction RB Series 2005K 2.31%, 07/07/05	4,565	4,565	+■ S/F Housing RB Series 2004K 2.40%, 07/07/05	10,000	10,000
+■ Special Facility RB (Port Newark Container Terminal) Series 2003 2.31%, 07/07/05	3,000	3,000	New Jersey Sports & Exposition Auth		
			+■ State Contract Bonds Series 2002B-2 2.28%, 07/07/05	2,240	2,240

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
New Jersey Transportation Trust Fund Auth			TECP Series B		
+■ Transportation System Bonds Series 2005A 2.31%, 07/07/05	9,980	9,980	▶ 2.45%, 07/08/05	5,000	5,000
▶ Transportation System RB Series 1998A 2.31%, 07/07/05	11,495	11,495	▶ 2.40%, 07/11/05	4,670	4,670
+■ Transportation System RB Series 2004B 2.31%, 07/07/05	8,100	8,100	▶ 2.50%, 08/08/05	11,575	11,575
New Jersey Turnpike Auth			Rahway		
+■ RB Series C 2.31%, 07/07/05	8,090	8,090	BAN 2.70%, 06/27/06		
Turnpike RB Series 2000A 2.31%, 07/07/05	11,200	11,200	Sparta Township		
+■ 2.31%, 07/07/05	11,565	11,565	BAN 2.23%, 01/13/06		
+■ Turnpike RB Series 2003C-1 2.14%, 07/07/05	7,225	7,225	Union Cnty Improvement Auth		
+■ Turnpike Revenue RB Series 2004A 2.31%, 07/07/05	8,495	8,495	+■ Mortgage RB (Cedar Glen Housing Corp) Series A 2.31%, 07/07/05	9,500	9,500
Port Auth of New York & New Jersey			Woodbridge Township		
+■ Consolidated Bonds 127th Series 2.33%, 07/07/05	8,480	8,480	General & Sewer Utility BAN 1.65%, 07/08/05		
Consolidated Bonds 137th Series 1.58%, 07/15/05	2,805	2,809	1.67%, 07/08/05		
+■ Consolidated Bonds 138th Series 2.33%, 07/07/05	10,000	10,000			
+■ Consolidated Bonds 139th Series 2.33%, 07/07/05	3,750	3,750			
+■ Consolidated Bonds 140th Series 2.31%, 07/07/05	5,000	5,000			
▶ Consolidated Bonds 85th Series 2.31%, 07/07/05	6,795	6,795			
Special Project Bonds (JFK International Air Terminal) Series 6					
+■ 2.36%, 07/07/05	800	800			
+■ 2.32%, 07/07/05	4,895	4,895			
TECP Series A					
▶ 2.50%, 07/11/05	3,555	3,555			
▶ 2.40%, 07/12/05	5,000	5,000			
			409,508		
			Puerto Rico 3.8%		
			Government Development Bank of Puerto Rico		
			TECP Series 1997 2.90%, 07/11/05		
			Puerto Rico		
			+■ Public Improvement & Refunding Bonds Series 2000 2.28%, 07/07/05		
			+■ Public Improvement Bonds Series 2001A 2.31%, 07/07/05		
			Puerto Rico HFC		
			+■ Homeownership Mortgage RB Series 2000A 2.31%, 07/07/05		
			Puerto Rico Highway & Transportation Auth		
			+■ Transportation RB Series 1998A 2.20%, 07/07/05		
			Puerto Rico Public Buildings Auth		
			+■ Government Facilities RB Series B 2.30%, 07/07/05		
			17,648		
			End of investments.		

Statement of

Assets and Liabilities

As of June 30, 2005; unaudited. All numbers x 1,000 except NAV.

Unless stated, all numbers x 1,000.

Assets

Investments, at value	\$427,156
Cash	73
Receivables:	
Investments sold	25,816
Interest	2,965
Prepaid expenses	+ 19
Total assets	456,029

The amortized cost for the fund's securities was \$427,156. Includes restricted but deemed liquid securities comprised of 144A securities, worth \$94,630 or 20.8% of the fund's total net assets. During the reporting period, the fund had \$217,185 in transactions with other Schwab Funds®.

Liabilities

Payables:	
Dividends to shareholders	342
Investment adviser and administrator fees	7
Transfer agent and shareholder service fees	17
Trustees' fees	3
Accrued expenses	+ 12
Total liabilities	381

Net Assets

Total assets	456,029
Total liabilities	- 381
Net assets	\$455,648

Net Assets by Source

Capital received from investors	455,668
Net investment income not yet distributed	28
Net realized capital losses	(48)

Net Asset Value (NAV)

Net Assets	+	Shares Outstanding	=	NAV
\$455,648		455,393		\$1.00

Federal Tax Data

Cost basis of portfolio \$427,156

As of December 31, 2004:

Unused capital losses:

Expires 12/31 of:	Loss amount:
2012	\$46

Statement of

Operations

For January 1, 2005 through June 30, 2005; unaudited. All numbers x 1,000.

Investment IncomeInterest **\$4,958****Net Realized Gains and Losses**Net realized losses on investments sold (2)**Expenses**Investment adviser and administrator fees 865Transfer agent and shareholder service fees 1,025Trustees' fees 11Custodian and portfolio accounting fees 18Professional fees 14Registration fees 13Shareholder reports 8Other expenses + 5Total expenses 1,959Expense reduction - 478**Net expenses** **1,481****Increase in Net Assets from Operations****Total investment income** 4,958**Net expenses** - 1,481**Net investment income** **3,477****Net realized losses** + (2)**Increase in net assets from operations** **\$3,475**

Unless stated, all numbers x 1,000.

Calculated on a graduated basis as a percentage of average daily net assets: 0.38% of the first \$1 billion, 0.35% over \$1 billion, 0.32% over \$10 billion, 0.30% over \$20 billion and 0.27% over \$40 billion. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

Calculated as a percentage of average daily net assets: for transfer agent services, 0.25% of the fund's assets; for shareholder services, 0.20% of the fund's assets. These fees are paid to Charles Schwab & Co., Inc. (Schwab).

For the fund's independent trustees only.

This reduction was made by the investment adviser (CSIM). It reflects a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the annual operating expenses through April 29, 2006, to 0.65% of average daily net assets. This limit excludes interest, taxes and certain non-routine expenses.

Statements of

Changes in Net Assets

For the current and prior report periods. All numbers x 1,000.
Figures for the current period are unaudited.

Unless stated, all numbers x 1,000.

Operations

	1/1/05-6/30/05	1/1/04-12/31/04
Net investment income	\$3,477	\$2,723
Net realized losses	+ (2)	(54)
Increase in net assets from operations	3,475	2,669

Distributions Paid

Dividends from net investment income	3,470	2,694
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Transactions in Fund Shares

Shares sold	766,310	1,561,315
Shares reinvested	3,084	2,651
Shares redeemed	+ (761,338)	(1,579,474)
Net transactions in fund shares	8,056	(15,508)

Net Assets

Beginning of period	447,587	463,120
Total increase or decrease	+ 8,061	(15,533)
End of period	\$455,648	\$447,587

Because all transactions in this section took place at \$1.00 per share, figures for share quantities are the same as for dollars.

Represents the changes in net assets from operations plus the changes in value of transactions in fund shares, minus distributions paid.

Includes net investment income not yet distributed in the amount of \$28 and \$21 at the end of the current and prior report periods, respectively.

Schwab Pennsylvania Municipal Money Fund™

Financial Statements

Financial Highlights

	1/1/05– 6/30/05*	1/1/04– 12/31/04	1/1/03– 12/31/03	1/1/02– 12/31/02	1/1/01– 12/31/01	1/1/00– 12/31/00
Per-Share Data (\$)						
Net asset value at beginning of period	1.00	1.00	1.00	1.00	1.00	1.00
Income from investment operations:						
Net investment income	0.01	0.01	0.00 ¹	0.01	0.02	0.04
Less distributions:						
Dividends from net investment income	(0.01)	(0.01)	(0.00) ¹	(0.01)	(0.02)	(0.04)
Net asset value at end of period	1.00	1.00	1.00	1.00	1.00	1.00
Total return (%)	0.80 ²	0.62	0.49	0.87	2.20	3.57
Ratios/Supplemental Data (%)						
Ratios to average net assets:						
Net operating expenses	0.65 ³	0.65	0.65	0.65	0.65	0.66 ⁴
Gross operating expenses	0.87 ³	0.86	0.87	0.89	0.92	0.93
Net investment income	1.61 ³	0.62	0.48	0.87	2.14	3.52
Net assets, end of period (\$ x 1,000,000)	355	346	328	301	292	225

* Unaudited.

¹ Per share amount was less than \$0.01.

² Not annualized.

³ Annualized.

⁴ The ratio of net operating expenses would have been 0.65% if certain non-routine expenses (proxy fees) had not been included.

Portfolio Holdings as of June 30, 2005; unaudited

This section shows all the securities in the fund's portfolio and their value, as of the report date.

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on the fund's most recent Form N-Q is available by visiting Schwab's website at www.schwab.com/schwabfunds.

We use the symbols below to designate certain characteristics of the securities.

- ⊕ Credit-enhanced security
- ▷ Liquidity-enhanced security
- Variable-rate security
- ◆ Delayed-delivery security
- Restricted but deemed liquid security comprised of 144A
- ▲ All or a portion of this security is held as collateral for delayed-delivery security

For fixed-rate obligations, the rate shown is the effective yield at the time of purchase. For variable-rate obligations, the rate shown is the rate as of the report date. For variable-rate obligations with scheduled maturities greater than 397 days, the maturity shown is the later of the next interest rate change date or demand date. For variable-rate obligations with scheduled maturities less than 397 days, the maturity shown is the earlier of the next interest rate change date or demand date. For variable-rate obligations without demand features, the maturity shown is the next interest rate change date.

Holdings by Category	Cost (\$x1,000)	Value (\$x1,000)
103.0% Municipal Securities	365,398	365,398
103.0% Total Investments	365,398	365,398
(3.0)% Other Assets and Liabilities		(10,654)
100.0% Net Assets		354,744

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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Municipal Securities 103.0% of net assets**Pennsylvania 103.0%****Allegheny Cnty Hospital Development Auth**

⊕■ RB (UPMC Senior Communities) Series 2003 2.28%, 07/07/05	10,000	10,000
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Allegheny Cnty IDB

⊕▷■ Pollution Control Refunding RB (Duquesne Light Co) Series 1999B 2.32%, 07/07/05	14,495	14,495
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Allegheny Cnty Port Auth

⊕◆ GAN Series 2005 2.68%, 06/30/06	10,000	10,128
⊕▷■ Special Revenue Transportation Bonds Series 1999 2.31%, 07/07/05	2,000	2,000

Berks Cnty

⊕■ RB (Beacon Container) Series 1998A 2.44%, 07/07/05	745	745
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Bermudian Springs SD

⊕▷■ GO Bonds Series 2005 2.30%, 07/07/05	1,900	1,900
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Blair Cnty IDA

⊕■ First Mortgage RB (Village At Penn State) Series 2002C 2.19%, 07/07/05	900	900
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Central Bucks SD

⊕▷■ GO Series 2000A 2.33%, 07/07/05	1,100	1,100
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Chester Cnty Health & Education Facilities Auth

⊕■ RB (Simpson Meadows) Series 2000 2.33%, 07/07/05	3,775	3,775
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Chester IDA

⊕■ RB (Archdiocese of Philadelphia) Series 2001 2.42%, 07/01/05	300	300
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Daniel Boone Area SD

⊕▷■ GO Bonds Series 2004 2.29%, 07/07/05	100	100
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Delaware Cnty IDA

⊕■ Hospital RB (Crozer-Chester Medical Center) Series 2002 2.29%, 07/07/05	4,900	4,900
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Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
+■ RB (YMCA of Philadelphia) Series 1999 2.39%, 07/07/05	2,005	2,005	■ RB (Binney & Smith) Series 1997A 2.34%, 07/07/05	3,250	3,250
+▶■ Water Facilities RB (Aqua Pennsylvania Inc) Series 2005A 2.33%, 07/07/05	1,650	1,650	+■ RB (Binney & Smith) Series 1997B 2.34%, 07/07/05	810	810
Delaware Valley Regional Finance Auth			Norwin SD		
+■ Local Government RB Series 1986 2.28%, 07/07/05	10,600	10,600	+▶■ GO Bonds Series 2001A 2.65%, 01/25/06	9,710	9,710
+▶■ Local Government RB Series 1998A 2.34%, 07/07/05	4,055	4,055	Pennsylvania		
Erie City Water Auth			+▶■ GO Bonds First Series 2003 2.31%, 07/07/05	14,470	14,470
+ Water RB Series 2004 2.07%, 12/01/05	2,320	2,329	Pennsylvania Convention Center Auth		
Erie SD			+▶■ RB Series 1989A 2.31%, 07/07/05	2,745	2,745
+▶■ GO Bonds Series 2001A 2.32%, 07/07/05	15,550	15,550	Pennsylvania Economic Development Financing Auth		
Harrisburg Auth			+■ Bonds (Westrum Harleysville II) Series 2005 2.66%, 07/07/05	6,200	6,200
+▶■ Water Refunding RB Series 2003A 2.33%, 07/07/05	10,700	10,700	+■ Exempt Facilities RB (Amtrak) Series 2001B 2.45%, 07/07/05	12,300	12,300
Luzerne Cnty IDA			■ Exempt Facilities RB (Merck & Co) Series 2000 2.35%, 07/07/05	5,000	5,000
+■ RB (Methodist Homes) Series 2003 2.35%, 07/07/05	4,800	4,800	■ Exempt Facilities RB (Merck & Co) Series 2001 2.35%, 07/07/05	13,000	13,000
Mercer Cnty			Pennsylvania Energy Development Auth		
+▶■ GO Bonds Series 2001 2.32%, 07/07/05	1,275	1,275	+■ Energy Development RB (B&W Ebensburg) Series 1986 2.31%, 07/07/05	17,340	17,340
Montgomery Cnty IDA			+■ Energy Development RB (Westrum Hanover) Series 2004 2.33%, 07/07/05	5,900	5,900
+■ Environmental Facilities RB (Ionza Inc) Series 2000 2.38%, 07/07/05	7,000	7,000	Pennsylvania HFA		
+ Pollution Control Refunding RB (Peco Energy Co) Series 1994A 2.56%, 10/18/05	10,000	10,000	▶■ Residential Development Refunding RB Series 2002A 2.48%, 07/07/05	6,000	6,000
Montgomery Cnty Redevelopment Auth			+▶■ S/F Mortgage RB Drawdown Series 2003 2.35%, 07/07/05	3,775	3,775
+■ M/F Housing Refunding RB (Glenmore Associates) Series 1995A 2.59%, 07/07/05	1,000	1,000	▶■ S/F Mortgage RB Series 1999-66A 2.33%, 07/07/05	4,955	4,955
Northhampton Cnty			▶■ S/F Mortgage RB Series 1999A 2.15%, 07/07/05	10,785	10,785
+▶■ County Agreement RB Series 2001 2.32%, 07/07/05	3,000	3,000			

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
■ S/F Mortgage RB Series 2002-74B 2.33%, 07/07/05	7,495	7,495	Philadelphia		
■ S/F Mortgage RB Series 2004-84C 2.26%, 07/07/05	11,400	11,400	➔■ Airport Refunding RB Series 2005C 2.40%, 07/07/05	4,100	4,100
■ S/F Mortgage RB Series 2004-84D 2.26%, 07/07/05	3,250	3,250	➕ Gas Works RB First Series A 1.70%, 07/01/05	5,000	5,000
■ S/F Mortgage RB Series 2004-86C 2.26%, 07/07/05	5,000	5,000	➔■ Water & Wastewater RB Series 2005A 2.32%, 07/07/05	2,045	2,045
■ S/F Mortgage RB Series 2005-87B 2.27%, 07/07/05	5,000	5,000	Philadelphia Gas Works		
■ S/F RB Series 1998-64 2.37%, 07/07/05	15,000	15,000	➔■ RB Third Series 2001 2.31%, 07/07/05	1,700	1,700
Pennsylvania Higher Education Assistance Agency			Philadelphia IDA		
➔■ Student Loan RB Series 2000A 2.45%, 07/07/05	9,425	9,425	➔■ Airport RB Series 1998A 2.15%, 08/11/05	5,000	5,000
➔■ Student Loan RB Series 2001A 2.45%, 07/07/05	3,550	3,550	Scranton Redevelopment Auth		
Pennsylvania Higher Educational Facilities Auth			➔■ Guaranteed Lease RB Series 2004 2.33%, 07/07/05	7,295	7,295
➔◆ State System of Higher Education RB Series AC 2.62%, 06/15/06	2,115	2,142	Temple University		
➔ University of Pennsylvania Health System RB Series 2005A 2.80%, 06/15/06	3,000	3,000	Commonwealth System of Higher Education University Funding Obligations Series 2005 2.77%, 04/28/06	6,000	6,059
Pennsylvania Public School Building Auth			University of Pittsburgh		
➔■ School Lease RB (Philadelphia SD) Series 2003 2.31%, 07/07/05	1,895	1,895	■ University Capital Project Bonds Series 2005A 2.40%, 07/07/05	2,100	2,100
➔■ School RB (Parkland SD) Series 1999D 2.33%, 07/07/05	9,400	9,400			365,398
Pennsylvania State University					
■ RB Series 2001A 2.26%, 07/07/05	1,300	1,300			
Pennsylvania Turnpike Commission					
■ Turnpike RB Series 2001U 2.22%, 07/07/05	1,200	1,200			
➔■▲ Turnpike RB Series 2004A 2.32%, 07/07/05	12,495	12,495			

End of investments.

Statement of

Assets and Liabilities

As of June 30, 2005; unaudited. All numbers x 1,000 except NAV.

Assets

Investments, at value	\$365,398
Cash	92
Interest receivable	1,777
Prepaid expenses	+ 54
Total assets	367,321

Liabilities

Payables:	
Dividends to shareholders	271
Investments bought	12,271
Investment adviser and administrator fees	5
Transfer agent and shareholder service fees	13
Trustees' fees	3
Accrued expenses	+ 14
Total liabilities	12,577

Net Assets

Total assets	367,321
Total liabilities	- 12,577
Net assets	\$354,744

Net Assets by Source

Capital received from investors	354,797
Net investment income not yet distributed	2
Net realized capital losses	(55)

Net Asset Value (NAV)

Net Assets	+	Shares Outstanding	=	NAV
\$354,744		354,781		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost for the fund's securities was \$365,398. Includes restricted but deemed liquid securities comprised of 144A securities worth \$98,765 or 27.8% of the fund's total net assets. During the reporting period, the fund had \$395,349 in transactions with other Schwab Funds.

Federal Tax Data

Cost basis of portfolio	\$365,398
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As of December 31, 2004:**Undistributed earnings:**

Tax-exempt income	\$2
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Unused capital losses:

Expires 12/31 of:	Loss amount:
2012	\$14

Statement of

Operations

For January 1, 2005 through June 30, 2005; unaudited. All numbers x 1,000.

Investment IncomeInterest **\$3,952****Net Realized Gains and Losses**

Net realized losses on investments sold (41)

Expenses

Investment adviser and administrator fees 666

Transfer agent and shareholder service fees 788

Trustees' fees 10

Custodian and portfolio accounting fees 17

Professional fees 13

Registration fees 20

Shareholder reports 6

Other expenses + 4

Total expenses 1,524

Expense reduction - 386

Net expenses 1,138**Increase in Net Assets from Operations****Total investment income 3,953****Net expenses - 1,138****Net investment income 2,814****Net realized losses + (41)****Increase in net assets from operations \$2,773**

Unless stated, all numbers x 1,000.

Calculated on a graduated basis as a percentage of average daily net assets: 0.38% of the first \$1 billion, 0.35% over \$1 billion, 0.32% over \$10 billion, 0.30% over \$20 billion and 0.27% over \$40 billion. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

Calculated as a percentage of average daily net assets: for transfer agent services, 0.25% of the fund's assets; for shareholder services, 0.20% of the fund's assets. These fees are paid to Charles Schwab & Co., Inc. (Schwab).

For the fund's independent trustees only.

This reduction was made by the investment adviser (CSIM). It reflects a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the annual operating expenses of this fund through April 29, 2006, to 0.65% of average daily net assets. This limit excludes interest, taxes and certain non-routine expenses.

Statements of

Changes in Net Assets

For the current and prior report periods. All numbers x 1,000.
 Figures for the current period are unaudited.

Unless stated, all numbers x 1,000.

Operations

	1/1/05-6/30/05	1/1/04-12/31/04
Net investment income	\$2,814	\$2,157
Net realized losses	+ (41)	(14)
Increase in net assets from operations	2,773	2,143

Distributions Paid

Dividends from net investment income	2,814	2,155
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Transactions in Fund Shares

Shares sold	692,344	1,416,322
Shares reinvested	2,501	2,109
Shares redeemed	+ (685,640)	(1,400,551)
Net transactions in fund shares	9,205	17,880

Because all transactions in this section took place at \$1.00 per share, figures for share quantities are the same as for dollars.

Net Assets

Beginning of period	345,580	327,712
Total increase	+ 9,164	17,868
End of period	\$354,744	\$345,580

Represents the changes in net assets from operations plus the changes in value of transactions in fund shares, minus distributions paid.

Includes net investment income not yet distributed in the amount of \$2 at the end of current and prior period.

Schwab Florida Municipal Money Fund™

Financial Statements

Financial Highlights

	1/1/05– 6/30/05*	1/1/04– 12/31/04	1/1/03– 12/31/03	1/1/02– 12/31/02	1/1/01– 12/31/01	1/1/00– 12/31/00
Per-Share Data (\$)						
Net asset value at beginning of period	1.00	1.00	1.00	1.00	1.00	1.00
Income from investment operations:						
Net investment income	0.01	0.01	0.00 ¹	0.01	0.02	0.04
Less distributions:						
Dividends from net investment income	(0.01)	(0.01)	(0.00) ¹	(0.01)	(0.02)	(0.04)
Net asset value at end of period	1.00	1.00	1.00	1.00	1.00	1.00
Total return (%)	0.77 ²	0.60	0.46	0.96	2.32	3.62
Ratios/Supplemental Data (%)						
Ratios to average net assets:						
Net operating expenses	0.66 ³	0.66	0.64	0.59	0.59	0.60 ⁴
Gross operating expenses	0.85 ³	0.85	0.85	0.87	0.87	0.89
Net investment income	1.53 ³	0.59	0.47	0.95	2.30	3.56
Net assets, end of period (\$ x 1,000,000)	1,144	1,905	1,804	1,785	1,518	1,435

* Unaudited.

¹ Per share amount was less than \$0.01.

² Not annualized.

³ Annualized.

⁴ The ratio of net operating expenses would have been 0.59% if certain non-routine expenses (proxy fees) had not been included.

Portfolio Holdings as of June 30, 2005; unaudited

This section shows all the securities in the fund's portfolio and their value, as of the report date.

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on the fund's most recent Form N-Q is available by visiting Schwab's website at www.schwab.com/schwabfunds.

We use the symbols below to designate certain characteristics of the securities.

- + Credit-enhanced security
- ▷ Liquidity-enhanced security
- Variable-rate security
- ◆ Delayed-delivery security
- Restricted but deemed liquid security comprised of 144A
- ▲ All or a portion of this security is held as collateral for delayed-delivery security

For fixed-rate obligations, the rate shown is the effective yield at the time of purchase. For variable-rate obligations, the rate shown is the rate as of the report date. For variable-rate obligations with scheduled maturities greater than 397 days, the maturity shown is the later of the next interest rate change date or demand date. For variable-rate obligations with scheduled maturities less than 397 days, the maturity shown is the earlier of the next interest rate change date or demand date. For variable-rate obligations without demand features, the maturity shown is the next interest rate change date.

Holdings by Category	Cost (\$x1,000)	Value (\$x1,000)
100.3% Municipal Securities	1,147,386	1,147,386
100.3% Total Investments	1,147,386	1,147,386
(0.3)% Other Assets and Liabilities		(2,980)
100.0% Net Assets		1,144,406

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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Municipal Securities	100.3% of net assets
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Alabama 1.3%**Montgomery Downtown Redevelopment Auth**

■ Bonds (Southern Poverty Law Center) Series 2000 2.50%, 07/07/05	15,000	15,000
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Arizona 1.6%**Maricopa Cnty Community College Dist**

◆ GO Bonds Project of 1994 Series 1997B 2.30%, 07/07/05	18,020	18,020
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Colorado 0.4%**Colorado Dept of Transportation**

+▷ Transportation Refunding RAN Series 2004B 2.31%, 07/07/05	4,745	4,745
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Connecticut 0.5%**Connecticut HFA**

+▷ S/F Mortgage RB Draw Down Series 2004B 2.33%, 07/07/05	5,475	5,475
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Florida 82.9%**Alachua Cnty Health Facilities Auth**

+■ Continuing Care Retirement Community RB (Oak Hammock) Series 2002A 2.30%, 07/01/05	475	475
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+▷ Health Facilities RB (Shands Hospital, University of Florida) Series 1992R 2.31%, 07/07/05	41,745	41,745
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Alachua Cnty School Board

+▷ COP Series 2004 2.57%, 07/07/05	9,045	9,045
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Brevard Cnty Health Facilities Auth

+■ RB (Wuesthoff Health Systems) Series 2004 2.29%, 07/07/05	3,400	3,400
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Broward Cnty

+ Airport System RB Series L 1.84%, 10/01/05	3,665	3,676
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Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
+►■ Subordinate Port Facilities			Escambia HFA		
Refunding RB (Port Everglades) Series 1998 2.35%, 07/07/05	9,025	9,025	+►■ S/F RB Series 1997A 2.43%, 07/07/05	1,410	1,410
Broward Cnty Educational Facilities Auth			S/F RB Series 2001A		
+■ Educational Facilities RB (Nova Southeastern University)			+►■ 2.36%, 07/07/05	2,050	2,050
Series 2000A 2.29%, 07/07/05	10	10	+►■ 2.40%, 07/07/05	1,695	1,695
Broward Cnty HFA			► S/F RB Series 2002A-1 2.45%, 09/29/05	4,585	4,585
+■ M/F Housing Refunding RB (Water's Edge) Series 1997	300	300	Florida		
+►■ S/F Mortgage RB Series 1999B 2.36%, 07/07/05	1,845	1,845	+►■▲ Dept of Environmental Protection Preservation 2000 RB Series 1997B	22,980	22,980
Cape Coral			2.31%, 07/07/05		
+ CP Notes 2.67%, 07/08/05	10,600	10,600	Florida Development Finance Corp		
Charlotte Cnty			+■ IDRB (Central Farms) Series 1999A4	750	750
+►■ Refunding RB Series 2003A 2.30%, 07/07/05	800	800	+■ IDRB (Schmitt Family Partnership) Series 1999A2	1,875	1,875
Charlotte Cnty HFA			+■ IDRB (Sunshine State Christian Homes, Inc) Series 1999A3	1,160	1,160
+■ M/F Housing RB (Murdock Circle Apts) Series 2000	6,980	6,980	+■ IDRB (Vutec Corp) Series 1999A1	1,600	1,600
2.34%, 07/07/05			+■ IDRB Enterprise Bond Program (Pioneer-Ram) Series 1998A3	880	880
Collier Cnty HFA			2.39%, 07/07/05		
+■ M/F Housing RB (Brittany Bay Apts) Series 2001A	1,900	1,900	Florida HFA		
2.26%, 07/07/05			+►■ Homeowner Mortgage RB		
Dade Cnty			Series 2000-4 2.40%, 07/07/05	3,420	3,420
+►■ Water & Sewer System RB			+■ Housing RB (Caribbean Key Apts) Series 1996F	2,500	2,500
Series 1994 2.26%, 07/07/05	200	200	+■ Housing RB (Heron Park) Series 1996U	3,635	3,635
Dade Cnty IDA			2.26%, 07/07/05		
+■ IDRB (Michael-Ann Russell Jewish Community Ctr)			+■ Housing RB (Tiffany Club Apts) Series 1996P	7,050	7,050
Series 1997 2.29%, 07/07/05	4,185	4,185	2.34%, 07/07/05		
+■ IDRB (South Florida Stadium Corp) Series 1985C	1,050	1,050	+■ M/F Housing RB (Cameron Cove Apts) Series 1985XX	1,700	1,700
2.22%, 07/07/05			2.37%, 07/07/05		
Davie					
+■ RB (United Jewish Community of Broward Cnty) Series 2003	1,000	1,000			
2.30%, 07/07/05					

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
+■ M/F Housing Refunding RB (Reflections Apts) Series 2001K-A 2.27%, 07/07/05	1,900	1,900	■ Public Education Capital Outlay Bonds Series 1998E 2.32%, 07/07/05	12,280	12,280
+■ M/F Housing Refunding RB (South Pointe) Series 1998J 2.30%, 07/07/05	4,925	4,925	+■ Public Education Capital Outlay Bonds Series 1999C 2.32%, 07/07/05	17,835	17,835
+■ M/F Mortgage RB (Clarcona Groves Apts) Series 2005A 2.31%, 07/07/05	3,250	3,250	■ Public Education Capital Outlay Bonds Series 2001I 2.32%, 07/07/05	4,715	4,715
+■ M/F Mortgage RB (Lynn Lake Apts) Series 2005B-1 2.32%, 07/07/05	10,100	10,100	+■ Public Education Capital Outlay Bonds Series 2003C 2.31%, 07/07/05	7,500	7,500
+■ M/F Mortgage RB (Mill Creek Apts) Series 2004K 2.32%, 07/07/05	8,000	8,000	■ Public Education Capital Outlay Refunding Bonds Series 2001B 2.32%, 07/07/05	14,100	14,100
+■ M/F Mortgage RB (Pinnacle Pointe Apts) Series 2003N 2.31%, 07/07/05	6,215	6,215	■ Public Education Capital Outlay Refunding Bonds Series 2005B 2.31%, 07/07/05	5,200	5,200
+■ M/F Mortgage RB (Wellesley Apts) Series 2003O 2.31%, 07/06/05	7,940	7,940	■ Public Education Capital Outlay Refunding Bonds Series 2005C 2.32%, 07/07/05	14,995	14,995
+■ M/F Mortgage RB (Wexford Apts) Series 2003P 2.31%, 07/07/05	8,035	8,035	Fort Pierce Utilities Auth		
+■ M/F Mortgage Refunding RB (Victoria Park Apts) Series 2002J-1 2.28%, 07/07/05	1,000	1,000	+■ Utilities Refunding RB Series 2003 2.32%, 07/07/05	6,325	6,325
+■ RB (Heritage Pointe Apts) Series 1999I-1 2.34%, 07/07/05	1,000	1,000	Gainesville		
+■ RB (Timberline Apts) Series 1999P 2.30%, 07/07/05	6,135	6,135	+■ IDRB (Exactech) Series 1997 2.34%, 07/07/05	2,400	2,400
Florida Local Government Finance Commission			+■ IDRB (Lifesouth Community Blood Centers) Series 1999 2.29%, 07/07/05	350	350
Pooled TECP Series 1994A			Greater Orlando Aviation Auth		
+ 2.60%, 09/13/05	4,400	4,400	+■ Airport Facilities RB Series 2002E 2.30%, 07/07/05	40,100	40,100
+■ 2.58%, 09/14/05	20,811	20,811	+ Airport Facilities Subordinated TECP Series B 2.90%, 07/14/05	33,060	33,060
+ Pooled TECP Series 1998B 2.55%, 07/14/05	14,601	14,601	+■ Airport Facility RB (Flightsafety International) Series 2003A 2.34%, 07/07/05	8,900	8,900
Florida State Board of Education			Gulf Breeze		
+■ Lottery RB Series 2005A 2.31%, 07/07/05	22,290	22,290	+■ Local Government Loan Program RB Series 1985C 2.29%, 07/07/05	2,735	2,735
+■ Public Education Capital Outlay Bonds Series 1998A 2.31%, 07/07/05	11,000	11,000			

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
+ Local Government Loan Program RB Series 1985E 2.29%, 07/07/05	2,240	2,240	+ Special Facility Airport RB (Holland Sheltair Aviation Group) Series 2005B 2.40%, 07/07/05	2,100	2,100
Hillsborough Cnty			Jacksonville Health Facilities Auth		
+ Solid Waste & Resource Recovery Refunding RB Series 2004 1.57%, 09/01/05	3,230	3,238	+ Hospital RB Series 2003A 2.28%, 07/01/05	600	600
Hillsborough Cnty Aviation Auth			Jacksonville Port Auth		
Airport Facilities Subordinated TECP Series B + 2.48%, 07/14/05	14,400	14,400	+ 1996 Port Facility RB 2.61%, 07/07/05	10,100	10,100
+ 2.90%, 07/14/05	8,900	8,900	Lake Shore Hospital Auth		
+ Tampa International Airport RB Series 2003A 2.36%, 07/07/05	5,495	5,495	+ Health Facility RB (Lake Shore Hospital) Series 1991 2.29%, 07/07/05	3,000	3,000
+ Tampa International Airport RB Series 2005A 2.35%, 07/07/05	2,600	2,600	Lee Cnty		
Hillsborough Cnty HFA			+ Airport RB Series 2000A 2.36%, 07/07/05	4,957	4,957
+ M/F Housing RB (Meridian Pointe Apts) Series 2005 2.34%, 07/07/05	6,600	6,600	+ Educational Facilities RB (Canterbury School) Series 1999 2.29%, 07/07/05	100	100
Hillsborough Cnty IDA			Lee Cnty HFA		
+ Educational Facilities RB (Berkeley Preparatory School, Inc) Series 1999 2.29%, 07/07/05	445	445	+ M/F Housing RB (Crossings At Cape Coral Apts) Series 1999A 2.35%, 07/07/05	6,160	6,160
+ IDRB (University Community Hospital) Series 1994 2.85%, 06/22/06	21,085	21,085	+ M/F Housing RB (University Club Apts) Series 2002A 2.35%, 07/07/05	7,500	7,500
+ RB (Independent Day School) Series 2000 2.35%, 07/07/05	900	900	Manatee Cnty HFA		
Hillsborough Cnty Port Dist			+ M/F Housing RB (Centre Court Apts) Series 2000 2.35%, 07/07/05	3,760	3,760
Refunding RB (Tampa Port Auth) Series 2005A + 2.35%, 07/07/05	2,873	2,873	+ M/F Housing RB (Sabal Palm Harbor Apts) Series 2000A 2.34%, 07/07/05	3,070	3,070
+ 2.36%, 07/07/05	11,285	11,285	+ M/F Housing RB (Sabal Palm Harbor Apts) Series 2000B 2.34%, 07/07/05	3,695	3,695
Jacksonville Economic Development Commission			Marion Cnty IDA		
+ RB (Bolles School) Series 1999A 2.29%, 07/07/05	2,900	2,900	+ M/F Housing Refunding RB (Chambrel at Pinycastle) Series 2002 2.27%, 07/07/05	3,741	3,741
+ Refunding RB (YMCA of Florida First Coast) Series 2003 2.30%, 07/07/05	100	100			

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Miami Health Facilities Auth			Ocala		
+■ Health Facilities RB (Miami Jewish Home & Hospital For the Aged) Series 1996 2.29%, 07/07/05	1,300	1,300	+■ Utility Systems RB Series 2005B 2.32%, 07/07/05	5,550	5,550
Miami-Dade Cnty			Ocean Highway & Port Auth		
+■ Aviation RB (Miami International Airport) Series 2002 2.36%, 07/07/05	5,370	5,370	+■ RB Series 1990 2.40%, 07/07/05	9,800	9,800
+■ Aviation RB (Miami International Airport) Series 2004B 2.32%, 07/07/05	5,000	5,000	Orange Cnty HFA		
Aviation TECP (Miami International Airport) Series A			+■ Housing Refunding RB (Highland Pointe Apts) Series 1998J 2.56%, 07/07/05	7,455	7,455
+ 2.88%, 07/07/05	19,782	19,782	+■ M/F Guaranteed Mortgage Refunding RB (Sundown Associates II) Series 1989A 2.39%, 07/07/05	4,600	4,600
+ 2.53%, 07/08/05	19,621	19,621	+■ M/F Housing RB (Glenn On Millenia Boulevard) Series 2001C 2.26%, 07/07/05	3,355	3,355
+ 2.65%, 07/11/05	5,000	5,000	+■ M/F Housing RB (Palm Key Apts) Series 1997C 2.31%, 07/07/05	5,000	5,000
+ 2.45%, 07/12/05	18,047	18,047	+■ M/F Housing RB (The Cove At Lady Lake Apts) Series 2005A 2.29%, 07/07/05	6,500	6,500
+ 2.65%, 08/01/05	4,000	4,000	+■ M/F Housing RB (West Pointe Villas Apts) Series 2000F 2.32%, 07/07/05	5,750	5,750
+ 2.80%, 08/01/05	4,000	4,000	+■ M/F Housing RB (Windsor Pines) Series 2000E 2.34%, 07/07/05	3,200	3,200
+▲ 2.80%, 08/01/05	15,098	15,098	+■ M/F Housing Refunding RB (Andover Place Apts) Series 1998F 2.33%, 07/07/05	770	770
Miami-Dade Cnty HFA			+■ M/F Housing Refunding RB (Smokewood/Sun Key Apts) Series 1992A 2.30%, 07/07/05	1,150	1,150
+■ M/F Mortgage RB Series 2003-3 2.35%, 07/07/05	9,150	9,150	Orange Cnty IDA		
Miami-Dade Cnty IDA			+■ IDRB (Central Florida Kidney Centers) Series 2000 2.29%, 07/07/05	5,000	5,000
+■ IDRB (Airbus Service Co) Series 1998A 2.39%, 07/07/05	8,400	8,400	+■ IDRB (Central Florida YMCA) Series 2002A 2.35%, 07/07/05	4,100	4,100
+■ IDRB (Fine Art Lamps) Series 1998 2.34%, 07/07/05	1,600	1,600			
+■ IDRB (Tarmac America) Series 2004 2.35%, 07/07/05	3,200	3,200			
+■ RB (Gulliver Schools) Series 2000 2.35%, 07/07/05	3,800	3,800			
Miami-Dade Cnty SD					
RAN Series 2005 2.62%, 06/27/06	30,000	30,399			
Nassau Cnty					
+■ Pollution Control Private Activity RB (Rayonier) Series 1999 2.23%, 07/07/05	7,665	7,665			

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Orange County Health Finance Auth			Pinellas Cnty HFA		
+▲ Refunding Program RB (Pooled Hospital Loan) Series 1985 2.90%, 07/18/05	19,700	19,700	►■ S/F Housing RB Series 1999B-1 2.36%, 07/07/05	1,755	1,755
Palm Beach Cnty			Pinellas Cnty IDA		
+■ IDBR (South Florida Blood Banks) Series 2002 2.29%, 07/07/05	875	875	+■ IDRB (H & S Swansons Tool Co) Series 2001 2.34%, 07/07/05	3,275	3,275
+■ IDRB (Palm Beach Day School) Series 1999 2.29%, 07/07/05	1,000	1,000	+■ IDRB (Restorative Care of America) Series 2001 2.44%, 07/07/05	1,630	1,630
+■ RB (Benjamin Private School) Series 2003 2.30%, 07/07/05	4,500	4,500	Polk Cnty IDA		
+■ RB (Comprehensive Alcoholism Rehabilitation Programs) Series 2000 2.29%, 07/07/05	4,900	4,900	+■ IDRB (Lifepath Hospice & Palliative Care) Series 2004 2.29%, 07/07/05	6,600	6,600
+■ RB (Norton Gallery & School of Art) Series 1995 2.35%, 07/07/05	2,500	2,500	+■ IDRB (Pavermodule) Series 1998 2.34%, 07/07/05	2,710	2,710
+■ RB (Zoological Society of the Palm Beaches) Series 2001 2.35%, 07/07/05	5,500	5,500	Sarasota Cnty		
Palm Beach Cnty Educational Facilities Auth			+■ RB (Sarasota Family YMCA) Series 1999 2.29%, 07/07/05	2,470	2,470
+■ Educational Facilities RB (Lynn University) Series 2001 2.30%, 07/07/05	3,300	3,300	+■ Utility System Refunding RB Series 2005A 2.32%, 07/07/05	4,530	4,530
Palm Beach Cnty HFA			Sarasota Cnty Health Facilities Auth		
+■ M/F Housing RB (Azalea Place Apts) Series 1999A 2.35%, 07/07/05	3,000	3,000	+■ Health Care Facilities RB (Sarasota-Manatee Jewish Housing Council, Inc) Series 2005A 2.29%, 07/07/05	8,400	8,400
+■ M/F Housing Refunding RB (Emerald Bay Club Apts) Series 2004 2.31%, 07/07/05	6,500	6,500	Seminole Cnty IDA		
+■ M/F Housing Refunding RB (Spinnaker Landing Apts) Series 1998 2.32%, 07/07/05	2,745	2,745	+■ IDRB (Amrhein Family Limited Partnership) Series 2001 2.34%, 07/07/05	4,275	4,275
Palm Beach Cnty SD			St Petersburg		
+ Sales Tax Revenue CP Notes 2.60%, 09/08/05	11,500	11,500	+■ Capital Improvement RB (Airport & Golf Course) Series 1997B 2.28%, 07/07/05	1,830	1,830
Pinellas Cnty Educational Facilities Auth			+■ Capital Improvement RB (Airport) Series 1997C 2.34%, 07/07/05	335	335
+■ Refunding RB (Canterbury School of Florida) Series 2004 2.31%, 07/07/05	4,645	4,645	Sumter Cnty IDA		
			+■ IDRB (Robbins Manufacturing Co) Series 1997 2.39%, 07/07/05	1,200	1,200

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Sunshine State Governmental Financing Commission			Kentucky 1.0%		
+ CP Revenue Notes (Miami-Dade Cnty Program) Series G 2.35%, 07/06/05	5,000	5,000	█ Housing RB Series 1998B 1.62%, 07/21/05	11,995	11,995
Tampa			Massachusetts 2.1%		
+ █ Educational Facilities RB (Pepin Academy of Tampa) Series 2002 2.33%, 07/07/05	3,875	3,875	█ Arlington School BAN 1.53%, 07/21/05	8,000	8,006
+ █ Health Care Facilities RB (Lifelink Foundation) Series 1997 2.29%, 07/07/05	4,800	4,800	█ Everett BAN 1.82%, 09/09/05	5,880	5,893
+ █ RB (Tampa Preparatory School) Series 2000 2.28%, 07/07/05	6,500	6,500	█ Ralph C Mahar Regional SD BAN 1.69%, 07/14/05	9,700	9,705
Tampa Bay Water Auth			Michigan 3.6%		
+ █ Utility System Refunding & Improvement RB Series 2001A 2.36%, 07/07/05	5,200	5,200	█ Detroit RAN Series 2005 2.63%, 04/03/06	20,000	20,203
West Orange Healthcare Dist			Wayne Cnty		
+ █ RB Series 1999B 2.25%, 07/07/05	2,900	2,900	+ █ Airport RB (Detroit Metropolitan Wayne Cnty Airport) Series 2002A 2.31%, 07/07/05	450	450
		949,079	+ █ Airport Refunding RB (Detroit Metropolitan Wayne Cnty Airport) Series 1996B 2.31%, 07/07/05	20,950	20,950
Hawaii 0.5%			Pennsylvania 1.3%		
Hawaii			Allegheny Cnty Port Auth		
+ Airports System Refunding RB Series 2001 1.68%, 07/01/05	6,000	6,000	+ █ GAN Series 2005 2.68%, 06/30/06	7,000	7,089
Illinois 0.8%			Pennsylvania Higher Education Assistance Agency		
Chicago			+ █ Student Loan RB Series 1994A 2.33%, 07/07/05	7,700	7,700
+ █ O'Hare International Airport General Airport Third Lien RB Series 2003B-2 2.35%, 07/07/05	8,595	8,595	14,789		
Indiana 1.4%			Texas 2.9%		
Indiana HFA			Dallas Fort Worth International Airport		
+ █ S/F Mortgage RB Series 2002B 2.37%, 07/07/05	4,455	4,455	+ █ Joint Improvement & Refunding RB Series 2001A 2.35%, 07/07/05	7,495	7,495
Indianapolis Local Public Improvement Bond Bank			+ █ Joint RB Series 2003A 2.36%, 07/07/05	3,000	3,000
+ █ (Indianapolis Airport Auth) Series 2004I 2.36%, 07/07/05	11,295	11,295			
		15,750			

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Hockley Industrial Development Corp		
■ Pollution Control RB (AMOCO)		
Series 1983		
2.10%, 09/01/05	7,225	7,225
Texas		
TRAN Series 2004		
2.56%, 08/31/05	15,000	15,011
		32,731

End of investments.

Statement of

Assets and Liabilities

As of June 30, 2005; unaudited. All numbers x 1,000 except NAV.

Assets

Investments, at value	\$1,147,386
Cash	161
Receivables:	
Interest	4,861
Prepaid expenses	+ 41
Total assets	1,152,449

Liabilities

Payables:	
Dividends to shareholders	873
Investments bought	7,090
Investment adviser and administrator fees	17
Transfer agent and shareholder service fees	42
Trustees' fees	3
Accrued expenses	+ 18
Total liabilities	8,043

Net Assets

Total assets	1,152,449
Total liabilities	- 8,043
Net assets	\$1,144,406

Net Assets by Source

Capital received from investors	1,144,662
Net investment income not yet distributed	12
Net realized capital losses	(268)

Net Asset Value (NAV)

Net Assets	+	Shares Outstanding	=	NAV
\$1,144,406		1,144,574		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost for the fund's securities was \$1,147,386. Includes restricted but deemed liquid securities comprised of 144A securities, worth \$114,010 or 10.0% of the fund's total net assets. During the reporting period, the fund had \$1,316,350 in transactions with other Schwab Funds.

Federal Tax Data

Cost basis of portfolio \$1,147,386

As of December 31, 2004:

Undistributed earnings:

Tax-exempt income \$12

Unused capital losses:

Expires 12/31 of: Loss amount:
2012 \$80

Statement of

Operations

For January 1, 2005 through June 30, 2005; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

Investment IncomeInterest **\$13,627****Net Realized Gains and Losses**

Net realized losses on investments sold (180)

Expenses

Investment adviser and administrator fees 2,328

Transfer agent and shareholder service fees 2,801

Trustees' fees 12

Custodian and portfolio accounting fees 50

Professional fees 16

Registration fees 27

Shareholder reports 19

Other expenses + 8

Total expenses 5,261

Expense reduction - 1,173

Net expenses 4,088**Increase in Net Assets from Operations****Total investment income 13,627****Net expenses - 4,088****Net investment income 9,539****Net realized losses + (180)****Increase in net assets from operations \$9,359**

Calculated on a graduated basis as a percentage of average daily net assets: 0.38% of the first \$1 billion, 0.35% over \$1 billion, 0.32% over \$10 billion, 0.30% over \$20 billion and 0.27% over \$40 billion. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

Calculated as a percentage of average daily net assets: for transfer agent services, 0.25% of the fund's assets; for shareholder services, 0.20% of the fund's assets. These fees are paid to Charles Schwab & Co., Inc. (Schwab).

For the fund's independent trustees only.

This reduction was made by the investment adviser (CSIM). It reflects a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the annual operating expenses through April 29, 2006, to 0.65% of average daily net assets. Prior to April 30, 2005, the limit was 0.66%. This limit excludes interest, taxes and certain non-routine expenses.

Statements of

Changes in Net Assets

For the current and prior report periods. All numbers x 1,000.
 Figures for the current period are unaudited.

Unless stated, all numbers x 1,000.

Operations

	1/1/05-6/30/05	1/1/04-12/31/04
Net investment income	\$9,539	\$7,043
Net realized losses	+ (180)	(88)
Increase in net assets from operations	9,359	6,955

Distributions Paid

Dividends from net investment income	9,539	7,031
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Transactions in Fund Shares

Shares sold	2,455,814	4,541,419
Shares reinvested	8,462	6,847
Shares redeemed	+ (3,224,319)	(4,447,636)
Net transactions in fund shares	(760,043)	100,630

Net Assets

Beginning of period	1,904,629	1,804,075
Total increase or decrease	+ (760,223)	100,554
End of period	\$1,144,406	\$1,904,629

Because all transactions in this section took place at \$1.00 per share, figures for share quantities are the same as for dollars.

Represents the changes in net assets from operations plus the changes in value of transactions in fund shares, minus distributions paid.

Includes net investment income not yet distributed in the amount of \$12 at the end of current and prior period.

Schwab Massachusetts Municipal Money Fund™

Financial Statements

Financial Highlights

	1/1/05– 6/30/05*	1/1/04– 12/31/04	5/16/03 ¹ – 12/31/03
Per-Share Data (\$)			
Net asset value at beginning of period	1.00	1.00	1.00
Income from investment operations:			
Net investment income	0.01	0.01	0.00 ²
Less distributions:			
Dividends from net investment income	(0.01)	(0.01)	(0.00) ²
Net asset value at end of period	1.00	1.00	1.00
Total return (%)	0.76 ³	0.64	0.30 ³
Ratios/Supplemental Data (%)			
Ratios to average net assets:			
Net operating expenses	0.62 ⁴	0.60	0.51 ^{4,5}
Gross operating expenses	0.86 ⁴	0.86	0.86 ⁴
Net investment income	1.52 ⁴	0.63	0.48 ⁴
Net assets, end of period (\$ x 1,000,000)	350	386	363

* Unaudited.

¹ Commencement of operations.

² Per share amount was less than \$0.01.

³ Not annualized.

⁴ Annualized.

⁵ In addition to the guaranteed expense limit in place, the investment adviser voluntarily reduced the fund's annualized operating expense by an additional 0.09%.

Portfolio Holdings as of June 30, 2005; unaudited

This section shows all the securities in the fund's portfolio and their value, as of the report date.

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on the fund's most recent Form N-Q is available by visiting Schwab's website at www.schwab.com/schwabfunds.

We use the symbols below to designate certain characteristics of the securities.

- ✦ Credit-enhanced security
- ▶ Liquidity-enhanced security
- Variable-rate security
- Tender Option Bond
- ◆ Delayed-delivery security
- Restricted but deemed liquid security comprised of 144A
- ▲ All or a portion of this security is held as collateral for delayed-delivery security

For fixed-rate obligations, the rate shown is the effective yield at the time of purchase. For variable-rate obligations, the rate shown is the rate as of the report date. For variable-rate obligations with scheduled maturities greater than 397 days, the maturity shown is the later of the next interest rate change date or demand date. For variable-rate obligations with scheduled maturities less than 397 days, the maturity shown is the earlier of the next interest rate change date or demand date. For variable-rate obligations without demand features, the maturity shown is the next interest rate change date.

Holdings by Category	Cost (\$x1,000)	Value (\$x1,000)
100.4% Municipal Securities	351,267	351,267
100.4% Total Investments	351,267	351,267
(0.4)% Other Assets and Liabilities		(1,478)
100.0% Net Assets		349,789

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
-------------------------------	-----------------------------	-----------------------

Municipal Securities 100.4% of net assets**Massachusetts 96.6%****Amherst**

BAN		
1.78%, 07/08/05	4,000	4,001

Arlington

School BAN		
1.53%, 07/21/05	2,745	2,747

Billerica

BAN		
2.03%, 07/07/05	3,824	3,825

Bridgewater-Raynham Regional SD

◆ BAN		
2.70%, 07/05/06	1,726	1,744

Cohasset

BAN		
1.57%, 08/12/05	5,000	5,007

Concord

Unlimited Tax School BAN		
1.63%, 09/29/05	2,000	2,007

Danvers

BAN		
2.40%, 02/03/06	2,300	2,311

Duxbury

BAN		
2.25%, 01/13/06	2,000	2,010

Fitchburg

BAN		
2.80%, 06/09/06	1,305	1,319

Framingham

BAN		
2.23%, 11/01/05	2,000	2,007

Hudson

BAN		
2.82%, 05/12/06	3,000	3,030

Lancaster

BAN		
2.80%, 04/21/06	3,157	3,186

Lawrence

School BAN		
2.28%, 12/22/05	2,000	2,009

Marion

BAN		
1.68%, 07/15/05	2,324	2,325
◆ 2.72%, 07/14/06	2,561	2,593

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Massachusetts					
■ GO Bonds Consolidated Loan of 2000 Series C 2.30%, 07/07/05	5,000	5,000	■ First Mortgage RB (Brookhaven at Lexington) Series 2005B 2.28%, 07/07/05	3,000	3,000
➔■ GO Bonds Consolidated Loan of 1998 Series C 2.31%, 07/07/05	3,485	3,485	➔■ M/F Housing RB (Archstone Reading Apts) Series 2004A 2.33%, 07/07/05	8,000	8,000
■ GO Bonds Consolidated Loan of 2000 Series C 2.30%, 07/07/05	3,000	3,000	➔■ M/F Housing RB (Midway Studios) Series 2003A 2.36%, 07/07/05	5,000	5,000
➔■ GO Bonds Consolidated Loan of 2001 Series D 2.31%, 07/07/05	5,610	5,610	➔■ M/F Housing RB (Salem Heights Apts) Series 2003A 2.28%, 07/07/05	1,800	1,800
➔■ GO Bonds Consolidated Loan of 2004 Series A 2.31%, 07/07/05	3,950	3,950	➔■ M/F Housing Refunding RB (Kensington at Chelmsford) Series 2002 2.40%, 07/07/05	15,750	15,750
➔■ GO Bonds Consolidated Loan of 2005 Series A 2.30%, 07/07/05	5,500	5,500	➔■ RB (Assumption College) Series 2002A 2.27%, 07/07/05	420	420
■ GO Refunding Bonds Series 2001B 2.43%, 07/07/05	400	400	➔■ RB (Dean College) Series 1999 2.28%, 07/07/05	1,000	1,000
➔■ GO Refunding Bonds Series 2004A 2.30%, 07/07/05	3,000	3,000	➔■ RB (Fessenden School) Series 2001 2.32%, 07/07/05	3,000	3,000
➔■ Special Obligation RB Consolidated Loan of 2005 Series A 2.30%, 07/07/05	3,520	3,520	■ RB (Phillips Academy) Series 2003 2.27%, 07/07/05	2,000	2,000
Massachusetts Bay Transportation Auth			➔■ RB (Third Sector New England) Series 2004A 2.28%, 07/07/05	800	800
➔■ General Transportation System Bonds Series 1999A 2.30%, 07/07/05	1,000	1,000	➔■ RB (WGBH Educational Foundation) Series 2002A 2.30%, 07/07/05	3,000	3,000
■ Sr Sales Tax Bonds Series 2004C 2.30%, 07/07/05	5,000	5,000	➔■ RB (Worcester Academy) Series 2000 2.30%, 07/07/05	4,500	4,500
■ 2.31%, 07/07/05	5,690	5,690	➔■ RB (YMCA of Greater Boston) Series 2004A 2.30%, 07/07/05	700	700
■ Sr Sales Tax Bonds Series 2005A 2.30%, 07/07/05	2,800	2,800	Massachusetts Health & Educational Facilities Auth		
■ 2.31%, 07/07/05	2,400	2,400	➔■ RB (Baystate Medical Ctr) Series D 2.30%, 07/07/05	20,800	20,800
■ 2.31%, 07/07/05	5,000	5,000	➔■ RB (Boston Home) Series 2002B 2.27%, 07/07/05	2,500	2,500
■ Sr Sales Tax RB Series 2005A 2.30%, 07/07/05	2,500	2,500			
Massachusetts Development Finance Agency					
➔■ Education RB (Dexter School) Series 2000 2.27%, 07/07/05	6,320	6,320			

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
+►■ RB (Capital Assets Program) Series 1985D 2.38%, 07/01/05	1,180	1,180	Massachusetts Water Pollution Abatement Trust		
+■ RB (Harvard Pilgrim Health Care) Series A 2.29%, 07/01/05	1,750	1,750	■ Pool Program Bonds Series 10 2.31%, 07/07/05	3,845	3,845
■ RB (MIT) Series 2001J-1 2.20%, 07/07/05	1,000	1,000	■ Pool Program Bonds Series 5 2.30%, 07/07/05	5,000	5,000
■ RB (MIT) Series K 2.31%, 07/07/05	8,800	8,800	►■▲ Water Pollution Abatement RB Subordinate Series 1999A 2.31%, 07/07/05	15,000	15,000
+■ RB (Sherrill House) Series A-1 2.26%, 07/07/05	150	150	Massachusetts Water Resources Auth General Revenue Refunding Bonds Series 2005A		
+►■ RB (Winchester Hospital) Series D 2.31%, 07/07/05	6,000	6,000	+►■ 2.30%, 07/07/05	5,415	5,415
+►■ RB (Worcester City Campus Corp) Series 2005D 2.30%, 07/07/05	3,000	3,000	+►■ 2.31%, 07/07/05	4,705	4,705
Massachusetts HFA			TECP Series 1994		
+►■ Housing Bonds Series 2003F 2.22%, 07/07/05	200	200	+■ 2.75%, 07/08/05	14,000	14,000
+►■ M/F Housing Refunding RB Series 1995A 2.30%, 07/07/05	3,780	3,780	+■ 2.87%, 07/12/05	5,300	5,300
►■ S/F Housing Notes Series S 2.48%, 07/07/05	8,975	8,975	Medway Unlimited Tax BAN 1.76%, 10/07/05		
Massachusetts IFA			Milton BAN 2.35%, 08/05/05		
+■ RB (New England College of Optometry) Series 1997 2.30%, 07/07/05	905	905	Nashoba Regional SD BAN 2.20%, 09/02/05		
+■ RB (Williston Northampton School) Series B 2.28%, 07/07/05	2,075	2,075	Nashoba Valley Technical High SD BAN 1.48%, 08/12/05		
Massachusetts Port Auth			Natick BAN 2.75%, 04/28/06		
+►■ RB Series 2005A & 2005C 2.31%, 07/07/05	6,950	6,950	New Bedford BAN 2.70%, 09/29/05		
+■ 2.75%, 07/05/05	2,000	2,000	North Andover BAN 1.76%, 10/07/05		
+■ 2.80%, 07/08/05	1,000	1,000	Northborough-Southborough Regional SD BAN 1.84%, 10/27/05		
TECP Series 2003B			Ralph C Mahar Regional SD BAN 1.69%, 07/14/05		
+■ 2.77%, 07/05/05	2,500	2,500	Silver Lake Regional SD GO BAN 1.61%, 08/26/05		
+■ 2.95%, 07/07/05	3,000	3,000	2.58%, 03/30/06		
+■ 2.85%, 07/08/05	4,200	4,200			
Massachusetts Turnpike Auth					
+►■ Western Turnpike RB Series 1997A 2.31%, 07/07/05	8,500	8,500			

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Somerville		
GO BAN 1.44%, 08/19/05	3,000	3,005
Waltham		
BAN 2.20%, 11/15/05	2,001	2,007
Wayland		
BAN 2.00%, 09/15/05	2,000	2,005
West Tisbury		
BAN 2.85%, 06/15/06	1,850	1,870
		337,767

Puerto Rico 3.8%**Government Development Bank of Puerto Rico**

TECP Series 1997 2.90%, 07/11/05	10,000	10,000
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Puerto Rico Infrastructure Financing Auth

+▶■ Special Tax Refunding RB Series 2005C 2.31%, 07/07/05	3,500	3,500
		13,500

End of investments.

Statement of

Assets and Liabilities

As of June 30, 2005; unaudited. All numbers x 1,000 except NAV.

Assets

Investments, at value	\$351,267
Cash	186
Interest receivable	2,905
Prepaid expenses	+ 58
Total assets	354,416

Liabilities

Payables:	
Dividends to shareholders	257
Investments bought	4,337
Investment adviser and administrator fees	5
Transfer agent and shareholder service fees	13
Trustees' fees	1
Accrued expenses	+ 14
Total liabilities	4,627

Net Assets

Total assets	354,416
Total liabilities	- 4,627
Net assets	\$349,789

Net Assets by Source

Capital received from investors	349,885
Net realized capital losses	(96)

Net Asset Value (NAV)

Net Assets	÷	Shares Outstanding	=	NAV
\$349,789		349,885		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost for the fund's securities was \$351,267. Includes restricted but deemed liquid securities comprised of 144A securities worth of \$86,005 or 24.6% of the fund's total net assets. During the reporting period, the fund had \$270,855 in transactions with other Schwab Funds.

Federal Tax Data**Cost basis of portfolio** \$351,267**As of December 31, 2004:****Unused capital losses:**

Expires 12/31 of:	Loss amount:
2011	\$2
2012	+ 83
	\$85

Statement of

Operations

For January 1, 2005 through June 30, 2005; unaudited. All numbers x 1,000.

Investment IncomeInterest **\$3,902****Net Realized Gains and Losses**

Net realized losses on investments sold (11)

Expenses

Investment adviser and administrator fees 693

Transfer agent and shareholder service fees 821

Trustees' fees 12

Custodian and portfolio accounting fees 16

Professional fees 14

Registration fees 9

Shareholder reports 2

Other expenses + 4

Total expenses 1,571

Expense reduction - 447

Net expenses 1,124**Increase in Net Assets from Operations****Total investment income 3,902****Net expenses - 1,124****Net investment income 2,778****Net realized losses + (11)****Increase in net assets from operations \$2,767**

Unless stated, all numbers x 1,000.

Calculated on a graduated basis as a percentage of average daily net assets: 0.38% of the first \$1 billion, 0.35% over \$1 billion, 0.32% over \$10 billion, 0.30% over \$20 billion and 0.27% over \$40 billion. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

Calculated as a percentage of average daily net assets: for transfer agent services, 0.25% of the fund's assets; for shareholder services, 0.20% of the fund's assets. These fees are paid to Charles Schwab & Co., Inc. (Schwab).

For the fund's independent trustees only.

This reduction was made by the investment adviser (CSIM). It reflects a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the operating expenses of this fund through April 29, 2006, to 0.65% of average daily net assets. Prior to May 1, 2005, this limit was 0.60%. This limit excludes interest, taxes and certain non-routine expenses.

Statements of

Changes in Net Assets

For the current and prior report periods. All numbers x 1,000.
 Figures for the current period are unaudited.

Unless stated, all numbers x 1,000.

Operations

	1/1/05-6/30/05	1/1/04-12/31/04
Net investment income	\$2,778	\$2,365
Net realized losses	(11)	(89)
Increase in net assets from operations	2,767	2,276

Distributions Paid

Dividends from net investment income	2,778	2,359
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Transactions in Fund Shares

Shares sold	664,725	1,294,316
Shares reinvested	2,495	2,326
Shares redeemed	+ (703,136)	(1,273,373)
Net transactions in fund shares	(35,916)	23,269

Because all transactions in this section took place at \$1.00 a share, figures for share quantities are the same as for dollars.

Net Assets

Beginning of period	385,716	362,530
Total increase or decrease	+ (35,927)	23,186
End of period	\$349,789	\$385,716

Represents the changes in net assets from operations plus the changes in value of transactions in fund shares, minus distributions paid.

* Commencement of operations.

Financial Notes unaudited

Business Structure of the Funds

Each of the funds discussed in this report is a series of The Charles Schwab Family of Funds, a no-load, open-end management investment company. The company is organized as a Massachusetts business trust and is registered under the Investment Company Act of 1940, as amended. The sidebar shows the funds in this report and their trust.

The Schwab New York Municipal Money Fund offers two share classes: Sweep Shares and Value Advantage Shares. Shares of each class represent interests in the same portfolio, but each class has different expenses and investment minimums. The Schwab New Jersey Municipal Money, Pennsylvania Municipal Money, Florida Municipal Money and Massachusetts Municipal Money Funds each offers one share class.

Shares are bought and sold at \$1.00 per share. Each share has a par value of 1/1,000 of a cent, and the trust may issue as many shares as necessary.

Fund Operations

Most of the funds' investments are described in the sections earlier in this report. However, there are certain other fund operations and policies that may affect a fund's financials, as described below. Other policies concerning the funds' business operations also are described here.

The funds declare dividends every day they are open for business. These dividends, which are equal to a fund's net investment income for that day, are paid out to shareholders once a month. The funds may make distributions from any net realized capital gains once a year.

The funds may buy securities on a delayed-delivery basis. In these transactions, a fund agrees to buy a security for a stated price, with settlement generally occurring within two weeks. If the security's value

falls before settlement occurs, a fund could end up paying more for the security than its market value at the time of settlement. The funds have set aside sufficient securities as collateral for those securities bought on a delayed-delivery basis.

The funds pay fees to affiliates of the Investment Adviser for various services. Through their trust, the funds have agreements with Charles Schwab Investment Management, Inc. (CSIM) to provide investment advisory and administrative services and with Charles Schwab & Co., Inc. (Schwab) to provide transfer agent and shareholder services.

Although these agreements specify certain fees for these services, CSIM and Schwab have made additional agreements with the funds that may limit the total expenses charged. The rates and limitations for these fees vary from fund to fund, and are described in each fund's Statement of Operations.

The Trust and Its Funds

This list shows all of the funds included in The Charles Schwab Family of Funds. The funds discussed in this report are highlighted.

The Charles Schwab Family of Funds

organized October 20, 1989

- Schwab Money Market Fund
- Schwab Government Money Fund
- Schwab U.S. Treasury Money Fund
- Schwab Value Advantage Money Fund
- Schwab Municipal Money Fund
- Schwab California Municipal Money Fund
- Schwab New York Municipal Money Fund**
- Schwab New Jersey Municipal Money Fund**
- Schwab Pennsylvania Municipal Money Fund**
- Schwab Florida Municipal Money Fund**
- Schwab Massachusetts Municipal Money Fund**
- Schwab Retirement Advantage Money Fund
- Schwab Retirement Money Fund
- Schwab Government Cash Reserves
- Schwab Advisor Cash Reserves
- Schwab Cash Reserves

The funds may engage in certain transactions involving affiliates. The funds may make direct transactions with certain other Schwab Funds when practical. When one fund is seeking to sell a security that another is seeking to buy, an interfund transaction can allow both funds to benefit by reducing transaction costs. This practice is limited to funds that share the same investment adviser, trustees and officers.

Pursuant to an exemptive order issued by the SEC, the funds may enter into interfund borrowing and lending transactions within the Schwab Funds®. All loans are for temporary or emergency purposes only. The interest rate charged on the loan is the average of the overnight repurchase agreement rate and the short-term bank loan rate. The interfund lending facility is subject to the oversight and periodic review of the Board of Trustees of the Schwab Funds.

Trustees may include people who are officers and/or directors of the investment adviser or Schwab. Federal securities law limits the percentage of such “interested persons” who may serve on a trust’s board, and the trust was in compliance with these limitations throughout the report period. The trust did not pay any of these persons for their service as trustees, but it did pay non-interested persons (independent trustees), as noted in each fund’s Statement of Operations.

The funds may borrow money from banks and custodians. The funds may obtain temporary bank loans through the trust to which the funds belong, to use for meeting shareholder redemptions or for extraordinary or emergency purposes. The Schwab Funds have custodian overdraft facilities and line of credit arrangements of \$150 million and \$100 million with PNC Bank, N.A. and Bank of America, N.A., respectively. The funds pay interest on the amounts they borrow at rates that are negotiated periodically. There was no borrowing for any funds during the period.

The funds intend to meet federal income and excise tax requirements for regulated investment companies.

Accordingly, the funds distribute substantially all of their net investment income and net realized capital gains (if any) to their respective shareholders each year. As long as a fund meets the tax requirements, it is not required to pay federal income tax. The net investment income and net realized capital gains and losses may differ for financial statement and tax purpose primarily due to differing treatments of wash sale losses and market discount.

Under the funds’ organizational documents, its officers and trustees are indemnified against certain liability arising out of the performance of their duties to the funds.

In addition, in the normal course of business the funds enter into contracts with their vendors and others that provide general indemnifications. The funds’ maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the funds. However, based on experience, the funds expect the risk of loss to be remote.

Accounting Policies

The following are the main policies the funds use in preparing their financial statements.

The funds value their securities at amortized cost, which approximates market value.

Security transactions are recorded as of the date the order to buy or sell the security is executed.

Interest income is recorded as it accrues. If a fund buys a debt instrument at a discount (that is, for less than its face value) or a premium (more than face value), it amortizes the discount or premium from the current date up to maturity. The fund then increases (in the case of discounts) or reduces (in the case of premiums) the income it records from the security. If the security is callable (meaning that the issuer has the option to pay it off before its maturity date), then

the fund amortizes the premium to the security's call date and price, rather than the maturity date and price.

Realized gains and losses from security transactions are based on the identified costs of the securities involved.

Expenses that are specific to a fund or a class are charged directly to that fund or class. Expenses that are common to all funds within the trust generally are allocated among the funds in proportion to their average daily net assets.

For funds offering multiple share classes, all of the realized and unrealized gains or losses and net investment income, other than class specific expenses, are allocated daily to each class in proportion to its net assets.

Each fund maintains its own account for purposes of holding assets and accounting, and is considered a separate entity for tax purposes. Within its account, each fund also may keep certain assets in segregated accounts, as required by securities law.

The accounting policies described above conform with accounting principles generally accepted in the United States of America. Notwithstanding this, shareholders should understand that in order to follow these principles, fund management has to make estimates and assumptions that affect the information reported in the financial statements. It's possible that once the results are known, they may turn out to be different from these estimates.

Investment Advisory Agreement Approval

The Investment Company Act of 1940 (the “1940 Act”) requires that initial approval of, as well as the continuation of, a fund’s investment advisory agreement must be specifically approved (1) by the vote of the trustees or by a vote of the shareholders of the fund, and (2) by the vote of a majority of the trustees who are not parties to the investment advisory agreement or “interested persons” of any party (the “Independent Trustees”), cast in person at a meeting called for the purpose of voting on such approval. In connection with such approvals, the fund’s trustees must request and evaluate, and the investment adviser is required to furnish, such information as may be reasonably necessary to evaluate the terms of the advisory agreement. In addition, the Securities and Exchange Commission (the “SEC”) takes the position that, as part of their fiduciary duties with respect to fund fees, fund boards are required to evaluate the material factors applicable to a decision to approve an investment advisory agreement.

Consistent with these responsibilities, the Board of Trustees (the “Board”) calls and holds one or more meetings each year that are dedicated, in whole or in part, to considering whether to renew the investment advisory agreement between The Charles Schwab Family of Funds (the “Trust”) and CSIM (the “Agreement”) with respect to existing funds in the Trust, including the Schwab New York Municipal Money Fund, the Schwab New Jersey Municipal Money Fund, the Schwab Pennsylvania Municipal Money Fund, the Schwab Florida Municipal Money Fund and the Schwab Massachusetts Municipal Money Fund, and to review certain other agreements pursuant to which CSIM provides investment advisory services to certain other registered investment companies. In preparation for the meeting(s), the Board requests and reviews a wide variety of materials provided by CSIM, including information about CSIM’s affiliates, personnel and operations. The

Board also receives extensive data provided by third parties. This information is in addition to the detailed information about the funds that the Board reviews during the course of each year, including information that relates to fund operations and fund performance. The trustees also receive a memorandum from fund counsel regarding the responsibilities of trustees for the approval of investment advisory contracts. In addition, the Independent Trustees receive advice from independent counsel to the Independent Trustees, meet in executive session outside the presence of fund management and participate in question and answer sessions with representatives of CSIM.

At the May 24, 2005 meeting of the Board, the trustees, including a majority of the Independent Trustees, approved the renewal of the Agreement on an interim basis through September 30, 2005. In connection with the interim approval of the Agreement, the Board requested that CSIM prepare responses to certain questions outlined below in advance of the next regularly scheduled Board meeting. The Board’s approval of the Agreement was based on consideration and evaluation of a variety of specific factors discussed at that meeting and at prior meetings, including:

1. the nature, extent and quality of the services provided to the funds under the Agreement, including the resources of CSIM and its affiliates dedicated to the funds;
2. each fund’s investment performance and how it compared to that of certain other comparable mutual funds;
3. each fund’s expenses and how those expenses compared to those of certain other comparable mutual funds;
4. the profitability of CSIM and its affiliates, including Schwab, with respect to each fund, including both direct and indirect benefits accruing to CSIM and its affiliates; and

5. the extent to which economies of scale would be realized as the funds grow and whether fee levels in the Agreement reflect those economies of scale for the benefit of fund investors.

Nature, Extent and Quality of Services. The Board considered the nature, extent and quality of the services provided by CSIM to the funds and the resources of CSIM and its affiliates dedicated to the funds. In this regard, the trustees evaluated, among other things, CSIM's personnel, experience, track record and compliance program. The trustees also considered the fact that Schwab's extensive branch network, Internet access, investment and research tools, telephone services, and array of account features benefit the funds. The trustees also considered Schwab's excellent reputation as a full service brokerage firm and its overall financial condition. Finally, the trustees considered that the vast majority of the funds' investors are also brokerage clients of Schwab, and that CSIM and its affiliates are uniquely positioned to provide services and support to the funds and such shareholders. Following such evaluation, the Board concluded, within the context of its full deliberations, that the nature, extent and quality of services provided by CSIM to the funds and the resources of CSIM and its affiliates dedicated to the funds supported interim renewal of the Agreement.

Fund Performance. The Board considered fund performance in determining whether to renew the Agreement. Specifically, the trustees considered each fund's performance relative to a peer group of other mutual funds and appropriate indices/benchmarks, in light of total return, yield and market trends. As part of this review, the trustees considered the composition of the peer group, selection criteria and the reputation of the third party who prepared the peer group analysis. In evaluating the performance of each fund, the trustees considered

both risk and shareholder risk expectations for such fund. The Board noted that certain funds, including the Florida Municipal Money Fund—Sweep Shares, had lower performance relative to their respective peer groups than other funds, and inquired as to the underlying reasons for this relative performance. The Board also requested that CSIM evaluate the reasons for such funds' relative performance, consider appropriate measures to address the performance and report the results of their findings at the next Board meeting. Following such evaluation, and based upon CSIM's agreement to perform such analyses, etc. relating to performance, the Board concluded, within the context of its full deliberations, that the performance of the funds supported interim renewal of the Agreement.

Fund Expenses. With respect to the funds' expenses, the trustees considered the rate of compensation called for by the Agreement, and each fund's net operating expense ratio, in each case, in comparison to those of other comparable mutual funds, such peer groups and comparisons having been selected and calculated by an independent third party. The trustees considered the effects of CSIM's and Schwab's voluntary waiver of management and other fees to prevent total fund expenses from exceeding a specified cap. The trustees also considered fees charged by CSIM to other mutual funds and to other types of accounts, such as wrap accounts and offshore funds, but, with respect to such other types of accounts, accorded less weight to such comparisons due to the unique legal, regulatory, compliance and operating features of mutual funds as compared to these other types of accounts. Following such evaluation the Board concluded, within the context of its full deliberations, that the expenses of the funds are reasonable and supported interim renewal of the Agreement.

Profitability. With regard to profitability, the trustees considered the compensation flowing to CSIM and its affiliates, directly or indirectly. In this connection, the trustees reviewed management's profitability analyses, together with certain commentary thereon from an independent accounting firm. The trustees also considered any other benefits derived by CSIM from its relationship with the funds, such as whether, by virtue of its management of the Funds, CSIM obtains investment information or other research resources that aid it in providing advisory services to other clients. The trustees considered whether the varied levels of compensation and profitability under the Agreement and other service agreements were reasonable and justified in light of the quality of all services rendered to each fund by CSIM and its affiliates. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the profitability of CSIM is reasonable and supported interim renewal of the Agreement.

Economies of Scale. The trustees considered the existence of any economies of scale and whether those are passed along to a fund's shareholders through a graduated investment advisory fee schedule or other means, including any fee waivers by CSIM and its affiliates. In this regard, and consistent with their consideration of fund expenses, the trustees considered that CSIM and Schwab have previously committed resources to minimize the effects on shareholders of diseconomies of scale during periods when fund assets were relatively small through their contractual expense waivers. For example, such diseconomies of scale may particularly affect newer funds or funds with investment strategies that are from time to time out of favor, but shareholders may benefit from the continued availability of such funds at subsidized expense levels. The trustees also considered CSIM's agreement to contractual investment advisory fee

schedules which include lower fees at higher graduated asset levels. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the funds obtain reasonable benefit from economies of scale.

In the course of their deliberations, the trustees did not identify any particular information or factor that was all-important or controlling. Based on the trustees' deliberation and their evaluation of the information described above, the Board, including all of the Independent Trustees, unanimously approved the interim continuation of the Agreement and concluded that the compensation under the Agreement is fair and reasonable in light of such services and expenses and such other matters as the trustees have considered to be relevant in the exercise of their reasonable judgment.

Trustees and Officers

A fund's Board of Trustees is responsible for protecting the interests of that fund's shareholders. The tables below give information about the people who serve as trustees and officers for the Schwab Funds®, including the funds covered in this report. Trustees remain in office until they resign, retire or are removed by shareholder vote.¹

Under the Investment Company Act of 1940, any officer, director, or employee of Schwab or CSIM is considered an “interested person,” meaning that he or she is considered to have a business interest in Schwab or CSIM. These individuals are listed as “interested trustees.” The “independent trustees” are individuals who, under the 1940 Act, are not considered to have a business interest in Schwab or CSIM.

Each of the 56 Schwab Funds belongs to one of these trusts: The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust or Schwab Annuity Portfolios. Currently all these trusts have the same trustees and officers. The address for all trustees and officers is 101 Montgomery Street, San Francisco, CA 94104. You can find more information about the trustees and officers in the Statement of Additional Information, which is available free by calling 1-800-435-4000.

Interested Trustees and Officers

Name and Birthdate	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
Charles R. Schwab ² 7/29/37	Chairman, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Director, The Charles Schwab Corp., Charles Schwab & Co., Inc.; Chair, Director, Charles Schwab Investment Management, Inc.; Chair, Charles Schwab Holdings (UK); Chair, Director, U.S. Trust Corp., United States Trust Co. of New York, U.S. Trust Co., N.A.; CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, Charles Schwab Bank, N.A., The Charles and Helen Schwab Foundation, All Kinds of Minds (education); Trustee, Stanford University. <i>Until 5/04</i> : Director, The Gap, Inc. (clothing retailer). <i>Until 5/03</i> : Co-CEO, The Charles Schwab Corp. <i>Until 3/02</i> : Director, Audiobase, Inc. (Internet audio solutions). <i>Until 5/02</i> : Director, Vodafone AirTouch PLC (telecommunications). <i>Until 7/01</i> : Director, The Charles Schwab Trust Co.

¹ The Schwab Funds retirement policy requires that independent trustees elected after January 1, 2000 retire at age 72 or after twenty years of service as a trustee, whichever comes first. Independent trustees elected prior to January 1, 2000 will retire on the following schedule: Messrs. Holmes and Dorward will retire on December 31, 2007, and Messrs. Stephens and Wilsey will retire on December 31, 2010.

² In addition to his position with the investment adviser and the distributor, Mr. Schwab also owns stock of The Charles Schwab Corporation.

Interested Trustees but Not Officers

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Randall W. Merk 7/25/54	2005 (all trusts).	EVP, President, AMPS Enterprise. <i>Until 7/04</i> : President, CEO, Charles Schwab Investment Management, Inc.; VP, Charles Schwab & Co., Inc. <i>Until 8/02</i> : President, Chief Investment Officer, American Century Management; Director, American Century Companies, Inc. <i>Until 6/01</i> : Chief Investment Officer, Fixed Income, American Century Companies, Inc.

Officers of the Trust

Name and Birthdate	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
Evelyn Dilsaver 5/4/55	President, CEO (all trusts).	EVP, President, Director, Charles Schwab Investment Management, Inc. <i>Until 7/04</i> : SVP for Development and Distribution, Asset Management Products and Services Enterprise. <i>Until 6/03</i> : EVP, CFO, Chief Administrative Officer, U.S. Trust.
Stephen B. Ward 4/5/55	SVP, Chief Investment Officer (all trusts).	SVP, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co.
Kimon Daifotis 7/10/59	SVP, Chief Investment Officer (all trusts).	<i>Since 9/04</i> : Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Since 6/04</i> : SVP, Charles Schwab Investment Management, Inc. <i>Until 6/04</i> : VP, Charles Schwab Investment Management, Inc.
Jeffrey Mortimer 9/29/63	SVP, Chief Investment Officer (all trusts).	<i>Since 5/04</i> : SVP, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc. <i>Since 6/04</i> : VP, Chief Investment Officer, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 5/04</i> : VP, Charles Schwab Investment Management, Inc.
Randall Fillmore 11/11/60	Chief Compliance Officer (all trusts).	<i>Since 9/04</i> : SVP, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Chief Compliance Officer, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 9/04</i> : VP, Charles Schwab & Co., Inc., Charles Schwab Investment Management, Inc. <i>Until 2002</i> : VP of Internal Audit, Charles Schwab & Co., Inc. <i>Prior to 2000</i> : PricewaterhouseCoopers.
Koji E. Felton 3/13/61	Secretary (all trusts).	SVP, Chief Counsel, Assistant Corporate Secretary, Charles Schwab Investment Management, Inc. <i>Until 6/98</i> : Branch Chief in Enforcement, U.S. Securities and Exchange Commission, San Francisco.
George Pereira 6/9/64	Treasurer, Principal Financial Officer (all trusts).	<i>Since 11/04</i> : SVP, CFO, Charles Schwab Investment Management, Inc. <i>Until 11/04</i> : SVP, Financial Reporting, Charles Schwab & Co., Inc. <i>Until 12/99</i> : CFO, Commerzbank Capital Markets. <i>Until 9/99</i> : Managing Director at the New York Stock Exchange.

Independent Trustees

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Mariann Byerwalter 8/13/60	2000 (all trusts).	Chair, JDN Corp. Advisory LLC (real estate); Trustee, Stanford University, America First Cos., Omaha, NE (venture capital/fund management), Redwood Trust, Inc. (mortgage finance), Stanford Hospitals and Clinics, SRI International (research), PMI Group, Inc. (mortgage insurance), Lucile Packard Children's Hospital. <i>Since 2/05</i> : Director, Pacific Mutual Holding Company (insurance). <i>Since 2004</i> : Laudus Trust, Laudus Variable Insurance Trust. <i>Until 2001</i> : Stanford University, Special Assistant to the President. <i>From 1996-2001</i> : VP of Business Affairs, CFO.
Donald F. Dorward 9/23/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	CEO, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999</i> : EVP, Managing Director, Grey Advertising. <i>Until 1996</i> : President, CEO, Allen & Dorward Advertising.
William A. Hasler 11/22/41	2000 (all trusts).	Dean Emeritus, Haas School of Business, University of California, Berkeley; Director, Apton Corp. (bio-pharmaceuticals); Non-Executive Chair, Solectron Corp. (manufacturing), Mission West Properties (commercial real estate), Stratex Networks (network equipment), TOUSA (home building); Public Governor, Member, executive committee, Pacific Stock & Options Exchange. <i>Since 2004</i> : Trustee, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 2/04</i> : Co-CEO, Apton Corp. (bio-pharmaceuticals).
Robert G. Holmes 5/15/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Director, Semloh Financial, Inc. (international financial services and investment advisory firm).
Gerald B. Smith 9/28/50	2000 (all trusts).	Chair, CEO, Founder, Smith Graham & Co. (investment advisers); Trustee, Cooper Industries (electrical products, tools and hardware); Chairman, audit committee, Northern Border Partners, L.P. (energy).
Donald R. Stephens 6/28/38	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chair, CEO, North American Trust (real estate investment trust).
Michael W. Wilsey 8/18/43	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Wilsey Bennett, Inc. (real estate investment and management, and other investments).

Glossary

agency discount notes Notes issued by federal agencies—known as Government Sponsored Enterprises, or GSEs—at a discount to their value at maturity. An agency discount note is a short-term investment alternative offering a high degree of credit quality.

Alternative Minimum Tax (AMT) A federal income tax designed to limit the extent to which high-income taxpayers (including individuals, estates, trusts and corporations) can benefit from certain deductions and exemptions. For example, some types of income that are exempt from regular federal income tax are not exempt from the AMT.

asset-backed securities Bonds or other debt securities that represent ownership in a pool of assets such as credit card debt.

bond A security representing a loan from the investor to the issuer. A bond typically pays interest at a fixed rate (the “coupon rate”) until a specified date (the “maturity date”), at which time the issuer returns the money borrowed (“principal” or “face value”) to the bondholder. Because of their structure, bonds are sometimes called “fixed income securities” or “debt securities.”

An individual bond is subject to the credit risk of the issuer. Changes in interest rates can affect a bond's market value prior to call or maturity. There is no guarantee that a bond's yield to call or maturity will provide a positive return over the rate of inflation.

bond fund A bond fund is subject to the same credit, interest rate, and inflation risks as bonds. In addition, a bond fund incurs ongoing fees and expenses. A bond fund's net asset value will fluctuate with the price of the underlying bonds and the portfolio turnover activity; return of principal is not guaranteed.

bond anticipation notes Obligations sold by a municipality on an interim basis in anticipation of the municipality's issuance of a longer-term bond in the future.

capital gain, capital loss The difference between the amount paid for an investment and its value at a later time. If the investment has been sold, the capital gain or loss is considered a realized gain or loss. If the investment is still held, the gain or loss is still “on paper” and is considered unrealized.

commercial paper Promissory notes issued by banks, corporations, state and local governments and other entities to finance short-term credit needs. These securities generally are structured on a discounted basis but

sometimes may be interest-bearing notes. Commercial paper, which may be unsecured, is subject to credit risk.

credit-enhanced securities Securities that are backed by the credit of an entity other than the issuer (such as a financial institution). Credit enhancements, which can equal up to 100% of the security's value, are designed to help lower the risk of default on a security and may also make the security more liquid.

credit quality The capacity of an issuer to make its interest and principal payments. Federal regulations strictly limit the credit quality of the securities a money market fund can buy.

credit ratings Debt issuers, including corporations, states and municipalities, may arrange with a recognized independent rating organization, such as Standard & Poor's, Fitch, Inc. and Moody's Investor Service, to rate their creditworthiness and/or the creditworthiness of their debt issues. For example, an issuer may obtain a long-term rating within the investment grade rating category, which is, from high to low, AAA, AA, A and BBB for Standard & Poor's and Fitch, and Aaa, Aa, A and Baa for Moody's.

credit risk The risk that a debt issuer may be unable to pay interest or principal to its debtholders.

Portfolio terms

To help reduce the space occupied by the portfolio holdings, we use the following terms. Most of them appear within descriptions of individual securities in municipal funds, and describe features of the issuer or the security. Some of these are more fully defined elsewhere in the Glossary.

ACES	Adjustable convertible extendable security
BAN	Bond anticipation note
COP	Certificate of participation
GAN	Grant anticipation note
GO	General obligation
HDA	Housing Development Authority
HFA	Housing Finance Agency
IDA	Industrial Development Authority
IDB	Industrial Development Board
IDRB	Industrial Development Revenue Bond
M/F	Multi-family
RAN	Revenue anticipation note
RB	Revenue bond
S/F	Single-family
TAN	Tax anticipation note
TECP	Tax-exempt commercial paper
TRAN	Tax and revenue anticipation note
VRD	Variable-rate demand

dollar-weighted average maturity (DWAM) See weighted average maturity.

effective yield A measurement of a fund's yield that assumes that all dividends were reinvested in additional shares of the fund.

expense ratio The amount that is taken from a mutual fund's assets each year to cover the fund's operating expenses. An expense ratio of 0.50% means that a fund's expenses amount to half of one percent of its average net assets a year.

face value The value of a bond, note, mortgage or other security as given on the certificate or instrument. Face value is also referred to as par value or nominal value.

illiquid securities Securities are generally considered illiquid if they cannot be disposed of promptly (typically within seven days) and in the ordinary course of business at approximately the amount at which a fund has valued the instruments.

interest Payments to holders of debt securities as compensation for loaning a security's principal to the issuer.

liquidity-enhanced security A security that when tendered is paid from funds advanced by an entity other than the issuer (such as a large financial institution). Liquidity enhancements are often used on variable-rate securities where the portfolio manager has an option to tender the securities prior to their final maturity.

maturity The date a debt security is scheduled to be "retired" and its principal amount returned to the bondholder.

money market securities High-quality, short-term debt securities that may be issued by entities such as the U.S. government, corporations and financial institutions (such as banks). Money market securities include commercial paper, promissory notes, certificates of deposit, banker's acceptances, notes and time deposits.

muni, municipal bonds, municipal securities Debt securities issued by a state, its counties, municipalities, authorities and other subdivisions, or the territories and possessions of the United States and the District of Columbia, including their subdivisions, agencies and instrumentalities and corporations. These securities may be issued to obtain money for various public purposes, including the construction of a wide range of public facilities such as airports, bridges, highways, housing, hospitals, mass transportation, public utilities, schools, streets, and water and sewer works.

net asset value per share (NAV) The value of one share of a mutual fund. NAV is calculated by taking the fund's total assets, subtracting liabilities, and dividing by the number of shares outstanding. Money funds seek to maintain a steady NAV of \$1.00.

outstanding shares, shares outstanding When speaking of a company or mutual fund, indicates all shares currently held by investors.

restricted securities Securities that are subject to contractual restrictions on resale. These securities are often purchased in private placement transactions.

revenue anticipation notes Obligations that are issued in expectation of the receipt of revenue, such as income taxes, property taxes, etc.

section 3c7 securities Section 3c7 of the Investment Company Act of 1940 (the "1940 Act") exempts certain issuers from many regulatory requirements applicable to investment companies under the 1940 Act. An issuer whose outstanding securities are exclusively owned by "qualified purchasers" and who is not making or proposing to make a public offering of the securities may qualify for this exemption.

section 4(2)/144A securities Securities exempt from registration under Section 4(2) of the Securities Act of 1933. These securities may be sold only to qualified institutional buyers under Securities Act Rule 144A.

taxable-equivalent yield The yield an investor would need to get from a taxable investment in order to match the yield paid by a given tax-exempt investment, once the effect of all applicable taxes is taken into account. For example, if your tax rate were 25%, a tax-exempt investment paying 4.5% would have a taxable-equivalent yield for you of 6.0% ($4.5\% \div [1 - 0.25\%] = 6.0\%$).

total return The percentage that an investor would have earned or lost on an investment in the fund assuming dividends and distributions were reinvested.

tax anticipation notes Notes that typically are sold to finance the cash flow needs of municipalities in anticipation of the receipt of taxes on a future date.

Tier 1, Tier 2 Tier 1 is the highest category of credit quality, Tier 2 the second highest. A security's tier can be established either by an independent rating organization or by a determination of the investment adviser. Money market fund shares and U.S. government securities are automatically considered Tier 1 securities.

weighted average maturity For mutual funds, the maturity of all the debt securities in its portfolio, calculated as a weighted average. As a rule, the longer a fund's weighted average maturity, the greater its interest rate risk. Money funds are required to maintain a weighted average maturity of no more than 90 days.

yield The income paid out by an investment, expressed as a percentage of the investment's market value.

Schwab Funds® offers you a complete family of mutual funds, each one based on a clearly defined investment approach and using disciplined management strategies. The list at right shows all currently available Schwab Funds.

Whether you're an experienced investor or just starting out, Schwab Funds can help you achieve your financial goals. An investor should consider a fund's investment objectives, risks, and charges and expenses carefully before investing or sending money. This and other important information can be found in the fund's prospectus. Please call 1-800-435-4000 for a prospectus and brochure for any Schwab Fund. Please read the prospectus carefully before you invest. This report must be preceded or accompanied by a current prospectus.

Methods for Placing Orders

The following information outlines how Schwab investors can place orders. If you are investing through a third-party investment provider, methods for placing orders may be different.

Internet¹

www.schwab.com

Schwab by Phone™²

Use our automated voice service or speak to a representative. Call **1-800-435-4000**, day or night (for TDD service, call **1-800-345-2550**).

TeleBroker®

Use our automated touch-tone phone service at **1-800-272-4922**.

Mail

Write to Schwab Funds at:
P.O. Box 3812
Englewood, CO
80155-3812

When selling or exchanging shares, be sure to include the signatures of at least one of the persons whose name is on the account.

Proxy Voting Policies, Procedures and Results

A description of the proxy voting policies and procedures used to determine how to vote proxies on behalf of the funds is available without charge, upon request, by visiting Schwab's website at www.schwab.com/schwabfunds, the SEC's website at <http://www.sec.gov>, or by contacting Schwab Funds at 1-800-435-4000.

Information regarding how a fund voted proxies relating to portfolio securities during the most recent twelve-month period ended June 30 is available, without charge, by visiting Schwab's website at www.schwab.com/schwabfunds or the SEC's website at <http://www.sec.gov>.

The Schwab Funds Family®

Stock Funds

Schwab S&P 500 Index Fund
Schwab 1000 Index® Fund
Schwab Small-Cap Index Fund®
Schwab Total Stock Market Index Fund®
Schwab International Index Fund™
Schwab Premier Equity Fund™
Schwab Core Equity Fund™
Schwab Dividend Equity Fund™
Schwab Small-Cap Equity Fund™
Schwab Hedged Equity Fund™
Schwab Financial Services Fund™
Schwab Health Care Fund™
Schwab Technology Fund™
Schwab Institutional Select® S&P 500 Fund

Asset Allocation Funds

Schwab MarketTrack All Equity Portfolio™
Schwab MarketTrack Growth Portfolio™
Schwab MarketTrack Balanced Portfolio™
Schwab MarketTrack Conservative Portfolio™
Schwab Target 2010 Fund
Schwab Target 2020 Fund
Schwab Target 2030 Fund
Schwab Target 2040 Fund
Schwab Retirement Income Fund

Bond Funds

Schwab YieldPlus Fund®
Schwab Short-Term Bond Market Fund™
Schwab Total Bond Market Fund™
Schwab GNMA Fund™
Schwab Tax-Free YieldPlus Fund™
Schwab Short/Intermediate Tax-Free Bond Fund™
Schwab Long-Term Tax-Free Bond Fund™
Schwab California Tax-Free YieldPlus Fund™
Schwab California Short/Intermediate Tax-Free Bond Fund™
Schwab California Long-Term Tax-Free Bond Fund™

Schwab Money Funds

Schwab offers an array of money market funds that seek high current income consistent with safety and liquidity.³ Choose from taxable or tax-advantaged alternatives. Many can be linked to your eligible Schwab account to "sweep" cash balances automatically, subject to availability, when you're between investments. Or, for your larger cash reserves, choose one of our Value Advantage Investments®.

¹ Shares of Sweep Investments™ may not be purchased directly over the Internet.

² Orders placed in person or through a telephone representative may be subject to a service fee payable to Schwab.

³ Investments in money market funds are neither insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency and, although they seek to preserve the value of your investment at \$1 per share, it is possible to lose money.

charles SCHWAB

Investment Adviser

Charles Schwab Investment Management, Inc.
101 Montgomery Street, San Francisco, CA 94104

Distributor

Charles Schwab & Co., Inc. (Schwab)

Funds

Schwab Funds®
P.O. Box 3812, Englewood, CO 80155-3812

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Schwab California Municipal Money Fund[™]

Semiannual Report

June 30, 2005

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From the Chairman



Charles Schwab
Chairman

Dear Shareholder,

I have always believed that it's important to make sure that your cash is earning income between long-term investments by putting the money into a money market fund. While no investment is risk-free, money market funds carry, perhaps, the least amount of risk, as they generally are not as volatile as stocks or stock mutual funds. Money funds are good choices for investors who want to mitigate the potential fluctuations that may occur in their mostly stock portfolios.

At Schwab, we offer a range of money funds with distinct investment strategies. Our municipal money funds, for example, may be beneficial for those of you in the higher tax brackets. We also offer money funds for those interested in the added protection provided by a portfolio of U.S. government securities. In addition, several of the Schwab money funds offer share classes that carry lower expenses in exchange for higher investment minimums.

Now, as a result of the Federal Reserve having raised short-term interest rates eight times in the past 12 months (four during the six-month period covered in this report), yields on money market mutual funds are more attractive than they have been in many years. Not only that, but it's likely that the Fed will raise these rates again this year. Based on this expectation, we anticipate that the yields on money market funds will continue to move upwards over the next few months.

On behalf of Schwab Funds, I want to thank you for investing with us and remind you that our commitment to our shareholders will never waver.

Sincerely,

A handwritten signature in cursive script that reads "Charles R. Schwab". The signature is written in dark ink and is positioned below the typed name.

Management's Discussion for the six months ended June 30, 2005



Evelyn Dilsaver is President and CEO of Charles Schwab Investment Management, Inc. and is president of the funds covered in this report. She joined the firm in 1992 and has held a variety of executive positions at Schwab.

Dear Shareholder,

When I assumed my new role as President and CEO of Schwab Funds® last year, I pledged that I would be committed to offering you more relevant choices and better value. I am pleased to report that we already have done both.

On July 1, 2005, Schwab Funds launched the Schwab Target Funds™, a suite of five mutual funds to help keep your retirement investments properly allocated over your lifetime. With a single investment in a Schwab Target Fund, you can avoid a common investment mistake—failing to adjust your portfolio over time.

The funds are designed to provide shareholders with investment management, asset allocation and ongoing re-allocation over time. You simply choose the fund that most closely matches the date of your retirement and our experienced portfolio managers will do the rest. They will rebalance four of the five funds from more aggressive to more conservative as you get closer to your retirement date. The fifth fund is designed to help generate income and additional growth after you've retired. It also is a good choice for investors already enjoying their retirement.

These no-load funds are a good value, as the funds have access to the lowest-priced eligible share class on the underlying Schwab affiliate funds. And because the funds invest in groups of other Schwab affiliate funds, they provide an additional layer of diversification.

At Schwab, we believe that having an asset-allocation plan that fits your retirement goals, time frame and tolerance for risk is a key element in meeting your long-term investment goals. The Schwab Target Funds are designed to help you do this. I encourage you to learn more about these funds at www.schwab.com/target, or call Schwab.

Thank you for investing in Schwab Funds.

Sincerely,

A handwritten signature in black ink that reads "Evelyn Dilsaver".

Investors should consider carefully information contained in the prospectus, including investment objectives, risks, charges and expenses. You can request a prospectus by calling Schwab at 1-800-435-4000. Please read the prospectus carefully before investing.



Kevin Shaughnessy, CFA, a vice president of the investment adviser and senior portfolio manager, is responsible for the day-to-day management of the fund. Prior to joining the firm in 2000, he worked for more than 10 years in fixed income portfolio management.

The Investment Environment and the Fund

Oil prices hit highs never seen before and the Federal Reserve Open Market Committee continued to raise short-term interest rates to curb inflationary pressures, raising rates for the fourth time this year. At the same time, GDP continued to grow at a healthy pace and the housing market remained strong, largely due to low mortgage rates.

The firming labor market, as well as steady gains in capital spending, kept the economic expansion on a self-sustaining path. Businesses, unable to continue boosting productivity by restraining hiring, added new jobs during the six-month report period. Moreover, many leading indicators, such as the Institute for Supply Management's business activity surveys, suggested ongoing expansion, while continuing claims for unemployment benefits remained near cyclical lows.

Business investments grew only modestly, but consumers continued to spend. In fact, consumer confidence rose to a level not experienced since before September 11, 2001. With consumers in a spending mode and consumer spending comprising about 70% of GDP, first quarter GDP remained strong and retail sales were healthy. In this positive economic environment, strong labor market conditions remained positive for domestic consumption.

While high energy prices remained a significant headwind for economic performance, supply no longer was the issue; demand, especially in China, drove prices up. At the end of the six-month report period, a barrel of oil cost \$56.50 versus \$42.55 at the beginning of 2005.

Though high oil and commodity prices could have hampered growth and stirred inflationary pressures, productivity gains, slow growth in the money supply and slack in the economy have mostly kept a lid on core inflation. The productivity gains, coupled with foreign central banks buying large amounts of U.S. Treasury securities, also helped to keep long-term interest rates under control. These conditions also caused the dollar to rally unexpectedly, which took a little bit of pressure off the price of imported goods.

Amid signs of solidly expanding output and improved hiring, the Fed continued to tighten. It increased short-term interest rates at each of the four meetings in the first half of 2005, ending the six-month report period at a still moderate 3.25%. The moves have had a limited impact on overall economic growth, due primarily to the record-low level of rates from which the increases began. Nonetheless, the higher rates succeeded in moving money fund yields higher, making them a more attractive investment vehicle.

California's economy strengthened, due to renewed growth in employment and exports, as well as continued strong increases in personal income.

As noted above, the Fed continued in its tightening mode, raising short-term interest rates 0.25% at each of its four meetings this year. At the end of the six-month report period, the rate was 3.25%. The higher taxable rates translated into higher municipal money market yields, as well. Yields on municipal variable-rate demand notes rose significantly during this period. The Bond Market Association's seven-day muni index averaged 2.25% during the six-month report period, 0.80% higher than the prior six-month period. This change had a positive impact on muni money fund yields, which rose 0.60% on average over the report period.

In this type of economic climate and market environment, we allowed the funds' weighted average maturity (WAM) to shorten to a more neutral position versus our peers. When the opportunity arose, we added commercial paper with maturities of 30-90 days, as they offered the best relative value of any other assets during the report period. We also increased our exposure to attractively priced seven-day variable-rate notes.

Despite the ongoing rising-rate environment, municipal-note supply remained steady in the first half of 2005. During this period, issuance of commercial paper and seven-day variable-rate notes was strong.

California's economy strengthened, due to renewed growth in employment and exports, as well as continued strong increases in personal income. The State added more than 241,000 payroll jobs from January to May 2005, up 1.7% over the same period in 2004. This compares with a 1.0% year-over-year increase for all of 2004. The strongest gains were in construction, as well as in professional- and business-services job sectors. The state's unemployment rate dipped to 5.3% in May 2005, its lowest recording since July 2001 and down from 6.3% in May 2004.

The State Department of Finance is projecting 1.7% growth in payroll jobs for the full year 2005, and 5.7% growth in personal income.

California now expects to report a general fund balance of \$7.5 billion as of June 30, 2005, or 9.2% of annual expenditures. This positive result, however, is partly due to the sale of \$11 billion in deficit bonds in May and June 2004, and the acceleration of corporate and individual income tax collections associated with a tax-amnesty program in April 2005. Still, California's revenue picture brightened in fiscal year 2005, with revenues now projected to be \$2.9 billion ahead of the original budget estimates. On July 11, 2005, Governor Arnold Schwarzenegger signed the state budget for fiscal 2006 which began on July 1, 2005. The \$90 billion general fund budget largely reflected the Governor's May revision to spending proposals and was balanced with no new taxes or significant borrowing. In addition, the plan fully funds the State's commitment to

California's revenue picture brightened in fiscal year 2005, with revenues now projected to be \$2.9 billion ahead of the original budget estimates.

transportation and begins to pay off prior-year loans from local governments. The budget, however, provided for continued spending in excess of recurring annual revenues, and was balanced largely through the use of recently accumulated reserves. California's Legislative Analyst's Office projects recurring annual budget gaps of as much as \$6 billion.

Governor Schwarzenegger has called for a special statewide election to be held on November 8, 2005. Among the ballot initiatives to be decided is a measure that would limit the growth of future budgets to the most recent three-year average annual growth rate of the State's general and special revenue funds. The proposal would also grant the Governor significant new powers to cut state spending in the event of mid-year budget shortfalls. Alternative measures may be considered if the Governor and State Legislature can forge a compromise in time to make the November ballot.

California's medium investment-grade credit ratings reflect its recent struggles for ongoing financial balance. The credit quality of its many underlying units of government, including counties, cities, universities, and school districts, varies widely, but has been mostly stable through the six-month report period. Still, all three rating agencies raised their ratings for the State in 2004, but the ratings remain the lowest among the U.S. states. At the end of the report period, the State's ratings were A from Standard & Poor's, A- from Fitch, and A3 from Moody's. In early July, however, Moody's raised its rating to A2 and Fitch raised its rating to A.

Performance and Fund Facts as of 6/30/05

Seven-Day Yields

The seven-day yields are calculated using standard SEC formulas. The effective yield includes the effect of reinvesting daily dividends. Please remember that money market fund yields fluctuate.

Ticker Symbol	Sweep Shares SWCXX	Value Advantage Shares™ SWKXX
Seven-Day Yield¹	1.76%	1.96%
Seven-Day Yield—No Waiver²	1.60%	1.83%
Seven-Day Effective Yield¹	1.78%	1.98%
Seven-Day Taxable-Equivalent Effective Yield^{1,3}	3.05%	3.40%

The performance data quoted represents past performance. Past performance does not guarantee future results. Current performance may be lower or higher than performance data quoted. To obtain more current performance information, please visit www.schwab.com/schwabfunds.

Statistics

Money funds must maintain a dollar-weighted average maturity of no longer than 90 days, and cannot invest in any security whose effective maturity is longer than 397 days (approximately 13 months).

Weighted Average Maturity	39 days
Credit Quality of Holdings % of portfolio	100% Tier 1
Credit-Enhanced Securities % of portfolio	62%
Minimum Initial Investment⁴	
<i>Sweep Investments™</i>	*
<i>Value Advantage Shares</i>	\$25,000

An investment in a money fund is neither insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. Although money funds seek to preserve the value of your investment at \$1 per share, it is possible to lose money by investing in a money fund.

Portfolio holdings may have changed since the report date.

¹ Fund expenses have been partially absorbed by CSIM and Schwab.

² Yield if fund expenses had not been partially absorbed by CSIM and Schwab.

³ Taxable-equivalent effective yield assumes a 2005 maximum combined federal regular income and California state personal income tax rate of 41.70%. Investment income may be subject to the Alternative Minimum Tax.

⁴ Please see prospectus for further detail and eligibility requirements.

* Subject to the eligibility terms and conditions of your Schwab account agreement.

Fund Expenses

Examples for a \$1,000 Investment

As a fund shareholder, you incur two types of costs: transaction costs, such as redemption fees; and, ongoing costs, such as management fees, transfer agent and shareholder services fees, and other fund expenses.

The expense examples below are intended to help you understand your ongoing cost (in dollars) of investing in a fund and to compare this cost with the ongoing cost of investing in other mutual funds. These examples are based on an investment of \$1,000 invested for six-months beginning January 1, 2005 and held through June 30, 2005.

Actual Return lines in the table below provide information about actual account values and actual expenses. You may use this information, together with the amount you invested, to estimate the expenses that you paid over the period. To do so, simply divide your account value by \$1,000 (for example, an \$8,600 account value \div \$1,000 = 8.6), then multiply the result by the number given for your fund under the heading entitled "Expenses Paid During Period."

Hypothetical Return lines in the table below provide information about hypothetical account values and hypothetical expenses based on a fund's actual expense ratio and an assumed return of 5% per year before expenses. Because the return used is not an actual return, it may not be used to estimate the actual ending account value or expenses you paid for the period.

You may use this information to compare the ongoing costs of investing in the fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only, and do not reflect any transactional costs, such as redemption fees. If these transactional costs were included, your costs would have been higher.

	Expense Ratio ¹ (Annualized)	Beginning Account Value at 1/1/05	Ending Account Value (Net of Expenses) at 6/30/05	Expenses Paid During Period ² 1/1/05–6/30/05
Schwab California Municipal Money Fund™				
<i>Sweep Shares</i>				
Actual Return	0.65%	\$1,000	\$1,007.50	\$3.24
Hypothetical 5% Return	0.65%	\$1,000	\$1,021.57	\$3.26
<i>Value Advantage Shares™</i>				
Actual Return	0.45%	\$1,000	\$1,008.50	\$2.24
Hypothetical 5% Return	0.45%	\$1,000	\$1,022.56	\$2.26

¹ Based on the most recent six-month expense ratio; may differ from the expense ratio provided in Financial Highlights.

² Expenses for each share class are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 181 days of the period, and divided by 365 days of the fiscal year.

Financial Statements

Financial Highlights

Sweep Shares	1/1/05– 6/30/05*	1/1/04– 12/31/04	1/1/03– 12/31/03	1/1/02– 12/31/02	1/1/01– 12/31/01	1/1/00– 12/31/00
Per-Share Data (\$)						
Net asset value at beginning of period	1.00	1.00	1.00	1.00	1.00	1.00
Income from investment operations:						
Net investment income	0.01	0.01	0.00 ¹	0.01	0.02	0.03
Less distributions:						
Dividends from net investment income	(0.01)	(0.01)	(0.00) ¹	(0.01)	(0.02)	(0.03)
Net asset value at end of period	1.00	1.00	1.00	1.00	1.00	1.00
Total return (%)	0.75 ²	0.59	0.46	0.83	1.99	3.02

Ratios/Supplemental Data (%)

Ratios to average net assets:						
Net operating expenses	0.65 ³	0.65	0.65	0.65	0.65	0.66 ⁴
Gross operating expenses	0.82 ³	0.82	0.82	0.82	0.82	0.84
Net investment income	1.50 ³	0.58	0.45	0.83	1.98	2.98
Net assets, end of period (\$ x 1,000,000)	3,998	4,147	4,169	4,056	3,897	3,923

Value Advantage Shares	1/1/05– 6/30/05*	1/1/04– 12/31/04	1/1/03– 12/31/03	1/1/02– 12/31/02	1/1/01– 12/31/01	1/1/00– 12/31/00
Per-Share Data (\$)						
Net asset value at beginning of period	1.00	1.00	1.00	1.00	1.00	1.00
Income from investment operations:						
Net investment income	0.01	0.01	0.01	0.01	0.02	0.03
Less distributions:						
Dividends from net investment income	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	(0.03)
Net asset value at end of period	1.00	1.00	1.00	1.00	1.00	1.00
Total return (%)	0.85 ²	0.79	0.66	1.03	2.19	3.22

Ratios/Supplemental Data (%)

Ratios to average net assets:						
Net operating expenses	0.45 ³	0.45	0.45	0.45	0.45	0.46 ⁵
Gross operating expenses	0.59 ³	0.59	0.59	0.59	0.61	0.63
Net investment income	1.71 ³	0.78	0.65	1.03	2.11	3.20
Net assets, end of period (\$ x 1,000,000)	3,102	2,825	3,061	3,081	2,563	2,170

*Unaudited.

¹ Per-share amount was less than \$0.01.

² Not annualized.

³ Annualized.

⁴ The ratio of net operating expenses would have been 0.65% if certain non-routine expenses (proxy fees) had not been included.

⁵ The ratio of net operating expenses would have been 0.45% if certain non-routine expenses (proxy fees) had not been included.

Portfolio Holdings as of June 30, 2005; unaudited

This section shows all the securities in the fund's portfolio and their value, as of the report date.

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on the fund's most recent Form N-Q is available by visiting Schwab's website at www.schwab.com/schwabfunds.

- + Credit-enhanced security
- Liquidity-enhanced security
- Variable-rate security
- ◆ Delayed-delivery security
- Restricted but deemed liquid security comprised of 144A
- ▲ All or a portion of this security is held as collateral for futures contracts and delayed-delivery security

For fixed-rate obligations, the rate shown is the effective yield at the time of purchase. For variable-rate obligations, the rate shown is the rate as of the report date. For variable-rate obligations with scheduled maturities greater than 397 days, the maturity shown is the later of the next interest rate change date or demand date. For variable-rate obligations with scheduled maturities less than 397 days, the maturity shown is the earlier of the next interest rate change date or demand date. For variable-rate obligations without demand features, the maturity shown is the next interest rate change date.

Holdings by Category	Cost (\$x1,000)	Value (\$x1,000)
105.7% Municipal Securities	7,506,064	7,506,064
105.7% Total Investments	7,506,064	7,506,064
(5.7)% Other Assets and Liabilities		(405,710)
100.0% Total Net Assets		7,100,354

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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Municipal Securities 105.7% of net assets**California 103.0%****Alameda Cnty IDA**

+■ RB (Aitchison Family Partnership) Series 1993A 2.31%, 07/07/05	2,560	2,560
+■ RB (JMS Family Partnership) Series 1995A 2.31%, 07/07/05	1,000	1,000
+■ RB (Malmberg Engineering) Series 1999A 2.55%, 07/07/05	2,205	2,205
+■ RB (Scientific Technology) Series 1994A 2.36%, 07/07/05	2,200	2,200

Alameda-Contra Costa Transit Dist

+ 2004-05 RAN 1.58%, 07/07/05	12,000	12,003
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Anaheim Housing Auth

+■ M/F Housing RB (Casa Granada Apts) Series 1997A 2.25%, 07/07/05	3,495	3,495
+■ M/F Housing RB (Park Vista Apts) Series 2000D 2.30%, 07/07/05	21,000	21,000
+■ M/F Housing RB (Port Trinidad Apts) Series 1997C 2.25%, 07/07/05	1,940	1,940
+■ M/F Housing Refunding RB (Sage Park) Series 1998A 2.24%, 07/07/05	5,500	5,500

Association of Bay Area Governments

+▸■ Bart SFO Extension Bonds (Airport Premium Fare) Series 2002A 1.25%, 07/07/05	9,995	9,995
+■ COP (Harker School Foundation) Series 1998 2.28%, 07/07/05	4,300	4,300
+▸■ Lease RB Series 2003A 2.40%, 07/07/05	1,000	1,000
+■ M/F Housing RB (Artech Building) Series 1999A 2.30%, 07/07/05	3,200	3,200

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
+■▲ M/F Housing RB (Crossing Apts) Series 2002A 2.24%, 07/07/05	55,700	55,700	▶■ Economic Recovery Bonds Series 2004C-5 1.67%, 07/01/05	6,220	6,220
+■ M/F Housing RB (Miramar Apts) Series 2000A 2.24%, 07/07/05	30,000	30,000	+■ Economic Recovery Bonds Series 2004C-6 2.15%, 07/01/05	19,900	19,900
+■ M/F Housing RB (Mountain View Apts) Series 1997A 2.35%, 07/07/05	6,130	6,130	GO Bonds		
+■ M/F Housing RB (Paragon Apts at the Crossing) Series 2005A 2.27%, 07/07/05	22,000	22,000	+▶■ 2.28%, 07/07/05	7,870	7,870
+■ RB (Public Policy Institute of California) Series 2001A 2.30%, 07/07/05	9,000	9,000	+▶■ 2.30%, 07/07/05	16,795	16,795
Bay Area Toll Auth			+▶■ 2.30%, 07/07/05	54,605	54,605
+▶■ San Francisco Bay Area Toll Bridge RB Series 2003C 2.23%, 07/07/05	25,000	25,000	+▶■ 2.31%, 07/07/05	15,580	15,580
+▶■ San Francisco Bay Area Toll Bridge RB Series D 2.31%, 07/07/05	10,125	10,125	+▶■▲ 2.31%, 07/07/05	94,625	94,625
California			+▶■ 2.32%, 07/07/05	69,545	69,545
Economic Recovery Bonds			+▶■▲ 2.32%, 07/07/05	38,020	38,020
Series 2004A			GO Bonds Series 1999		
+▶■ 2.28%, 07/07/05	7,995	7,995	+▶■ 2.28%, 07/07/05	10,835	10,835
+▶■▲ 2.28%, 07/07/05	25,995	25,995	+▶■ 2.31%, 07/07/05	13,675	13,675
+▶■ 2.28%, 07/07/05	8,872	8,872	+■ GO Bonds Series 2003A-1 2.48%, 07/01/05	3,125	3,125
+▶■ 2.30%, 07/07/05	31,420	31,420	+■ GO Bonds Series 2003A-3 2.30%, 07/01/05	1,300	1,300
▶■▲ 2.30%, 07/07/05	39,995	39,995	+■ GO Bonds Series 2003B-4 2.25%, 07/07/05	3,000	3,000
+▶■ 2.31%, 07/07/05	8,495	8,495	+■ GO Bonds Series 2003C-3 2.28%, 07/07/05	35,000	35,000
+▶■ 2.31%, 07/07/05	6,700	6,700	+■ GO Bonds Series 2003C-4 2.27%, 07/07/05	2,400	2,400
▶■ 2.31%, 07/07/05	18,745	18,745	+■ GO Bonds Series 2004A-8 2.25%, 07/07/05	3,000	3,000
▶■ 2.38%, 07/07/05	24,000	24,000	+■ GO Bonds Series 2004B-6 2.28%, 07/07/05	21,300	21,300
▶■▲ 2.38%, 07/07/05	145,000	145,000	+▶■ GO Refunding Bonds Series 2005 2.31%, 07/07/05	16,165	16,165
+■ Economic Recovery Bonds Series 2004C-11 2.15%, 07/07/05	13,615	13,615	TECP		
+▶■ Economic Recovery Bonds Series 2004C-14 2.20%, 07/07/05	14,900	14,900	▶ 2.48%, 07/11/05	37,000	37,000
+▶■ Economic Recovery Bonds Series 2004C-15 2.29%, 07/07/05	8,785	8,785	▶ 2.55%, 07/11/05	3,700	3,700
+▶■ Economic Recovery Bonds Series 2004C-18 2.22%, 07/07/05	1,000	1,000	▶ 2.77%, 07/12/05	25,762	25,762
			▶ 2.55%, 07/20/05	20,000	20,000
			▶ 2.60%, 07/21/05	9,830	9,830
			▶ 2.52%, 08/03/05	17,000	17,000
			▶ 2.50%, 08/08/05	12,800	12,800
			▶ 2.52%, 08/08/05	13,000	13,000
			▶ 2.49%, 08/11/05	25,000	25,000
			▶ 2.80%, 07/14/05	5,915	5,915
			Various Purpose GO Bonds		
			+▶■ 2.30%, 07/07/05	4,810	4,810
			+▶■ 2.30%, 07/07/05	11,575	11,575
			+▶■ 2.31%, 07/07/05	7,680	7,680

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
California Alternative Energy Source Financing Auth			Water Refunding RB (Big Bear Lake) Series 1996		
■ Cogeneration Facility RB Series 1993B 2.25%, 07/07/05	13,360	13,360	2.30%, 07/07/05	8,445	8,445
California Dept of Water Resources			California Economic Development Financing Auth		
Power Supply RB Series 2002A			■ Airport Facilities RB (Mercury Air Group) Series 1998 2.30%, 07/07/05	13,500	13,500
➔■ 2.30%, 07/07/05	12,835	12,835	■ IDRB (Calco) Series 1997 2.31%, 07/07/05	480	480
➔■▲ 2.30%, 07/07/05	34,740	34,740	■ IDRB (Gaiser Tool Co) Series 1997 2.31%, 07/07/05	1,660	1,660
➔■ 2.38%, 07/07/05	6,325	6,325	■ IDRB (Lion Raisins) Series 1998 2.30%, 07/07/05	1,055	1,055
■ Power Supply RB Series 2002B-1 2.22%, 07/01/05	2,135	2,135	California Educational Facilities Auth		
■ Power Supply RB Series 2002B-3 2.15%, 07/01/05	5,400	5,400	■ RB (California Institute of Technology) Series 2003A 2.31%, 07/07/05	5,655	5,655
■ Power Supply RB Series 2002B-4 2.15%, 07/01/05	8,100	8,100	■ RB (Chapman University) Series 2000 2.43%, 07/07/05	4,600	4,600
■ Power Supply RB Series 2002B-6 2.20%, 07/01/05	700	700	■ RB (University of Judaism) Series 1998A 2.30%, 07/07/05	5,200	5,200
■ Power Supply RB Series 2002C-1 2.25%, 07/07/05	35,000	35,000	➔■ RB (University of San Francisco) Series 1996 2.28%, 07/07/05	8,995	8,995
■ Power Supply RB Series 2002C-10 2.45%, 07/07/05	18,040	18,040	■ RB (University of Southern California) Series 2003C 2.28%, 07/07/05	10,795	10,795
■ Power Supply RB Series 2002C-11 2.19%, 07/07/05	3,100	3,100	California Health Facilities Financing Auth		
■ Power Supply RB Series 2002C-14 2.25%, 07/07/05	2,010	2,010	➔■ Insured RB (Catholic Healthcare West) Series 1988A 2.53%, 07/07/05	4,200	4,200
■ Power Supply RB Series 2002C-17 2.35%, 07/07/05	9,000	9,000	➔■ RB (Kaiser Permanente) Series 1998A 2.31%, 07/07/05	9,995	9,995
➔■ Power Supply RB Series 2002C-2 2.25%, 07/07/05	23,800	23,800	California HFA		
■ Power Supply RB Series 2002C-4 2.35%, 07/07/05	114,350	114,350	➔■ Home Mortgage RB Series 1998J 2.20%, 07/07/05	1,550	1,550
➔■ Power Supply RB Series 2002C-7 2.22%, 07/07/05	23,600	23,600			

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
+■ Home Mortgage RB Series 2000N 2.28%, 07/07/05	29,775	29,775	+■ M/F Housing RB III Series 2005B 2.54%, 07/07/05	67,395	67,395
+■ Home Mortgage RB Series 2001J 2.36%, 07/01/05	25,320	25,320	■ S/F Mortgage Bonds II Series 1997C-4 2.31%, 07/07/05	950	950
+■ Home Mortgage RB Series 2001R 2.38%, 07/01/05	6,600	6,600	+■ S/F Mortgage RB Draw Down Series 2004B-1 2.35%, 07/07/05	30,000	30,000
+■ Home Mortgage RB Series 2002F 2.23%, 07/01/05	58,130	58,130	S/F Mortgage RB Draw Down Series 2004B-2 2.35%, 07/07/05	31,930	31,930
+■ Home Mortgage RB Series 2002J 2.36%, 07/01/05	46,095	46,095	+■ S/F Mortgage RB Series 2004B-1 2.35%, 07/07/05	28,085	28,085
+■ Home Mortgage RB Series 2002P 2.40%, 07/07/05	61,000	61,000	+■ S/F Mortgage RB Series 2004B-2 2.35%, 07/07/05	52,560	52,560
+■ Home Mortgage RB Series 2003D 2.28%, 07/07/05	13,800	13,800	California Infrastructure & Economic Development Bank		
+■ Home Mortgage RB Series 2003H 2.28%, 07/07/05	49,895	49,895	+ Bay Area Toll Bridges Seismic Retrofit Revenue Notes Second Lien CP Series 2005 2.65%, 07/21/05	3,300	3,300
■ Home Mortgage RB Series 2003K 2.45%, 07/07/05	60,110	60,110	+■ IDRB (American-De Rosa Lamp Arts) Series 1999 2.36%, 07/07/05	4,950	4,950
■ Home Mortgage RB Series 2003M 2.28%, 07/07/05	34,500	34,500	+■ IDRB (Fairmont Sign Co) Series 2000A 2.45%, 07/07/05	4,250	4,250
■ 2.23%, 09/28/05	9,220	9,220	+■ IDRB (Lafayette Textile Industries) Series 1999 2.36%, 07/07/05	595	595
■ Home Mortgage RB Series 2005A 2.28%, 07/07/05	18,000	18,000	+■ IDRB (Nelson Name Plate Co) Series 1999 2.57%, 07/07/05	2,950	2,950
■ Home Mortgage RB Series 2005B 2.38%, 07/01/05	53,080	53,080	+■ IDRB (Roller Bearing Co) Series 1999 2.55%, 07/07/05	2,400	2,400
■ M/F Housing RB III Series 2001G 2.40%, 07/07/05	56,720	56,720	+■ RB (Buck Institute For Age Research) Series 2001 2.16%, 07/07/05	8,500	8,500
■ M/F Housing RB III Series 2002A 2.29%, 07/07/05	38,850	38,850	+■ RB (SRI International) Series 2003A 2.28%, 07/07/05	4,000	4,000
■ M/F Housing RB III Series 2002E 2.29%, 07/07/05	45,610	45,610			

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
California Pollution Control Finance Auth			+■ Solid Waste Disposal RB (BLT Enterprises of Sacramento) Series 1999A 2.36%, 07/07/05		
Pollution Control Refunding RB (PG & E Co) Series 1996A			6,500 6,500		
+■ 2.32%, 07/07/05	34,115	34,115	+■ Solid Waste Disposal RB (Blue Line Transfer) Series 1999A 2.36%, 07/07/05		
+■ 2.33%, 07/07/05	10,760	10,760	4,300 4,300		
+■ Pollution Control Refunding RB (PG & E Co) Series 1996F 2.23%, 07/01/05			42,050 42,050		
+■ Resource Recovery RB (Sanger) Series 1990A 2.31%, 07/07/05			19,200 19,200		
+■ Resource Recovery RB (Wadham Energy) Series 1987B 2.21%, 07/07/05			2,800 2,800		
+■ Solid Waste Disposal RB (Ag Resources III) Series 2004 2.36%, 07/07/05			2,790 2,790		
+■ Solid Waste Disposal RB (Agrifab) Series 2003 2.36%, 07/07/05			2,900 2,900		
+■ Solid Waste Disposal RB (Alameda County Industries) Series 2000A 2.36%, 07/07/05			3,375 3,375		
+■ Solid Waste Disposal RB (Athens Disposal Co) Series 1995A 2.36%, 07/07/05			8,900 8,900		
+■ Solid Waste Disposal RB (Athens Disposal Co) Series 1999A 2.36%, 07/07/05			5,700 5,700		
+■ Solid Waste Disposal RB (Athens Services) Series 2001A 2.36%, 07/07/05			3,700 3,700		
+■ Solid Waste Disposal RB (Atlas Disposal Industries) Series 1999A 2.36%, 07/07/05			3,000 3,000		
+■ Solid Waste Disposal RB (BLT Enterprises of Fremont) Series 2005A 2.46%, 07/07/05			7,280 7,280		
			+■ Solid Waste Disposal RB (Blue Line Transfer) Series 2001A 2.36%, 07/07/05		
			4,400 4,400		
			+■ Solid Waste Disposal RB (Burrtec Waste Group) Series 2004 2.36%, 07/07/05		
			1,985 1,985		
			+■ Solid Waste Disposal RB (Burrtec Waste Industries) Series 1997B 2.36%, 07/07/05		
			3,200 3,200		
			+■ Solid Waste Disposal RB (CR&R Inc) Series 2000A 2.39%, 07/07/05		
			2,860 2,860		
			+■ Solid Waste Disposal RB (CR&R Inc) Series 2002A 2.39%, 07/07/05		
			3,900 3,900		
			+■ Solid Waste Disposal RB (Cal-San) Series 1996B 2.36%, 07/07/05		
			1,750 1,750		
			+■ Solid Waste Disposal RB (California Waste Solutions) Series 2002A 2.36%, 07/07/05		
			3,570 3,570		
			+■ Solid Waste Disposal RB (California Waste Solutions) Series 2004A 2.36%, 07/07/05		
			8,350 8,350		
			+■ Solid Waste Disposal RB (Cheese & Protein International) Series 2001A 2.33%, 07/07/05		
			10,000 10,000		
			+■ Solid Waste Disposal RB (Cold Canyon Landfill) Series 1998A 2.36%, 07/07/05		
			5,845 5,845		
			+■ Solid Waste Disposal RB (Contra Costa Waste Service) Series 1995A 2.36%, 07/07/05		
			2,000 2,000		

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
+ Solid Waste Disposal RB (EDCO Disposal Corp) Series 1996A 2.36%, 07/07/05	13,950	13,950	+ Solid Waste Disposal RB (Norcal Waste System) Series 2002A 2.36%, 07/07/05	6,000	6,000
+ Solid Waste Disposal RB (EDCO Disposal Corp) Series 2004A 2.36%, 07/07/05	22,200	22,200	+ Solid Waste Disposal RB (Norcal Waste System) Series 2003A 2.36%, 07/07/05	4,000	4,000
+ Solid Waste Disposal RB (Escondido Disposal/Jemco Equipment Corp) Series 1998A 2.46%, 07/07/05	7,845	7,845	+ Solid Waste Disposal RB (Orange Ave Disposal Co) Series 2002A 2.36%, 07/07/05	6,105	6,105
+ Solid Waste Disposal RB (Federal Disposal Service) Series 2001A 2.41%, 07/07/05	1,950	1,950	+ Solid Waste Disposal RB (Ratto Group of Companies) Series 2001A 2.36%, 07/07/05	4,045	4,045
+ Solid Waste Disposal RB (Greenteam of San Jose) Series 2001A 2.36%, 07/07/05	10,900	10,900	+ Solid Waste Disposal RB (Sanco Services) Series 2002A 2.46%, 07/07/05	3,600	3,600
+ Solid Waste Disposal RB (Greenwaste of Tehama) Series 1999A 2.36%, 07/07/05	1,175	1,175	+ Solid Waste Disposal RB (Santa Clara Valley Disposal) Series 2001A 2.36%, 07/07/05	5,135	5,135
+ Solid Waste Disposal RB (Madera Disposal Systems Inc) Series 1998A 2.36%, 07/07/05	1,800	1,800	+ Solid Waste Disposal RB (Santa Clara Valley Industries) Series 1998A 2.41%, 07/07/05	2,100	2,100
+ Solid Waste Disposal RB (Marborg Industries) Series 2000A 2.36%, 07/07/05	4,170	4,170	+ Solid Waste Disposal RB (Solag Disposal) Series 1997A 2.39%, 07/07/05	2,135	2,135
+ Solid Waste Disposal RB (Metropolitan Recycling Corp) Series 2000B 2.41%, 07/07/05	3,190	3,190	+ Solid Waste Disposal RB (Specialty Solid Waste & Recycling) Series 2001A 2.41%, 07/07/05	2,280	2,280
+ Solid Waste Disposal RB (Mottra Corp) Series 2002A 2.36%, 07/07/05	1,910	1,910	+ Solid Waste Disposal RB (Talco Plastics) Series 1997A 2.36%, 07/07/05	3,275	3,275
+ Solid Waste Disposal RB (Napa Recycling & Waste Services) Series 2005A 2.46%, 07/07/05	5,260	5,260	+ Solid Waste Disposal RB (Tri-CED Community Recycling) Series 1998A 2.36%, 07/07/05	1,465	1,465
+ Solid Waste Disposal RB (Norcal Waste System) Series 2001 2.36%, 07/07/05	11,015	11,015	+ Solid Waste Disposal RB (Valley Vista Services) Series 2003A 2.36%, 07/07/05	4,310	4,310

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
+ ■ Solid Waste Disposal RB (West Valley MRF) Series 1997A 2.46%, 07/07/05	3,260	3,260	▶ ■▲ 2004 TRAN Series B-2 2.38%, 07/07/05	50,000	50,000
+ ■ Solid Waste Disposal RB (Zanker Road Landfill) Series 1999C 2.41%, 07/07/05	5,420	5,420	▶ ■■ COP (Sutter Health Related Group) 2.31%, 07/07/05	5,000	5,000
+ ■ Solid Waste RB (CR&R Inc) Series 1995A 2.39%, 07/07/05	3,160	3,160	+ ■ IDRB (Biocol Investments) Series 1997B 2.50%, 07/07/05	1,405	1,405
+ ■ Solid Waste RB (Greenteam of San Jose) Series 1997A 2.36%, 07/07/05	1,280	1,280	+ ■ IDRB (Cowden Metal Stamping & Tooling) Series 1997A 2.50%, 07/07/05	1,145	1,145
California School Cash Reserve Program Auth Pool Bonds Series 2004A			+ ■ IDRB (Golden Valley Grape Juice & Wine) Series 1998 2.45%, 07/07/05	630	630
+ ▲ 1.60%, 07/06/05	81,000	81,015	+ ■ IDRB (Integrated Rolling Co) Series 1999A 2.57%, 07/07/05	1,600	1,600
+ ▲ 1.89%, 07/06/05	12,525	12,527	+ ■ IDRB (RL Group) Series 1998C 2.45%, 07/07/05	1,485	1,485
+ ▲ 1.94%, 07/06/05	40,000	40,006	+ ■ M/F Housing RB (Agave at Elk Grove Apts) Series 2003DD 2.24%, 07/07/05	15,100	15,100
+ ▲ Pool Bonds Series 2005A 2.60%, 07/06/06	121,675	123,335	+ ■ M/F Housing RB (Bay Vista at Meadow Park Apts) Series 2003NN-1 2.27%, 07/07/05	15,000	15,000
California State Public Works Board			+ ■ M/F Housing RB (Bay Vista at Meadow Park Apts) Series 2003NN-2 2.27%, 07/07/05	5,000	5,000
▶ ■ Dept of Corrections Lease Refunding RB Series 2004E 2.31%, 07/07/05	7,100	7,100	+ ■ M/F Housing RB (Creekside at Meadow Park Apts) Series 2002HH 2.24%, 07/07/05	10,135	10,135
▶ ■ Lease RB (University of California) Series 1997C 2.31%, 07/07/05	10,900	10,900	+ ■ M/F Housing RB (Cypress Villa Apts) Series 2000F 2.24%, 07/07/05	4,725	4,725
▶ ■ Lease RB Series 1999A 2.31%, 07/07/05	9,985	9,985	+ ■ M/F Housing RB (Dublin Ranch Senior Apts) Series 2003OO 2.27%, 07/07/05	15,090	15,090
▶ ■ Lease Revenue (University of California) Series 2005C 2.13%, 07/07/05	26,785	26,785	+ ■ M/F Housing RB (Emerald Gardens Apts) Series 2000E 2.24%, 07/07/05	7,320	7,320
▶ ■ Refunding Lease RB (Dept of Corrections) Series 1993A 2.31%, 07/07/05	3,000	3,000	+ ■ M/F Housing RB (Fairway Family Apts) Series 2003PP 2.27%, 07/07/05	30,000	30,000
California State University Institute					
+ TECP Series A 2.68%, 08/08/05	5,545	5,545			
California Statewide Communities Development Auth					
▶ ■ 2004 TRAN Series B-1 2.38%, 07/07/05	24,365	24,365			

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
➤ M/F Housing RB (Heritage Oaks Apts) Series 2004YY 2.24%, 07/07/05	7,000	7,000	➤ M/F Housing RB (Wilshire Court Apts) Series 2003M 2.24%, 07/07/05	15,000	15,000
➤ M/F Housing RB (Kimberly Woods Apts) Series 1995B 2.30%, 07/07/05	13,400	13,400	➤ M/F Housing RB (Wilshire Court Apts) Series 2004AAA 2.24%, 07/07/05	5,000	5,000
➤ M/F Housing RB (Las Flores Village Apts) Series 2004JJ 2.24%, 07/07/05	13,500	13,500	➤ M/F Housing RB (Woodsong Apts) Series 1997B 2.25%, 07/07/05	3,227	3,227
➤ M/F Housing RB (Laurel Park Senior Apts) Series 2002H 2.30%, 07/07/05	5,500	5,500	➤ M/F Housing RB (Wyndover Apts) Series 2004LL 2.24%, 07/07/05	9,000	9,000
➤ M/F Housing RB (Los Padres Apts) Series 2003E 2.24%, 07/07/05	10,750	10,750	➤ RB (Elder Care Alliance) Series 2000 2.29%, 07/07/05	12,560	12,560
➤ M/F Housing RB (Marlin Cove Apts) Series 2000V 2.24%, 07/07/05	8,000	8,000	➤ RB (Gemological Institute) Series 2001 2.22%, 07/07/05	8,910	8,910
➤ M/F Housing RB (Oak Center Towers) Series 2005L 2.36%, 07/07/05	11,450	11,450	➤ RB (Japanese American National Museum) Series 2000A 2.28%, 07/07/05	4,600	4,600
➤ M/F Housing RB (Oakmont of Concord) Series 2002Q 2.33%, 07/07/05	25,000	25,000	➤ RB (Jewish Federation Council of Greater Los Angeles) Series 2000A 2.36%, 07/07/05	3,600	3,600
➤ M/F Housing RB (Park David Senior Apts) Series 1999D 2.24%, 07/07/05	8,220	8,220	■ RB (Kaiser Permanente) Series 2001B 1.75%, 07/05/05	31,500	31,500
➤ M/F Housing RB (Plaza Club Apts) Series 1997A 2.28%, 07/07/05	10,290	10,290	RB (Kaiser Permanente) Series 2004K 2.58%, 07/20/05	27,000	27,000
➤ M/F Housing RB (Rancho Santa Fe Village Apts) Series 2004EE 2.35%, 07/07/05	13,000	13,000	➤ RB (Laurence School) Series 2003 2.30%, 07/07/05	3,950	3,950
➤ M/F Housing RB (Silvercrest Residence) Series 2003EEE 2.30%, 07/07/05	23,130	23,130	➤ RB (National Public Radio) Series 2002 2.28%, 07/07/05	1,365	1,365
➤ M/F Housing RB (The Belmont) Series 2005F 2.24%, 07/07/05	10,500	10,500	➤ RB (Painted Turtle) Series 2003 2.30%, 07/07/05	7,460	7,460
➤ M/F Housing RB (The Fountains At Seacliff Apts) Series 2002Y 2.24%, 07/07/05	12,595	12,595	➤ Refunding RB (13th & I Associates) Series 1991 2.50%, 07/07/05	3,905	3,905
➤ M/F Housing RB (Valley Palms Apts) Series 2002C 2.24%, 07/07/05	12,000	12,000	◆ TRAN Series 2005A-2 2.62%, 06/30/06	12,500	12,668
➤ M/F Housing RB (Victoria Palm Villa Apts) Series 2003VV 2.29%, 07/07/05	34,000	34,000	◆ TRAN Series 2005A-3 2.62%, 06/30/06	7,500	7,601

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TRAN Series 2005A-4			▶▶ Water System Subordinated		
◆ 2.62%, 06/30/06	42,500	43,070	Refunding RB		
2.63%, 06/30/06	27,500	27,866	Series 2005B-3		
◆ 2.63%, 06/30/06	19,500	19,760	2.35%, 07/07/05	5,000	5,000
◆ TRAN Series 2005A-5			Water System TECP		
2.62%, 06/30/06	50,000	50,670	▶ 2.73%, 07/05/05	10,800	10,800
Carlsbad			▶ 2.37%, 07/06/05	25,000	25,000
▶ M/F Housing Refunding RB			▶ 2.75%, 07/07/05	36,500	36,500
(Santa Fe Ranch Apts)			▶ 2.40%, 07/19/05	17,800	17,800
Series 1993A			▶ 2.45%, 08/01/05	13,000	13,000
2.29%, 07/07/05	14,400	14,400	East Side Union High SD		
Central Unified SD			▶▶ GO Refunding Bonds		
▶▶ GO Refunding Bonds			Series 2003B		
Series 2005			2.30%, 07/07/05	24,025	24,025
2.32%, 07/07/05	11,855	11,855	El Cajon Redevelopment		
Clovis Unified SD			Agency		
◆ 2005 TRAN			▶ M/F Housing RB (Park-		
2.74%, 07/05/06	19,000	19,232	Mollison & Madison Apts)		
Contra Costa Cnty			Series 1998		
▶ M/F Mortgage RB (El Cerrito			2.28%, 07/07/05	4,900	4,900
Royale) Series 1987A			El Camino Community College		
2.30%, 07/07/05	2,480	2,480	Dist		
Davis Community Facilities			▶▶ GO Bonds Series 2003A		
Dist 1992-2			2.31%, 07/07/05	16,100	16,100
▶ Special Tax Bonds (East Davis			Emeryville Redevelopment		
Mace Ranch Area II)			Agency		
Series 2000			▶ M/F Housing RB (Bay St Apts)		
2.28%, 07/07/05	3,100	3,100	Series 2002A		
Diamond Bar Public Financing			2.28%, 07/07/05	33,215	33,215
Auth			Evergreen Elementary SD		
▶ Lease RB (Community			▶▶ 2005 GO Refunding Bonds		
Center) Series 2002A			2.30%, 07/07/05	16,230	16,230
2.40%, 07/07/05	5,755	5,755	Fillmore Public Financing Auth		
Dublin Housing Auth			▶ M/F Housing RB (Central City Redevelopment		
▶ M/F Housing RB (Park			Area) Series 2003A		
Sierra At Iron Horse Trail)			2.32%, 07/07/05	2,585	2,585
Series 1998A			Foothill-De Anza Community		
2.28%, 07/07/05	14,900	14,900	College Dist		
East Bay Municipal Utility Dist			▶ GO Bonds Series A		
▶▶ Wastewater System			2.31%, 07/07/05	9,970	9,970
Subordinated Refunding RB			Fresno IDA		
Series 2005-2			▶ IDR (Keiser Corp) Series 1997		
2.35%, 07/07/05	5,000	5,000	2.36%, 07/07/05	1,500	1,500

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Hayward			Livermore Redevelopment Agency		
+■ M/F Housing RB (Lord Tennyson Apts) Series 2005A 2.32%, 07/07/05	13,915	13,915	+■ M/F Housing Refunding RB (Livermore Senior Housing Apts) Series 2002A 2.35%, 07/01/05	4,350	4,350
+■ M/F Housing RB (Shorewood Apts) Series 1984A 2.29%, 07/07/05	12,100	12,100	Long Beach		
Hayward Housing Auth			+▶■ Harbor Refunding RB Series 2005A 2.33%, 07/07/05	8,220	8,220
+■ M/F Mortgage Refunding RB (Huntwood Terrace Apts) Series 1993A 2.54%, 07/07/05	5,255	5,255	Long Beach Harbor Dept		
Hercules Public Financing Auth			+▶■ Harbor Refunding RB Series 2005A 2.33%, 07/07/05	2,560	2,560
+■ Lease RB Series 2003A 2.30%, 07/07/05	7,000	7,000	Long Beach Harbor Facilities Corp		
Hercules Redevelopment Agency			+▶■ Harbor RB Series 2002A 2.26%, 07/07/05	25,210	25,210
+■ IDR B (Pro Media) Series 2000A 2.55%, 07/07/05	2,500	2,500	Harbor TECP Series A		
Huntington Beach			▶ 2.88%, 07/08/05	9,000	9,000
+■ M/F Housing RB (Five Points Seniors) Series 1991A 2.28%, 07/07/05	9,500	9,500	▶ 2.50%, 08/04/05	28,750	28,750
Huntington Park Redevelopment Agency			Long Beach Housing Auth		
+■ M/F Housing RB (Casa Rita Apts) Series 1994A 2.28%, 07/07/05	4,950	4,950	+■ M/F Housing Refunding RB (Channel Point Apts) Series 1998A 2.20%, 07/07/05	7,000	7,000
Irvine Assessment Dist No.04-20			Los Angeles		
+■ Limited Obligation Improvement Bonds Series A 2.20%, 07/07/05	24,400	24,400	+▶■ GO Bonds Series 2004A 2.30%, 07/07/05	9,000	9,000
Irvine Assessment Dist No.87-8			+▶■ GO Refunding Bonds Series 1998A 2.30%, 07/07/05	4,150	4,150
+■ Limited Obligation Improvement Bonds Series 1999 2.20%, 07/01/05	200	200	+■ M/F Housing RB (Beverly Park Apts) Series 1988A 2.24%, 07/07/05	34,000	34,000
Kern Cnty			+■ M/F Housing RB (Channel Gateway Apts) Series 1989B 2.28%, 07/07/05	47,700	47,700
+■ COP Series 1986A 2.20%, 07/07/05	700	700	+■ M/F Housing RB (Fountain Park Phase II) Series 2000B 2.20%, 07/07/05	14,185	14,185
La Quinta Financing Auth			+■ M/F Housing RB (Fountain Park) Series 1999P 2.20%, 07/07/05	20,000	20,000
+▶■ Local Agency RB Series 2004A 2.30%, 07/07/05	6,320	6,320	+■ M/F Housing RB Series 1985K 2.32%, 07/07/05	852	852

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
+ M/F Housing Refunding RB (Tri-City) Series 20011 2.20%, 07/07/05 Wastewater System TECP	600	600	+ M/F Housing RB (Wilshire Station Apt) Series 2003A 2.35%, 07/01/05	4,300	4,300
▶ 2.37%, 07/11/05 ▶ 2.43%, 07/13/05	34,000 51,875	34,000 51,875	Los Angeles Dept of Water & Power		
Los Angeles Airport Dept TECP (Los Angeles International Airport) Series A			+ Power System RB Series 2001A 2.31%, 07/07/05	24,750	24,750
+ 2.75%, 07/07/05 Series B	6,700	6,700	+ Power System RB Series 2001A-1 2.31%, 07/07/05	15,000	15,000
+ 2.77%, 07/07/05	6,800	6,800	▶ 2.32%, 07/07/05	7,120	7,120
Los Angeles Cnty ▲ 2005-06 TRAN Series A 2.54%, 06/30/06	94,750	96,095	■ Power System RB Series 2001B-3 2.22%, 07/01/05	3,670	3,670
Los Angeles Cnty Capital Asset Leasing Corp			▶ Power System Revenue CP Notes		
+ Lease Revenue TECP 2.37%, 07/06/05 2.85%, 07/07/05 2.43%, 07/13/05 2.45%, 07/08/05	25,710 17,860 21,300 21,500	25,710 17,860 21,300 21,500	▶ 2.85%, 07/12/05 ▶ 2.40%, 08/10/05 ▶ 2.40%, 09/06/05 ▶ 2.50%, 09/07/05	40,000 4,000 8,000 35,000	40,000 4,000 8,000 35,000
Los Angeles Cnty Metropolitan Transportation Auth			+ Water System RB Series 2001A 2.28%, 07/07/05	12,707	12,707
+ Sales Tax RB Series 1997A 2.31%, 07/07/05 Second Subordinate Sales Tax Revenue TECP Series A	23,830	23,830	+ Water Works RB Series 1999 2.31%, 07/07/05	22,090	22,090
+ 2.45%, 07/06/05 + 2.87%, 07/06/05 + 2.37%, 07/07/05 + 2.45%, 07/07/05 + 2.75%, 07/08/05 + 2.53%, 08/08/05	35,193 26,154 20,000 25,267 18,000 38,684	35,193 26,154 20,000 25,267 18,000 38,684	Los Angeles Harbor Dept ▶ TECP Series B 2.43%, 07/19/05 2.63%, 07/01/05 2.77%, 07/05/05 2.80%, 07/08/05	20,661 11,282 10,100 10,072	20,661 11,282 10,100 10,072
+ Sr Sales Tax RB Series 2001A 2.31%, 07/07/05	12,600	12,600	Los Angeles Municipal Improvement Corp Lease Revenue TECP Series A-1		
+ Sr Sales Tax Refunding RB Series 2001B 2.31%, 07/07/05	24,750	24,750	+ 2.73%, 07/08/05 + 2.40%, 08/10/05	21,981 13,800	21,981 13,800
Los Angeles Community Redevelopment Agency			Los Angeles Unified SD 2004-2005 TRAN Series A		
+ M/F Housing RB (Metropolitan Lofts Apts) Series 2002A 2.27%, 07/07/05	17,750	17,750	▶ 2.38%, 07/07/05 ▶ 2.38%, 07/07/05	59,500 79,800	59,500 79,800
			+ GO Bonds Election of 2002 Series 2003A 2.31%, 07/07/05	20,810	20,810
			+ GO Bonds Series 1999C 2.31%, 07/07/05	16,400	16,400

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Los Angeles Wastewater System			+■ COP (Florence Crittenton Services) Series 1990		
+■ RB Series 1998A 2.31%, 07/07/05	17,000	17,000	2.16%, 07/07/05	4,900	4,900
+■ Refunding RB Series 2002A 2.31%, 07/07/05	12,245	12,245	Orange Cnty Local Transportation Auth		
M-S-R Public Power Agency			+ Sales Tax Revenue TECP 2.48%, 08/08/05		
+■ Subordinate Lien RB (San Juan) Series 1997E 2.20%, 07/07/05	6,500	6,500	Orange Cnty Sanitation Dist		
Madera Cnty			+■ COP Series 2003 2.28%, 07/07/05		
+■ Lease RB (Madera Municipal Golf Course Refinancing) Series 1993 2.24%, 07/07/05	3,050	3,050	Palo Alto Unified SD		
Martinez			+■ GO Bonds Series B 2.31%, 07/07/05		
+■ M/F Housing Refunding RB (Muirwood Garden Apts) Series 2003A 2.23%, 07/07/05	6,800	6,800	Petaluma City (Elementary) SD		
Mt San Antonio Community College Dist			◆ 2005 TRAN 2.58%, 07/06/06		
+■ GO Bonds 2001 Election Series 2004B 2.31%, 07/07/05	13,140	13,140	Petaluma Community Development Commission		
Mt San Jacinto Winter Park Auth			+■ M/F Housing RB (Oakmont) Series 1996A 2.30%, 07/07/05		
+■ COP (Palm Springs Aerial Tramway) Series 1998 2.28%, 07/07/05	3,300	3,300	Pinole Redevelopment Agency		
+■ COP (Palm Springs Aerial Tramway) Series 2000B 2.28%, 07/07/05	2,900	2,900	+■ M/F Housing RB (East Bluff Apts) Series 1998A 2.35%, 07/07/05		
Oakland			Pittsburg Redevelopment Agency		
+■ Insured RB (180 Harrison Foundation) Series 1999A 2.31%, 07/07/05	4,500	4,500	+■ Subordinate Tax Allocation Bonds (Los Medanos Community Development) Series 2004A 2.25%, 07/07/05		
Oceanside			Pleasant Hill		
+■ M/F Mortgage RB (Riverview Springs Apts) Series 1990A 2.28%, 07/07/05	11,970	11,970	+■ M/F Mortgage RB (Brookside Apts) Series 1988A 2.20%, 07/07/05		
Orange Cnty			Pleasanton		
+■ Apt Development Refunding RB (Villas Aliento) Series 1998E 2.25%, 07/07/05	4,500	4,500	+■ M/F Housing RB (Busch Senior Housing) Series 2003A 2.24%, 07/07/05		
			Port of Oakland		
			CP Notes Series D		
			+ 2.80%, 07/08/05		
			+ 2.35%, 07/12/05		

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RB Series 2000K			➦ M/F Housing Refunding RB (Chesapeake Commons Apts) Series 2001C 2.28%, 07/07/05	28,000	28,000
➦ 2.33%, 07/07/05	4,690	4,690			
➦ 2.33%, 07/07/05	18,370	18,370			
➦ 2.36%, 07/07/05	15,000	15,000			
Redwood City			Sacramento Cnty Sanitation Dist Financing Auth		
➦ COP (City Hall) Series 1998 2.30%, 07/07/05	3,070	3,070	➦ RB (District #1) Series 2005 2.28%, 07/07/05	15,580	15,580
Richmond			➦ RB Series 2000A 2.30%, 07/07/05	6,090	6,090
➦ M/F Housing RB (Baycliff Apts) Series 2004A 2.24%, 07/07/05	28,800	28,800	Sacramento Housing Auth		
Riverside Cnty			➦ M/F Housing RB (Atrium Court Apts) Series 2002G 2.24%, 07/07/05	17,200	17,200
➦ Transportation Commission CP Notes (Limited Tax Bonds) 2.80%, 07/08/05	10,904	10,904	➦ M/F Housing RB (St Anton Building Apts) Series 2003I 2.24%, 07/07/05	8,000	8,000
Riverside Cnty Housing Auth			Sacramento Municipal Utility Dist		
➦ M/F Housing RB (Victoria Springs Apts) Series 1989C 2.28%, 07/07/05	9,000	9,000	➦ CP Notes Series I 2.48%, 08/11/05	48,000	48,000
➦ M/F Housing Refunding RB (Tyler Springs Apts) Series 1999C 2.20%, 07/07/05	8,300	8,300	Sacramento Redevelopment Agency		
Roseville Joint Union High SD			➦ M/F Housing RB (18th & L Apts) Series 2002E 2.24%, 07/07/05	21,075	21,075
➦ COP Series 2003 2.30%, 07/07/05	5,935	5,935	Sacramento Unified SD 2004-05 TRAN 2.05%, 11/30/05	10,000	10,059
Sacramento Cnty			San Bernardino Cnty		
2004 TRAN Series A 1.65%, 07/11/05	35,000	35,013	➦ COP (Medical Center) Series 1998 2.10%, 07/07/05	2,000	2,000
➦ Special Facilities Airport RB (Cessna Aircraft Co) Series 1998 2.29%, 07/07/05	3,300	3,300	San Diego Cnty & SD		
Sacramento Cnty Housing Auth			TRAN Note Participations Series 2004A		
➦ M/F Housing RB (Carlton Plaza Senior Apts) Series 2003E 2.33%, 07/07/05	14,000	14,000	▲ 1.58%, 07/25/05	15,000	15,016
➦ M/F Housing RB (Hastings Park Apts) Series 2004G 2.24%, 07/07/05	16,500	16,500	▲ 1.59%, 07/25/05	102,600	102,710
➦ M/F Housing RB (Hidden Oaks Apts) Series 1999C 2.24%, 07/07/05	6,300	6,300	◆ TRAN Note Participations Series 2005A 2.58%, 07/14/06	45,000	45,644
			San Diego Housing Auth		
			➦ M/F Housing RB (Delta Village Apts) Series 2005A 2.35%, 07/07/05	9,000	9,000

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer, Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
+■ M/F Housing RB (Hillside Garden Apts) Series 2004B 2.24%, 07/07/05	13,595	13,595	+■ M/F Housing Refunding RB (Fillmore Center) Series 1992A2 2.31%, 07/07/05	3,750	3,750
+■ M/F Mortgage Refunding RB (Creekside Villa Apts) Series 1999B 2.28%, 07/07/05	6,000	6,000	San Francisco Cnty Transportation Auth CP Notes Series A & B		
San Diego Unified SD 2004-2005 TRAN Series A 1.59%, 07/25/05	75,000	75,068	▶ 2.37%, 07/06/05	20,000	20,000
◆ 2005-2006 TRAN Series A 2.64%, 07/24/06	60,000	60,844	▶ 2.37%, 07/07/05	7,500	7,500
+■ GO Bonds Series 2002D 2.31%, 07/07/05	12,280	12,280	▶ 2.45%, 07/08/05	25,000	25,000
+■ GO Bonds Series 2003E 2.31%, 07/07/05	21,665	21,665	▶ 2.85%, 07/12/05	12,500	12,500
San Francisco Airports Commission			▶ 2.84%, 07/13/05	10,000	10,000
+■ Second Series RB Series 18B 2.28%, 07/07/05	16,255	16,255	San Francisco Unified SD		
+■ Second Series RB Series 24A 2.35%, 07/07/05	12,670	12,670	▲ 2004 TRAN 2.06%, 12/01/05	37,500	37,722
San Francisco City & Cnty			San Gabriel Valley Council of Governments		
+■ GO Bonds (Laguna Honda Hospital, 1999) Series 2005D 2.20%, 07/07/05	3,100	3,100	GAN (Alameda Corridor Transportation) + 2.75%, 07/08/05	12,100	12,100
+■ M/F Housing RB (Carter Terrace Apts) Series 2002B 2.34%, 07/07/05	7,000	7,000	+ 2.37%, 07/12/05	25,300	25,300
+■ M/F Housing Refunding RB (City Heights Apts) Series 1997A 2.30%, 07/07/05	19,800	19,800	San Joaquin Cnty Transportation Auth		
San Francisco City & Cnty Housing Auth			+ Sales Tax Revenue TECP 2.87%, 07/12/05	7,000	7,000
+■ M/F Housing Refunding RB (Valencia Gardens) Series 2004 2.28%, 07/07/05	20,000	20,000	San Jose		
San Francisco City & Cnty Redevelopment Agency			+■ GO Bonds (Libraries, Parks & Public Safety) Series 2002 2.28%, 07/07/05	11,223	11,223
+■ M/F Housing RB (Derek Silva Community) Series 2002D 2.34%, 07/07/05	5,900	5,900	+■ M/F Housing RB (Almaden Family Apts) Series 2003D 2.24%, 07/07/05	5,000	5,000
+■ M/F Housing RB (Ocean Beach Apts) Series 2001B 2.33%, 07/07/05	7,135	7,135	+■ M/F Housing RB (Almaden Lake Village Apts) Series 1997A 2.28%, 07/07/05	20,400	20,400
			+■ M/F Housing RB (Betty Anne Gardens Apts) Series 2002A 2.28%, 07/07/05	7,510	7,510
			+■ M/F Housing RB (El Paseo Apts) Series 2002B 2.28%, 07/07/05	5,145	5,145
			+■ M/F Housing RB (Raintree Apts) Series 2005A 2.34%, 07/07/05	10,500	10,500

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
+ ■ M/F Housing RB (Siena at Renaissance Square Apts) Series 1996A 2.24%, 07/07/05	21,500	21,500	Santa Rosa Housing Auth		
San Jose Financing Auth			+ ■ M/F Housing RB (Quail Run Apts) Series 1997A 2.35%, 07/07/05	8,380	8,380
+ ■ Lease RB (Land Acquisition) Series 2005B 2.30%, 07/07/05	12,845	12,845	Sierra Joint Community College Dist		
San Jose Redevelopment Agency			+ ■ School Facilities Improvement Dist No.1 & 2 Election of 2004 GO Bonds Series A 2.30%, 07/07/05	12,460	12,460
+ ■ M/F Housing RB (101 San Fernando Apts) Series 1998A 2.33%, 07/07/05	38,000	38,000	South Placer Wastewater Auth		
+ ■ Merged Area Redevelopment Project Subordinate Housing Tax Allocation Bonds Series 2005C 2.30%, 07/07/05	16,575	16,575	+ ■ Wastewater RB Series B 2.16%, 07/07/05	5,200	5,200
+ ■ Merged Area Redevelopment Project Subordinate Housing Tax Allocation Bonds Series 2005D 2.30%, 07/07/05	10,000	10,000	South San Francisco		
San Marcos Redevelopment Agency			+ ■ M/F Housing RB (Magnolia Plaza Apts) Series 1987A 2.31%, 07/07/05	5,500	5,500
+ ■ M/F Housing RB (Grandon Village) Series 2002A 2.35%, 07/07/05	13,500	13,500	Southern California Home Financing Auth		
Santa Barbara Cnty			■ S/F Mortgage RB Series 2004A 2.29%, 07/07/05	24,800	24,800
2004-2005 TRAN Series A 1.57%, 07/26/05	7,375	7,382	■ S/F Mortgage RB Series 2004B 2.29%, 07/07/05	15,980	15,980
◆ 2005-2006 TRAN Series A 2.64%, 07/25/06	28,500	28,905	Southern California Metropolitan Water Dist		
Santa Cruz Cnty			■ Water RB Series 1999A 2.31%, 07/07/05	18,500	18,500
2004-2005 TRAN Series A 1.62%, 07/06/05	10,000	10,002	■ Water RB Series 2000B-3 2.30%, 07/01/05	1,000	1,000
Santa Fe Springs IDA			■ Water RB Series 2001C-2 2.12%, 07/01/05	23,900	23,900
+ ■ IDR (Tri-West) Series 1983 2.85%, 07/30/05	4,000	4,000	■ Water Refunding RB Series 2001B-1 2.20%, 07/07/05	3,000	3,000
Santa Rosa			■ Water Refunding RB Series 2001B-2 2.50%, 07/07/05	4,900	4,900
+ ■ Wastewater Refunding RB Series 2004A 2.30%, 07/07/05	23,000	23,000	■ Water Refunding RB Series 2002A 2.22%, 07/07/05	6,255	6,255
			■ Water Refunding RB Series 2003C-2 2.20%, 07/07/05	36,300	36,300

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
■ Water Refunding RB Series 2003C-3 2.21%, 07/07/05	27,910	27,910	◆ 2005-06 TRAN 2.54%, 07/03/06	50,000	50,716
Southern California Public Power Auth			Victor Valley Community College Dist		
➔■ San Juan Power Refunding RB (San Juan Unit 3) Series 2005A 2.31%, 07/07/05	6,250	6,250	■ COP Series 1997 2.32%, 07/07/05	50,475	50,475
Stockton			West Sacramento Community Facilities Dist No.6		
■ Arch Road East Community Facilities Dist No.99-02 Special Tax Bonds Series 1999 2.28%, 07/07/05	1,255	1,255	■ Special Tax Bonds Series 1997A 2.38%, 07/07/05	780	780
Sunnyvale			Western Placer Unified SD		
➔■ COP (Government Center Site Acquisition) Series 2001A 2.22%, 07/07/05	6,695	6,695	■ COP (School Facilities) Series 2003 2.30%, 07/07/05	9,000	9,000
Sweetwater Union High SD			Westminster Redevelopment Agency		
➔■ Special Tax RB Series 2005A 2.31%, 07/07/05	8,955	8,955	➔■ Commercial Redevelopment Project No.1 Tax Allocation Refunding RB Series 1997 2.30%, 07/07/05	1,500	1,500
Union City			■ M/F Housing RB (Brookhurst Royale Senior Assisted Living) Series 2000A 2.40%, 07/07/05	7,700	7,700
■ M/F Housing Refunding RB (Greenhaven Apts) Series 1997A 2.20%, 07/07/05	7,975	7,975	Westminster		
University of California			➔■ COP (Civic Center Refunding) Series 1998A 2.30%, 07/07/05	3,175	3,175
General RB Series 2003A					7,311,194
➔■ 2.30%, 07/07/05	9,005	9,005	Puerto Rico 2.7%		
➔■ 2.30%, 07/07/05	8,265	8,265	Puerto Rico		
■ RB (Multiple Purpose) Series K 2.31%, 07/07/05	19,430	19,430	➔■ Public Improvement & Refunding Bonds Series 2000 2.28%, 07/07/05	2,200	2,200
➔■ RB (Multiple Purpose) Series O 2.28%, 07/07/05	7,495	7,495	➔■ Public Improvement Bonds Series 2000 2.28%, 07/07/05	6,800	6,800
TECP Series A			➔■ Public Improvement Bonds Series 2001A 2.31%, 07/07/05	5,335	5,335
2.52%, 07/21/05	12,545	12,545	➔■ Public Improvement Bonds Series 2001B 2.30%, 07/07/05	7,295	7,295
2.43%, 07/07/05	13,200	13,200	➔■ Public Improvement Refunding Bonds Series 2002A 2.38%, 07/07/05	4,995	4,995
Val Verde Unified SD					
■ COP (Land Bank) Series 2004A 2.25%, 07/07/05	2,600	2,600			
Ventura Cnty					
2004-05 TRAN 1.60%, 07/01/05	60,000	60,000			

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Puerto Rico Electric Power Auth			Special Tax Refunding RB		
+■ Power RB Series HH 2.30%, 07/07/05	20,765	20,765	+■ Series 2005C 2.28%, 07/07/05	26,960	26,960
+■ Power RB Series II 2.29%, 07/07/05	7,405	7,405	+■ Special Tax Refunding RB Series 2005C 2.31%, 07/07/05	1,200	1,200
+■ Power Refunding RB Series SS 2.30%, 07/07/05	4,045	4,045	Puerto Rico Public Buildings Auth		
Puerto Rico Housing Finance Corp			+■ Government Facilities RB Series B 2.30%, 07/07/05	10,095	10,095
+■ Homeownership Mortgage RB Series 2000A 2.31%, 07/07/05	625	625	+■ Refunding RB Series L 2.29%, 07/07/05	6,545	6,545
Puerto Rico Highway & Transportation Auth			194,870		
+■ Highway RB Series Y 2.28%, 07/07/05	6,700	6,700	<hr/>		
+■ 2.29%, 07/07/05	8,600	8,600	End of investments.		
+■ Highway Refunding RB Series AA 2.29%, 07/07/05	3,995	3,995			
+■ Subordinated Transportation RB Series 2003 2.28%, 07/07/05	6,200	6,200			
+■ Transportation RB Series 1998A 2.20%, 07/07/05	2,210	2,210			
+■ Transportation RB Series 2000B 2.29%, 07/07/05	4,950	4,950			
+■ Transportation RB Series G & Subordinated RB Series 2003 2.29%, 07/07/05	9,380	9,380			
Puerto Rico Housing Finance Corp					
+■ Homeownership Mortgage RB Series 1998A 2.35%, 07/07/05	9,900	9,900			
+■ M/F Mortgage RB Portfolio A Series I 2.29%, 07/07/05	8,285	8,285			
Puerto Rico Infrastructure Financing Auth					
+■ Special Obligation Bonds Series 2000A 2.29%, 07/07/05	20,000	20,000			
+■ Special Tax RB Series 1997A 2.28%, 07/07/05	3,290	3,290			
+■ Special Tax RB Series 2005A 2.28%, 07/07/05	12,340	12,340			

Statement of

Assets and Liabilities

As of June 30, 2005; unaudited. All numbers x 1,000 except NAV.

Assets

Investments, at value	\$7,506,064
Cash	146,166
Receivables:	
Fund shares sold	17,032
Interest	43,214
Prepaid expenses	+ 28
Total assets	7,712,504

Liabilities

Payables:	
Fund shares redeemed	15,957
Investment bought	590,480
Dividends to shareholders	5,309
Investment adviser and administrator fees	134
Transfer agent and shareholder service fees	194
Trustees' fees	3
Accrued expenses	+ 73
Total liabilities	612,150

Net Assets

Total assets	7,712,504
Total liabilities	- 612,150
Net assets	\$7,100,354

Net Assets by Source

Capital received from investors	7,102,491
Net investment income not yet distributed	9
Net realized capital losses	(2,146)

Net Asset Value (NAV) by Share Class

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Sweep Shares	\$3,997,884		3,999,615		\$1.00
Value Advantage Shares	\$3,102,470		3,102,991		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost for the fund's securities was \$7,506,064. Includes restricted but deemed liquid securities comprised of 144A securities worth \$1,505,629 or 21.2% of the fund's total net assets. During the reporting period, the fund had \$905,305 in transactions with other Schwab Funds®.

Federal Tax Data**Cost basis of portfolio** \$7,506,064**As of December 31, 2004:****Unused capital losses:**

Expires 12/31 of:	Loss amount:
2008	\$955
2011	508
2012	+ 397
	\$1,860

Statement of

Operations

For January 1, 2005 through June 30, 2005; unaudited. All numbers x 1,000.

Investment IncomeInterest **\$74,916****Net Realized Gains and Losses**

Net realized losses on investments sold (286)

Expenses

Investment adviser and administrator fees 12,314

Transfer agent and shareholder service fees:

Sweep Shares 9,216

Value Advantage Shares 3,141

Trustees' fees 21

Custodian and portfolio accounting fees 269

Professional fees 27

Registration fees 43

Shareholder reports 51

Other expenses + 49

Total expenses 25,131

Expense reduction - 5,395

Net expenses 19,736**Increase in Net Assets from Operations****Total investment income 74,916****Net expenses - 19,736****Net investment income 55,180****Net realized losses + (286)****Increase in net assets from operations \$54,894**

Unless stated, all numbers x 1,000.

Calculated on a graduated basis as a percentage of average daily net assets: 0.38% of the first \$1 billion, 0.35% over \$1 billion, 0.32% over \$10 billion, 0.30% over \$20 billion and 0.27% over \$40 billion. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

Calculated as a percentage of average daily net assets as follows:

Transfer Agent Services:

Share Class	% of Average Daily Net Assets
Sweep Shares	0.25
Value Advantage Shares	0.05

Shareholder Services:

Share Class	% of Average Daily Net Assets
Sweep Shares	0.20
Value Advantage Shares	0.17

These fees are paid to Charles Schwab & Co., Inc. (Schwab).

For the fund's independent trustees only.

Includes \$4,781 from the investment adviser (CSIM) and \$614 from the transfer agent and shareholder service agent (Schwab). These reductions reflect a guarantee by CSIM and Schwab to limit the annual operating expenses through April 29, 2006, as follows:

Share Class	% of Average Daily Net Assets
Sweep Shares	0.65
Value Advantage Shares	0.45

This limit excludes interest, taxes and certain non-routine expenses.

Statements of

Changes in Net Assets

For the current and prior report periods. All numbers x 1,000.
Figures for the current report are unaudited.

Unless stated, all numbers x 1,000.

Operations

	1/1/05-6/30/05	1/1/04-12/31/04
Net investment income	\$55,180	\$47,590
Net realized losses	+ (286)	(431)
Increase in net assets from operations	54,894	47,159

Distributions Paid**Dividends from Net Investment Income**

Sweep Shares	30,736	24,386
Value Advantage Shares	+ 24,441	23,164
Total dividends from net investment income	55,177	47,550

Transactions in Fund Shares**Shares Sold**

Sweep Shares	8,971,695	15,986,392
Value Advantage Shares	+ 2,200,047	3,464,257
Total shares sold	11,171,742	19,450,649

Shares Reinvested

Sweep Shares	27,392	23,979
Value Advantage Shares	+ 19,306	20,603
Total shares reinvested	46,698	44,582

Shares Redeemed

Sweep Shares	(9,148,628)	(16,031,992)
Value Advantage Shares	+ (1,941,639)	(3,720,576)
Total shares redeemed	(11,090,267)	(19,752,568)

Net transactions in fund shares

128,173 **(257,337)**

Because all transactions in this section took place at \$1.00 per share, figures for share quantities are the same as for dollars.

Represents shares sold plus shares reinvested, minus shares redeemed.

Net Assets

Beginning of period	6,972,464	7,230,192
Total increase or decrease	+ 127,890	(257,728)
End of period	\$7,100,354	\$6,972,464

Represents the changes in net assets from operations plus the changes in value of transactions in fund shares, minus distributions paid.

Includes net investment income not yet distributed in the amount of \$9 and \$6 at the end of the current and prior period, respectively .

Financial Notes unaudited

Business Structure of the Fund

The fund discussed in this report is a series of The Charles Schwab Family of Funds, a no-load, open-end management investment company. The company is organized as a Massachusetts business trust and is registered under the Investment Company Act of 1940, as amended. The sidebar shows the fund in this report and its trust.

The fund offers two share classes: Sweep Shares and Value Advantage Shares. Shares of each class represent interest in the same portfolio, but each class has different expenses and investment minimums.

Shares are bought and sold at \$1.00 per share. Each share has a par value of 1/1,000 of a cent, and the trust may issue as many shares as necessary.

Fund Operations

Most of the fund's investments are described in sections earlier in this report. However, there are certain other fund operations and policies that may affect the fund's financials, as described below. Other policies concerning the fund's business operations also are described here.

The fund declares dividends every day it is open for business. These dividends, which are equal to the fund's net investment income for that day, are paid out to shareholders once a month. The fund may make distributions from any net realized capital gains once a year.

The fund may buy securities on a delayed-delivery basis. In these transactions, the fund agrees to buy a security for a stated price, with settlement generally occurring within two weeks. If the security's value falls before settlement occurs, the fund could end up paying more for the security than its market value at

the time of settlement. The fund has set aside sufficient securities as collateral for those securities bought on a delayed-delivery basis.

The fund pays fees to affiliates of the investment adviser for various services. Through its trust, the fund has agreements with Charles Schwab Investment Management, Inc. (CSIM) to provide investment advisory and administrative services and with Charles Schwab & Co., Inc. (Schwab) to provide transfer agent and shareholder services.

Although these agreements specify certain fees for these services, CSIM and Schwab have made additional agreements with the fund that may limit the total expenses charged. The rates and limitations for these fees are described in the fund's Statement of Operations.

The fund may engage in certain transactions involving affiliates. The fund may make direct transactions with certain other Schwab Funds when practical. When

The Trust and Its Funds

This list shows all of the funds included in The Charles Schwab Family of Funds. The funds discussed in this report are highlighted.

The Charles Schwab Family of Funds

organized October 20, 1989

- Schwab Money Market Fund
- Schwab Government Money Fund
- Schwab U.S. Treasury Money Fund
- Schwab Value Advantage Money Fund
- Schwab Municipal Money Fund
- Schwab California Municipal Money Fund**
- Schwab New York Municipal Money Fund
- Schwab New Jersey Municipal Money Fund
- Schwab Pennsylvania Municipal Money Fund
- Schwab Florida Municipal Money Fund
- Schwab Massachusetts Municipal Money Fund
- Schwab Retirement Advantage Money Fund
- Schwab Retirement Money Fund
- Schwab Government Cash Reserves
- Schwab Advisor Cash Reserves
- Schwab Cash Reserves

one fund is seeking to sell a security that another is seeking to buy, an interfund transaction can allow both funds to benefit by reducing transaction costs. This practice is limited to funds that share the same investment adviser, trustees and officers.

Pursuant to an exemptive order issued by the SEC, the fund may enter into interfund borrowing and lending transactions within the Schwab Funds®. All loans are for temporary or emergency purposes only. The interest rate charged on the loan is the average of the overnight repurchase agreement rate and the short-term bank loan rate. The interfund lending facility is subject to the oversight and periodic review of the Board of Trustees of the Schwab Funds.

Trustees may include people who are officers and/or directors of the investment adviser or Schwab. Federal securities law limits the percentage of such “interested persons” who may serve on a trust’s board, and the trust was in compliance with these limitations throughout the report period. The trust did not pay any of these persons for their service as trustees, but it did pay non-interested persons (independent trustees), as noted in each fund’s Statement of Operations.

The fund may borrow money from banks and custodians. The fund may obtain temporary bank loans through the trust to which the fund belongs, to use for meeting shareholder redemptions or for extraordinary or emergency purposes. The Schwab Funds has custodian overdraft facilities and line of credit arrangements of \$150 million and \$100 million with PNC Bank, N.A. and Bank of America, N.A., respectively. The fund pays interest on the amounts it borrows at rates that are negotiated periodically. There was no borrowing for the fund during the period.

The fund intends to meet federal income and excise tax requirements for regulated investment companies. Accordingly, the fund distributes substantially all of its net investment income and net realized capital gains (if any) to its respective shareholders each year.

As long as the fund meets the tax requirements, it is not required to pay federal income tax. The net investment income and net realized capital gains and losses may differ for financial statement and tax purpose primarily due to differing treatments of wash sale losses and market discount.

Under the fund’s organizational documents, its officers and trustees are indemnified against certain liability arising out of the performance of their duties to the fund. In addition, in the normal course of business the fund enters into contracts with its vendors and others that 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. However, based on experience, the fund expects the risk of loss to be remote.

Accounting Policies

The following are the main policies the fund uses in preparing its financial statements.

The fund values its securities at amortized cost, which approximates market value.

Security transactions are recorded as of the date the order to buy or sell the security is executed.

Interest income is recorded as it accrues. If the fund buys a debt instrument at a discount (that is, for less than its face value) or a premium (more than face value), it amortizes the discount or premium from the current date up to maturity. The fund then increases (in the case of discounts) or reduces (in the case of premiums) the income it records from the security. If the security is callable (meaning that the issuer has the option to pay it off before its maturity date), then the fund amortizes the premium to the security’s call date and price, rather than the maturity date and price.

Realized gains and losses from security transactions are based on the identified costs of the securities involved.

Expenses that are specific to the fund or a class are charged directly to the fund or class. Expenses that are common to all funds within the trust generally are allocated among the funds in proportion to their average daily net assets.

For funds offering multiple share classes, all of the realized and unrealized gains or losses and net investment income, other than class specific expenses, are allocated daily to each class in proportion to its net assets.

The fund maintains its own account for purposes of holding assets and accounting, and is considered a separate entity for tax purposes. Within its account, the fund also may keep certain assets in segregated accounts, as required by securities law.

The accounting policies described above conform with accounting principles generally accepted in the United States of America. Notwithstanding this, shareholders should understand that in order to follow these principles, fund management has to make estimates and assumptions that affect the information reported in the financial statements. It's possible that once the results are known, they may turn out to be different from these estimates.

Investment Advisory Agreement Approval

The Investment Company Act of 1940 (the “1940 Act”) requires that initial approval of, as well as the continuation of, a fund’s investment advisory agreement must be specifically approved (1) by the vote of the trustees or by a vote of the shareholders of the fund, and (2) by the vote of a majority of the trustees who are not parties to the investment advisory agreement or “interested persons” of any party (the “Independent Trustees”), cast in person at a meeting called for the purpose of voting on such approval. In connection with such approvals, the fund’s trustees must request and evaluate, and the investment adviser is required to furnish, such information as may be reasonably necessary to evaluate the terms of the advisory agreement. In addition, the Securities and Exchange Commission (the “SEC”) takes the position that, as part of their fiduciary duties with respect to fund fees, fund boards are required to evaluate the material factors applicable to a decision to approve an investment advisory agreement.

Consistent with these responsibilities, the Board of Trustees (the “Board”) calls and holds one or more meetings each year that are dedicated, in whole or in part, to considering whether to renew the investment advisory agreement between The Charles Schwab Family of Funds (the “Trust”) and CSIM (the “Agreement”) with respect to existing funds in the Trust, including the Schwab California Municipal Money Fund, and to review certain other agreements pursuant to which CSIM provides investment advisory services to certain other registered investment companies. In preparation for the meeting(s), the Board requests and reviews a wide variety of materials provided by CSIM, including information about CSIM’s affiliates, personnel and operations. The Board also receives extensive data provided by third parties. This information is in addition to the detailed information about the funds that the Board reviews during the course of each year, including information that relates to fund operations and fund performance.

The trustees also receive a memorandum from fund counsel regarding the responsibilities of trustees for the approval of investment advisory contracts. In addition, the Independent Trustees receive advice from independent counsel to the Independent Trustees, meet in executive session outside the presence of fund management and participate in question and answer sessions with representatives of CSIM.

At the May 24, 2005 meeting of the Board, the trustees, including a majority of the Independent Trustees, approved the renewal of the Agreement on an interim basis through September 30, 2005. In connection with the interim approval of the Agreement, the Board requested that CSIM prepare responses to certain questions outlined below in advance of the next regularly scheduled Board meeting. The Board’s approval of the Agreement was based on consideration and evaluation of a variety of specific factors discussed at that meeting and at prior meetings, including:

1. the nature, extent and quality of the services provided to the funds under the Agreement, including the resources of CSIM and its affiliates dedicated to the funds;
2. each fund’s investment performance and how it compared to that of certain other comparable mutual funds;
3. each fund’s expenses and how those expenses compared to those of certain other comparable mutual funds;
4. the profitability of CSIM and its affiliates, including Schwab, with respect to each fund, including both direct and indirect benefits accruing to CSIM and its affiliates; and
5. the extent to which economies of scale would be realized as the funds grow and whether fee levels in the Agreement reflect those economies of scale for the benefit of fund investors.

Nature, Extent and Quality of Services. The Board considered the nature, extent and quality of the services provided by CSIM to the funds and the resources of CSIM and its affiliates dedicated to the funds. In this regard, the trustees evaluated, among other things, CSIM's personnel, experience, track record and compliance program. The trustees also considered the fact that Schwab's extensive branch network, Internet access, investment and research tools, telephone services, and array of account features benefit the funds. The trustees also considered Schwab's excellent reputation as a full service brokerage firm and its overall financial condition. Finally, the trustees considered that the vast majority of the funds' investors are also brokerage clients of Schwab, and that CSIM and its affiliates are uniquely positioned to provide services and support to the funds and such shareholders. Following such evaluation, the Board concluded, within the context of its full deliberations, that the nature, extent and quality of services provided by CSIM to the funds and the resources of CSIM and its affiliates dedicated to the funds supported interim renewal of the Agreement.

Fund Performance. The Board considered fund performance in determining whether to renew the Agreement. Specifically, the trustees considered each fund's performance relative to a peer group of other mutual funds and appropriate indices/benchmarks, in light of total return, yield and market trends. As part of this review, the trustees considered the composition of the peer group, selection criteria and the reputation of the third party who prepared the peer group analysis. In evaluating the performance of each fund, the trustees considered both risk and shareholder risk expectations for such fund. The Board noted that certain funds, including the California Municipal Money Fund—Sweep Shares, had lower performance relative to their

respective peer groups than other funds, and inquired as to the underlying reasons for this relative performance. The Board also requested that CSIM evaluate the reasons for such funds' relative performance, consider appropriate measures to address the performance and report the results of their findings at the next Board meeting. Following such evaluation, and based upon CSIM's agreement to perform such analyses, etc. relating to performance, the Board concluded, within the context of its full deliberations, that the performance of the funds supported interim renewal of the Agreement.

Fund Expenses. With respect to the funds' expenses, the trustees considered the rate of compensation called for by the Agreement, and each fund's net operating expense ratio, in each case, in comparison to those of other comparable mutual funds, such peer groups and comparisons having been selected and calculated by an independent third party. The trustees considered the effects of CSIM's and Schwab's voluntary waiver of management and other fees to prevent total fund expenses from exceeding a specified cap. The trustees also considered fees charged by CSIM to other mutual funds and to other types of accounts, such as wrap accounts and offshore funds, but, with respect to such other types of accounts, accorded less weight to such comparisons due to the unique legal, regulatory, compliance and operating features of mutual funds as compared to these other types of accounts. Following such evaluation the Board concluded, within the context of its full deliberations, that the expenses of the funds are reasonable and supported interim renewal of the Agreement.

Profitability. With regard to profitability, the trustees considered the compensation flowing to CSIM and its affiliates, directly or indirectly. In this connection, the trustees reviewed management's profitability analyses, together with certain com-

mentary thereon from an independent accounting firm. The trustees also considered any other benefits derived by CSIM from its relationship with the funds, such as whether, by virtue of its management of the Funds, CSIM obtains investment information or other research resources that aid it in providing advisory services to other clients. The trustees considered whether the varied levels of compensation and profitability under the Agreement and other service agreements were reasonable and justified in light of the quality of all services rendered to each fund by CSIM and its affiliates. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the profitability of CSIM is reasonable and supported interim renewal of the Agreement.

Economies of Scale. The trustees considered the existence of any economies of scale and whether those are passed along to a fund's shareholders through a graduated investment advisory fee schedule or other means, including any fee waivers by CSIM and its affiliates. In this regard, and consistent with their consideration of fund expenses, the trustees considered that CSIM and Schwab have previously committed resources to minimize the effects on shareholders of diseconomies of scale during periods when fund assets were relatively small through their contractual expense waivers. For example, such diseconomies of scale may particularly affect newer funds or funds with investment strategies that are from time to time out of favor, but shareholders may benefit from the continued availability of such funds at subsidized expense levels. The trustees also considered CSIM's agreement to contractual investment advisory fee schedules which include lower fees at higher graduated asset levels. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the funds obtain reasonable benefit from economies of scale.

In the course of their deliberations, the trustees did not identify any particular information or factor that was all-important or controlling. Based on the trustees' deliberation and their evaluation of the information described above, the Board, including all of the Independent Trustees, unanimously approved the interim continuation of the Agreement and concluded that the compensation under the Agreement is fair and reasonable in light of such services and expenses and such other matters as the trustees have considered to be relevant in the exercise of their reasonable judgment.

Trustees and Officers

A fund's Board of Trustees is responsible for protecting the interests of that fund's shareholders. The tables below give information about the people who serve as trustees and officers for the Schwab Funds®, including the funds covered in this report. Trustees remain in office until they resign, retire or are removed by shareholder vote.¹

Under the Investment Company Act of 1940, any officer, director, or employee of Schwab or CSIM is considered an “interested person,” meaning that he or she is considered to have a business interest in Schwab or CSIM. These individuals are listed as “interested trustees.” The “independent trustees” are individuals who, under the 1940 Act, are not considered to have a business interest in Schwab or CSIM.

Each of the 56 Schwab Funds belongs to one of these trusts: The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust or Schwab Annuity Portfolios. Currently all these trusts have the same trustees and officers. The address for all trustees and officers is 101 Montgomery Street, San Francisco, CA 94104. You can find more information about the trustees and officers in the Statement of Additional Information, which is available free by calling 1-800-435-4000.

Interested Trustees and Officers

Name and Birthdate	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
Charles R. Schwab ² 7/29/37	Chairman, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Director, The Charles Schwab Corp., Charles Schwab & Co., Inc.; Chair, Director, Charles Schwab Investment Management, Inc.; Chair, Charles Schwab Holdings (UK); Chair, Director, U.S. Trust Corp., United States Trust Co. of New York, U.S. Trust Co., N.A.; CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, Charles Schwab Bank, N.A., The Charles and Helen Schwab Foundation, All Kinds of Minds (education); Trustee, Stanford University. <i>Until 5/04</i> : Director, The Gap, Inc. (clothing retailer). <i>Until 5/03</i> : Co-CEO, The Charles Schwab Corp. <i>Until 3/02</i> : Director, Audiobase, Inc. (Internet audio solutions). <i>Until 5/02</i> : Director, Vodafone AirTouch PLC (telecommunications). <i>Until 7/01</i> : Director, The Charles Schwab Trust Co.

¹ The Schwab Funds retirement policy requires that independent trustees elected after January 1, 2000 retire at age 72 or after twenty years of service as a trustee, whichever comes first. Independent trustees elected prior to January 1, 2000 will retire on the following schedule: Messrs. Holmes and Dorward will retire on December 31, 2007, and Messrs. Stephens and Wilsey will retire on December 31, 2010.

² In addition to his position with the investment adviser and the distributor, Mr. Schwab also owns stock of The Charles Schwab Corporation.

Interested Trustees but Not Officers

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Randall W. Merk 7/25/54	2005 (all trusts).	EVP, President, AMPS Enterprise. <i>Until 7/04</i> : President, CEO, Charles Schwab Investment Management, Inc.; VP, Charles Schwab & Co., Inc. <i>Until 8/02</i> : President, Chief Investment Officer, American Century Management; Director, American Century Companies, Inc. <i>Until 6/01</i> : Chief Investment Officer, Fixed Income, American Century Companies, Inc.

Officers of the Trust

Name and Birthdate	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
Evelyn Dilsaver 5/4/55	President, CEO (all trusts).	EVP, President, Director, Charles Schwab Investment Management, Inc. <i>Until 7/04</i> : SVP for Development and Distribution, Asset Management Products and Services Enterprise. <i>Until 6/03</i> : EVP, CFO, Chief Administrative Officer, U.S. Trust.
Stephen B. Ward 4/5/55	SVP, Chief Investment Officer (all trusts).	SVP, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co.
Kimon Daifotis 7/10/59	SVP, Chief Investment Officer (all trusts).	<i>Since 9/04</i> : Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Since 6/04</i> : SVP, Charles Schwab Investment Management, Inc. <i>Until 6/04</i> : VP, Charles Schwab Investment Management, Inc.
Jeffrey Mortimer 9/29/63	SVP, Chief Investment Officer (all trusts).	<i>Since 5/04</i> : SVP, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc. <i>Since 6/04</i> : VP, Chief Investment Officer, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 5/04</i> : VP, Charles Schwab Investment Management, Inc.
Randall Fillmore 11/11/60	Chief Compliance Officer (all trusts).	<i>Since 9/04</i> : SVP, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Chief Compliance Officer, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 9/04</i> : VP, Charles Schwab & Co., Inc., Charles Schwab Investment Management, Inc. <i>Until 2002</i> : VP of Internal Audit, Charles Schwab & Co., Inc. <i>Prior to 2000</i> : PricewaterhouseCoopers.
Koji E. Felton 3/13/61	Secretary (all trusts).	SVP, Chief Counsel, Assistant Corporate Secretary, Charles Schwab Investment Management, Inc. <i>Until 6/98</i> : Branch Chief in Enforcement, U.S. Securities and Exchange Commission, San Francisco.
George Pereira 6/9/64	Treasurer, Principal Financial Officer (all trusts).	<i>Since 11/04</i> : SVP, CFO, Charles Schwab Investment Management, Inc. <i>Until 11/04</i> : SVP, Financial Reporting, Charles Schwab & Co., Inc. <i>Until 12/99</i> : CFO, Commerzbank Capital Markets. <i>Until 9/99</i> : Managing Director at the New York Stock Exchange.

Independent Trustees

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Mariann Byerwalter 8/13/60	2000 (all trusts).	Chair, JDN Corp. Advisory LLC (real estate); Trustee, Stanford University, America First Cos., Omaha, NE (venture capital/fund management), Redwood Trust, Inc. (mortgage finance), Stanford Hospitals and Clinics, SRI International (research), PMI Group, Inc. (mortgage insurance), Lucile Packard Children's Hospital. <i>Since 2/05</i> : Director, Pacific Mutual Holding Company (insurance). <i>Since 2004</i> : Laudus Trust, Laudus Variable Insurance Trust. <i>Until 2001</i> : Stanford University, Special Assistant to the President. <i>From 1996-2001</i> : VP of Business Affairs, CFO.
Donald F. Dorward 9/23/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	CEO, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999</i> : EVP, Managing Director, Grey Advertising. <i>Until 1996</i> : President, CEO, Allen & Dorward Advertising.
William A. Hasler 11/22/41	2000 (all trusts).	Dean Emeritus, Haas School of Business, University of California, Berkeley; Director, Apton Corp. (bio-pharmaceuticals); Non-Executive Chair, Solectron Corp. (manufacturing), Mission West Properties (commercial real estate), Stratex Networks (network equipment), TOUSA (home building); Public Governor, Member, executive committee, Pacific Stock & Options Exchange. <i>Since 2004</i> : Trustee, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 2/04</i> : Co-CEO, Apton Corp. (bio-pharmaceuticals).
Robert G. Holmes 5/15/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Director, Semloh Financial, Inc. (international financial services and investment advisory firm).
Gerald B. Smith 9/28/50	2000 (all trusts).	Chair, CEO, Founder, Smith Graham & Co. (investment advisers); Trustee, Cooper Industries (electrical products, tools and hardware); Chairman, audit committee, Northern Border Partners, L.P. (energy).
Donald R. Stephens 6/28/38	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chair, CEO, North American Trust (real estate investment trust).
Michael W. Wilsey 8/18/43	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Wilsey Bennett, Inc. (real estate investment and management, and other investments).

Glossary

agency discount notes Notes issued by federal agencies—known as Government Sponsored Enterprises, or GSEs—at a discount to their value at maturity. An agency discount note is a short-term investment alternative offering a high degree of credit quality.

Alternative Minimum Tax (AMT) A federal income tax designed to limit the extent to which high-income taxpayers (including individuals, estates, trusts and corporations) can benefit from certain deductions and exemptions. For example, some types of income that are exempt from regular federal income tax are not exempt from the AMT.

asset-backed securities Bonds or other debt securities that represent ownership in a pool of assets such as credit card debt.

bond A security representing a loan from the investor to the issuer. A bond typically pays interest at a fixed rate (the “coupon rate”) until a specified date (the “maturity date”), at which time the issuer returns the money borrowed (“principal” or “face value”) to the bondholder. Because of their structure, bonds are sometimes called “fixed income securities” or “debt securities.”

An individual bond is subject to the credit risk of the issuer. Changes in interest rates can affect a bond's market value prior to call or maturity. There is no guarantee that a bond's yield to call or maturity will provide a positive return over the rate of inflation.

bond fund A bond fund is subject to the same credit, interest rate, and inflation risks as bonds. In addition, a bond fund incurs ongoing fees and expenses. A bond fund's net asset value will fluctuate with the price of the underlying bonds and the portfolio turnover activity; return of principal is not guaranteed.

bond anticipation notes Obligations sold by a municipality on an interim basis in anticipation of the municipality's issuance of a longer-term bond in the future.

capital gain, capital loss The difference between the amount paid for an investment and its value at a later time. If the investment has been sold, the capital gain or loss is considered a realized gain or loss. If the investment is still held, the gain or loss is still “on paper” and is considered unrealized.

commercial paper Promissory notes issued by banks, corporations, state and local governments and other entities to finance short-term credit needs. These securities generally are structured on a discounted basis but

sometimes may be interest-bearing notes. Commercial paper, which may be unsecured, is subject to credit risk.

credit-enhanced securities Securities that are backed by the credit of an entity other than the issuer (such as a financial institution). Credit enhancements, which can equal up to 100% of the security's value, are designed to help lower the risk of default on a security and may also make the security more liquid.

credit quality The capacity of an issuer to make its interest and principal payments. Federal regulations strictly limit the credit quality of the securities a money market fund can buy.

credit ratings Debt issuers, including corporations, states and municipalities, may arrange with a recognized independent rating organization, such as Standard & Poor's, Fitch, Inc. and Moody's Investor Service, to rate their creditworthiness and/or the creditworthiness of their debt issues. For example, an issuer may obtain a long-term rating within the investment grade rating category, which is, from high to low, AAA, AA, A and BBB for Standard & Poor's and Fitch, and Aaa, Aa, A and Baa for Moody's.

credit risk The risk that a debt issuer may be unable to pay interest or principal to its debtholders.

Portfolio terms

To help reduce the space occupied by the portfolio holdings, we use the following terms. Most of them appear within descriptions of individual securities in municipal funds, and describe features of the issuer or the security. Some of these are more fully defined elsewhere in the Glossary.

ACES	Adjustable convertible extendable security
BAN	Bond anticipation note
COP	Certificate of participation
GAN	Grant anticipation note
GO	General obligation
HDA	Housing Development Authority
HFA	Housing Finance Agency
IDA	Industrial Development Authority
IDB	Industrial Development Board
IDRB	Industrial Development Revenue Bond
M/F	Multi-family
RAN	Revenue anticipation note
RB	Revenue bond
S/F	Single-family
TAN	Tax anticipation note
TECP	Tax-exempt commercial paper
TRAN	Tax and revenue anticipation note
VRD	Variable-rate demand

dollar-weighted average maturity (DWAM) See weighted average maturity.

effective yield A measurement of a fund's yield that assumes that all dividends were reinvested in additional shares of the fund.

expense ratio The amount that is taken from a mutual fund's assets each year to cover the fund's operating expenses. An expense ratio of 0.50% means that a fund's expenses amount to half of one percent of its average net assets a year.

face value The value of a bond, note, mortgage or other security as given on the certificate or instrument. Face value is also referred to as par value or nominal value.

illiquid securities Securities are generally considered illiquid if they cannot be disposed of promptly (typically within seven days) and in the ordinary course of business at approximately the amount at which a fund has valued the instruments.

interest Payments to holders of debt securities as compensation for loaning a security's principal to the issuer.

liquidity-enhanced security A security that when tendered is paid from funds advanced by an entity other than the issuer (such as a large financial institution). Liquidity enhancements are often used on variable-rate securities where the portfolio manager has an option to tender the securities prior to their final maturity.

maturity The date a debt security is scheduled to be "retired" and its principal amount returned to the bondholder.

money market securities High-quality, short-term debt securities that may be issued by entities such as the U.S. government, corporations and financial institutions (such as banks). Money market securities include commercial paper, promissory notes, certificates of deposit, banker's acceptances, notes and time deposits.

muni, municipal bonds, municipal securities Debt securities issued by a state, its counties, municipalities, authorities and other subdivisions, or the territories and possessions of the United States and the District of Columbia, including their subdivisions, agencies and instrumentalities and corporations. These securities may be issued to obtain money for various public purposes, including the construction of a wide range of public facilities such as airports, bridges, highways, housing, hospitals, mass transportation, public utilities, schools, streets, and water and sewer works.

net asset value per share (NAV) The value of one share of a mutual fund. NAV is calculated by taking the fund's total assets, subtracting liabilities, and dividing by the number of shares outstanding. Money funds seek to maintain a steady NAV of \$1.00.

outstanding shares, shares outstanding When speaking of a company or mutual fund, indicates all shares currently held by investors.

restricted securities Securities that are subject to contractual restrictions on resale. These securities are often purchased in private placement transactions.

revenue anticipation notes Obligations that are issued in expectation of the receipt of revenue, such as income taxes, property taxes, etc.

section 3c7 securities Section 3c7 of the Investment Company Act of 1940 (the "1940 Act") exempts certain issuers from many regulatory requirements applicable to investment companies under the 1940 Act. An issuer whose outstanding securities are exclusively owned by "qualified purchasers" and who is not making or proposing to make a public offering of the securities may qualify for this exemption.

section 4(2)/144A securities Securities exempt from registration under Section 4(2) of the Securities Act of 1933. These securities may be sold only to qualified institutional buyers under Securities Act Rule 144A.

taxable-equivalent yield The yield an investor would need to get from a taxable investment in order to match the yield paid by a given tax-exempt investment, once the effect of all applicable taxes is taken into account. For example, if your tax rate were 25%, a tax-exempt investment paying 4.5% would have a taxable-equivalent yield for you of 6.0% ($4.5\% \div [1 - 0.25\%] = 6.0\%$).

total return The percentage that an investor would have earned or lost on an investment in the fund assuming dividends and distributions were reinvested.

tax anticipation notes Notes that typically are sold to finance the cash flow needs of municipalities in anticipation of the receipt of taxes on a future date.

Tier 1, Tier 2 Tier 1 is the highest category of credit quality, Tier 2 the second highest. A security's tier can be established either by an independent rating organization or by a determination of the investment adviser. Money market fund shares and U.S. government securities are automatically considered Tier 1 securities.

weighted average maturity For mutual funds, the maturity of all the debt securities in its portfolio, calculated as a weighted average. As a rule, the longer a fund's weighted average maturity, the greater its interest rate risk. Money funds are required to maintain a weighted average maturity of no more than 90 days.

yield The income paid out by an investment, expressed as a percentage of the investment's market value.

Notes

Schwab Funds® offers you a complete family of mutual funds, each one based on a clearly defined investment approach and using disciplined management strategies. The list at right shows all currently available Schwab Funds.

Whether you're an experienced investor or just starting out, Schwab Funds can help you achieve your financial goals. An investor should consider a fund's investment objectives, risks, and charges and expenses carefully before investing or sending money. This and other important information can be found in the fund's prospectus. Please call 1-800-435-4000 for a prospectus and brochure for any Schwab Fund. Please read the prospectus carefully before you invest. This report must be preceded or accompanied by a current prospectus.

Methods for Placing Orders

The following information outlines how Schwab investors can place orders. If you are investing through a third-party investment provider, methods for placing orders may be different.

Internet¹

www.schwab.com

Schwab by Phone™²

Use our automated voice service or speak to a representative. Call **1-800-435-4000**, day or night (for TDD service, call **1-800-345-2550**).

TeleBroker®

Use our automated touch-tone phone service at **1-800-272-4922**.

Mail

Write to Schwab Funds at:
P.O. Box 3812
Englewood, CO
80155-3812

When selling or exchanging shares, be sure to include the signatures of at least one of the persons whose name is on the account.

Proxy Voting Policies, Procedures and Results

A description of the proxy voting policies and procedures used to determine how to vote proxies on behalf of the funds is available without charge, upon request, by visiting Schwab's website at www.schwab.com/schwabfunds, the SEC's website at <http://www.sec.gov>, or by contacting Schwab Funds at 1-800-435-4000.

Information regarding how a fund voted proxies relating to portfolio securities during the most recent twelve-month period ended June 30 is available, without charge, by visiting Schwab's website at www.schwab.com/schwabfunds or the SEC's website at <http://www.sec.gov>.

The Schwab Funds Family®

Stock Funds

Schwab S&P 500 Index Fund
Schwab 1000 Index® Fund
Schwab Small-Cap Index Fund®
Schwab Total Stock Market Index Fund®
Schwab International Index Fund™
Schwab Premier Equity Fund™
Schwab Core Equity Fund™
Schwab Dividend Equity Fund™
Schwab Small-Cap Equity Fund™
Schwab Hedged Equity Fund™
Schwab Financial Services Fund™
Schwab Health Care Fund™
Schwab Technology Fund™
Schwab Institutional Select® S&P 500 Fund

Asset Allocation Funds

Schwab MarketTrack All Equity Portfolio™
Schwab MarketTrack Growth Portfolio™
Schwab MarketTrack Balanced Portfolio™
Schwab MarketTrack Conservative Portfolio™
Schwab Target 2010 Fund
Schwab Target 2020 Fund
Schwab Target 2030 Fund
Schwab Target 2040 Fund
Schwab Retirement Income Fund

Bond Funds

Schwab YieldPlus Fund®
Schwab Short-Term Bond Market Fund™
Schwab Total Bond Market Fund™
Schwab GNMA Fund™
Schwab Tax-Free YieldPlus Fund™
Schwab Short/Intermediate Tax-Free Bond Fund™
Schwab Long-Term Tax-Free Bond Fund™
Schwab California Tax-Free YieldPlus Fund™
Schwab California Short/Intermediate Tax-Free Bond Fund™
Schwab California Long-Term Tax-Free Bond Fund™

Schwab Money Funds

Schwab offers an array of money market funds that seek high current income consistent with safety and liquidity.³ Choose from taxable or tax-advantaged alternatives. Many can be linked to your eligible Schwab account to "sweep" cash balances automatically, subject to availability, when you're between investments. Or, for your larger cash reserves, choose one of our Value Advantage Investments®.

¹ Shares of Sweep Investments™ may not be purchased directly over the Internet.

² Orders placed in person or through a telephone representative may be subject to a service fee payable to Schwab.

³ Investments in money market funds are neither insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency and, although they seek to preserve the value of your investment at \$1 per share, it is possible to lose money.

charles SCHWAB

Investment Adviser

Charles Schwab Investment Management, Inc.
101 Montgomery Street, San Francisco, CA 94104

Distributor

Charles Schwab & Co., Inc. (Schwab)

Funds

Schwab Funds®
P.O. Box 3812, Englewood, CO 80155-3812

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Schwab Taxable Money Funds

Semiannual Report

June 30, 2005

Schwab Government
Money Fund™

Schwab U.S. Treasury
Money Fund™

Schwab Value Advantage
Money Fund®

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From the Chairman



Charles Schwab
Chairman

Dear Shareholder,

I have always believed that it's important to make sure that your cash is earning income between long-term investments by putting the money into a money market fund. While no investment is risk-free, money market funds carry, perhaps, the least amount of risk, as they generally are not as volatile as stocks or stock mutual funds. Money funds are good choices for investors who want to mitigate the potential fluctuations that may occur in their mostly stock portfolios.

At Schwab, we offer a range of money funds with distinct investment strategies. Our municipal money funds, for example, may be beneficial for those of you in the higher tax brackets. We also offer money funds for those interested in the added protection provided by a portfolio of U.S. government securities. In addition, several of the Schwab money funds offer share classes that carry lower expenses in exchange for higher investment minimums.

Now, as a result of the Federal Reserve having raised short-term interest rates eight times in the past 12 months (four during the six-month period covered in this report), yields on money market mutual funds are more attractive than they have been in many years. Not only that, but it's likely that the Fed will raise these rates again this year. Based on this expectation, we anticipate that the yields on money market funds will continue to move upwards over the next few months.

On behalf of Schwab Funds, I want to thank you for investing with us and remind you that our commitment to our shareholders will never waver.

Sincerely,

A handwritten signature in dark ink that reads "Charles R. Schwab". The signature is written in a cursive, flowing style.

Management's Discussion for the six months ended June 30, 2005



Evelyn Dilsaver is President and CEO of Charles Schwab Investment Management, Inc. and is president of the funds covered in this report. She joined the firm in 1992 and has held a variety of executive positions at Schwab.

Dear Shareholder,

When I assumed my new role as President and CEO of Schwab Funds® last year, I pledged that I would be committed to offering you more relevant choices and better value. I am pleased to report that we already have done both.

On July 1, 2005, Schwab Funds launched the Schwab Target Funds™, a suite of five mutual funds to help keep your retirement investments properly allocated over your lifetime. With a single investment in a Schwab Target Fund, you can avoid a common investment mistake—failing to adjust your portfolio over time.

The funds are designed to provide shareholders with investment management, asset allocation and ongoing re-allocation over time. You simply choose the fund that most closely matches the date of your retirement and our experienced portfolio managers will do the rest. They will rebalance four of the five funds from more aggressive to more conservative as you get closer to your retirement date. The fifth fund is designed to help generate income and additional growth after you've retired. It also is a good choice for investors already enjoying their retirement.

These no-load funds are a good value, as the funds have access to the lowest-priced eligible share class on the underlying Schwab affiliate funds. And because the funds invest in groups of other Schwab affiliate funds, they provide an additional layer of diversification.

At Schwab, we believe that having an asset-allocation plan that fits your retirement goals, time frame and tolerance for risk is a key element in meeting your long-term investment goals. The Schwab Target Funds are designed to help you do this. I encourage you to learn more about these funds at www.schwab.com/target, or call Schwab.

Thank you for investing in Schwab Funds.

Sincerely,

A handwritten signature in black ink that reads "Evelyn Dilsaver". The signature is written in a cursive, flowing style.

Investors should consider carefully information contained in the prospectus, including investment objectives, risks, charges and expenses. You can request a prospectus by calling Schwab at 1-800-435-4000. Please read the prospectus carefully before investing.



Linda Klingman, a vice president of the investment adviser and senior portfolio manager, has overall responsibility for the management of the Value Advantage Money fund. She joined the firm in 1990 and has managed money market funds since 1988.



Mike Neitzke, a portfolio manager, has day-to-day responsibility for management of the Value Advantage Money fund. Prior to joining the firm in March 2001, he worked for more than 15 years in the financial services industry as a portfolio manager.

The Investment Environment and the Fund

Oil prices hit highs never seen before and the Federal Reserve Open Market Committee continued to raise short-term interest rates to curb inflationary pressures, raising rates for the fourth time this year. At the same time, GDP continued to grow at a healthy pace and the housing market remained strong, largely due to low mortgage rates.

The firming labor market, as well as steady gains in capital spending, kept the economic expansion on a self-sustaining path. Businesses, unable to continue boosting productivity by restraining hiring, added new jobs during the six-month report period. Moreover, many leading indicators, such as the Institute for Supply Management's business activity surveys, suggested ongoing expansion, while continuing claims for unemployment benefits remained near cyclical lows.

Business investments grew only modestly, but consumers continued to spend. In fact, consumer confidence rose to a level not experienced since before September 11, 2001. With consumers in a spending mode and consumer spending comprising about 70% of GDP, first quarter GDP remained strong and retail sales were healthy. In this positive economic environment, strong labor market conditions remained positive for domestic consumption.

While high energy prices remained a significant headwind for economic performance, supply no longer was the issue; demand, especially in China, drove prices up. At the end of the six-month report period, a barrel of oil cost \$56.50 versus \$42.55 at the beginning of 2005.

Though high oil and commodity prices could have hampered growth and stirred inflationary pressures, productivity gains, slow growth in the money supply and slack in the economy have mostly kept a lid on core inflation. The productivity gains, coupled with foreign central banks buying large amounts of U.S. Treasury securities, also helped to keep long-term interest rates under control. These conditions also caused the dollar to rally unexpectedly, which took a little bit of pressure off the price of imported goods.

Amid signs of solidly expanding output and improved hiring, the Fed continued to tighten. It increased short-term interest rates at each of the four meetings in the first half of 2005, ending the six-month report period at a still moderate 3.25%. The moves have had a limited impact



Karen Wiggan, a vice president of the investment adviser and senior portfolio manager, has been responsible for day-to-day management of the Government Money and U.S. Treasury Money funds since 1999. She joined the firm in 1987 and has worked in fixed income portfolio management since 1991.

on overall economic growth, due primarily to the record-low level of rates from which the increases began. Nonetheless, the higher rates succeeded in moving money fund yields higher, making them a more attractive investment vehicle.

The Schwab Government Money Fund took advantage of rising short-term interest rates and increased the percentage of variable rate securities in the Fund. The interest rates on these types of securities reset frequently, allowing the Fund's portfolio managers to capture the rise in market rates. Within this environment, we shortened the Fund's weighted average maturity (WAM) to allow its yield to more quickly reflect rising rates. The average maturity peaked at 46 days early in the year, settling in a range of 36 -42 days for the remainder of the period. During this time, we also took advantage of opportunities to extend the WAM when market conditions were favorable, as yields on longer-term securities became more attractive. We increased our position in repurchase agreements (repo) as the spread between agency discount notes and repo widened, providing a favorable yield advantage.

The Schwab U.S. Treasury Money Fund tracked the rising short-term rates, with the 3-month T-bill increasing from 2.25% to 3.11% during the six-month report period. Within this environment, we shortened the Fund's weighted average maturity (WAM) to allow its yield to more quickly reflect rising rates. During the period, we took advantage of opportunities to extend when yields on longer-term securities became more attractive and the WAM peaked at 57 days in April. In general, however, the WAM ranged from the mid 40s to the mid 50s during the report period.

The Schwab Value Advantage Money Fund was positioned for a continued rise in short-term interest rates by adding to our holdings of variable-rate securities. The interest rates on these types of securities reset frequently, allowing us the opportunity to capture a rise in market rates. To further take advantage of the rising-rate environment, we kept the weighted average maturity (WAM) short, at about 42 days. Keeping the WAM short provided flexibility to adapt and respond to the changes in interest rates. This is a similar strategy to our peers, as shortening the WAM enabled money funds to more quickly reinvest at higher rates

Nothing in this report represents a recommendation of a security by the investment adviser. Manager views and portfolio holdings may have changed since the report date.

Performance and Fund Facts as of 6/30/05

Seven-Day Yields

The seven-day yields are calculated using standard SEC formulas. The effective yield includes the effect of reinvesting daily dividends. Please remember that money market fund yields fluctuate.

Ticker Symbol	Government Money Fund	U.S. Treasury Money Fund	Value Advantage Money Fund		
	SWGXX	SWUXX	Investor Shares SWVXX	Select Shares* SWBXX	Institutional Shares SWAXX
Seven-Day Yield¹	2.43%	2.28%	2.77%	2.87%	2.98%
Seven-Day Yield—No Waiver²	2.34%	2.11%	2.66%	2.66%	2.66%
Seven-Day Effective Yield¹	2.46%	2.31%	2.81%	2.91%	3.02%

The performance data quoted represents past performance. Past performance does not guarantee future results. Current performance may be lower or higher than performance data quoted. To obtain more current performance information, please visit www.schwab.com/schwabfunds.

Statistics

Money funds must maintain a dollar-weighted average maturity of no longer than 90 days, and cannot invest in any security whose effective maturity is longer than 397 days (approximately 13 months).

	Government Money Fund	U.S. Treasury Money Fund	Value Advantage Money Fund
Weighted Average Maturity	36 days	55 days	41 days
Credit Quality of Holdings % of portfolio	100% Tier 1	100% Tier 1	100% Tier 1
Minimum Initial Investment³			
<i>Sweep Investments[™]</i>	*	*	n/a
<i>Investor Shares</i> (\$15,000 for IRA and custodial accounts)	n/a	n/a	\$25,000
<i>Select Shares</i>	n/a	n/a	\$1,000,000
<i>Institutional Shares</i>	n/a	n/a	\$3,000,000

An investment in a money fund is neither insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. Although money funds seek to preserve the value of your investment at \$1 per share, it is possible to lose money by investing in a money fund.

Portfolio holdings may have changed since the report date.

¹ Fund expenses have been partially absorbed by CSIM and Schwab.

² Yield if fund expenses had not been partially absorbed by CSIM and Schwab.

³ Please see prospectus for further detail and eligibility requirements.

* Subject to the eligibility terms and conditions of your Schwab account agreement.

Fund Expenses

Examples for a \$1,000 Investment

As a fund shareholder, you incur two types of costs: transaction costs, such as redemption fees; and, ongoing costs, such as management fees, transfer agent and shareholder services fees, and other fund expenses.

The expense examples below are intended to help you understand your ongoing cost (in dollars) of investing in a fund and to compare this cost with the ongoing cost of investing in other mutual funds. These examples are based on an investment of \$1,000 invested for six-months beginning January 1, 2005 and held through June 30, 2005.

Actual Return lines in the table below provide information about actual account values and actual expenses. You may use this information, together with the amount you invested, to estimate the expenses that you paid over the period. To do so, simply divide your account value by \$1,000 (for example, an \$8,600 account value ÷ \$1,000 = 8.6), then multiply the result by the number given for your fund or share class under the heading entitled "Expenses Paid During Period."

Hypothetical Return lines in the table below provide information about hypothetical account values and hypothetical expenses based on a fund's or share class' actual expense ratio and an assumed return of 5% per year before expenses. Because the return used is not an actual return, it may not be used to estimate the actual ending account value or expenses you paid for the period.

You may use this information to compare the ongoing costs of investing in the fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only, and do not reflect any transactional costs, such as redemption fees. If these transactional costs were included, your costs would have been higher.

	Expense Ratio ¹ (Annualized)	Beginning Account Value at 1/1/05	Ending Account Value (Net of Expenses) at 6/30/05	Expenses Paid During Period ² 1/1/05–6/30/05
Schwab Government Money Fund™				
Actual Return	0.75%	\$1,000	\$1,009.80	\$3.74
Hypothetical 5% Return	0.75%	\$1,000	\$1,021.08	\$3.76
Schwab U.S. Treasury Money Fund™				
Actual Return	0.65%	\$1,000	\$1,009.20	\$3.24
Hypothetical 5% Return	0.65%	\$1,000	\$1,021.57	\$3.26
Schwab Value Advantage Money Fund™				
<i>Investor Shares</i>				
Actual Return	0.45%	\$1,000	\$1,011.40	\$2.24
Hypothetical 5% Return	0.45%	\$1,000	\$1,022.56	\$2.26
<i>Select Shares*</i>				
Actual Return	0.35%	\$1,000	\$1,011.90	\$1.75
Hypothetical 5% Return	0.35%	\$1,000	\$1,023.06	\$1.76
<i>Institutional Shares</i>				
Actual Return	0.24%	\$1,000	\$1,012.50	\$1.20
Hypothetical 5% Return	0.24%	\$1,000	\$1,023.60	\$1.20

¹ Based on the most recent six-month expense ratio; may differ from the expense ratio provided in Financial Highlights.

² Expenses for each fund or share class are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 181 days of the period, and divided by 365 days of the fiscal year.

Schwab Government Money Fund™

Financial Statements

Financial Highlights

	1/1/05– 6/30/05*	1/1/04– 12/31/04	1/1/03– 12/31/03	1/1/02– 12/31/02	1/1/01– 12/31/01	1/1/00– 12/31/00
Per-Share Data (\$)						
Net asset value at beginning of period	1.00	1.00	1.00	1.00	1.00	1.00
Income from investment operations:						
Net investment income	0.01	0.01	0.00 ¹	0.01	0.04	0.06
Less distributions:						
Dividends from net investment income	(0.01)	(0.01)	(0.00) ¹	(0.01)	(0.04)	(0.06)
Net asset value at end of period	1.00	1.00	1.00	1.00	1.00	1.00
Total return (%)	0.98 ²	0.65	0.48	1.20	3.63	5.69
Ratios/Supplemental Data (%)						
Ratios to average net assets:						
Net operating expenses	0.75 ³	0.75	0.75	0.75	0.75	0.76 ⁴
Gross operating expenses	0.84 ³	0.83	0.83	0.83	0.84	0.85
Net investment income	1.97 ³	0.64	0.49	1.19	3.52	5.54
Net assets, end of period (\$ x 1,000,000)	2,393	2,535	2,838	3,092	3,054	2,509

* Unaudited.

¹ Per share amount was less than \$0.01.

² Not annualized.

³ Annualized.

⁴ The ratio of net operating expenses would have been 0.75% if certain non-routine expenses (proxy fees) had not been included.

Portfolio Holdings June 30, 2005; unaudited

This section shows all the securities in the fund's portfolio and their value, as of the report date.

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on the fund's most recent Form N-Q is available by visiting Schwab's website at www.schwab.com/schwabfunds.

- ▶ Delayed-delivery security
- ▲ All or a portion of this security are held as collateral for delayed-delivery security

For fixed-rate obligations, the rate shown is the effective yield at the time of purchase, except for U.S. government agency coupon notes and U.S. Treasury notes, for which the rate shown is the interest rate (the rate established when the obligation was issued). For variable-rate obligations, the rate shown is the rate as of the report date. For variable-rate obligations with scheduled maturities greater than 397 days, the maturity shown is the later of the next interest rate change date or demand date. For variable-rate obligations with scheduled maturities less than 397 days, the maturity shown is the earlier of the next interest rate change date or demand date. For variable-rate obligations without demand features, the maturity shown is the next interest rate change date.

Holdings by Category	Cost (\$x1,000)	Value (\$x1,000)
31.9% U.S. Government Securities	763,427	763,427
25.1% Variable-Rate Obligations	599,966	599,966
45.4% Other Investments	1,086,369	1,086,369
102.4% Total Investments	2,449,762	2,449,762
(2.4)% Other Assets and Liabilities		(56,621)
100.0% Net Assets		2,393,141

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
---	------------------------------------	------------------------------

U.S. Government Securities 31.9% of net assets**Discount Notes** 30.9%

Fannie Mae		
3.03%, 07/01/05	30,000	30,000
3.07%, 07/01/05	65,000	65,000
2.75%, 07/06/05	25,000	24,991
3.02%, 07/06/05	3,966	3,964
3.00%, 07/20/05	25,000	24,961
3.03%, 07/22/05	2,000	1,996
2.84%, 07/27/05	20,000	19,960
3.14%, 08/01/05	50,000	49,866
2.88%, 08/03/05	11,689	11,659
3.17%, 08/24/05	7,500	7,465
3.07%, 08/31/05	20,000	19,897
▶ 3.43%, 10/03/05	29,000	28,742
▶ 3.45%, 10/03/05	30,235	29,976
3.29%, 11/02/05	18,037	17,836
▲ 3.40%, 11/23/05	20,000	19,731
▲ 3.41%, 11/23/05	15,000	14,797
3.50%, 12/14/05	15,000	14,762
Federal Home Loan Bank		
3.12%, 09/07/05	15,470	15,380
Freddie Mac		
▲ 2.70%, 07/05/05	40,000	39,989
▲ 2.71%, 07/05/05	20,000	19,994
▲ 2.74%, 07/05/05	7,000	6,998
2.77%, 07/12/05	20,000	19,983
2.79%, 07/12/05	45,000	44,962
3.00%, 07/12/05	6,000	5,995
3.00%, 08/23/05	20,000	19,913
3.02%, 08/23/05	11,146	11,097
3.06%, 08/30/05	6,125	6,094
3.26%, 10/04/05	20,000	19,831
3.29%, 10/18/05	21,252	21,044
3.30%, 10/25/05	20,000	19,791
3.33%, 11/01/05	4,293	4,245
3.37%, 11/08/05	26,300	25,986
▲ 3.37%, 11/15/05	35,000	34,558
▲ 3.38%, 11/15/05	10,000	9,873
3.41%, 11/22/05	4,162	4,106
3.43%, 11/29/05	8,302	8,185
3.50%, 12/13/05	15,000	14,763

738,390

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Security	Maturity Amount (\$ x 1,000)	Value (\$ x 1,000)
Coupon Notes 1.0%					
Fannie Mae			Bear Stearns & Co., Inc.		
7.00%, 07/15/05	25,000	25,037	Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$181,708 3.45%, issued 06/30/05, due 07/01/05	128,012	128,000
Variable-Rate Obligations 25.1% of net assets					
Coupon Notes 25.1%					
Fannie Mae			Credit Suisse First Boston L.L.C.		
2.99%, 07/05/05	30,000	29,995	Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$183,981 3.40%, issued 06/30/05, due 07/01/05	130,380	130,369
3.04%, 07/07/05	40,000	39,965	3.18%, issued 06/16/05, due 07/07/05	30,056	30,000
3.05%, 07/07/05	25,000	24,993	3.25%, issued 06/24/05, due 07/07/05	20,023	20,000
3.21%, 07/29/05	50,000	49,996	Goldman Sachs & Co.		
3.22%, 09/06/05	50,000	49,995	Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$130,560 3.45%, issued 06/30/05, due 07/01/05	128,012	128,000
3.25%, 09/09/05	40,000	39,993	Morgan Stanley & Co., Inc.		
Federal Home Loan Bank			Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$183,600 3.03%, issued 04/15/05, due 07/07/05	35,245	35,000
3.02%, 07/05/05	35,000	34,979	3.09%, issued 04/28/05, due 07/07/05	30,180	30,000
3.05%, 07/05/05	60,000	59,992	3.12%, issued 05/02/05, due 07/07/05	35,200	35,000
3.14%, 07/18/05	50,000	49,996	3.19%, issued 06/17/05, due 07/07/05	40,071	40,000
3.22%, 07/26/05	40,000	39,999	3.26%, issued 06/23/05, due 07/07/05	40,051	40,000
3.10%, 08/02/05	40,000	39,974			
3.26%, 09/12/05	30,000	29,989			
3.12%, 08/10/05	46,000	45,974			
Freddie Mac					
3.08%, 07/07/05	64,125	64,126			
		599,966			
	Maturity Amount				
Security	(\$ x 1,000)				
Other Investments 45.4% of net assets					
Repurchase Agreements 45.4%					
Bank of America Securities L.L.C.					
Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$96,900 3.05%, issued 05/04/05, due 07/07/05	30,163	30,000			
3.10%, issued 05/20/05, due 07/07/05	25,103	25,000			
3.21%, issued 06/10/05, due 07/07/05	20,048	20,000			
3.25%, issued 06/03/05, due 07/07/05	20,061	20,000			

Portfolio Holdings continued

Security	Maturity Amount (\$ x 1,000)	Value (\$ x 1,000)
UBS Financial Services, Inc.		
Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$331,517		
3.07%, issued 05/10/05, due 07/07/05	20,099	20,000
3.14%, issued 05/27/05, due 07/07/05	35,125	35,000
3.16%, issued 06/02/05, due 07/07/05	25,077	25,000
3.17%, issued 05/17/05, due 07/07/05	50,225	50,000
3.21%, issued 05/25/05, due 07/07/05	25,096	25,000
3.25%, issued 05/31/05, due 07/07/05	40,134	40,000
3.25%, issued 06/01/05, due 07/07/05	30,098	30,000
3.27%, issued 06/06/05, due 07/07/05	15,042	15,000
3.30%, issued 06/07/05, due 07/07/05	40,110	40,000
3.32%, issued 06/13/05, due 07/07/05	30,066	30,000
3.51%, issued 06/21/05, due 07/07/05	15,023	15,000
		1,086,369

End of investments.

Statement of

Assets and Liabilities

As of June 30, 2005; unaudited. All numbers x 1,000 except NAV.

Unless stated, all numbers x 1,000.

Assets

Investments, at value	\$1,363,393
Repurchase agreements, at value	1,086,369
Interest receivable	+ 4,721
Total assets	2,454,483

The amortized cost for the fund's securities was \$2,449,762.

Liabilities

Payables:	
Dividends to shareholders	2,396
Investments bought	58,719
Investment adviser and administrator fees	55
Transfer agent and shareholder service fees	89
Trustees' fees	3
Accrued expenses	+ 80
Total liabilities	61,342

Net Assets

Total assets	2,454,483
Total liabilities	- 61,342
Net assets	\$2,393,141

Net Assets by Source

Capital received from investors	2,393,700
Net realized capital losses	(559)

Net Asset Value (NAV)

Net Assets	+	Shares Outstanding	=	NAV
\$ 2,393,141		2,394,253		\$1.00

Federal Tax Data

Cost basis of portfolio \$2,449,762

As of December 31, 2004:

Unused capital losses:

Expires 12/31 of:	Loss amount:
2005	\$226
2006	119
2007	184
2008	13
2010	1
2011	+ 16
	\$559

Statement of

Operations

For January 1, 2005 through June 30, 2005; unaudited. All numbers x 1,000.

Investment IncomeInterest **\$34,127****Expenses**

Investment adviser and administrator fees 4,538

Transfer agent and shareholder service fees 5,643

Trustees' fees 14

Custodian and portfolio accounting fees 104

Professional fees 16

Registration fees 68

Shareholder reports 53

Other expenses + 20

Total expenses 10,456

Expense reduction - 1,052

Net expenses 9,404**Increase in Net Assets from Operations****Total investment income 34,127****Net expenses - 9,404****Net investment income 24,723****Increase in net assets from operations \$24,723**

Unless stated, all numbers x 1,000.

Calculated on a graduated basis as a percentage of average daily net assets: 0.38% of the first \$1 billion, 0.35% over \$1 billion, 0.32% over \$10 billion, 0.30% over \$20 billion and 0.27% over \$40 billion. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

Calculated as a percentage of average daily net assets: for transfer agent services, 0.25% of the fund's assets; for shareholder services, 0.20% of the fund's assets. These fees are paid to Charles Schwab & Co., Inc. (Schwab)

For the fund's independent trustees only.

This reduction was made by the investment adviser (CSIM). It reflects a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the annual operating expenses through April 29, 2006 to 0.75% of average daily net assets. This limit excludes interest, taxes and certain non-routine expenses.

Statements of

Changes in Net Assets

For the current and prior report periods. All numbers x 1,000.
 Figures for the current period are unaudited.

Operations

	1/1/05-6/30/05	1/1/03-12/31/04
Net investment income	\$24,723	\$17,967
Increase in net assets from operations	24,723	17,967

Distributions Paid

Dividends from net investment income	24,723	17,967
--------------------------------------	---------------	---------------

Transactions in Fund Shares

Shares sold	4,167,575	8,723,826
Shares reinvested	22,057	17,617
Shares redeemed	+ (4,331,757)	(9,043,706)
Net transactions in fund shares	(142,125)	(302,263)

Net Assets

Beginning of period	2,535,266	2,837,529
Total decrease	+ (142,125)	(302,263)
End of period	\$2,393,141	\$2,535,266

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 12/31/04 are:

Ordinary income	\$17,967
Long-term capital gains	\$-

Because all transactions in this section took place at \$1.00 per share, figures for share quantities are the same as for dollars.

Represents the changes in net assets from operations plus the changes in value of transactions in fund shares, minus distributions paid.

Schwab U.S. Treasury Money Fund™

Financial Statements

Financial Highlights

	1/1/05– 6/30/05*	1/1/04– 12/31/04	1/1/03– 12/31/03	1/1/02– 12/31/02	1/1/01– 12/31/01	1/1/00– 12/31/00
Per-Share Data (\$)						
Net asset value at beginning of period	1.00	1.00	1.00	1.00	1.00	1.00
Income from investment operations:						
Net investment income	0.01	0.01	0.00 ¹	0.01	0.04	0.05
Less distributions:						
Dividends from net investment income	(0.01)	(0.01)	(0.00) ¹	(0.01)	(0.04)	(0.05)
Net asset value at end of period	1.00	1.00	1.00	1.00	1.00	1.00
Total return (%)	0.92 ²	0.62	0.49	1.15	3.61	5.40
Ratios/Supplemental Data (%)						
Ratios to average net assets:						
Net operating expenses	0.65 ³	0.65	0.65	0.65	0.65	0.66 ⁴
Gross operating expenses	0.83 ³	0.82	0.82	0.82	0.84	0.85
Net investment income	1.84 ³	0.61	0.49	1.15	3.44	5.27
Net assets, end of period (\$ x 1,000,000)	3,460	3,811	4,046	4,323	4,042	2,750

* Unaudited.

¹ Per share amount was less than \$0.01.

² Not annualized.

³ Annualized.

⁴ The ratio of net operating expenses would have been 0.65% if certain non-routine expenses (proxy fees) had not been included.

Portfolio Holdings as of June 30, 2005; unaudited

This section shows all the securities in the fund's portfolio and their value, as of the report date.

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on the fund's most recent Form N-Q is available by visiting Schwab's website at www.schwab.com/schwabfunds.

For fixed-rate obligations, the rate shown is the effective yield at the time of purchase, except U.S. Treasury notes, for which the rate shown is the interest rate (the rate established when the obligation was issued). For variable-rate obligations, the rate shown is the rate as of the report date. For variable-rate obligations with scheduled maturities greater than 397 days, the maturity shown is the later of the next interest rate change date or demand date. For variable-rate obligations with scheduled maturities less than 397 days, the maturity shown is the earlier of the next interest rate change date or demand date.

Holdings by Category	Cost (\$x1,000)	Value (\$x1,000)
99.9% U.S. Government Securities	3,456,183	3,456,183
99.9% Total Investments	3,456,183	3,456,183
0.1% Other Assets and Liabilities		3,510
100.0% Net Assets		3,459,693

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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U.S. Government Securities 99.9% of net assets

Treasury Bills 91.6%

U.S. Treasury Bills		
2.54%, 07/07/05	10,435	10,431
2.72%, 07/07/05	35,000	34,984
2.74%, 07/07/05	7,850	7,846

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
2.75%, 07/07/05	50,000	49,977
2.76%, 07/07/05	50,000	49,977
2.78%, 07/07/05	13,020	13,014
2.80%, 07/07/05	21,265	21,255
2.81%, 07/07/05	100,000	99,953
2.82%, 07/07/05	81,675	81,637
2.68%, 07/14/05	92,160	92,071
2.78%, 07/14/05	100,000	99,900
2.75%, 07/21/05	9,500	9,486
2.81%, 07/21/05	40,000	39,938
2.84%, 07/21/05	50,000	49,922
2.86%, 07/21/05	4,545	4,538
2.73%, 07/28/05	75,000	74,847
2.74%, 07/28/05	1,930	1,926
2.84%, 08/04/05	6,905	6,887
2.91%, 08/04/05	57,555	57,398
2.87%, 08/11/05	100,000	99,675
2.91%, 08/11/05	6,160	6,140
2.96%, 08/11/05	71,345	71,107
2.90%, 08/18/05	53,425	53,219
2.91%, 08/18/05	11,080	11,037
2.98%, 08/18/05	40,000	39,843
3.03%, 08/18/05	50,000	49,801
2.95%, 08/25/05	75,000	74,665
2.96%, 08/25/05	150,000	149,328
2.97%, 08/25/05	60,000	59,731
2.99%, 08/25/05	50,000	49,774
3.00%, 08/25/05	50,000	49,774
3.04%, 08/25/05	40,940	40,752
2.92%, 09/01/05	25,000	24,875
2.93%, 09/01/05	50,000	49,750
2.94%, 09/01/05	50,000	49,749
2.96%, 09/01/05	210,000	208,938
2.97%, 09/08/05	57,285	56,962
2.98%, 09/08/05	200,000	198,865
3.00%, 09/15/05	350,000	347,802
3.02%, 09/15/05	30,000	29,812
3.03%, 09/15/05	22,315	22,175
3.05%, 09/15/05	15,000	14,905
2.97%, 09/22/05	200,000	198,641
2.98%, 09/22/05	75,000	74,488
3.09%, 09/22/05	32,230	32,004
3.10%, 09/29/05	225,000	223,269
3.07%, 10/06/05	25,000	24,796
3.15%, 11/03/05	50,000	49,461
		3,167,325

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Value (\$ x 1,000)	Value (\$ x 1,000)
-------------------------------	----------------------------	-----------------------

Treasury Notes 8.3%

U.S. Treasury Notes		
6.50%, 08/15/05	287,635	288,858

End of investments.

Statement of

Assets and Liabilities

As of June 30, 2005; unaudited. All numbers x 1,000 except NAV.

Unless stated, all numbers x 1,000.

Assets

Investments, at value	\$3,456,183
Cash	2
Interest receivable	7,024
Prepaid expenses	+ 46
Total assets	3,463,255

The amortized cost for the fund's securities was \$3,456,183.

Liabilities

Payables:	
Dividends to shareholders	3,330
Investment adviser and administrator fees	53
Transfer agent and shareholder service fees	130
Trustees' fees	3
Accrued expenses	+ 46
Total liabilities	3,562

Net Assets

Total assets	3,463,255
Total liabilities	- 3,562
Net assets	\$3,459,693

Net Assets by Source

Capital received from investors	3,460,782
Net realized capital losses	(1,089)

Net Asset Value (NAV)

Net Assets	+	Shares Outstanding	=	NAV
\$3,459,693		3,460,846		\$1.00

Federal Tax Data

Cost basis of portfolio \$3,456,183

As of December 31, 2004:

Unused capital losses:

Expires 12/31 of:	Loss amount:
2005	\$62
2006	89
2007	580
2010	66
2011	75
2012	+ 125
	\$997

Deferred capital losses \$51

Statement of

Operations

For January 1, 2005 through June 30, 2005; unaudited. All numbers x 1,000.

Investment IncomeInterest **\$45,288****Net Realized Gains and Losses**Net realized losses on investments sold **(25)****Expenses**

Investment adviser and administrator fees 6,505

Transfer agent and shareholder service fees 8,172

Trustees' fees 17

Custodian and portfolio accounting fees 142

Professional fees 19

Registration fees 48

Shareholder reports 52

Other expenses + 32

Total expenses 14,987

Expense reduction - 3,182

Net expenses 11,805**Increase in Net Assets from Operations****Total investment income 45,288****Net expenses - 11,805****Net investment income 33,483****Net realized losses + (25)****Increase in net assets from operations \$33,458**

Unless stated, all numbers x 1,000.

Calculated on a graduated basis as a percentage of average daily net assets: 0.38% of the first \$1 billion, 0.35% over \$1 billion, 0.32% over \$10 billion, 0.30% over \$20 billion and 0.27% over \$40 billion. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

Calculated as a percentage of average daily net assets: for transfer agent services, 0.25% of the fund's assets; for shareholder services, 0.20% of the fund's assets. These fees are paid to Charles Schwab & Co., Inc. (Schwab)

For the fund's independent trustees only.

This reduction was made by the investment adviser (CSIM). It reflects a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the annual operating expenses through April 29, 2006 to 0.65% of average daily net assets. This limit excludes interest, taxes and certain non-routine expenses.

Statements of

Changes in Net Assets

For the current and prior report periods. All numbers x 1,000.
 Figures for the current period are unaudited.

Operations

	1/1/05-6/30/05	1/1/04-12/31/04
Net investment income	\$33,483	\$25,370
Net realized losses	+ (25)	(192)
Increase in net assets from operations	33,458	25,178

Distributions Paid

Dividends from net investment income	33,483	25,370
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Transactions in Fund Shares

Shares sold	5,925,875	11,353,793
Shares reinvested	29,764	25,007
Shares redeemed	+ (6,306,964)	(11,613,375)
Net transactions in fund shares	(351,325)	(234,575)

Net Assets

Beginning of period	3,811,043	4,045,810
Total decrease	+ (351,350)	(234,767)
End of period	\$3,459,693	\$3,811,043

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 12/31/04 are:

Ordinary income	\$25,370
Long-term capital gains	\$-

Because all transactions in this section took place at \$1.00 per share, figures for share quantities are the same as for dollars.

Represents the changes in net assets from operations plus the changes in value of transactions in fund shares, minus distributions paid.

Schwab Value Advantage Money Fund[®]

Financial Statements

Financial Highlights

Investor Shares	1/1/05– 6/30/05*	1/1/04– 12/31/04	1/1/03– 12/31/03	1/1/02– 12/31/02	1/1/01– 12/31/01	1/1/00– 12/31/00
Per-Share Data (\$)						
Net asset value at beginning of period	1.00	1.00	1.00	1.00	1.00	1.00
Income from investment operations:						
Net investment income	0.01	0.01	0.01	0.02	0.04	0.06
Less distributions:						
Dividends from net investment income	(0.01)	(0.01)	(0.01)	(0.02)	(0.04)	(0.06)
Net asset value at end of period	1.00	1.00	1.00	1.00	1.00	1.00
Total return (%)	1.14 ¹	0.98	0.80	1.55	4.05	6.22

Ratios/Supplemental Data (%)

Ratios to average net assets:						
Net operating expenses	0.45 ²	0.45	0.45	0.45	0.43	0.41 ³
Gross operating expenses	0.56 ²	0.56	0.55	0.54	0.56	0.60
Net investment income	2.30 ²	0.97	0.81	1.55	3.92	6.07
Net assets, end of period (\$ x 1,000,000)	22,543	23,365	28,860	38,728	44,247	36,319

Select Shares	1/1/05– 6/30/05*	1/1/04– 12/31/04	2/28/03 ⁴ – 12/31/03
Per-Share Data (\$)			
Net asset value at beginning of period	1.00	1.00	1.00
Income from investment operations:			
Net investment income	0.01	0.01	0.01
Less distributions:			
Dividends from net investment income	(0.01)	(0.01)	(0.01)
Net asset value at end of period	1.00	1.00	1.00
Total return (%)	1.19 ¹	1.09	0.72 ¹

Ratios/Supplemental Data (%)

Ratios to average net assets:			
Net operating expenses	0.35 ²	0.35	0.35 ²
Gross operating expenses	0.56 ²	0.56	0.55 ²
Net investment income	2.43 ²	1.10	0.83 ²
Net assets, end of period (\$ x 1,000,000)	1,559	1,209	1,013

* Unaudited.

¹ Not annualized.

² Annualized.

³ The ratio of net operating expenses would have been 0.40% if certain non-routine expenses (proxy fees) had not been included.

⁴ Commencement of operations.

Institutional Shares	1/1/05– 6/30/05*	1/1/04– 12/31/04	1/1/03– 12/31/03	7/1/02 ¹ – 12/31/02
Per-Share Data (\$)				
Net asset value at beginning of period	1.00	1.00	1.00	1.00
Income from investment operations:				
Net investment income	0.01	0.01	0.01	0.01
Less distributions:				
Dividends from net investment income	(0.01)	(0.01)	(0.01)	(0.01)
Net asset value at end of period	1.00	1.00	1.00	1.00
Total return (%)	1.25 ²	1.20	1.01	0.81 ²
Ratios/Supplemental Data (%)				
Ratios to average net assets:				
Net operating expenses	0.24 ³	0.24	0.24	0.24 ³
Gross operating expenses	0.56 ³	0.56	0.55	0.55 ³
Net investment income	2.51 ³	1.20	1.00	1.57 ³
Net assets, end of period (\$ x 1,000,000)	1,282	1,054	720	521

* Unaudited.

¹ Commencement of operations.

² Not annualized.

³ Annualized.

Portfolio Holdings as of June 30, 2005; unaudited

This section shows all the securities in the fund's portfolio and their value, as of the report date.

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on the fund's most recent Form N-Q is available by visiting Schwab's website at www.schwab.com/schwabfunds.

We use the symbols below to designate certain characteristics of the securities.

- ◆ Asset-backed security
- ✦ Credit-enhanced security
- Illiquid and/or restricted security

For fixed-rate obligations, the rate shown is the effective yield at the time of purchase, except U.S. Treasury notes, for which the rate shown is the interest rate (the rate established when the obligation was issued). For variable-rate obligations, the rate shown is the rate as of the report date. For variable-rate obligations with scheduled maturities greater than 397 days, the maturity shown is the later of the next interest rate change date or demand date. For variable-rate obligations with scheduled maturities less than 397 days, the maturity shown is the earlier of the next interest rate change date or demand date.

Holdings by Category	Cost (\$x1,000)	Value (\$x1,000)
64.5% Fixed-Rate Obligations	16,376,982	16,376,982
19.7% Variable-Rate Obligations	4,997,846	4,997,846
16.1% Other Investments	4,081,902	4,081,902
100.3% Total Investments	25,456,730	25,456,730
(0.3)% Other Assets and Liabilities		(73,045)
100.0% Net Assets		25,383,685

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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Fixed-Rate Obligations 64.5% of net assets**Commercial Paper & Other Corporate Obligations** 33.4%**AB Spintab**

2.95%, 08/08/05	25,000	24,923
3.25%, 09/22/05	50,000	49,631

Alliance & Leicester, PLC, Section 4(2) / 144A

3.20%, 09/12/05	50,000	49,681
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◆ Amstel Funding Corp., Section 4(2) / 144A

2.95%, 08/10/05	50,000	49,838
3.28%, 08/31/05	40,000	39,780

◆◆ Amsterdam Funding Corp., Section 4(2) / 144A

3.09%, 07/06/05	15,000	14,994
3.09%, 07/07/05	164,000	163,915
3.28%, 07/07/05	85,000	84,954
3.19%, 07/21/05	60,000	59,894
3.26%, 07/25/05	11,000	10,976

◆◆ Aquinas Funding, L.L.C., Section 4(2) / 144A

2.85%, 07/12/05	35,000	34,970
3.60%, 12/13/05	50,000	49,189
3.61%, 12/22/05	43,000	42,263

◆◆ ASAP Funding Ltd., Section 4(2) / 144A

3.29%, 08/02/05	173,000	172,496
3.23%, 08/08/05	28,000	27,905

◆◆ Atlantic Asset Securitization Corp., Section 4(2) / 144A

3.18%, 07/14/05	52,000	51,940
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◆ Atlantis One Funding Corp., Section 4(2) / 144A

2.82%, 07/11/05	32,990	32,965
2.87%, 07/20/05	57,000	56,915
2.87%, 07/22/05	101,055	100,888
2.98%, 08/12/05	148,000	147,492
3.25%, 09/20/05	8,000	7,942
3.39%, 11/16/05	78,826	77,820
3.44%, 11/18/05	57,230	56,478
3.60%, 12/20/05	16,000	15,729

Bank of America Corp.

3.31%, 10/06/05	60,000	59,473
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◆◆ Beta Finance, Inc., Section 3c7 / 144A

3.28%, 08/30/05	25,000	24,865
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◆◆ Blue Spice, L.L.C., Section 4(2) / 144A

3.29%, 07/12/05	17,000	16,983
3.26%, 07/22/05	100,000	99,810

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
◆ CC (USA), Inc., Section 3c7 / 144A			3.28%, 08/26/05	60,000	59,697
3.13%, 07/22/05	15,000	14,973	3.43%, 09/26/05	35,000	34,712
3.31%, 09/12/05	25,000	24,833	General Electric Capital Corp.		
3.46%, 09/29/05	53,000	52,546	2.86%, 07/21/05	225,000	224,648
Citigroup Global Markets Holdings, Inc.			◆ Giro Funding U.S. Corp., Section 4(2) / 144A		
3.17%, 08/02/05	322,000	321,098	3.13%, 07/08/05	35,000	34,979
3.27%, 09/01/05	190,000	188,940	3.18%, 07/13/05	35,000	34,963
◆+ Clipper Receivables Co., Section 4(2) / 144A			3.18%, 07/14/05	24,000	23,973
3.08%, 07/05/05	14,000	13,995	3.20%, 07/14/05	25,000	24,971
3.09%, 07/05/05	100,000	99,966	3.23%, 07/15/05	50,000	49,937
3.11%, 07/21/05	32,500	32,444	3.24%, 07/18/05	55,000	54,916
◆+ Concord Minutemen Capital Co., Series A Section 3c7 / 144A			3.27%, 07/21/05	35,000	34,937
2.78%, 07/06/05	36,000	35,986	3.24%, 07/22/05	35,000	34,934
2.80%, 07/06/05	30,000	29,989	◆+ Grampian Funding, LLC., Section 4(2) / 144A		
2.96%, 08/08/05	95,000	94,707	3.43%, 09/28/05	6,000	5,950
3.01%, 08/18/05	100,000	99,605	3.60%, 12/20/05	62,000	60,951
◆+ Crown Point Capital Co., L.L.C., Section 4(2) / 144A			HSBC U.S.A., Inc.		
3.17%, 07/26/05	86,000	85,812	3.32%, 08/01/05	13,000	12,963
3.30%, 09/07/05	15,000	14,907	+ ING (U.S.) Funding, LLCc		
3.32%, 09/21/05	54,000	53,598	3.25%, 07/20/05	10,000	9,983
3.44%, 11/16/05	80,000	78,962	Irish Life & Permanent, PLC, Section 4(2) / 144A		
◆ Dakota CP Notes of Citibank Credit Card Issuance Trust, Section 4(2) / 144A			3.30%, 09/12/05	39,450	39,188
3.25%, 07/20/05	200,000	199,658	3.30%, 09/13/05	32,000	31,785
3.17%, 07/25/05	75,000	74,843	3.45%, 11/10/05	36,500	36,046
3.17%, 07/26/05	52,000	51,886	◆+ Jupiter Securitization Corp., Section 4(2) / 144A		
3.17%, 07/27/05	224,000	223,491	3.14%, 07/14/05	101,314	101,199
3.30%, 09/06/05	173,373	172,316	3.29%, 07/14/05	10,015	10,003
3.30%, 09/07/05	47,000	46,709	3.19%, 07/19/05	100,000	99,841
◆ Dorada Finance, Inc., Section 3c7 / 144A			3.23%, 07/26/05	35,496	35,417
3.43%, 09/28/05	25,000	24,790	◆ K2 (USA), L.L.C., Section 3c7 / 144A		
◆+ Eiffel Funding, LLC., Section 4(2) / 144A			2.92%, 07/07/05	14,500	14,493
3.24%, 08/11/05	15,000	14,945	2.96%, 08/11/05	38,500	38,372
◆+ Fairway Finance Co., LLC, Section 4(2) / 144A			2.96%, 08/16/05	41,000	40,847
3.25%, 07/20/05	89,000	88,848	3.07%, 08/25/05	35,000	34,838
◆+ Falcon Asset Securitization Corp., Section 4(2) / 144A			3.31%, 09/12/05	20,000	19,867
3.13%, 07/14/05	51,172	51,114	3.35%, 10/03/05	70,000	69,399
3.18%, 07/18/05	40,110	40,050	3.38%, 11/08/05	10,000	9,880
3.19%, 07/19/05	100,000	99,841	3.51%, 12/09/05	20,000	19,691
3.26%, 07/25/05	110,000	109,762	+ KBC Financial Products International, Ltd., Section 4(2) / 144A		
◆ Galaxy Funding, Inc., Section 4(2) / 144A			3.37%, 10/12/05	50,000	49,526
3.09%, 07/20/05	35,000	34,943	◆+ Kitty Hawk Funding Corp., Section 4(2) / 144A		
3.12%, 07/26/05	33,000	32,929	3.26%, 07/25/05	31,287	31,219

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Bank of The West			Landesbank Hessen-Thuringen Girozentrale		
3.33%, 09/27/05	48,000	48,000	3.15%, 09/12/05	100,000	100,001
Bank of Tokyo-Mitsubishi, Ltd.			3.45%, 11/14/05	35,000	35,000
3.32%, 09/12/05	100,000	100,000	Lloyds TSB Bank, PLC		
Barclays Bank PLC			3.45%, 11/17/05	49,000	48,995
3.20%, 08/08/05	31,000	31,000	Mizuho Corp. Bank, Ltd.		
3.57%, 12/19/05	100,000	100,000	3.27%, 07/22/05	96,000	96,000
BNP Paribas			Nordea Bank Finland, PLC		
3.30%, 09/12/05	280,000	280,000	2.71%, 07/08/05	50,000	50,000
3.43%, 11/08/05	325,000	325,000	Royal Bank of Scotland, PLC		
3.46%, 11/28/05	163,000	163,000	2.17%, 07/01/05	75,000	75,000
Calyon			Skandinaviska Enskilda Banken AB		
2.95%, 08/10/05	103,000	103,000	3.20%, 07/22/05	80,000	80,000
3.40%, 11/10/05	195,000	195,000	Societe Generale		
Canadian Imperial Bank of Commerce			2.95%, 08/09/05	54,000	54,000
2.72%, 07/05/05	9,000	9,000	3.23%, 09/23/05	100,000	100,000
3.11%, 07/14/05	150,000	150,000	3.37%, 11/09/05	75,000	75,000
Credit Suisse First Boston			3.51%, 12/15/05	155,000	155,000
3.15%, 07/29/05	230,000	230,000	3.54%, 12/16/05	80,000	80,000
3.19%, 08/09/05	28,000	28,000	Svenska Handelsbanken AB		
3.27%, 09/02/05	180,000	180,000	3.19%, 08/10/05	376,500	376,500
Danske Bank A/S			Toronto Dominion Bank		
3.18%, 07/18/05	370,000	370,000	2.73%, 07/07/05	31,000	31,000
3.23%, 07/26/05	15,000	15,000	3.44%, 11/09/05	36,000	35,990
DePfa Bank, PLC			3.45%, 11/28/05	191,000	191,000
2.77%, 07/05/05	10,000	10,000	3.47%, 12/05/05	14,000	14,000
3.11%, 09/01/05	56,000	56,000	U.S. Bank, N.A.		
Deutsche Bank, AG			3.20%, 09/15/05	125,000	125,000
3.31%, 09/16/05	100,000	100,000	3.34%, 10/03/05	115,000	115,000
Dexia Credit Local			3.32%, 10/11/05	75,000	75,000
3.23%, 07/22/05	60,000	60,000	3.47%, 11/28/05	154,500	154,500
DnB NOR Bank ASA			UBS, AG		
3.25%, 09/22/05	20,000	20,000	2.71%, 07/08/05	215,000	215,000
+ HBOS Treasury Services, PLC			Unicredito Italiano SpA		
2.72%, 07/05/05	72,000	72,000	3.34%, 10/12/05	449,000	449,000
HSBC Bank, PLC			Washington Mutual Bank, FA		
3.11%, 07/25/05	95,000	95,000	3.32%, 09/19/05	80,000	80,000
3.03%, 08/22/05	200,000	200,000	3.27%, 09/26/05	39,000	39,000
HSBC Bank, USA			3.44%, 11/22/05	86,000	86,000
3.44%, 11/21/05	40,000	39,996	Wells Fargo Bank, N.A.		
KBC Bank NV			3.27%, 07/12/05	364,000	363,999
3.11%, 07/15/05	152,000	152,000	Wilmington Trust Co.		
Landesbank Baden-Wurtemberg			2.81%, 07/05/05	25,000	25,000
3.31%, 09/09/05	175,000	175,000			7,012,943

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Bank Notes 2.9%			◆ Dorada Finance, Inc., Section 3c7 / 144A		
Bank of America, N.A.			3.17%, 07/14/05	145,000	144,984
2.98%, 08/19/05	200,000	200,000	Fannie Mae		
2.98%, 08/23/05	350,000	350,000	2.99%, 07/05/05	100,000	99,983
Lasalle National Bank			3.21%, 07/29/05	200,000	199,985
3.18%, 08/01/05	180,000	180,000	Federal Home Loan Bank		
		730,000	3.05%, 07/05/05	225,000	224,970
Promissory Notes 0.6%			• GE Capital Assurance		
• The Goldman Sachs Group, Inc.			3.19%, 07/01/05	50,000	50,000
2.85%, 07/06/05	30,000	30,000	General Electric Capital Corp.		
2.93%, 07/15/05	120,000	120,000	3.34%, 07/18/05	225,000	225,000
		150,000	+ HBOS Treasury Service, PLC		
Variable-Rate Obligations 19.7% of net assets			3.09%, 07/05/05	92,000	92,000
+ Access Loans for Learning Student Loan Corp.			3.27%, 07/26/05	82,000	82,000
Taxable Student Loan RB Series II-A-6			HSH Nordbank, AG		
3.32%, 07/07/05	27,800	27,800	3.12%, 07/11/05	168,000	167,989
Bank of New York Co., Inc., 144A			J.P. Morgan Securities, Inc., 144A		
3.35%, 07/27/05	50,000	50,000	3.11%, 07/01/05	100,000	100,000
Barclays Bank, PLC			Landesbank Baden-Wurtemberg		
3.00%, 07/05/05	90,000	89,984	3.22%, 07/22/05	30,000	29,997
3.13%, 07/11/05	37,000	36,993	◆ Liberty Lighthouse U.S. Capital Co. L.L.C. 4(2) / 144A		
3.21%, 07/21/05	10,000	9,998	3.08%, 07/01/05	31,000	30,999
3.21%, 07/21/05	200,000	199,966	3.23%, 07/19/05	30,000	29,998
3.26%, 07/29/05	260,000	259,972	3.27%, 07/26/05	50,000	49,999
Bayerische Landesbank Girozentrale			3.29%, 07/29/05	40,000	39,996
3.25%, 07/29/05	75,000	74,992	◆+ Links Finance, L.L.C., Section 3c7 / 144A		
BNP Paribas			3.17%, 07/15/05	127,000	126,989
3.18%, 07/18/05	75,000	74,984	3.27%, 07/25/05	50,000	49,999
Canadian Imperial Bank of Commerce			3.30%, 07/26/05	25,000	25,000
3.28%, 07/15/05	100,000	100,000	+ Loanstar Assets Partners II, L.P.		
+ Central Baptist Church of Hixson, Tennessee			3.32%, 07/07/05	25,000	25,000
3.39%, 07/07/05	13,000	13,000	+ Merlot Trust Section 4(2) / 144A		
+ City of New Britain, Connecticut			Series 2000B		
GO Pension Bonds Series 1998			3.49%, 07/07/05	30,000	30,000
3.34%, 07/07/05	40,000	40,000	• Metropolitan Life Insurance Co.		
+ Columbus, Georgia Development Authority			3.18%, 07/01/05	100,000	100,000
Taxable RB (Jay Leasing, Inc. Project) Series 1997			3.16%, 07/30/05	50,000	50,000
3.36%, 07/07/05	5,700	5,700	• Monumental Life Insurance Co.		
			3.18%, 07/01/05	100,000	100,000
			3.21%, 07/01/05	10,000	10,000
			3.27%, 07/01/05	100,000	100,000
			Morgan Stanley		
			3.13%, 07/05/05	140,000	140,000

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
+ New Jersey Economic Development Authority			◆ White Pine Finance, L.L.C., Section 3c7 / 144A		
Taxable Economic Development Bonds (MSNBC CNBC Project) Series 1997A			3.26%, 07/20/05		
3.11%, 07/01/05	17,600	17,600	3.28%, 07/28/05	42,000	42,010
Norddeutsche Landesbank Girozentrale				45,000	44,999
3.10%, 07/05/05	130,000	129,982			
3.15%, 07/12/05	20,000	19,999			
3.17%, 07/14/05	75,000	74,985			4,997,846
Royal Bank of Canada					
3.20%, 07/11/05	40,000	40,000			
Royal Bank of Scotland, PLC					
3.09%, 07/05/05	90,000	89,988			
3.09%, 07/06/05	140,000	139,977			
3.24%, 07/21/05	20,000	20,000			
3.26%, 07/27/05	112,000	111,984			
3.36%, 07/29/05	18,000	17,998			
◆+ Sigma Finance, Inc., Section 3c7 / 144A					
3.17%, 07/15/05	49,125	49,120			
3.20%, 07/15/05	15,000	15,001			
3.21%, 07/15/05	20,000	20,000			
3.26%, 07/25/05	115,000	114,987			
3.26%, 07/25/05	100,000	99,998			
3.28%, 08/01/05	15,000	15,000			
• The Goldman Sachs Group, Inc.					
3.18%, 07/05/05	102,000	102,000			
3.32%, 07/30/05	87,000	87,000			
• The Goldman Sachs Group, Inc., 144A					
3.23%, 07/11/05	125,000	125,000			
+ Town of Islip, New York IDA, 144A					
Taxable Adjustable Rate IDRB (Nussdorf Associates/Quality King Distributions, Inc. Facility) Series 1992					
3.65%, 07/07/05	1,940	1,940			
• Travelers Insurance Co.					
3.16%, 07/01/05	25,000	25,000			
3.33%, 07/20/05	100,000	100,000			
3.38%, 07/29/05	25,000	25,000			
◆+ Wachovia Asset Securitization, Inc., 144A					
Series 2005-HM1A Class AMM					
3.29%, 07/25/05	40,000	40,000			
Wells Fargo & Co., 144A					
3.19%, 07/15/05	120,000	120,001			

Security Maturity Amount
(\$ x 1,000)

Other Investments 16.1% of net assets

Repurchase Agreements 16.1%

Bank of America Securities LLC.

Tri-Party Repurchase
Agreement Collateralized by
U.S. Government Securities
with a value of \$1,045,500
3.45%, issued 06/30/05,
due 07/01/05 1,025,098 1,025,000

Credit Suisse First Boston LLC.

Tri-Party Repurchase
Agreement Collateralized by
U.S. Government Securities
with a value of \$564,984
3.40%, issued 06/30/05,
due 07/01/05 184,920 184,902
3.09%, issued 05/25/05,
due 07/07/05 370,362 369,000

Goldman Sachs & Co.

Tri-Party Repurchase
Agreement Collateralized by
U.S. Government Securities
with a value of \$1,278,060
3.45%, issued 06/30/05,
due 07/01/05 1,253,120 1,253,000

J.P. Morgan Chase & Co.

Tri-Party Repurchase
Agreement Collateralized by
U.S. Government Securities
with a value of \$357,002
3.44%, issued 06/30/05,
due 07/01/05 350,033 350,000

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Acquisition Date Maturity Date	Face Amount (\$ x 1,000)	Cost/ Value (\$ x 1,000)
Morgan Stanley & Co. Inc.			At June 30, 2005 portfolio holdings included illiquid and/or restricted securities as follows:		
Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$613,320 3.40%, issued 06/30/05, due 07/01/05	300,028	300,000	Blue Spice, L.L.C., Section 4(2) / 144A		
3.45%, issued 06/30/05, due 07/01/05	300,029	300,000	3.29%, 06/28/05, 07/12/05	17,000	16,983
			3.26%, 06/22/05, 07/22/05	100,000	99,810
					116,793
UBS Financial Services, Inc.			GE Capital Assurance Co.		
Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$306,001 3.43%, issued 06/30/05, due 07/01/05	300,029	300,000	3.19%, 10/01/04, 07/01/05	50,000	50,000
		4,081,902	Metropolitan Life Insurance Co., 144A		
			3.16%, 12/28/00, 07/30/05	50,000	50,000
			Metropolitan Life Insurance Co.		
			3.18%, 02/01/05, 07/01/05	100,000	100,000
			Monumental Life Insurance Co.		
			3.18%, 10/10/96, 07/01/05	100,000	100,000
			3.27%, 01/12/00, 07/01/05	100,000	100,000
			3.27%, 06/10/93, 07/01/05	10,000	10,000
					210,000
End of investments.			Travelers Insurance Co.		
			3.38%, 10/29/04, 07/29/05	25,000	25,000
			3.16%, 01/31/05, 07/01/05	25,000	25,000
			3.33%, 08/20/04, 07/20/05	100,000	100,000
					150,000
			The Goldman Sachs Group, Inc.		
			3.18%, 02/03/05, 07/05/05	102,000	102,000
			2.85%, 01/06/05, 07/06/05	30,000	30,000
			2.93%, 01/19/05, 07/15/05	120,000	120,000
			3.32%, 02/22/05, 07/22/05	87,000	87,000
					339,000
			The Goldman Sachs Group, Inc., 144A		
			3.23%, 07/09/04, 07/11/05	125,000	125,000

Statement of

Assets and Liabilities

As of June 30, 2005; unaudited. All numbers x 1,000 except NAV.

Assets

Investments, at value	\$21,374,828
Repurchase agreements, at value	4,081,902
Receivables:	
Fund shares sold	127,384
Interest	54,854
Prepaid expenses	+ 304
Total assets	25,639,272

Liabilities

Payables:	
Fund shares redeemed	135,557
Dividends to shareholders	28,777
Investments bought	89,984
Investment adviser and administrator fees	450
Transfer agent and shareholder service fees	423
Trustees' fees	7
Accrued expenses	+ 389
Total liabilities	255,587

Net Assets

Total assets	25,639,272
Total liabilities	- 255,587
Net assets	\$25,383,685

Net Assets by Source

Capital received from investors	25,383,788
Net realized capital losses	(103)

Net Asset Value (NAV) by Share Class

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Investor Shares	\$22,542,705		22,542,916		\$1.00
Select Shares	\$1,558,706		1,558,706		\$1.00
Institutional Shares	\$1,282,274		1,282,275		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost of the fund's securities was \$25,456,730. Includes restricted and/or illiquid securities worth \$1,140,793, or 4.5% of the fund's total net assets. Also, includes other restricted but deemed liquid securities comprised of 144A, section 4(2) and 3c7 securities, worth \$7,598,507 or 29.9% of the fund's total net assets.

Federal Tax Data**Cost basis of portfolio** \$25,456,730**As of December 31, 2004:****Unused capital losses:**Expires 12/31 of: Loss amount:
2005 \$103

Statement of

Operations

For January 1, 2005 through June 30, 2005; unaudited. All numbers x 1,000.

Investment IncomeInterest **\$353,297****Expenses**

Investment adviser and administrator fees 42,101

Transfer agent and shareholder service fees:

Investor Shares 25,135

Select Shares 1,608

Institutional Shares 1,477

Trustees' fees 47

Custodian and portfolio accounting fees 1,077

Professional fees 55

Registration fees 339

Shareholder reports 162

Other expenses + 171

Total expenses 72,172

Expense reduction - 16,592

Net expenses 55,580**Increase in Net Assets from Operations****Total investment income 353,297****Net expenses - 55,580****Net investment income 297,717****Increase in net assets from operations \$297,717**

Unless stated, all numbers x 1,000.

Calculated on a graduated basis as a percentage of average daily net assets: 0.38% of the first \$1 billion, 0.35% over \$1 billion, 0.32% over \$10 billion, 0.30% over \$20 billion and 0.27% over \$40 billion. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

Calculated as a percentage of average daily net assets: for transfer agent services, 0.05% of the fund's assets; for shareholder services 0.17% of the fund's assets. These fees are paid by Charles Schwab & Co., Inc. (Schwab)

For the fund's independent trustees only.

Includes \$14,452 from the investment adviser (CSIM) and \$2,140 from the transfer agent and shareholder service agent (Schwab). These reductions reflect a guarantee by CSIM and Schwab to limit the annual operating expenses through April 29, 2006, as follows:

Share Class	% of Average Daily Net Assets
Investor Shares	0.45
Select Shares	0.35
Institutional Shares	0.24

This limit excludes interest, taxes and certain non-routine expenses.

Statements of

Changes in Net Assets

For the current and prior report periods. All numbers x 1,000.
 Figures for the current period are unaudited.

Operations

	1/1/05-6/30/05	1/1/04-12/31/04
Net investment income	\$297,717	\$275,461
Increase in net assets from operations	297,717	275,461

Distributions Paid

Dividends from net investment income		
Investor Shares	263,124	251,075
Select Shares	17,724	12,183
Institutional Shares	+ 16,869	12,203
Total dividends from net investment income	297,717	275,461

Transactions in Fund Shares**Shares Sold**

Investor Shares	10,819,847	18,381,853
Select Shares	1,812,737	2,590,824
Institutional Shares	+ 1,946,809	2,979,806
Total shares sold	14,579,393	23,952,483

Shares Reinvested

Investor Shares	215,782	229,151
Select Shares	14,209	10,546
Institutional Shares	+ 13,154	10,215
Total shares reinvested	243,145	249,912

Shares Redeemed

Investor Shares	(11,858,420)	(24,105,952)
Select Shares	(1,477,131)	(2,405,370)
Institutional Shares	+ (1,731,290)	(2,656,903)
Total shares redeemed	(15,066,841)	(29,168,225)

Net transactions in fund shares

	(244,303)	(4,965,830)
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Net Assets

Beginning of period	25,627,988	30,593,818
Total decrease	+ (244,303)	(4,965,830)
End of period	\$25,383,685	\$25,627,988

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 12/31/04 are:

Ordinary income	\$275,461
Long-term capital gains	\$-

Because all transactions in this section took place at \$1.00 per share, figures for share quantities are the same as for dollars.

Represents shares sold plus shares reinvested, minus shares redeemed.

Represents the changes in net assets from operations plus the changes in value of transactions in fund shares, minus distributions paid.

Financial Notes unaudited

Business Structure of the Funds

Each of the funds discussed in this report is a series of The Charles Schwab Family of Funds, a no-load, open-end management investment company. The company is organized as a Massachusetts business trust and is registered under the Investment Company Act of 1940, as amended. The sidebar shows the funds in this report and their trust.

The Schwab Value Advantage Money Fund offers three share classes: Investor Shares, Select Shares and Institutional Shares. Shares of each class represent interest in the same portfolio, but each class has different expenses and investment minimums. The Schwab Government Money and U.S. Treasury Money Funds each offers one share class.

Shares are bought and sold at \$1.00 per share. Each share has a par value of 1/1,000 of a cent, and the trust may issue as many shares as necessary.

Fund Operations

Most of the funds' investments are described in the sections earlier in this report. However, there are certain other fund operations and policies that may affect a fund's financials, as described below. Other policies concerning the funds' business operations also are described here.

The funds declare dividends every day they are open for business. These dividends, which are equal to a fund's net investment income for that day, are paid out to shareholders once a month. The funds may make distributions from any net realized capital gains once a year.

The funds may buy securities on a delayed-delivery basis. In these transactions, a fund agrees to buy a security for a stated price, with settlement generally occurring

within two weeks. If the security's value falls before settlement occurs, a fund could end up paying more for the security than its market value at the time of settlement. The funds have set aside sufficient securities as collateral for those securities bought on a delayed-delivery basis.

The funds may enter into repurchase agreements. In a repurchase agreement, a fund buys a security from another party (usually a financial institution) with the agreement that it be sold back in the future. The date, price and other conditions are all specified when the agreement is created. Any repurchase agreements with due dates later than seven days from issue dates may be subject to seven day put features for liquidity purposes.

The funds' repurchase agreements will be fully collateralized by U.S. government securities. All collateral is held by the funds' custodian (or, with tri-party agreements, the agent's bank) and is monitored daily to ensure that its market value is at least equal to the repurchase price under the agreement.

The Trust and Its Funds

This list shows all of the funds included in The Charles Schwab Family of Funds. The funds discussed in this report are highlighted.

The Charles Schwab Family of Funds

organized October 20, 1989

Schwab Money Market Fund

Schwab Government Money Fund

Schwab U.S. Treasury Money Fund

Schwab Value Advantage Money Fund

Schwab Municipal Money Fund

Schwab California Municipal Money Fund

Schwab New York Municipal Money Fund

Schwab New Jersey Municipal Money Fund

Schwab Pennsylvania Municipal Money Fund

Schwab Florida Municipal Money Fund

Schwab Massachusetts Municipal Money Fund

Schwab Retirement Advantage Money Fund

Schwab Retirement Money Fund

Schwab Government Cash Reserves

Schwab Advisor Cash Reserves

Schwab Cash Reserves

The funds pay fees to affiliates of the investment adviser for various services. Through their trust, the funds have agreements with Charles Schwab Investment Management, Inc. (CSIM) to provide investment advisory and administrative services and with Charles Schwab & Co., Inc. (Schwab) to provide transfer agent and shareholder services.

Although these agreements specify certain fees for these services, CSIM and Schwab have made additional agreements with the funds that may limit the total expenses charged. The rates and limitations for these fees vary from fund to fund, and are described in each fund's Statement of Operations.

The funds may engage in certain transactions involving affiliates. The funds may make direct transactions with certain other Schwab Funds® when practical. When one fund is seeking to sell a security that another is seeking to buy, an interfund transaction can allow both funds to benefit by reducing transaction costs. This practice is limited to funds that share the same investment adviser, trustees and officers.

Pursuant to an exemptive order issued by the SEC, the funds may enter into interfund borrowing and lending transactions within the Schwab Funds. All loans are for temporary or emergency purposes only. The interest rate charged on the loan is the average of the overnight repurchase agreement rate and the short-term bank loan rate. The interfund lending facility is subject to the oversight and periodic review of the Board of Trustees of the Schwab Funds.

Trustees may include people who are officers and/or directors of the investment adviser or Schwab. Federal securities law limits the percentage of such "interested persons" who may serve on a trust's board, and the trust was in compliance with these limitations throughout the report period. The trust did not pay any of these persons for their service as trustees, but it did pay non-interested persons (independent trustees), as noted in each fund's Statement of Operations.

The funds may borrow money from banks and custodians. The funds may obtain temporary bank loans through the trust to which the funds belong, to use for meeting shareholder redemptions or for extraordinary or emergency purposes. The Schwab Funds have custodian overdraft facilities and line of credit arrangements of \$150 million and \$100 million with PNC Bank, N.A. and Bank of America, N.A., respectively. The funds pay interest on the amounts they borrow at rates that are negotiated periodically. There was no borrowing for any funds during the period.

The funds intend to meet federal income and excise tax requirements for regulated investment companies. Accordingly, the funds distribute substantially all of their net investment income and net realized capital gains (if any) to their respective shareholders each year. As long as a fund meets the tax requirements, it is not required to pay federal income tax. The net investment and net realized capital gains and losses may differ for financial statement and tax purpose primarily due to differing treatments of wash sale losses and market discount.

Under the funds' organizational documents, its officers and trustees are indemnified against certain liability arising out of the performance of their duties to the funds. In addition, in the normal course of business the funds enter into contracts with their vendors and others that provide general indemnifications. The funds' maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the funds. However, based on experience, the funds expect the risk of loss to be remote.

Accounting Policies

The following are the main policies the funds use in preparing their financial statements.

The funds value their securities at amortized cost, which approximates market value.

Security transactions are recorded as of the date the order to buy or sell the security is executed.

Interest income is recorded as it accrues. If a fund buys a debt security at a discount (that is, for less than its face value) or a premium (more than face value), it amortizes the discount or premium from the current date up to maturity. The fund then increases (in the case of discounts) or reduces (in the case of premiums) the income it records from the security. If the security is callable (meaning that the issuer has the option to pay it off before its maturity date), then the fund amortizes the premium to the security's call date and price, rather than the maturity date and price.

Realized gains and losses from security transactions are based on the identified costs of the securities involved.

Expenses that are specific to a fund or a class are charged directly to that fund or class. Expenses that are common to all funds within the trust generally are allocated among the funds in proportion to their average daily net assets.

For funds offering multiple share classes, all of the realized and unrealized gains or losses and net investment income, other than class specific expenses, are allocated daily to each class in proportion to its net assets.

Each fund maintains its own account for purposes of holding assets and accounting, and is considered a separate entity for tax purposes. Within its account, each fund also may keep certain assets in segregated accounts, as required by securities law.

The accounting policies described above conform with accounting principles generally accepted in the United States of America. Notwithstanding this, shareholders should understand that in order to follow these principles, fund management has to make estimates and assumptions that affect the information reported in the financial statements. It's possible that once the results are known, they may turn out to be different from these estimates.

Investment Advisory Agreement Approval

The Investment Company Act of 1940 (the “1940 Act”) requires that initial approval of, as well as the continuation of, a fund’s investment advisory agreement must be specifically approved (1) by the vote of the trustees or by a vote of the shareholders of the fund, and (2) by the vote of a majority of the trustees who are not parties to the investment advisory agreement or “interested persons” of any party (the “Independent Trustees”), cast in person at a meeting called for the purpose of voting on such approval. In connection with such approvals, the fund’s trustees must request and evaluate, and the investment adviser is required to furnish, such information as may be reasonably necessary to evaluate the terms of the advisory agreement. In addition, the Securities and Exchange Commission (the “SEC”) takes the position that, as part of their fiduciary duties with respect to fund fees, fund boards are required to evaluate the material factors applicable to a decision to approve an investment advisory agreement.

Consistent with these responsibilities, the Board of Trustees (the “Board”) calls and holds one or more meetings each year that are dedicated, in whole or in part, to considering whether to renew the investment advisory agreement between The Charles Schwab Family of Funds (the “Trust”) and CSIM (the “Agreement”) with respect to existing funds in the Trust, including the Schwab Government Money Fund, the Schwab U.S. Treasury Money Fund and the Schwab Value Advantage Money Fund, and to review certain other agreements pursuant to which CSIM provides investment advisory services to certain other registered investment companies. In preparation for the meeting(s), the Board requests and reviews a wide variety of materials provided by CSIM, including information about CSIM’s affiliates, personnel and operations. The Board also receives extensive data provided by third parties. This information is in addition to the detailed information about the funds that the Board reviews during the course of each year, including information that relates to fund operations

and fund performance. The trustees also receive a memorandum from fund counsel regarding the responsibilities of trustees for the approval of investment advisory contracts. In addition, the Independent Trustees receive advice from independent counsel to the Independent Trustees, meet in executive session outside the presence of fund management and participate in question and answer sessions with representatives of CSIM.

At the May 24, 2005 meeting of the Board, the trustees, including a majority of the Independent Trustees, approved the renewal of the Agreement on an interim basis through September 30, 2005. In connection with the interim approval of the Agreement, the Board requested that CSIM prepare responses to certain questions outlined below in advance of the next regularly scheduled Board meeting. The Board’s approval of the Agreement was based on consideration and evaluation of a variety of specific factors discussed at that meeting and at prior meetings, including:

1. the nature, extent and quality of the services provided to the funds under the Agreement, including the resources of CSIM and its affiliates dedicated to the funds;
2. each fund’s investment performance and how it compared to that of certain other comparable mutual funds;
3. each fund’s expenses and how those expenses compared to those of certain other comparable mutual funds;
4. the profitability of CSIM and its affiliates, including Schwab, with respect to each fund, including both direct and indirect benefits accruing to CSIM and its affiliates; and
5. the extent to which economies of scale would be realized as the funds grow and whether fee levels in the Agreement reflect those economies of scale for the benefit of fund investors.

Nature, Extent and Quality of Services. The Board considered the nature, extent and quality of the services provided by CSIM to the funds and the resources of CSIM and its affiliates dedicated to the funds. In this regard, the trustees evaluated, among other things, CSIM's personnel, experience, track record and compliance program. The trustees also considered the fact that Schwab's extensive branch network, Internet access, investment and research tools, telephone services, and array of account features benefit the funds. The trustees also considered Schwab's excellent reputation as a full service brokerage firm and its overall financial condition. Finally, the trustees considered that the vast majority of the funds' investors are also brokerage clients of Schwab, and that CSIM and its affiliates are uniquely positioned to provide services and support to the funds and such shareholders. Following such evaluation, the Board concluded, within the context of its full deliberations, that the nature, extent and quality of services provided by CSIM to the funds and the resources of CSIM and its affiliates dedicated to the funds supported interim renewal of the Agreement.

Fund Performance. The Board considered fund performance in determining whether to renew the Agreement. Specifically, the trustees considered each fund's performance relative to a peer group of other mutual funds and appropriate indices/benchmarks, in light of total return, yield and market trends. As part of this review, the trustees considered the composition of the peer group, selection criteria and the reputation of the third party who prepared the peer group analysis. In evaluating the performance of each fund, the trustees considered both risk and shareholder risk expectations for such fund. The Board noted that certain funds, including the U.S. Treasury Money Fund, had lower performance relative to their respective peer groups than other funds, and inquired as to the underlying reasons for this relative performance. The Board

also requested that CSIM evaluate the reasons for such funds' relative performance, consider appropriate measures to address the performance and report the results of their findings at the next Board meeting. Following such evaluation, and based upon CSIM's agreement to perform such analyses, etc. relating to performance, the Board concluded, within the context of its full deliberations, that the performance of the funds supported interim renewal of the Agreement.

Fund Expenses. With respect to the funds' expenses, the trustees considered the rate of compensation called for by the Agreement, and each fund's net operating expense ratio, in each case, in comparison to those of other comparable mutual funds, such peer groups and comparisons having been selected and calculated by an independent third party. The trustees considered the effects of CSIM's and Schwab's voluntary waiver of management and other fees to prevent total fund expenses from exceeding a specified cap. The trustees also considered fees charged by CSIM to other mutual funds and to other types of accounts, such as wrap accounts and offshore funds, but, with respect to such other types of accounts, accorded less weight to such comparisons due to the unique legal, regulatory, compliance and operating features of mutual funds as compared to these other types of accounts. Following such evaluation the Board concluded, within the context of its full deliberations, that the expenses of the funds are reasonable and supported interim renewal of the Agreement.

Profitability. With regard to profitability, the trustees considered the compensation flowing to CSIM and its affiliates, directly or indirectly. In this connection, the trustees reviewed management's profitability analyses, together with certain commentary thereon from an independent accounting firm. The trustees also considered any other benefits derived by CSIM from its relationship with the funds, such as whether, by virtue of its manage-

ment of the Funds, CSIM obtains investment information or other research resources that aid it in providing advisory services to other clients. The trustees considered whether the varied levels of compensation and profitability under the Agreement and other service agreements were reasonable and justified in light of the quality of all services rendered to each fund by CSIM and its affiliates. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the profitability of CSIM is reasonable and supported interim renewal of the Agreement.

Economies of Scale. The trustees considered the existence of any economies of scale and whether those are passed along to a fund's shareholders through a graduated investment advisory fee schedule or other means, including any fee waivers by CSIM and its affiliates. In this regard, and consistent with their consideration of fund expenses, the trustees considered that CSIM and Schwab have previously committed resources to minimize the effects on shareholders of diseconomies of scale during periods when fund assets were relatively small through their contractual expense waivers. For example, such diseconomies of scale may particularly affect newer funds or funds with investment strategies that are from time to time out of favor, but shareholders may benefit from the continued availability of such funds at subsidized expense levels. The trustees also considered CSIM's agreement to contractual investment advisory fee schedules which include lower fees at higher graduated asset levels. With respect to the U.S. Treasury Money Fund, the Board also considered Schwab's agreement that that fund's net operating expenses (excluding interest, taxes and certain non-routine expenses) would not exceed 63 (sixty-three) basis points for the period July 1, 2005 until July 1, 2006. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the funds obtain reasonable benefit from economies of scale.

In the course of their deliberations, the trustees did not identify any particular information or factor that was all-important or controlling. Based on the trustees' deliberation and their evaluation of the information described above, the Board, including all of the Independent Trustees, unanimously approved the interim continuation of the Agreement and concluded that the compensation under the Agreement is fair and reasonable in light of such services and expenses and such other matters as the trustees have considered to be relevant in the exercise of their reasonable judgment.

Trustees and Officers

A fund's Board of Trustees is responsible for protecting the interests of that fund's shareholders. The tables below give information about the people who serve as trustees and officers for the Schwab Funds®, including the funds covered in this report. Trustees remain in office until they resign, retire or are removed by shareholder vote.¹

Under the Investment Company Act of 1940, any officer, director, or employee of Schwab or CSIM is considered an “interested person,” meaning that he or she is considered to have a business interest in Schwab or CSIM. These individuals are listed as “interested trustees.” The “independent trustees” are individuals who, under the 1940 Act, are not considered to have a business interest in Schwab or CSIM.

Each of the 56 Schwab Funds belongs to one of these trusts: The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust or Schwab Annuity Portfolios. Currently all these trusts have the same trustees and officers. The address for all trustees and officers is 101 Montgomery Street, San Francisco, CA 94104. You can find more information about the trustees and officers in the Statement of Additional Information, which is available free by calling 1-800-435-4000.

Interested Trustees and Officers

Name and Birthdate	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
Charles R. Schwab ² 7/29/37	Chairman, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Director, The Charles Schwab Corp., Charles Schwab & Co., Inc.; Chair, Director, Charles Schwab Investment Management, Inc.; Chair, Charles Schwab Holdings (UK); Chair, Director, U.S. Trust Corp., United States Trust Co. of New York, U.S. Trust Co., N.A.; CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, Charles Schwab Bank, N.A., The Charles and Helen Schwab Foundation, All Kinds of Minds (education); Trustee, Stanford University. <i>Until 5/04:</i> Director, The Gap, Inc. (clothing retailer). <i>Until 5/03:</i> Co-CEO, The Charles Schwab Corp. <i>Until 3/02:</i> Director, Audiobase, Inc. (Internet audio solutions). <i>Until 5/02:</i> Director, Vodafone AirTouch PLC (telecommunications). <i>Until 7/01:</i> Director, The Charles Schwab Trust Co.

¹ The Schwab Funds retirement policy requires that independent trustees elected after January 1, 2000 retire at age 72 or after twenty years of service as a trustee, whichever comes first. Independent trustees elected prior to January 1, 2000 will retire on the following schedule: Messrs. Holmes and Dorward will retire on December 31, 2007, and Messrs. Stephens and Wilsey will retire on December 31, 2010.

² In addition to his position with the investment adviser and the distributor, Mr. Schwab also owns stock of The Charles Schwab Corporation.

Interested Trustees but Not Officers

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Randall W. Merk 7/25/54	2005 (all trusts).	EVP, President, AMPS Enterprise. <i>Until 7/04</i> : President, CEO, Charles Schwab Investment Management, Inc.; VP, Charles Schwab & Co., Inc. <i>Until 8/02</i> : President, Chief Investment Officer, American Century Management; Director, American Century Companies, Inc. <i>Until 6/01</i> : Chief Investment Officer, Fixed Income, American Century Companies, Inc.

Officers of the Trust

Name and Birthdate	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
Evelyn Dilsaver 5/4/55	President, CEO (all trusts).	EVP, President, Director, Charles Schwab Investment Management, Inc. <i>Until 7/04</i> : SVP for Development and Distribution, Asset Management Products and Services Enterprise. <i>Until 6/03</i> : EVP, CFO, Chief Administrative Officer, U.S. Trust.
Stephen B. Ward 4/5/55	SVP, Chief Investment Officer (all trusts).	SVP, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co.
Kimon Daifotis 7/10/59	SVP, Chief Investment Officer (all trusts).	<i>Since 9/04</i> : Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Since 6/04</i> : SVP, Charles Schwab Investment Management, Inc. <i>Until 6/04</i> : VP, Charles Schwab Investment Management, Inc.
Jeffrey Mortimer 9/29/63	SVP, Chief Investment Officer (all trusts).	<i>Since 5/04</i> : SVP, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc. <i>Since 6/04</i> : VP, Chief Investment Officer, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 5/04</i> : VP, Charles Schwab Investment Management, Inc.
Randall Fillmore 11/11/60	Chief Compliance Officer (all trusts).	<i>Since 9/04</i> : SVP, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Chief Compliance Officer, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 9/04</i> : VP, Charles Schwab & Co., Inc., Charles Schwab Investment Management, Inc. <i>Until 2002</i> : VP of Internal Audit, Charles Schwab & Co., Inc. <i>Prior to 2000</i> : PricewaterhouseCoopers.
Koji E. Felton 3/13/61	Secretary (all trusts).	SVP, Chief Counsel, Assistant Corporate Secretary, Charles Schwab Investment Management, Inc. <i>Until 6/98</i> : Branch Chief in Enforcement, U.S. Securities and Exchange Commission, San Francisco.
George Pereira 6/9/64	Treasurer, Principal Financial Officer (all trusts).	<i>Since 11/04</i> : SVP, CFO, Charles Schwab Investment Management, Inc. <i>Until 11/04</i> : SVP, Financial Reporting, Charles Schwab & Co., Inc. <i>Until 12/99</i> : CFO, Commerzbank Capital Markets. <i>Until 9/99</i> : Managing Director at the New York Stock Exchange.

Independent Trustees

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Mariann Byerwalter 8/13/60	2000 (all trusts).	Chair, JDN Corp. Advisory LLC (real estate); Trustee, Stanford University, America First Cos., Omaha, NE (venture capital/fund management), Redwood Trust, Inc. (mortgage finance), Stanford Hospitals and Clinics, SRI International (research), PMI Group, Inc. (mortgage insurance), Lucile Packard Children's Hospital. <i>Since 2/05:</i> Director, Pacific Mutual Holding Company (insurance). <i>Since 2004:</i> Laudus Trust, Laudus Variable Insurance Trust. <i>Until 2001:</i> Stanford University, Special Assistant to the President. <i>From 1996-2001:</i> VP of Business Affairs, CFO.
Donald F. Dorward 9/23/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	CEO, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999:</i> EVP, Managing Director, Grey Advertising. <i>Until 1996:</i> President, CEO, Allen & Dorward Advertising.
William A. Hasler 11/22/41	2000 (all trusts).	Dean Emeritus, Haas School of Business, University of California, Berkeley; Director, Apton Corp. (bio-pharmaceuticals); Non-Executive Chair, Solectron Corp. (manufacturing), Mission West Properties (commercial real estate), Stratex Networks (network equipment), TOUSA (home building); Public Governor, Member, executive committee, Pacific Stock & Options Exchange. <i>Since 2004:</i> Trustee, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 2/04:</i> Co-CEO, Apton Corp. (bio-pharmaceuticals).
Robert G. Holmes 5/15/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Director, Semloh Financial, Inc. (international financial services and investment advisory firm).
Gerald B. Smith 9/28/50	2000 (all trusts).	Chair, CEO, Founder, Smith Graham & Co. (investment advisers); Trustee, Cooper Industries (electrical products, tools and hardware); Chairman, audit committee, Northern Border Partners, L.P. (energy).
Donald R. Stephens 6/28/38	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996:</i> Chair, CEO, North American Trust (real estate investment trust).
Michael W. Wilsey 8/18/43	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Wilsey Bennett, Inc. (real estate investment and management, and other investments).

Glossary

agency discount notes Notes issued by federal agencies—known as Government Sponsored Enterprises, or GSEs—at a discount to their value at maturity. An agency discount note is a short-term investment alternative offering a high degree of credit quality.

Alternative Minimum Tax (AMT) A federal income tax designed to limit the extent to which high-income taxpayers (including individuals, estates, trusts and corporations) can benefit from certain deductions and exemptions. For example, some types of income that are exempt from regular federal income tax are not exempt from the AMT.

asset-backed securities Bonds or other debt securities that represent ownership in a pool of assets such as credit card debt.

bond A security representing a loan from the investor to the issuer. A bond typically pays interest at a fixed rate (the “coupon rate”) until a specified date (the “maturity date”), at which time the issuer returns the money borrowed (“principal” or “face value”) to the bondholder. Because of their structure, bonds are sometimes called “fixed income securities” or “debt securities.”

An individual bond is subject to the credit risk of the issuer. Changes in interest rates can affect a bond’s market value prior to call or maturity. There is no guarantee that a bond’s yield to call or maturity will provide a positive return over the rate of inflation.

bond fund A bond fund is subject to the same credit, interest rate, and inflation risks as bonds. In addition, a bond fund incurs ongoing fees and expenses. A bond fund’s net asset value will fluctuate with the price of the underlying bonds and the portfolio turnover activity; return of principal is not guaranteed.

bond anticipation notes Obligations sold by a municipality on an interim basis in anticipation of the municipality’s issuance of a longer-term bond in the future.

capital gain, capital loss The difference between the amount paid for an investment and its value at a later time. If the investment has been sold, the capital gain or loss is considered a realized gain or loss. If the investment is still held, the gain or loss is still “on paper” and is considered unrealized.

commercial paper Promissory notes issued by banks, corporations, state and local governments and other entities to finance short-term credit needs. These securities generally are structured on a discounted basis but

sometimes may be interest-bearing notes. Commercial paper, which may be unsecured, is subject to credit risk.

credit-enhanced securities Securities that are backed by the credit of an entity other than the issuer (such as a financial institution). Credit enhancements, which can equal up to 100% of the security’s value, are designed to help lower the risk of default on a security and may also make the security more liquid.

credit quality The capacity of an issuer to make its interest and principal payments. Federal regulations strictly limit the credit quality of the securities a money market fund can buy.

credit ratings Debt issuers, including corporations, states and municipalities, may arrange with a recognized independent rating organization, such as Standard & Poor’s, Fitch, Inc. and Moody’s Investor Service, to rate their creditworthiness and/or the creditworthiness of their debt issues. For example, an issuer may obtain a long-term rating within the investment grade rating category, which is, from high to low, AAA, AA, A and BBB for Standard & Poor’s and Fitch, and Aaa, Aa, A and Baa for Moody’s.

credit risk The risk that a debt issuer may be unable to pay interest or principal to its debtholders.

Portfolio terms

To help reduce the space occupied by the portfolio holdings, we use the following terms. Most of them appear within descriptions of individual securities in municipal funds, and describe features of the issuer or the security. Some of these are more fully defined elsewhere in the Glossary.

ACES	Adjustable convertible extendable security
BAN	Bond anticipation note
COP	Certificate of participation
GAN	Grant anticipation note
GO	General obligation
HDA	Housing Development Authority
HFA	Housing Finance Agency
IDA	Industrial Development Authority
IDB	Industrial Development Board
IDRB	Industrial Development Revenue Bond
M/F	Multi-family
RAN	Revenue anticipation note
RB	Revenue bond
S/F	Single-family
TAN	Tax anticipation note
TECP	Tax-exempt commercial paper
TRAN	Tax and revenue anticipation note
VRD	Variable-rate demand

dollar-weighted average maturity (DWAM) See weighted average maturity.

effective yield A measurement of a fund's yield that assumes that all dividends were reinvested in additional shares of the fund.

expense ratio The amount that is taken from a mutual fund's assets each year to cover the fund's operating expenses. An expense ratio of 0.50% means that a fund's expenses amount to half of one percent of its average net assets a year.

face value The value of a bond, note, mortgage or other security as given on the certificate or instrument. Face value is also referred to as par value or nominal value.

illiquid securities Securities are generally considered illiquid if they cannot be disposed of promptly (typically within seven days) and in the ordinary course of business at approximately the amount at which a fund has valued the instruments.

interest Payments to holders of debt securities as compensation for loaning a security's principal to the issuer.

liquidity-enhanced security A security that when tendered is paid from funds advanced by an entity other than the issuer (such as a large financial institution). Liquidity enhancements are often used on variable-rate securities where the portfolio manager has an option to tender the securities prior to their final maturity.

maturity The date a debt security is scheduled to be "retired" and its principal amount returned to the bondholder.

money market securities High-quality, short-term debt securities that may be issued by entities such as the U.S. government, corporations and financial institutions (such as banks). Money market securities include commercial paper, promissory notes, certificates of deposit, banker's acceptances, notes and time deposits.

muni, municipal bonds, municipal securities Debt securities issued by a state, its counties, municipalities, authorities and other subdivisions, or the territories and possessions of the United States and the District of Columbia, including their subdivisions, agencies and instrumentalities and corporations. These securities may be issued to obtain money for various public purposes, including the construction of a wide range of public facilities such as airports, bridges, highways, housing, hospitals, mass transportation, public utilities, schools, streets, and water and sewer works.

net asset value per share (NAV) The value of one share of a mutual fund. NAV is calculated by taking the fund's total assets, subtracting liabilities, and dividing by the number of shares outstanding. Money funds seek to maintain a steady NAV of \$1.00.

outstanding shares, shares outstanding When speaking of a company or mutual fund, indicates all shares currently held by investors.

restricted securities Securities that are subject to contractual restrictions on resale. These securities are often purchased in private placement transactions.

revenue anticipation notes Obligations that are issued in expectation of the receipt of revenue, such as income taxes, property taxes, etc.

section 3c7 securities Section 3c7 of the Investment Company Act of 1940 (the "1940 Act") exempts certain issuers from many regulatory requirements applicable to investment companies under the 1940 Act. An issuer whose outstanding securities are exclusively owned by "qualified purchasers" and who is not making or proposing to make a public offering of the securities may qualify for this exemption.

section 4(2)/144A securities Securities exempt from registration under Section 4(2) of the Securities Act of 1933. These securities may be sold only to qualified institutional buyers under Securities Act Rule 144A.

taxable-equivalent yield The yield an investor would need to get from a taxable investment in order to match the yield paid by a given tax-exempt investment, once the effect of all applicable taxes is taken into account. For example, if your tax rate were 25%, a tax-exempt investment paying 4.5% would have a taxable-equivalent yield for you of 6.0% ($4.5\% \div [1 - 0.25\%] = 6.0\%$).

total return The percentage that an investor would have earned or lost on an investment in the fund assuming dividends and distributions were reinvested.

tax anticipation notes Notes that typically are sold to finance the cash flow needs of municipalities in anticipation of the receipt of taxes on a future date.

Tier 1, Tier 2 Tier 1 is the highest category of credit quality, Tier 2 the second highest. A security's tier can be established either by an independent rating organization or by a determination of the investment adviser. Money market fund shares and U.S. government securities are automatically considered Tier 1 securities.

weighted average maturity For mutual funds, the maturity of all the debt securities in its portfolio, calculated as a weighted average. As a rule, the longer a fund's weighted average maturity, the greater its interest rate risk. Money funds are required to maintain a weighted average maturity of no more than 90 days.

yield The income paid out by an investment, expressed as a percentage of the investment's market value.

Notes

Notes

Schwab Funds® offers you a complete family of mutual funds, each one based on a clearly defined investment approach and using disciplined management strategies. The list at right shows all currently available Schwab Funds.

Whether you're an experienced investor or just starting out, Schwab Funds can help you achieve your financial goals. An investor should consider a fund's investment objectives, risks, and charges and expenses carefully before investing or sending money. This and other important information can be found in the fund's prospectus. Please call 1-800-435-4000 for a prospectus and brochure for any Schwab Fund. Please read the prospectus carefully before you invest. This report must be preceded or accompanied by a current prospectus.

Methods for Placing Orders

The following information outlines how Schwab investors can place orders. If you are investing through a third-party investment provider, methods for placing orders may be different.

Internet¹

www.schwab.com

Schwab by Phone™²

Use our automated voice service or speak to a representative. Call **1-800-435-4000**, day or night (for TDD service, call **1-800-345-2550**).

TeleBroker®

Use our automated touch-tone phone service at **1-800-272-4922**.

Mail

Write to Schwab Funds at:
P.O. Box 3812
Englewood, CO
80155-3812

When selling or exchanging shares, be sure to include the signatures of at least one of the persons whose name is on the account.

Proxy Voting Policies, Procedures and Results

A description of the proxy voting policies and procedures used to determine how to vote proxies on behalf of the funds is available without charge, upon request, by visiting Schwab's website at www.schwab.com/schwabfunds, the SEC's website at <http://www.sec.gov>, or by contacting Schwab Funds at 1-800-435-4000.

Information regarding how a fund voted proxies relating to portfolio securities during the most recent twelve-month period ended June 30 is available, without charge, by visiting Schwab's website at www.schwab.com/schwabfunds or the SEC's website at <http://www.sec.gov>.

The Schwab Funds Family®

Stock Funds

Schwab S&P 500 Index Fund
Schwab 1000 Index® Fund
Schwab Small-Cap Index Fund®
Schwab Total Stock Market Index Fund®
Schwab International Index Fund™
Schwab Premier Equity Fund™
Schwab Core Equity Fund™
Schwab Dividend Equity Fund™
Schwab Small-Cap Equity Fund™
Schwab Hedged Equity Fund™
Schwab Financial Services Fund™
Schwab Health Care Fund™
Schwab Technology Fund™
Schwab Institutional Select® S&P 500 Fund

Asset Allocation Funds

Schwab MarketTrack All Equity Portfolio™
Schwab MarketTrack Growth Portfolio™
Schwab MarketTrack Balanced Portfolio™
Schwab MarketTrack Conservative Portfolio™
Schwab Target 2010 Fund
Schwab Target 2020 Fund
Schwab Target 2030 Fund
Schwab Target 2040 Fund
Schwab Retirement Income Fund

Bond Funds

Schwab YieldPlus Fund®
Schwab Short-Term Bond Market Fund™
Schwab Total Bond Market Fund™
Schwab GNMA Fund™
Schwab Tax-Free YieldPlus Fund™
Schwab Short/Intermediate Tax-Free Bond Fund™
Schwab Long-Term Tax-Free Bond Fund™
Schwab California Tax-Free YieldPlus Fund™
Schwab California Short/Intermediate Tax-Free Bond Fund™
Schwab California Long-Term Tax-Free Bond Fund™

Schwab Money Funds

Schwab offers an array of money market funds that seek high current income consistent with safety and liquidity.³ Choose from taxable or tax-advantaged alternatives. Many can be linked to your eligible Schwab account to "sweep" cash balances automatically, subject to availability, when you're between investments. Or, for your larger cash reserves, choose one of our Value Advantage Investments®.

¹ Shares of Sweep Investments™ may not be purchased directly over the Internet.

² Orders placed in person or through a telephone representative may be subject to a service fee payable to Schwab.

³ Investments in money market funds are neither insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency and, although they seek to preserve the value of your investment at \$1 per share, it is possible to lose money.

charles SCHWAB

Investment Adviser

Charles Schwab Investment Management, Inc.
101 Montgomery Street, San Francisco, CA 94104

Distributor

Charles Schwab & Co., Inc. (Schwab)

Funds

Schwab Funds®
P.O. Box 3812, Englewood, CO 80155-3812

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Schwab Advisor Cash ReservesTM

Semiannual Report

June 30, 2005

charles SCHWAB

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From the Chairman



Charles Schwab
Chairman

Dear Shareholder,

I have always believed that it's important to make sure that your cash is earning income between long-term investments by putting the money into a money market fund. While no investment is risk-free, money market funds carry, perhaps, the least amount of risk, as they generally are not as volatile as stocks or stock mutual funds. Money funds are good choices for investors who want to mitigate the potential fluctuations that may occur in their mostly stock portfolios.

At Schwab, we offer a range of money funds with distinct investment strategies. Our municipal money funds, for example, may be beneficial for those of you in the higher tax brackets. We also offer money funds for those interested in the added protection provided by a portfolio of U.S. government securities. In addition, several of the Schwab money funds offer share classes that carry lower expenses in exchange for higher investment minimums.

Now, as a result of the Federal Reserve having raised short-term interest rates eight times in the past 12 months (four during the six-month period covered in this report), yields on money market mutual funds are more attractive than they have been in many years. Not only that, but it's likely that the Fed will raise these rates again this year. Based on this expectation, we anticipate that the yields on money market funds will continue to move upwards over the next few months.

On behalf of Schwab Funds, I want to thank you for investing with us and remind you that our commitment to our shareholders will never waver.

Sincerely,

A handwritten signature in dark ink that reads "Charles R. Schwab". The signature is written in a cursive, flowing style.

Management's Discussion for the six months ended June 30, 2005



Evelyn Dilsaver is President and CEO of Charles Schwab Investment Management, Inc. and is president of the funds covered in this report. She joined the firm in 1992 and has held a variety of executive positions at Schwab.

Dear Shareholder,

When I assumed my new role as President and CEO of Schwab Funds® last year, I pledged that I would be committed to offering you more relevant choices and better value. I am pleased to report that we already have done both.

On July 1, 2005, Schwab Funds launched the Schwab Target Funds™, a suite of five mutual funds to help keep your retirement investments properly allocated over your lifetime. With a single investment in a Schwab Target Fund, you can avoid a common investment mistake—failing to adjust your portfolio over time.

The funds are designed to provide shareholders with investment management, asset allocation and ongoing re-allocation over time. You simply choose the fund that most closely matches the date of your retirement and our experienced portfolio managers will do the rest. They will rebalance four of the five funds from more aggressive to more conservative as you get closer to your retirement date. The fifth fund is designed to help generate income and additional growth after you've retired. It also is a good choice for investors already enjoying their retirement.

These no-load funds are a good value, as the funds have access to the lowest-priced eligible share class on the underlying Schwab affiliate funds. And because the funds invest in groups of other Schwab affiliate funds, they provide an additional layer of diversification.

At Schwab, we believe that having an asset-allocation plan that fits your retirement goals, time frame and tolerance for risk is a key element in meeting your long-term investment goals. The Schwab Target Funds are designed to help you do this. I encourage you to learn more about these funds by calling your investment manager.

Thank you for investing in Schwab Funds.

Sincerely,

A handwritten signature in black ink that reads "Evelyn Dilsaver". The signature is written in a cursive, flowing style.

Investors should consider carefully information contained in the prospectus, including investment objectives, risks, charges and expenses. You can request a prospectus by calling Schwab at 1-800-435-4000. Please read the prospectus carefully before investing.



Linda Klingman, a vice president of the investment adviser and senior portfolio manager, has overall responsibility for the management of the fund. She joined the firm in 1990 and has managed money market funds since 1988.



Mike Neitzke, a portfolio manager, has day-to-day responsibility for management of the fund. Prior to joining the firm in March 2001, he worked for more than 15 years in the financial services industry as a portfolio manager.

The Investment Environment and the Fund

Oil prices hit highs never seen before and the Federal Reserve Open Market Committee continued to raise short-term interest rates to curb inflationary pressures, raising rates for the fourth time this year. At the same time, GDP continued to grow at a healthy pace and the housing market remained strong, largely due to low mortgage rates.

The firming labor market, as well as steady gains in capital spending, kept the economic expansion on a self-sustaining path. Businesses, unable to continue boosting productivity by restraining hiring, added new jobs during the six-month report period. Moreover, many leading indicators, such as the Institute for Supply Management's business activity surveys, suggested ongoing expansion, while continuing claims for unemployment benefits remained near cyclical lows.

Business investments grew only modestly, but consumers continued to spend. In fact, consumer confidence rose to a level not experienced since before September 11, 2001. With consumers in a spending mode and consumer spending comprising about 70% of GDP, first quarter GDP remained strong and retail sales were healthy. In this positive economic environment, strong labor market conditions remained positive for domestic consumption.

While high energy prices remained a significant headwind for economic performance, supply no longer was the issue; demand, especially in China, drove prices up. At the end of the six-month report period, a barrel of oil cost \$56.50 versus \$42.55 at the beginning of 2005.

Though high oil and commodity prices could have hampered growth and stirred inflationary pressures, productivity gains, slow growth in the money supply and slack in the economy have mostly kept a lid on core inflation. The productivity gains, coupled with foreign central banks buying large amounts of U.S. Treasury securities, also helped to keep long-term interest rates under control. These conditions also caused the dollar to rally unexpectedly, which took a little bit of pressure off the price of imported goods.

Amid signs of solidly expanding output and improved hiring, the Fed continued to tighten. It increased short-term interest rates at each of the four meetings in the first half of 2005, ending the six-month report

Though high oil and commodity prices could have hampered growth and stirred inflationary pressures, productivity gains, slow growth in the money supply and slack in the economy have mostly kept a lid on core inflation.

period at a still moderate 3.25%. The moves have had a limited impact on overall economic growth, due primarily to the record-low level of rates from which the increases began. Nonetheless, the higher rates succeeded in moving money fund yields higher, making them a more attractive investment vehicle.

Schwab Advisor Cash Reserves was positioned to take advantage of the strong likelihood that the Federal Reserve would continue to raise short-term interest rates. And, indeed, the Fed did continue to tighten, raising rates four times during the six-month report period. In this economic scenario, we continually added to our variable-rate holdings, increasing our position to 12% during the six-month report period. The interest rates on these types of securities reset frequently, allowing us the opportunity to capture a rise in market rates. Also, we kept the fund's weighted average maturity (WAM) at approximately 40 days. Maintaining the WAM at this level provided us the flexibility desired to adapt to and respond to changes in interest rates.

Nothing in this report represents a recommendation of a security by the investment adviser. Manager views and portfolio holdings may have changed since the report date.

Performance and Fund Facts as of 6/30/05

Seven-Day Yields

The seven-day yields are calculated using standard SEC formulas. The effective yield includes the effect of reinvesting daily dividends. Please remember that money market fund yields fluctuate.

Ticker Symbol	Sweep Shares	Premier Sweep Shares
	SWQXX	SWZXX
Seven-Day Yield¹	2.54%	2.64%
Seven-Day Yield—No Waiver²	2.39%	2.39%
Seven-Day Effective Yield¹	2.57%	2.67%

The performance data quoted represents past performance. Past performance does not guarantee future results. Current performance may be lower or higher than performance data quoted. To obtain more current performance information, please visit www.schwab.com/schwabfunds.

Statistics

Money funds must maintain a dollar-weighted average maturity of no longer than 90 days, and cannot invest in any security whose effective maturity is longer than 397 days (approximately 13 months).

Weighted Average Maturity	42 days
Credit Quality of Holdings % of portfolio	100% Tier 1

An investment in a money fund is neither insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. Although money funds seek to preserve the value of your investment at \$1 per share, it is possible to lose money by investing in a money fund.

Portfolio holdings may have changed since the report date.

¹ Fund expenses have been partially absorbed by CSIM and Schwab.

² Yield if fund expenses had not been partially absorbed by CSIM and Schwab.

Fund Expenses

Examples for a \$1,000 Investment

As a fund shareholder, you incur two types of costs: transaction costs, such as redemption fees; and, ongoing costs, such as management fees, transfer agent and shareholder services fees, and other fund expenses.

The expense examples below are intended to help you understand your ongoing cost (in dollars) of investing in a fund and to compare this cost with the ongoing cost of investing in other mutual funds. These examples are based on an investment of \$1,000 invested for six-months beginning January 1, 2005 and held through June 30, 2005.

Actual Return lines in the table below provide information about actual account values and actual expenses. You may use this information, together with the amount you invested, to estimate the expenses that you paid over the period. To do so, simply divide your account value by \$1,000 (for example, an \$8,600 account value \div \$1,000 = 8.6), then multiply the result by the number given for your fund under the heading entitled "Expenses Paid During Period."

Hypothetical Return lines in the table below provide information

about hypothetical account values and hypothetical expenses based on a fund's actual expense ratio and an assumed return of 5% per year before expenses. Because the return used is not an actual return, it may not be used to estimate the actual ending account value or expenses you paid for the period.

You may use this information to compare the ongoing costs of investing in the fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only, and do not reflect any transactional costs, such as redemption fees. If these transactional costs were included, your costs would have been higher.

	Expense Ratio ¹ (Annualized)	Beginning Account Value at 1/1/05	Ending Account Value (Net of Expenses) at 6/30/05	Expenses Paid During Period ² 1/1/05–6/30/05
Schwab Advisor Cash Reserves™				
<i>Sweep Shares</i>				
Actual Return	0.69%	\$1,000	\$1,010.40	\$3.44
Hypothetical 5% Return	0.69%	\$1,000	\$1,021.37	\$3.46
<i>Premier Sweep Shares</i>				
Actual Return	0.59%	\$1,000	\$1,010.90	\$2.94
Hypothetical 5% Return	0.59%	\$1,000	\$1,021.87	\$2.96

¹ Based on the most recent six-month expense ratio; may differ from the expense ratio provided in Financial Highlights.

² Expenses for each share class are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 181 days of the period, and divided by 365 days of the fiscal year.

Financial Statements

Financial Highlights

Sweep Shares	1/1/05– 6/30/05*	8/19/04 ¹ – 12/31/04
Per-Share Data (\$)		
Net asset value at beginning of period	1.00	1.00
Income from investment operations:		
Net investment income	0.01	0.00 ²
Less distributions:		
Dividends from net investment income	(0.01)	(0.00) ²
Net asset value at end of period	1.00	1.00
Total return (%)	1.04 ³	0.45 ³
Ratios/Supplemental Data (%)		
Ratios to average net assets:		
Net operating expenses	0.69 ⁴	0.69 ⁴
Gross operating expenses	0.84 ⁴	0.85 ⁴
Net investment income	2.12 ⁴	1.30 ⁴
Net assets, end of period (\$ x 1,000,000)	1,602	1,271

Premier Sweep Shares	1/1/05– 6/30/05*	8/19/04 ¹ – 12/31/04
Per-Share Data (\$)		
Net asset value at beginning of period	1.00	1.00
Income from investment operations:		
Net investment income	0.01	0.00 ²
Less distributions:		
Dividends from net investment income	(0.01)	(0.00) ²
Net asset value at end of period	1.00	1.00
Total return (%)	1.09 ³	0.48 ³
Ratios/Supplemental Data (%)		
Ratios to average net assets:		
Net operating expenses	0.59 ⁴	0.59 ⁴
Gross operating expenses	0.84 ⁴	0.85 ⁴
Net investment income	2.22 ⁴	1.41 ⁴
Net assets, end of period (\$ x 1,000,000)	3,144	2,344

* Unaudited.

¹ Commencement of operations.

² Per share amount was less than \$0.01.

³ Not annualized.

⁴ Annualized.

Portfolio Holdings as of June 30, 2005; unaudited

This section shows all the securities in the fund's portfolio and their value, as of the report date.

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on the fund's most recent Form N-Q is available by visiting Schwab's website at www.schwab.com/schwabfunds.

We use the symbols below to designate certain characteristics of the securities:

- ◆ Asset-backed security
- ✦ Credit-enhanced security
- Illiquid and/or restricted security

For fixed-rate obligations, the rate shown is the effective yield at the time of purchase, except for U.S. government agency coupon notes and U.S. Treasury notes, for which the rate shown is the interest rate (the rate established when the obligation was issued). For variable-rate obligations, the rate shown is the rate as of the report date. For variable-rate obligations with scheduled maturities greater than 397 days, the maturity shown is the later of the next interest rate change date or demand date. For variable-rate obligations with scheduled maturities less than 397 days, the maturity shown is the earlier of the next interest rate change date or demand date. For variable-rate obligations without demand features, the maturity shown is the next interest rate change date.

Holdings by Category	Cost (\$x1,000)	Value (\$x1,000)
64.5% Fixed-Rate Obligations	3,060,622	3,060,622
13.0% Variable-Rate Obligations	619,330	619,330
22.4% Other Investments	1,063,246	1,063,246
99.9% Total Investments	4,743,198	4,743,198
0.1% Other Assets and Liabilities		2,642
100.0% Net Assets		4,745,840

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
-------------------------------	-----------------------------	-----------------------

Fixed-Rate Obligations 64.5% of net assets**Commercial Paper & Other Corporate Obligations** 40.5%**AB Spintab**

2.95%, 08/08/05	17,000	16,948
3.23%, 08/11/05	7,063	7,037

Alliance & Leicester, PLC, Section 4(2) / 144A

3.15%, 09/08/05	2,000	1,988
3.20%, 09/12/05	10,000	9,936

◆ Amstel Funding Corp., Section 4(2) / 144A

3.20%, 07/20/05	10,000	9,983
2.95%, 08/10/05	6,000	5,981

◆◆ Amsterdam Funding Corp., Section 4(2) / 144A

3.09%, 07/06/05	10,000	9,996
3.09%, 07/07/05	32,000	31,983
3.11%, 07/12/05	9,000	8,991
3.24%, 07/27/05	20,000	19,953
3.26%, 07/28/05	5,000	4,988

◆◆ Aquinas Funding, L.L.C., Section 4(2) / 144A

2.85%, 07/12/05	3,000	2,997
3.15%, 09/02/05	5,000	4,973
3.61%, 12/22/05	5,931	5,829
3.62%, 12/22/05	10,000	9,828

◆◆ ASAP Funding Ltd., Section 4(2) / 144A

3.17%, 07/11/05	10,000	9,991
3.23%, 07/22/05	10,000	9,981
3.23%, 08/09/05	8,000	7,972
3.30%, 08/26/05	10,000	9,949

◆ Atlantis One Funding Corp., Section 4(2) / 144A

2.82%, 07/11/05	20,000	19,985
2.84%, 07/14/05	7,872	7,864
2.87%, 07/20/05	8,956	8,943
2.87%, 07/22/05	2,154	2,150
2.98%, 08/11/05	6,000	5,980
2.98%, 08/12/05	5,000	4,983
3.15%, 09/15/05	37,000	36,758
3.25%, 09/20/05	4,000	3,971
3.39%, 11/16/05	6,000	5,923
3.44%, 11/18/05	1,000	987
3.60%, 12/20/05	5,000	4,915

Bank of America Corp.

3.31%, 10/06/05	50,000	49,561
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Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
◆+ Beta Finance, Inc., Section 3c7 / 144A			◆ Dorada Finance, Inc., Section 3c7 / 144A		
3.43%, 09/28/05	13,000	12,891	2.82%, 07/15/05	5,000	4,995
◆+ Blue Spice, L.L.C., Section 4(2) / 144A			◆+ Eiffel Funding, L.L.C., Section 4(2) / 144A		
3.29%, 07/12/05	13,000	12,987	3.08%, 07/07/05	2,000	1,999
3.21%, 07/20/05	10,000	9,983	3.09%, 07/07/05	6,200	6,197
◆ CC (USA), Inc., Section 3c7 / 144A			3.26%, 07/21/05	2,000	1,996
2.78%, 07/07/05	5,000	4,998	◆+ Fairway Finance Co., L.L.C., Section 4(2) / 144A		
3.13%, 07/22/05	15,000	14,973	3.09%, 07/14/05	8,360	8,351
+ Citigroup Funding, Inc.			3.17%, 07/27/05	26,000	25,941
3.11%, 07/01/05	45,000	45,000	2.96%, 07/28/05	5,000	4,989
3.21%, 07/22/05	17,000	16,968	3.23%, 09/12/05	3,000	2,981
Citigroup Global Markets Holdings, Inc.			◆+ Falcon Asset Securitization Corp., Section 4(2) / 144A		
3.17%, 08/02/05	10,000	9,972	3.18%, 07/18/05	20,000	19,970
3.27%, 09/01/05	25,000	24,861	◆ Galaxy Funding, Inc., Section 4(2) / 144A		
◆+ Clipper Receivables Co., Section 4(2) / 144A			3.05%, 07/01/05	10,000	10,000
3.14%, 07/11/05	4,552	4,548	3.07%, 07/11/05	10,000	9,992
3.19%, 07/18/05	20,000	19,970	3.09%, 07/20/05	5,000	4,992
3.11%, 07/21/05	2,000	1,997	3.12%, 07/26/05	7,000	6,985
◆+ Concord Minutemen Capital Co., Series A, Section 3c7 / 144A			3.44%, 09/27/05	17,000	16,858
2.80%, 07/06/05	7,000	6,997	General Electric Capital Corp.		
2.81%, 07/06/05	3,000	2,999	2.86%, 07/21/05	50,000	49,922
2.83%, 07/06/05	22,820	22,811	◆ Giro Funding U.S. Corp., Section 4(2) / 144A		
3.01%, 08/18/05	19,923	19,844	3.24%, 07/22/05	10,000	9,981
◆+ Crown Point Capital Co., L.L.C., Section 4(2) / 144A			3.29%, 07/28/05	10,000	9,975
3.09%, 07/12/05	1,000	999	3.32%, 08/01/05	35,000	34,900
3.09%, 07/19/05	20,000	19,969	◆+ Grampian Funding, LLC., Section 4(2) / 144A		
2.95%, 08/08/05	1,509	1,504	3.60%, 12/20/05	9,000	8,848
3.32%, 09/21/05	35,000	34,739	+ HBOS Treasury Services, PLC		
3.44%, 11/16/05	5,000	4,935	3.09%, 07/21/05	1,000	998
◆ Dakota CP Notes of Citibank Credit Card Issuance Trust, Section 4(2) / 144A			3.17%, 07/28/05	10,000	9,976
3.14%, 07/12/05	5,469	5,464	3.20%, 08/03/05	2,100	2,094
3.17%, 07/25/05	20,500	20,457	HSBC U.S.A., Inc.		
3.17%, 07/26/05	12,000	11,974	3.32%, 08/01/05	10,000	9,972
3.17%, 07/27/05	13,000	12,970	Irish Life & Permanent, PLC, Section 4(2) / 144A		
3.26%, 07/28/05	17,100	17,058	3.29%, 09/07/05	10,000	9,938
3.30%, 09/06/05	25,000	24,848	3.30%, 09/13/05	2,000	1,987
3.30%, 09/07/05	50,000	49,691	3.45%, 11/10/05	10,000	9,876
+ Danske Corp.			+ IXIS Commercial Paper Corp., Section 4(2) / 144A		
3.20%, 08/05/05	1,000	997	3.23%, 08/12/05	1,900	1,893
DnB NOR Bank ASA			◆+ Jupiter Securitization Corp., Section 4(2) / 144A		
3.09%, 07/14/05	1,700	1,698	3.14%, 07/11/05	3,222	3,219
3.43%, 09/23/05	4,600	4,564	3.16%, 07/18/05	53,000	52,921
			3.19%, 07/19/05	10,382	10,365
			3.26%, 07/25/05	2,000	1,996
			3.23%, 07/26/05	15,000	14,966

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
◆ K2 (USA), L.L.C., Section 3c7 / 144A			Rabobank USA Funding Corp.		
2.84%, 07/15/05	5,000	4,995	3.19%, 07/26/05	1,000	998
3.30%, 09/06/05	3,800	3,777	◆◆ Ranger Funding Co. L.L.C., Section 4(2) / 144A		
3.38%, 11/08/05	7,400	7,311	3.19%, 07/19/05	32,603	32,551
3.51%, 12/09/05	30,000	29,537	◆ San Paolo IMI U.S. Financial Co.		
◆ KBC Financial Products International, Ltd., Section 4(2) / 144A			3.09%, 07/21/05	27,000	26,954
3.37%, 10/12/05	37,000	36,650	◆ Santander Central Hispano Finance (Delaware), Inc.		
◆◆ Kitty Hawk Funding Corp., Section 4(2) / 144A			2.81%, 07/13/05	10,000	9,991
3.26%, 07/25/05	5,000	4,989	3.31%, 09/09/05	10,000	9,936
3.25%, 09/20/05	3,841	3,813	◆◆ Scaldis Capital Ltd., Section 4(2) / 144A		
◆◆ Lexington Parker Capital Co., L.L.C., Section 4(2) / 144A			2.86%, 07/15/05	33,000	32,964
3.07%, 07/06/05	7,000	6,997	3.44%, 09/26/05	18,000	17,852
3.09%, 07/14/05	4,000	3,996	◆◆ Sigma Finance, Inc., Section 3c7 / 144A		
2.86%, 07/18/05	11,364	11,349	2.81%, 07/01/05	3,000	3,000
2.88%, 07/25/05	19,000	18,964	3.08%, 07/12/05	28,000	27,974
2.96%, 08/08/05	2,000	1,994	3.09%, 07/13/05	5,000	4,995
2.98%, 08/08/05	2,000	1,994	3.15%, 09/02/05	10,000	9,946
3.22%, 08/08/05	2,000	1,993	3.46%, 11/21/05	5,000	4,932
3.15%, 09/01/05	10,000	9,947	Skandinaviska Enskilda Banken AB		
◆ Mane Funding Corp., Section 4(2) / 144A			3.25%, 09/16/05	5,000	4,966
3.43%, 09/22/05	39,000	38,694	Societe Generale North America, Inc.		
3.44%, 09/27/05	18,000	17,850	2.73%, 07/06/05	9,500	9,496
Morgan Stanley			The Goldman Sachs Group, Inc.		
3.15%, 07/19/05	12,000	11,981	3.47%, 11/21/05	30,000	29,594
3.19%, 07/20/05	16,000	15,973	◆◆ Thunder Bay Funding, L.L.C., Section 4(2) / 144A		
3.23%, 07/20/05	25,000	24,958	3.09%, 07/15/05	3,000	2,996
3.45%, 11/14/05	10,000	9,872	3.26%, 07/27/05	10,415	10,391
◆ Newcastle Certificates Program, Series 2000A Section 4(2) / 144A			◆◆ Ticonderoga Funding, LLC., Section 4(2) / 144A		
3.21%, 07/11/05	13,000	12,988	3.26%, 07/22/05	5,000	4,991
3.23%, 07/13/05	1,000	999	◆◆ Triple A-One Funding Corp., Section 4(2) / 144A		
◆◆ Park Avenue Receivables Corp. L.L.C., Section 4(2) / 144A			3.15%, 07/13/05	27,000	26,972
3.26%, 07/25/05	10,000	9,978	◆ UBS Finance (Delaware) Inc.		
3.23%, 07/26/05	20,000	19,955	3.08%, 07/08/05	25,000	24,985
◆ Park Granada, L.L.C., Section 4(2) / 144A			3.11%, 07/14/05	36,000	35,960
3.26%, 07/25/05	5,000	4,989	3.09%, 07/22/05	1,500	1,497
3.17%, 07/26/05	14,111	14,080	◆ White Pine Finance, L.L.C., Section 3c7 / 144A		
◆◆ Preferred Receivables Funding Corp., Section 4(2) / 144A			2.96%, 08/01/05	20,343	20,292
3.13%, 07/14/05	20,000	19,977	3.37%, 10/27/05	8,980	8,883
3.14%, 07/15/05	20,000	19,976	◆◆ Windmill Funding Corp., Section 4(2) / 144A		
			3.09%, 07/08/05	3,060	3,058
			3.13%, 07/12/05	25,000	24,976
			◆◆ Yorktown Capital, L.L.C., Section 4(2) / 144A		
			3.23%, 07/22/05	2,348	2,344
					1,919,133

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Certificates of Deposit 22.9%					
Alliance & Leicester, PLC 3.58%, 12/20/05	20,000	20,000	Lloyds TSB Bank, PLC 3.45%, 11/17/05	50,000	49,995
American Express Bank FSB 3.09%, 07/07/05	10,500	10,500	Mizuho Corp. Bank, Ltd. 3.27%, 07/22/05	4,000	4,000
Banco Bilbao Vizcaya Argentaria S.A. 2.77%, 07/06/05	3,000	3,000	3.21%, 08/08/05	15,000	15,000
Bank of The West 3.33%, 09/27/05	2,000	2,000	Royal Bank of Scotland, PLC 3.25%, 07/28/05	25,000	25,000
Barclays Bank, PLC 2.97%, 08/11/05	50,000	50,000	Skandinaviska Enskilda Banken AB 3.20%, 07/22/05	17,000	17,000
BNP Paribas 3.30%, 09/12/05	18,000	18,000	Societe Generale 2.95%, 08/09/05	6,000	6,000
3.43%, 11/08/05	40,000	40,000	3.23%, 09/23/05	10,000	10,000
3.46%, 11/28/05	105,000	105,000	3.37%, 11/09/05	5,000	5,000
Calyon 2.95%, 08/10/05	1,000	1,000	3.51%, 12/15/05	45,000	45,000
3.37%, 11/09/05	20,000	20,000	3.54%, 12/16/05	15,000	15,000
3.40%, 11/10/05	35,000	35,000	Svenska Handelsbanken AB 3.19%, 08/10/05	55,000	55,000
Canadian Imperial Bank of Commerce 2.72%, 07/05/05	30,000	30,000	Toronto Dominion Bank 2.73%, 07/07/05	5,000	5,000
Citibank, N.A. 3.27%, 08/31/05	50,000	50,000	3.44%, 11/09/05	20,000	19,994
Credit Suisse First Boston 3.15%, 07/29/05	30,000	30,000	3.45%, 11/28/05	23,000	23,000
3.19%, 08/09/05	54,000	54,000	U.S. Bank, N.A. 3.20%, 09/15/05	5,000	5,000
Danske Bank A/S 3.23%, 07/26/05	10,000	10,000	3.34%, 10/03/05	25,000	25,000
Deutsche Bank, AG 3.31%, 09/16/05	25,000	25,000	3.32%, 10/11/05	7,000	7,000
+ HBOS Treasury Services, PLC 2.72%, 07/05/05	15,000	15,000	3.45%, 11/18/05	10,000	10,000
HSBC Bank, PLC 3.11%, 07/25/05	20,000	20,000	UBS, AG 2.71%, 07/08/05	22,000	22,000
3.03%, 08/22/05	35,000	35,000	Unicredito Italiano SpA 3.34%, 10/12/05	43,000	43,000
HSBC Bank, USA 3.44%, 11/21/05	5,000	5,000	3.42%, 11/02/05	30,000	30,000
KBC Bank NV 3.14%, 07/15/05	2,000	2,000	Washington Mutual Bank, FA 3.25%, 09/23/05	20,000	20,000
Landesbank Hessen-Thuringen Girozentrale 3.15%, 09/12/05	10,000	10,000	3.27%, 09/26/05	6,000	6,000
3.45%, 11/14/05	15,000	15,000	3.44%, 11/22/05	13,000	13,000
			Wilmington Trust Co. 2.81%, 07/05/05	5,000	5,000
					1,086,489
			Bank Notes 0.6%		
			Bank of America, N.A. 2.98%, 08/19/05	5,000	5,000
			2.98%, 08/23/05	25,000	25,000
					30,000

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Promissory Notes 0.5%					
• The Goldman Sachs Group, Inc.			◆ Liberty Lighthouse U.S. Capital Co. L.L.C. 4(2) / 144A		
2.85%, 07/06/05	10,000	10,000	3.08%, 07/01/05	19,000	18,999
2.93%, 07/15/05	15,000	15,000	3.27%, 07/27/05	5,000	5,000
		25,000	3.45%, 07/29/05	3,000	3,000
			◆+ Links Finance, L.L.C., Section 3c7 / 144A		
			3.17%, 07/15/05	16,000	15,999
			Morgan Stanley		
			3.13%, 07/05/05	20,000	20,000
			Norddeutsche Landesbank Girozentrale		
			3.10%, 07/07/05	40,000	39,995
			3.17%, 07/14/05	4,000	3,999
			Royal Bank of Scotland, PLC		
			3.24%, 07/21/05	20,000	20,000
			3.26%, 07/27/05	15,000	14,998
			3.36%, 07/29/05	25,000	24,997
			◆+ Sigma Finance, Inc., Section 3c7 / 144A		
			3.17%, 07/15/05	51,000	50,995
			3.27%, 07/25/05	6,000	5,999
			+ Tenderfoot Seasonal Housing, L.L.C.		
			Series B		
			3.39%, 07/07/05	2,885	2,885
			• The Goldman Sachs Group, Inc.		
			3.18%, 07/05/05	23,000	23,000
			3.32%, 07/22/05	5,000	5,000
			◆ White Pine Finance, L.L.C., Section 3c7 / 144A		
			3.26%, 07/20/05	25,000	25,006
					619,330
Variable-Rate Obligations 13.0% of net assets					
Barclays Bank, PLC					
3.13%, 07/11/05	25,000	24,996			
3.15%, 07/18/05	50,000	49,983			
3.18%, 07/18/05	13,000	12,998			
3.21%, 07/21/05	5,000	4,999			
Bayerische Landesbank Girozentrale					
3.25%, 08/01/05	25,000	24,997			
◆+ Beta Finance, Inc., Section 3c7 / 144A					
3.17%, 07/14/05	19,000	18,998			
BNP Paribas					
3.18%, 07/18/05	4,000	3,999			
+ Breckenridge Terrace L.L.C.					
3.39%, 07/07/05	1,000	1,000			
◆ CC (USA), Inc., Section 3c7 / 144A					
3.27%, 07/22/05	45,000	44,998			
◆ Dorada Finance, Inc., Section 3c7 / 144A					
3.17%, 07/11/05	7,500	7,500			
3.17%, 07/14/05	20,000	19,998			
+ Eagle County, Colorado Housing Facilities Revenue Bond					
(The Tarnes at BC LLC Project B) Series 1999					
3.39%, 07/07/05	2,000	2,000			
+ HBOS Treasury Service, PLC					
3.09%, 07/05/05	22,000	22,000			
3.27%, 07/26/05	7,000	7,000			
HSH Nordbank, AG					
3.12%, 07/11/05	44,000	43,997			
Landesbank Baden-Wurtemberg					
3.10%, 07/07/05	15,000	14,998			
3.15%, 07/13/05	15,000	14,999			
3.22%, 07/22/05	20,000	19,998			

Security	Maturity Amount (\$ x 1,000)	Value (\$ x 1,000)
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Other Investments 22.4% of net assets

Repurchase Agreements 22.4%

Bank of America Securities L.L.C.

Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$510,000		
3.45%, issued 06/30/05, due 07/01/05	475,046	475,000
3.30%, issued 06/28/05, due 07/05/05	25,016	25,000

Bear Stearns & Co., Inc.

Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$51,036		
3.21%, issued 06/23/05, due 07/07/05	50,062	50,000

Credit Suisse First Boston L.L.C.

Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$115,512		
3.40%, issued 06/30/05, due 07/01/05	113,257	113,246

Morgan Stanley & Co., Inc.

Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$408,743		
3.40%, issued 06/30/05, due 07/01/05	200,019	200,000
3.45%, issued 06/30/05, due 07/01/05	200,019	200,000
		1,063,246

End of investments.

Issuer Rate, Acquisition Date, Maturity Date	Face Amount (\$ x 1,000)	Cost/ Value (\$ x 1,000)
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At June 30, 2005, portfolio holdings included illiquid and/or restricted securities as follows:

Blue Spice, L.L.C., Section 4(2) / 144A

3.29%, 06/28/05, 07/12/05	13,000	12,987
3.21%, 06/16/05, 07/20/05	10,000	9,983
		22,970

The Goldman Sachs Group, Inc.

3.18%, 02/03/05, 07/05/05	23,000	23,000
2.85%, 01/06/05, 07/06/05	10,000	10,000
2.93%, 01/19/05, 07/15/05	15,000	15,000
3.32%, 02/22/05, 07/22/05	5,000	5,000
		53,000

Statement of

Assets and Liabilities

As of June 30, 2005; unaudited. All numbers x 1,000 except NAV.

Assets

Investments, at value	\$3,679,952
Repurchase agreements, at value	1,063,246
Receivables:	
Interest	7,349
Prepaid expenses	+ 1,032
Total assets	4,751,579

Liabilities

Payables:	
Dividends to shareholders	5,075
Investment adviser and administrator fees	80
Transfer agent and shareholder service fees	151
Trustees' fees	25
Accrued expenses	+ 408
Total liabilities	5,739

Net Assets

Total assets	4,751,579
Total liabilities	- 5,739
Net assets	\$4,745,840

Net Assets by Source

Capital received from investors	4,745,840
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Net Asset Value (NAV) by Share Class

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Sweep Shares	\$1,601,957		1,601,957		\$1.00
Premier Sweep Shares	\$3,143,883		3,143,883		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost of the fund's securities was \$4,743,198. Includes restricted and/or illiquid securities worth \$75,970, or 1.6% of the fund's total net assets. Also, includes other restricted but deemed liquid securities comprised of 144A, section 4(2) and 3c7 securities, worth \$1,616,926 or 34.1% of the fund's total net assets.

Federal Tax Data

Cost basis of portfolio	\$4,743,198
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Statement of

Operations

From January 1, 2005 through June 30, 2005; unaudited.
All numbers x 1,000.

Investment Income

Interest	\$62,811
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Expenses

Investment adviser and administrator fees	7,972	
Transfer agent and shareholder service fees:		
Sweep Shares	3,398	
Premier Sweep Shares	6,660	
Trustees' fees	20	
Custodian and portfolio accounting fees	208	
Professional fees	21	
Registration fees	149	
Shareholder reports	301	
Other expenses	+	5
Total expenses	18,734	
Expense reduction	-	4,791
Net expenses	13,943	

Increase in Net Assets from Operations

Total investment income	62,811	
Net expenses	-	13,943
Net investment income	48,868	
Increase in net assets from operations	\$48,868	

Unless stated, all numbers x 1,000.

Calculated on a graduated basis as a percentage of average daily net assets: 0.38% of the first \$1 billion, 0.35% over \$1 billion, 0.32% over \$10 billion, 0.30% over \$20 billion and 0.27% over \$40 billion. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

Calculated as a percentage of average daily net assets: for transfer agent services, 0.25% of the fund's assets; for shareholder services, 0.20% of the fund's assets of each respective share class. These fees are paid to Charles Schwab & Co., Inc. (Schwab).

For the fund's independent trustees only.

Includes \$3,311 from the investment adviser (CSIM) and \$1,480 from from the transfer agent and shareholder service agent (Schwab). These reductions reflect a guarantee by CSIM and Schwab to limit the annual operating expenses through April 29, 2006, as follows:

Share Class	% of Average Daily Net Assets
Sweep Shares	0.69
Premier Sweep Shares	0.59

This limit excludes interest, taxes and certain non-routine expenses.

Statement of

Changes in Net Assets

For the current and prior report period. The fund commenced operations on August 19, 2004. All numbers x 1,000. Figures for the current period are unaudited.

Operations

	1/1/05-6/30/05	8/19/04-12/31/04
Net investment income	\$48,868	\$12,474
Increase in net assets from operations	48,868	12,474

Distributions Paid

Dividends from net investment income		
Sweep Shares	16,014	4,518
Premier Sweep Shares	+ 32,854	7,956
Total dividends from net investment income	48,868	12,474

Transactions in Fund Shares**Shares Sold**

Sweep Shares	4,409,993	3,294,040
Premier Sweep Shares	+ 10,341,794	6,173,729
Total shares sold	14,751,787	9,467,769

Shares Reinvested

Sweep Shares	14,121	4,349
Premier Sweep Shares	+ 28,993	7,749
Total shares reinvested	43,114	12,098

Shares Redeemed

Sweep Shares	(4,093,215)	(2,027,331)
Premier Sweep Shares	+ (9,570,707)	(3,837,675)
Total shares redeemed	(13,663,922)	(5,865,006)

Net transactions in fund shares	1,130,979	3,614,861
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Net Assets

Beginning of period	3,614,861	—
Total increase	+ 1,130,979	3,614,861
End of period	\$4,745,840	\$3,614,861

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 12/31/04 are:

Ordinary income	\$12,474
Long-term capital gains	\$—

Because all transactions in this section took place at \$1.00 per share, figures for share quantities are the same as for dollars.

Represents the changes in net assets from operations plus the changes in value of transactions in fund shares, minus distributions paid.

Financial Notes unaudited

Business Structure of the Funds

The fund discussed in this report is a series of The Charles Schwab Family of Funds, a no-load, open-end management investment company. The company is organized as a Massachusetts business trust and is registered under the Investment Company Act of 1940, as amended. The sidebar shows the funds in this report and their trust.

The fund offers two share classes: Sweep Shares and Premier Sweep Shares. Shares of each class represent interest in the same portfolio, but each class has different expenses and investment minimums.

Shares are bought and sold at \$1.00 per share. Each share has a par value of 1/1,000 of a cent, and the trust may issue as many shares as necessary.

Fund Operations

Most of the fund's investments are described in the sections earlier in this report. However, there are certain other fund operations and policies that may affect the fund's financials, as described below. Other policies concerning the fund's business operations also are described here.

The fund declares dividends every day it is open for business. These dividends, which are equal to the fund's net investment income for that day, are paid out to shareholders once a month. The fund may make distributions from any net realized capital gains once a year.

The fund may buy securities on a delayed-delivery basis. In these transactions, the fund agrees to buy a security for a stated price, with settlement generally occurring within two weeks. If the security's value falls before settlement occurs, the fund could end up paying more for the security than its market value at the time of settlement. The fund has set aside sufficient securities as collateral for those securities bought on a delayed-delivery basis.

The fund may enter into repurchase agreements. In a repurchase agreement, the fund buys a security from another party (usually a financial institution) with the agreement that it be sold back in the future. The date, price and other conditions are all specified when the agreement is created. Any repurchase agreements with due dates later than seven days from issue dates may be subject to seven day put features for liquidity purposes.

The fund's repurchase agreements will be fully collateralized by U.S. government securities. All collateral is held by the fund's custodian (or, with tri-party agreements, the agent's bank) and is monitored daily to ensure that its market value is at least equal to the repurchase price under the agreement.

The fund pays fees to affiliates of the Investment Adviser for various services. Through its trust, the fund has agreements with Charles Schwab Investment Management, Inc. (CSIM) to provide investment advisory and administrative services and with Charles Schwab & Co., Inc. (Schwab) to provide transfer agent and shareholder services.

The Trust and Its Funds

This list shows all of the funds included in The Charles Schwab Family of Funds. The funds discussed in this report are highlighted.

The Charles Schwab Family of Funds

organized October 20, 1989

- Schwab Money Market Fund
- Schwab Government Money Fund
- Schwab U.S. Treasury Money Fund
- Schwab Value Advantage Money Fund
- Schwab Municipal Money Fund
- Schwab California Municipal Money Fund
- Schwab New York Municipal Money Fund
- Schwab New Jersey Municipal Money Fund
- Schwab Pennsylvania Municipal Money Fund
- Schwab Florida Municipal Money Fund
- Schwab Massachusetts Municipal Money Fund
- Schwab Retirement Advantage Money Fund
- Schwab Retirement Money Fund

Schwab Advisor Cash Reserves

- Schwab Cash Reserves
- Schwab Government Cash Reserves

Although these agreements specify certain fees for these services, CSIM and Schwab have made additional agreements with the fund that may limit the total expenses charged. The rates and limitations for these fees are described in the fund's Statement of Operations.

The fund may engage in certain transactions involving affiliates. The fund may make direct transactions with certain other Schwab Funds® when practical. When one fund is seeking to sell a security that another is seeking to buy, an interfund transaction can allow both funds to benefit by reducing transaction costs. This practice is limited to funds that share the same investment adviser, trustees and officers.

Pursuant to an exemptive order issued by the SEC, the fund may enter into interfund borrowing and lending transactions within the Schwab Funds. All loans are for temporary or emergency purposes only. The interest rate charged on the loan is the average of the overnight repurchase agreement rate and the short-term bank loan rate. The interfund lending facility is subject to the oversight and periodic review of the Board of Trustees of the Schwab Funds.

Trustees may include people who are officers and/or directors of the investment adviser or Schwab. Federal securities law limits the percentage of such "interested persons" who may serve on a trust's board, and the trust was in compliance with these limitations throughout the report period. The trust did not pay any of these persons for their service as trustees, but it did pay non-interested persons (independent trustees), as noted in the fund's Statement of Operations.

The fund may borrow money from banks and custodians. The fund may obtain temporary bank loans through the trust to which the fund belongs, to use for meeting shareholder redemptions or for extraordinary or emergency purposes. The Schwab Funds have custodian overdraft facilities and line of credit arrangements of \$150 million and \$100 million with PNC Bank, N.A. and Bank of America, N.A., respectively. The fund pays

interest on the amount that it borrows at rates that are negotiated periodically. There was no borrowing for the fund during the period.

The fund intends to meet federal income and excise tax requirements for regulated investment companies. Accordingly, the fund distributes substantially all of its net investment income and net realized capital gains (if any) to its respective shareholders each year. As long as the fund meets the tax requirements, it is not required to pay federal income tax.

Under the fund's organizational documents, its officers and trustees are indemnified against certain liability arising out of the performance of their duties to the fund. In addition, in the normal course of business the fund enters into contracts with its vendors and others that 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 funds. However, based on experience, the fund expects the risk of loss to be remote.

Accounting Policies

The following are the main policies the fund uses in preparing its financial statements.

The fund values its securities at amortized cost, which approximates market value.

Security transactions are recorded as of the date the order to buy or sell the security is executed.

Interest income is recorded as it accrues. If a fund buys a debt instrument at a discount (that is, for less than its face value) or a premium (more than face value), it amortizes the discount or premium from the current date up to maturity. The fund then increases (in the case of discounts) or reduces (in the case of premiums) the income it records from the security. If the security is callable (meaning that the issuer has the option to pay it off before its maturity date), then the fund amortizes the premium to the security's call date and price, rather than the maturity date and price.

Realized gains and losses from security transactions are based on the identified costs of the securities involved.

Expenses that are specific to the fund or a class are charged directly to the fund or class. Expenses that are common to all funds within the trust generally are allocated among the funds in proportion to their average daily net assets.

The fund maintains its own account for purposes of holding assets and accounting, and is considered a separate entity for tax purposes. Within its account, the fund also may keep certain assets in segregated accounts, as required by securities law.

The accounting policies described above conform with accounting principles generally accepted in the United States of America. Notwithstanding this, shareholders should understand that in order to follow these principles, fund management has to make estimates and assumptions that affect the information reported in the financial statements. It's possible that once the results are known, they may turn out to be different from these estimates.

Investment Advisory Agreement Approval

The Investment Company Act of 1940 (the “1940 Act”) requires that initial approval of, as well as the continuation of, a fund’s investment advisory agreement must be specifically approved (1) by the vote of the trustees or by a vote of the shareholders of the fund, and (2) by the vote of a majority of the trustees who are not parties to the investment advisory agreement or “interested persons” of any party (the “Independent Trustees”), cast in person at a meeting called for the purpose of voting on such approval. In connection with such approvals, the fund’s trustees must request and evaluate, and the investment adviser is required to furnish, such information as may be reasonably necessary to evaluate the terms of the advisory agreement. In addition, the Securities and Exchange Commission (the “SEC”) takes the position that, as part of their fiduciary duties with respect to fund fees, fund boards are required to evaluate the material factors applicable to a decision to approve an investment advisory agreement.

Consistent with these responsibilities, the Board of Trustees (the “Board”) calls and holds one or more meetings each year that are dedicated, in whole or in part, to considering whether to renew the investment advisory agreement between The Charles Schwab Family of Funds (the “Trust”) and CSIM (the “Agreement”) with respect to existing funds in the Trust, including the Schwab Advisor Cash Reserves, and to review certain other agreements pursuant to which CSIM provides investment advisory services to certain other registered investment companies. In preparation for the meeting(s), the Board requests and reviews a wide variety of materials provided by CSIM, including information about CSIM’s affiliates, personnel and operations. The Board also receives extensive data provided by third parties. This information is in addition to the detailed information about the funds that the Board reviews during the course of each year, including information that relates to fund operations and fund performance.

The trustees also receive a memorandum from fund counsel regarding the responsibilities of trustees for the approval of investment advisory contracts. In addition, the Independent Trustees receive advice from independent counsel to the Independent Trustees, meet in executive session outside the presence of fund management and participate in question and answer sessions with representatives of CSIM.

At the May 24, 2005 meeting of the Board, the trustees, including a majority of the Independent Trustees, approved the renewal of the Agreement on an interim basis through September 30, 2005. The Board’s approval of the Agreement was based on consideration and evaluation of a variety of specific factors discussed at that meeting and at prior meetings, including:

1. the nature, extent and quality of the services provided to the funds under the Agreement, including the resources of CSIM and its affiliates dedicated to the funds;
2. each fund’s investment performance and how it compared to that of certain other comparable mutual funds;
3. each fund’s expenses and how those expenses compared to those of certain other comparable mutual funds;
4. the profitability of CSIM and its affiliates, including Schwab, with respect to each fund, including both direct and indirect benefits accruing to CSIM and its affiliates; and
5. the extent to which economies of scale would be realized as the funds grow and whether fee levels in the Agreement reflect those economies of scale for the benefit of fund investors.

Nature, Extent and Quality of Services. The Board considered the nature, extent and quality of the services provided by CSIM to the funds and the resources of CSIM and its affiliates dedicated to the funds. In this regard, the trustees evaluated, among other things, CSIM's personnel, experience, track record and compliance program. The trustees also considered the fact that Schwab's extensive branch network, Internet access, investment and research tools, telephone services, and array of account features benefit the funds. The trustees also considered Schwab's excellent reputation as a full service brokerage firm and its overall financial condition. Finally, the trustees considered that the vast majority of the funds' investors are also brokerage clients of Schwab, and that CSIM and its affiliates are uniquely positioned to provide services and support to the funds and such shareholders. Following such evaluation, the Board concluded, within the context of its full deliberations, that the nature, extent and quality of services provided by CSIM to the funds and the resources of CSIM and its affiliates dedicated to the funds supported interim renewal of the Agreement.

Fund Performance. The Board considered fund performance in determining whether to renew the Agreement. Specifically, the trustees considered each fund's performance relative to a peer group of other mutual funds and appropriate indices/benchmarks, in light of total return, yield and market trends. As part of this review, the trustees considered the composition of the peer group, selection criteria and the reputation of the third party who prepared the peer group analysis. In evaluating the performance of each fund, the trustees considered both risk and shareholder risk expectations for such fund. Following such evaluation, the Board concluded, within the context of its full deliberations, that the performance of the funds supported interim renewal of the Agreement.

Fund Expenses. With respect to the funds' expenses, the trustees considered the rate of compensation called for by the Agreement, and each fund's net operating expense ratio, in each case, in comparison to those of other comparable mutual funds, such peer groups and comparisons having been selected and calculated by an independent third party. The trustees considered the effects of CSIM's and Schwab's voluntary waiver of management and other fees to prevent total fund expenses from exceeding a specified cap. The trustees also considered fees charged by CSIM to other mutual funds and to other types of accounts, such as wrap accounts and offshore funds, but, with respect to such other types of accounts, accorded less weight to such comparisons due to the unique legal, regulatory, compliance and operating features of mutual funds as compared to these other types of accounts. Following such evaluation the Board concluded, within the context of its full deliberations, that the expenses of the funds are reasonable and supported interim renewal of the Agreement.

Profitability. With regard to profitability, the trustees considered the compensation flowing to CSIM and its affiliates, directly or indirectly. In this connection, the trustees reviewed management's profitability analyses, together with certain commentary thereon from an independent accounting firm. The trustees also considered any other benefits derived by CSIM from its relationship with the funds, such as whether, by virtue of its management of the Funds, CSIM obtains investment information or other research resources that aid it in providing advisory services to other clients. The trustees considered whether the varied levels of compensation and profitability under the Agreement and other service agreements were reasonable and justified in light of the quality of all services rendered to each fund by CSIM and its affiliates. Based on this evaluation, the Board concluded,

within the context of its full deliberations, that the profitability of CSIM is reasonable and supported interim renewal of the Agreement.

Economies of Scale. The trustees considered the existence of any economies of scale and whether those are passed along to a fund's shareholders through a graduated investment advisory fee schedule or other means, including any fee waivers by CSIM and its affiliates. In this regard, and consistent with their consideration of fund expenses, the trustees considered that CSIM and Schwab have previously committed resources to minimize the effects on shareholders of diseconomies of scale during periods when fund assets were relatively small through their contractual expense waivers. For example, such diseconomies of scale may particularly affect newer funds or funds with investment strategies that are from time to time out of favor, but shareholders may benefit from the continued availability of such funds at subsidized expense levels. The trustees also considered CSIM's agreement to contractual investment advisory fee schedules which include lower fees at higher graduated asset levels. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the funds obtain reasonable benefit from economies of scale.

In the course of their deliberations, the trustees did not identify any particular information or factor that was all-important or controlling. Based on the trustees' deliberation and their evaluation of the information described above, the Board, including all of the Independent Trustees, unanimously approved the interim continuation of the Agreement and concluded that the compensation under the Agreement is fair and reasonable in light of such services and expenses and such other matters as the trustees have considered to be relevant in the exercise of their reasonable judgment.

Trustees and Officers

A fund's Board of Trustees is responsible for protecting the interests of that fund's shareholders. The tables below give information about the people who serve as trustees and officers for the Schwab Funds®, including the funds covered in this report. Trustees remain in office until they resign, retire or are removed by shareholder vote.¹

Under the Investment Company Act of 1940, any officer, director, or employee of Schwab or CSIM is considered an “interested person,” meaning that he or she is considered to have a business interest in Schwab or CSIM. These individuals are listed as “interested trustees.” The “independent trustees” are individuals who, under the 1940 Act, are not considered to have a business interest in Schwab or CSIM.

Each of the 56 Schwab Funds belongs to one of these trusts: The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust or Schwab Annuity Portfolios. Currently all these trusts have the same trustees and officers. The address for all trustees and officers is 101 Montgomery Street, San Francisco, CA 94104. You can find more information about the trustees and officers in the Statement of Additional Information, which is available free by calling 1-800-435-4000.

Interested Trustees and Officers

Name and Birthdate	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
Charles R. Schwab ² 7/29/37	Chairman, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Director, The Charles Schwab Corp., Charles Schwab & Co., Inc.; Chair, Director, Charles Schwab Investment Management, Inc.; Chair, Charles Schwab Holdings (UK); Chair, Director, U.S. Trust Corp., United States Trust Co. of New York, U.S. Trust Co., N.A.; CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, Charles Schwab Bank, N.A., The Charles and Helen Schwab Foundation, All Kinds of Minds (education); Trustee, Stanford University. <i>Until 5/04</i> : Director, The Gap, Inc. (clothing retailer). <i>Until 5/03</i> : Co-CEO, The Charles Schwab Corp. <i>Until 3/02</i> : Director, Audiobase, Inc. (Internet audio solutions). <i>Until 5/02</i> : Director, Vodafone AirTouch PLC (telecommunications). <i>Until 7/01</i> : Director, The Charles Schwab Trust Co.

¹ The Schwab Funds retirement policy requires that independent trustees elected after January 1, 2000 retire at age 72 or after twenty years of service as a trustee, whichever comes first. Independent trustees elected prior to January 1, 2000 will retire on the following schedule: Messrs. Holmes and Dorward will retire on December 31, 2007, and Messrs. Stephens and Wilsey will retire on December 31, 2010.

² In addition to his position with the investment adviser and the distributor, Mr. Schwab also owns stock of The Charles Schwab Corporation.

Interested Trustees but Not Officers

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Randall W. Merk 7/25/54	2005 (all trusts).	EVP, President, AMPS Enterprise. <i>Until 7/04</i> : President, CEO, Charles Schwab Investment Management, Inc.; VP, Charles Schwab & Co., Inc. <i>Until 8/02</i> : President, Chief Investment Officer, American Century Management; Director, American Century Companies, Inc. <i>Until 6/01</i> : Chief Investment Officer, Fixed Income, American Century Companies, Inc.

Officers of the Trust

Name and Birthdate	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
Evelyn Dilsaver 5/4/55	President, CEO (all trusts).	EVP, President, Director, Charles Schwab Investment Management, Inc. <i>Until 7/04</i> : SVP for Development and Distribution, Asset Management Products and Services Enterprise. <i>Until 6/03</i> : EVP, CFO, Chief Administrative Officer, U.S. Trust.
Stephen B. Ward 4/5/55	SVP, Chief Investment Officer (all trusts).	SVP, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co.
Kimon Daifotis 7/10/59	SVP, Chief Investment Officer (all trusts).	<i>Since 9/04</i> : Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Since 6/04</i> : SVP, Charles Schwab Investment Management, Inc. <i>Until 6/04</i> : VP, Charles Schwab Investment Management, Inc.
Jeffrey Mortimer 9/29/63	SVP, Chief Investment Officer (all trusts).	<i>Since 5/04</i> : SVP, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc. <i>Since 6/04</i> : VP, Chief Investment Officer, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 5/04</i> : VP, Charles Schwab Investment Management, Inc.
Randall Fillmore 11/11/60	Chief Compliance Officer (all trusts).	<i>Since 9/04</i> : SVP, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Chief Compliance Officer, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 9/04</i> : VP, Charles Schwab & Co., Inc., Charles Schwab Investment Management, Inc. <i>Until 2002</i> : VP of Internal Audit, Charles Schwab & Co., Inc. <i>Prior to 2000</i> : PricewaterhouseCoopers.
Koji E. Felton 3/13/61	Secretary (all trusts).	SVP, Chief Counsel, Assistant Corporate Secretary, Charles Schwab Investment Management, Inc. <i>Until 6/98</i> : Branch Chief in Enforcement, U.S. Securities and Exchange Commission, San Francisco.
George Pereira 6/9/64	Treasurer, Principal Financial Officer (all trusts).	<i>Since 11/04</i> : SVP, CFO, Charles Schwab Investment Management, Inc. <i>Until 11/04</i> : SVP, Financial Reporting, Charles Schwab & Co., Inc. <i>Until 12/99</i> : CFO, Commerzbank Capital Markets. <i>Until 9/99</i> : Managing Director at the New York Stock Exchange.

Independent Trustees

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Mariann Byerwalter 8/13/60	2000 (all trusts).	Chair, JDN Corp. Advisory LLC (real estate); Trustee, Stanford University, America First Cos., Omaha, NE (venture capital/fund management), Redwood Trust, Inc. (mortgage finance), Stanford Hospitals and Clinics, SRI International (research), PMI Group, Inc. (mortgage insurance), Lucile Packard Children's Hospital. <i>Since 2/05</i> : Director, Pacific Mutual Holding Company (insurance). <i>Since 2004</i> : Laudus Trust, Laudus Variable Insurance Trust. <i>Until 2001</i> : Stanford University, Special Assistant to the President. <i>From 1996-2001</i> : VP of Business Affairs, CFO.
Donald F. Dorward 9/23/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	CEO, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999</i> : EVP, Managing Director, Grey Advertising. <i>Until 1996</i> : President, CEO, Allen & Dorward Advertising.
William A. Hasler 11/22/41	2000 (all trusts).	Dean Emeritus, Haas School of Business, University of California, Berkeley; Director, Apton Corp. (bio-pharmaceuticals); Non-Executive Chair, Solectron Corp. (manufacturing), Mission West Properties (commercial real estate), Stratex Networks (network equipment), TOUSA (home building); Public Governor, Member, executive committee, Pacific Stock & Options Exchange. <i>Since 2004</i> : Trustee, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 2/04</i> : Co-CEO, Apton Corp. (bio-pharmaceuticals).
Robert G. Holmes 5/15/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Director, Semloh Financial, Inc. (international financial services and investment advisory firm).
Gerald B. Smith 9/28/50	2000 (all trusts).	Chair, CEO, Founder, Smith Graham & Co. (investment advisers); Trustee, Cooper Industries (electrical products, tools and hardware); Chairman, audit committee, Northern Border Partners, L.P. (energy).
Donald R. Stephens 6/28/38	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chair, CEO, North American Trust (real estate investment trust).
Michael W. Wilsey 8/18/43	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Wilsey Bennett, Inc. (real estate investment and management, and other investments).

Glossary

agency discount notes Notes issued by federal agencies—known as Government Sponsored Enterprises, or GSEs—at a discount to their value at maturity. An agency discount note is a short-term investment alternative offering a high degree of credit quality.

Alternative Minimum Tax (AMT) A federal income tax designed to limit the extent to which high-income taxpayers (including individuals, estates, trusts and corporations) can benefit from certain deductions and exemptions. For example, some types of income that are exempt from regular federal income tax are not exempt from the AMT.

asset-backed securities Bonds or other debt securities that represent ownership in a pool of assets such as credit card debt.

bond A security representing a loan from the investor to the issuer. A bond typically pays interest at a fixed rate (the “coupon rate”) until a specified date (the “maturity date”), at which time the issuer returns the money borrowed (“principal” or “face value”) to the bondholder. Because of their structure, bonds are sometimes called “fixed income securities” or “debt securities.”

An individual bond is subject to the credit risk of the issuer. Changes in interest rates can affect a bond’s market value prior to call or maturity. There is no guarantee that a bond’s yield to call or maturity will provide a positive return over the rate of inflation.

bond fund A bond fund is subject to the same credit, interest rate, and inflation risks as bonds. In addition, a bond fund incurs ongoing fees and expenses. A bond fund’s net asset value will fluctuate with the price of the underlying bonds and the portfolio turnover activity; return of principal is not guaranteed.

bond anticipation notes Obligations sold by a municipality on an interim basis in anticipation of the municipality’s issuance of a longer-term bond in the future.

capital gain, capital loss The difference between the amount paid for an investment and its value at a later time. If the investment has been sold, the capital gain or loss is considered a realized gain or loss. If the investment is still held, the gain or loss is still “on paper” and is considered unrealized.

commercial paper Promissory notes issued by banks, corporations, state and local governments and other entities to finance short-term credit needs. These securities generally are structured on a discounted basis but

sometimes may be interest-bearing notes. Commercial paper, which may be unsecured, is subject to credit risk.

credit-enhanced securities Securities that are backed by the credit of an entity other than the issuer (such as a financial institution). Credit enhancements, which can equal up to 100% of the security’s value, are designed to help lower the risk of default on a security and may also make the security more liquid.

credit quality The capacity of an issuer to make its interest and principal payments. Federal regulations strictly limit the credit quality of the securities a money market fund can buy.

credit ratings Debt issuers, including corporations, states and municipalities, may arrange with a recognized independent rating organization, such as Standard & Poor’s, Fitch, Inc. and Moody’s Investor Service, to rate their creditworthiness and/or the creditworthiness of their debt issues. For example, an issuer may obtain a long-term rating within the investment grade rating category, which is, from high to low, AAA, AA, A and BBB for Standard & Poor’s and Fitch, and Aaa, Aa, A and Baa for Moody’s.

credit risk The risk that a debt issuer may be unable to pay interest or principal to its debtholders.

Portfolio terms

To help reduce the space occupied by the portfolio holdings, we use the following terms. Most of them appear within descriptions of individual securities in municipal funds, and describe features of the issuer or the security. Some of these are more fully defined elsewhere in the Glossary.

ACES	Adjustable convertible extendable security
BAN	Bond anticipation note
COP	Certificate of participation
GAN	Grant anticipation note
GO	General obligation
HDA	Housing Development Authority
HFA	Housing Finance Agency
IDA	Industrial Development Authority
IDB	Industrial Development Board
IDRB	Industrial Development Revenue Bond
M/F	Multi-family
RAN	Revenue anticipation note
RB	Revenue bond
S/F	Single-family
TAN	Tax anticipation note
TECP	Tax-exempt commercial paper
TRAN	Tax and revenue anticipation note
VRD	Variable-rate demand

dollar-weighted average maturity (DWAM) See weighted average maturity.

effective yield A measurement of a fund's yield that assumes that all dividends were reinvested in additional shares of the fund.

expense ratio The amount that is taken from a mutual fund's assets each year to cover the fund's operating expenses. An expense ratio of 0.50% means that a fund's expenses amount to half of one percent of its average net assets a year.

face value The value of a bond, note, mortgage or other security as given on the certificate or instrument. Face value is also referred to as par value or nominal value.

illiquid securities Securities are generally considered illiquid if they cannot be disposed of promptly (typically within seven days) and in the ordinary course of business at approximately the amount at which a fund has valued the instruments.

interest Payments to holders of debt securities as compensation for loaning a security's principal to the issuer.

liquidity-enhanced security A security that when tendered is paid from funds advanced by an entity other than the issuer (such as a large financial institution). Liquidity enhancements are often used on variable-rate securities where the portfolio manager has an option to tender the securities prior to their final maturity.

maturity The date a debt security is scheduled to be "retired" and its principal amount returned to the bondholder.

money market securities High-quality, short-term debt securities that may be issued by entities such as the U.S. government, corporations and financial institutions (such as banks). Money market securities include commercial paper, promissory notes, certificates of deposit, banker's acceptances, notes and time deposits.

muni, municipal bonds, municipal securities Debt securities issued by a state, its counties, municipalities, authorities and other subdivisions, or the territories and possessions of the United States and the District of Columbia, including their subdivisions, agencies and instrumentalities and corporations. These securities may be issued to obtain money for various public purposes, including the construction of a wide range of public facilities such as airports, bridges, highways, housing, hospitals, mass transportation, public utilities, schools, streets, and water and sewer works.

net asset value per share (NAV) The value of one share of a mutual fund. NAV is calculated by taking the fund's total assets, subtracting liabilities, and dividing by the number of shares outstanding. Money funds seek to maintain a steady NAV of \$1.00.

outstanding shares, shares outstanding When speaking of a company or mutual fund, indicates all shares currently held by investors.

restricted securities Securities that are subject to contractual restrictions on resale. These securities are often purchased in private placement transactions.

revenue anticipation notes Obligations that are issued in expectation of the receipt of revenue, such as income taxes, property taxes, etc.

section 3c7 securities Section 3c7 of the Investment Company Act of 1940 (the "1940 Act") exempts certain issuers from many regulatory requirements applicable to investment companies under the 1940 Act. An issuer whose outstanding securities are exclusively owned by "qualified purchasers" and who is not making or proposing to make a public offering of the securities may qualify for this exemption.

section 4(2)/144A securities Securities exempt from registration under Section 4(2) of the Securities Act of 1933. These securities may be sold only to qualified institutional buyers under Securities Act Rule 144A.

taxable-equivalent yield The yield an investor would need to get from a taxable investment in order to match the yield paid by a given tax-exempt investment, once the effect of all applicable taxes is taken into account. For example, if your tax rate were 25%, a tax-exempt investment paying 4.5% would have a taxable-equivalent yield for you of 6.0% ($4.5\% \div [1 - 0.25\%] = 6.0\%$).

total return The percentage that an investor would have earned or lost on an investment in the fund assuming dividends and distributions were reinvested.

tax anticipation notes Notes that typically are sold to finance the cash flow needs of municipalities in anticipation of the receipt of taxes on a future date.

Tier 1, Tier 2 Tier 1 is the highest category of credit quality, Tier 2 the second highest. A security's tier can be established either by an independent rating organization or by a determination of the investment adviser. Money market fund shares and U.S. government securities are automatically considered Tier 1 securities.

weighted average maturity For mutual funds, the maturity of all the debt securities in its portfolio, calculated as a weighted average. As a rule, the longer a fund's weighted average maturity, the greater its interest rate risk. Money funds are required to maintain a weighted average maturity of no more than 90 days.

yield The income paid out by an investment, expressed as a percentage of the investment's market value.

Notes

Schwab Funds® offers you a complete family of mutual funds, each one based on a clearly defined investment approach and using disciplined management strategies. The list at right shows all currently available Schwab Funds.

Whether you're an experienced investor or just starting out, Schwab Funds can help you achieve your financial goals. An investor should consider a fund's investment objectives, risks, and charges and expenses carefully before investing or sending money. This and other important information can be found in the fund's prospectus. Please call 1-800-435-4000 for a prospectus and brochure for any Schwab Fund. Please read the prospectus carefully before you invest. This report must be preceded or accompanied by a current prospectus.

Methods for Placing Orders

The following information outlines how Schwab investors can place orders. If you are investing through a third-party investment provider, methods for placing orders may be different.

Internet¹

www.schwab.com

Schwab by Phone™²

Use our automated voice service or speak to a representative. Call **1-800-435-4000**, day or night (for TDD service, call **1-800-345-2550**).

TeleBroker®

Use our automated touch-tone phone service at **1-800-272-4922**.

Mail

Write to Schwab Funds at:
P.O. Box 3812
Englewood, CO
80155-3812

When selling or exchanging shares, be sure to include the signatures of at least one of the persons whose name is on the account.

Proxy Voting Policies, Procedures and Results

A description of the proxy voting policies and procedures used to determine how to vote proxies on behalf of the funds is available without charge, upon request, by visiting Schwab's website at www.schwab.com/schwabfunds, the SEC's website at <http://www.sec.gov>, or by contacting Schwab Funds at 1-800-435-4000.

Information regarding how a fund voted proxies relating to portfolio securities during the most recent twelve-month period ended June 30 is available, without charge, by visiting Schwab's website at www.schwab.com/schwabfunds or the SEC's website at <http://www.sec.gov>.

The Schwab Funds Family®

Stock Funds

Schwab S&P 500 Index Fund
Schwab 1000 Index® Fund
Schwab Small-Cap Index Fund®
Schwab Total Stock Market Index Fund®
Schwab International Index Fund™
Schwab Premier Equity Fund™
Schwab Core Equity Fund™
Schwab Dividend Equity Fund™
Schwab Small-Cap Equity Fund™
Schwab Hedged Equity Fund™
Schwab Financial Services Fund™
Schwab Health Care Fund™
Schwab Technology Fund™
Schwab Institutional Select® S&P 500 Fund

Asset Allocation Funds

Schwab MarketTrack All Equity Portfolio™
Schwab MarketTrack Growth Portfolio™
Schwab MarketTrack Balanced Portfolio™
Schwab MarketTrack Conservative Portfolio™
Schwab Target 2010 Fund
Schwab Target 2020 Fund
Schwab Target 2030 Fund
Schwab Target 2040 Fund
Schwab Retirement Income Fund

Bond Funds

Schwab YieldPlus Fund®
Schwab Short-Term Bond Market Fund™
Schwab Total Bond Market Fund™
Schwab GNMA Fund™
Schwab Tax-Free YieldPlus Fund™
Schwab Short/Intermediate Tax-Free Bond Fund™
Schwab Long-Term Tax-Free Bond Fund™
Schwab California Tax-Free YieldPlus Fund™
Schwab California Short/Intermediate Tax-Free Bond Fund™
Schwab California Long-Term Tax-Free Bond Fund™

Schwab Money Funds

Schwab offers an array of money market funds that seek high current income consistent with safety and liquidity.³ Choose from taxable or tax-advantaged alternatives. Many can be linked to your eligible Schwab account to "sweep" cash balances automatically, subject to availability, when you're between investments. Or, for your larger cash reserves, choose one of our Value Advantage Investments®.

¹ Shares of Sweep Investments™ may not be purchased directly over the Internet.

² Orders placed in person or through a telephone representative may be subject to a service fee payable to Schwab.

³ Investments in money market funds are neither insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency and, although they seek to preserve the value of your investment at \$1 per share, it is possible to lose money.

charles SCHWAB

Investment Adviser

Charles Schwab Investment Management, Inc.
101 Montgomery Street, San Francisco, CA 94104

Distributor

Charles Schwab & Co., Inc. (Schwab)

Funds

Schwab Funds®
P.O. Box 3812, Englewood, CO 80155-3812

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Schwab Cash Reserves

Semiannual Report

June 30, 2005

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From the Chairman



Charles Schwab
Chairman

Dear Shareholder,

I have always believed that it's important to make sure that your cash is earning income between long-term investments by putting the money into a money market fund. While no investment is risk-free, money market funds carry, perhaps, the least amount of risk, as they generally are not as volatile as stocks or stock mutual funds. Money funds are good choices for investors who want to mitigate the potential fluctuations that may occur in their mostly stock portfolios.

At Schwab, we offer a range of money funds with distinct investment strategies. Our municipal money funds, for example, may be beneficial for those of you in the higher tax brackets. We also offer money funds for those interested in the added protection provided by a portfolio of U.S. government securities. In addition, several of the Schwab money funds offer share classes that carry lower expenses in exchange for higher investment minimums.

Now, as a result of the Federal Reserve having raised short-term interest rates eight times in the past 12 months (four during the six-month period covered in this report), yields on money market mutual funds are more attractive than they have been in many years. Not only that, but it's likely that the Fed will raise these rates again this year. Based on this expectation, we anticipate that the yields on money market funds will continue to move upwards over the next few months.

On behalf of Schwab Funds, I want to thank you for investing with us and remind you that our commitment to our shareholders will never waver.

Sincerely,

A handwritten signature in cursive script that reads "Charles R. Schwab". The signature is written in dark ink and is positioned below the typed name.

Management's Discussion

for the six months ended June 30, 2005



Evelyn Dilsaver is President and CEO of Charles Schwab Investment Management, Inc. and is president of the funds covered in this report. She joined the firm in 1992 and has held a variety of executive positions at Schwab.

Dear Shareholder,

When I assumed my new role as President and CEO of Schwab Funds® last year, I pledged that I would be committed to offering you more relevant choices and better value. I am pleased to report that we already have done both.

On July 1, 2005, Schwab Funds launched the Schwab Target Funds™, a suite of five mutual funds to help keep your retirement investments properly allocated over your lifetime. With a single investment in a Schwab Target Fund, you can avoid a common investment mistake—failing to adjust your portfolio over time.

The funds are designed to provide shareholders with investment management, asset allocation and ongoing re-allocation over time. You simply choose the fund that most closely matches the date of your retirement and our experienced portfolio managers will do the rest. They will rebalance four of the five funds from more aggressive to more conservative as you get closer to your retirement date. The fifth fund is designed to help generate income and additional growth after you've retired. It also is a good choice for investors already enjoying their retirement.

These no-load funds are a good value, as the funds have access to the lowest-priced eligible share class on the underlying Schwab affiliate funds. And because the funds invest in groups of other Schwab affiliate funds, they provide an additional layer of diversification.

At Schwab, we believe that having an asset-allocation plan that fits your retirement goals, time frame and tolerance for risk is a key element in meeting your long-term investment goals. The Schwab Target Funds are designed to help you do this. I encourage you to learn more about these funds at www.schwab.com/target, or call Schwab.

Thank you for investing in Schwab Funds.

Sincerely,

A handwritten signature in cursive script that reads "Evelyn Dilsaver".

Investors should consider carefully information contained in the prospectus, including investment objectives, risks, charges and expenses. You can request a prospectus by calling Schwab at 1-800-435-4000. Please read the prospectus carefully before investing.



Linda Klingman, a vice president of the investment adviser and senior portfolio manager, has overall responsibility for the management of the fund. She joined the firm in 1990 and has managed money market funds since 1988.



Mike Neitzke, a portfolio manager, has day-to-day responsibility for management of the fund. Prior to joining the firm in March 2001, he worked for more than 15 years in the financial services industry as a portfolio manager.

The Investment Environment and the Fund

Oil prices hit highs never seen before and the Federal Reserve Open Market Committee continued to raise short-term interest rates to curb inflationary pressures, raising rates for the fourth time this year. At the same time, GDP continued to grow at a healthy pace and the housing market remained strong, largely due to low mortgage rates.

The firming labor market, as well as steady gains in capital spending, kept the economic expansion on a self-sustaining path. Businesses, unable to continue boosting productivity by restraining hiring, added new jobs during the six-month report period. Moreover, many leading indicators, such as the Institute for Supply Management's business activity surveys, suggested ongoing expansion, while continuing claims for unemployment benefits remained near cyclical lows.

Business investments grew only modestly, but consumers continued to spend. In fact, consumer confidence rose to a level not experienced since before September 11, 2001. With consumers in a spending mode and consumer spending comprising about 70% of GDP, first quarter GDP remained strong and retail sales were healthy. In this positive economic environment, strong labor market conditions remained positive for domestic consumption.

While high energy prices remained a significant headwind for economic performance, supply no longer was the issue; demand, especially in China, drove prices up. At the end of the six-month report period, a barrel of oil cost \$56.50 versus \$42.55 at the beginning of 2005.

Though high oil and commodity prices could have hampered growth and stirred inflationary pressures, productivity gains, slow growth in the money supply and slack in the economy have mostly kept a lid on core inflation. The productivity gains, coupled with foreign central banks buying large amounts of U.S. Treasury securities, also helped to keep long-term interest rates under control. These conditions also caused the dollar to rally unexpectedly, which took a little bit of pressure off the price of imported goods.

Amid signs of solidly expanding output and improved hiring, the Fed continued to tighten. It increased short-term interest rates at each of the four meetings in the first half of 2005, ending the six-month report period at a still moderate 3.25%. The moves have had a limited impact

Though high oil and commodity prices could have hampered growth and stirred inflationary pressures, productivity gains, slow growth in the money supply and slack in the economy have mostly kept a lid on core inflation.

on overall economic growth, due primarily to the record-low level of rates from which the increases began. Nonetheless, the higher rates succeeded in moving money fund yields higher, making them a more attractive investment vehicle.

Schwab Cash Reserves was positioned to take advantage of the strong likelihood that the Federal Reserve would continue to raise short-term interest rates. And, indeed, the Fed did continue to tighten, raising rates four times during the six-month report period. In this economic scenario, we continually added to our variable-rate holdings, increasing our position to 16% during the six-month report period. The interest rates on these types of securities reset frequently, allowing us the opportunity to capture a rise in market rates. Also, we kept the fund's weighted average maturity (WAM) at approximately 40 days. Maintaining the WAM at this level provided us the flexibility desired to adapt to and respond to expected changes in interest rates.

Nothing in this report represents a recommendation of a security by the investment adviser. Manager views and portfolio holdings may have changed since the report date.

Performance and Fund Facts as of 6/30/05

Ticker Symbol: SWSXX

Seven-Day Yields

The seven-day yields are calculated using standard SEC formulas. The effective yield includes the effect of reinvesting daily dividends. Please remember that money market fund yields fluctuate.

Seven-Day Yield¹	2.54%
Seven-Day Yield–No Waiver²	2.25%
Seven-Day Effective Yield¹	2.57%

The performance data quoted represents past performance. Past performance does not guarantee future results. Current performance may be lower or higher than performance data quoted. To obtain more current performance information, please visit www.schwab.com/schwabfunds.

Statistics

Money funds must maintain a dollar-weighted average maturity of no longer than 90 days, and cannot invest in any security whose effective maturity is longer than 397 days (approximately 13 months).

Weighted Average Maturity	39 days
Credit Quality of Holdings % of portfolio	100% Tier 1

An investment in a money fund is neither insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. Although money funds seek to preserve the value of your investment at \$1 per share, it is possible to lose money by investing in a money fund.

Portfolio holdings may have changed since the report date.

¹ Fund expenses have been partially absorbed by CSIM and Schwab.

² Yield if fund expenses had not been partially absorbed by CSIM and Schwab.

Fund Expenses

Examples for a \$1,000 Investment

As a fund shareholder, you incur two types of costs: transaction costs, such as redemption fees; and, ongoing costs, such as management fees, transfer agent and shareholder services fees, and other fund expenses.

The expense examples below are intended to help you understand your ongoing cost (in dollars) of investing in a fund and to compare this cost with the ongoing cost of investing in other mutual funds. These examples are based on an investment of \$1,000 invested for six-months beginning January 1, 2005 and held through June 30, 2005.

Actual Return lines in the table below provide information about actual account values and actual expenses. You may use this information, together with the amount you invested, to estimate the expenses that you paid over the period. To do so, simply divide your account value by \$1,000 (for example, an \$8,600 account value \div \$1,000 = 8.6), then multiply the result by the number given for your fund under the heading entitled "Expenses Paid During Period."

Hypothetical Return lines in the table below provide infor-

mation about hypothetical account values and hypothetical expenses based on a fund's actual expense ratio and an assumed return of 5% per year before expenses. Because the return used is not an actual return, it may not be used to estimate the actual ending account value or expenses you paid for the period.

You may use this information to compare the ongoing costs of investing in the fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only, and do not reflect any transactional costs, such as redemption fees. If these transactional costs were included, your costs would have been higher.

	Expense Ratio ¹ (Annualized)	Beginning Account Value at 1/1/05	Ending Account Value (Net of Expenses) at 6/30/05	Expenses Paid During Period ² 1/1/05–6/30/05
Schwab Cash Reserves				
Actual Return	0.69%	\$1,000	\$1,010.40	\$3.44
Hypothetical 5% Return	0.69%	\$1,000	\$1,021.37	\$3.46

¹ Based on the most recent six-month expense ratio; may differ from the expense ratio provided in Financial Highlights.

² Expenses for the fund are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 181 days of the period, and divided by 365 days of the fiscal year.

Financial Statements

Financial Highlights

	1/1/05– 6/30/05*	8/12/04 ¹ – 12/31/04
Per-Share Data (\$)		
Net asset value at beginning of period	1.00	1.00
Income from investment operations:		
Net investment income	0.01	0.00 ²
Less distributions:		
Dividends from net investment income	(0.01)	(0.00) ²
Net asset value at end of period	1.00	1.00
Total return (%)	1.04 ³	0.46 ³
Ratios/Supplemental Data (%)		
Ratios to average net assets:		
Net operating expenses	0.69 ⁴	0.69 ⁴
Gross operating expenses	0.98 ⁴	1.05 ⁴
Net investment income	2.15 ⁴	1.24 ⁴
Net assets, end of period (\$ x 1,000,000)	223	140

* Unaudited.

¹ Commencement of operations.

² Per share amount was less than \$0.01.

³ Not annualized.

⁴ Annualized.

Portfolio Holdings as of June 30, 2005; unaudited

This section shows all the securities in the fund's portfolio and their value, as of the report date.

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on the fund's most recent Form N-Q is available by visiting Schwab's website at www.schwab.com/schwabfunds.

We use the symbols below to designate certain characteristics of the securities.

- ◆ Asset-backed security
- ✦ Credit-enhanced security
- Illiquid and/or restricted security

For fixed-rate obligations, the rate shown is the effective yield at the time of purchase, except U.S. Treasury notes, for which the rate shown is the interest rate (the rate established when the obligation was issued). For variable-rate obligations, the rate shown is the rate as of the report date. For variable-rate obligations with scheduled maturities greater than 397 days, the maturity shown is the later of the next interest rate change date or demand date. For variable-rate obligations with scheduled maturities less than 397 days, the maturity shown is the earlier of the next interest rate change date or demand date.

Holdings by Category	Cost (\$x1,000)	Value (\$x1,000)
71.9% Fixed-Rate Obligations	160,484	160,484
17.0% Variable-Rate Obligations	37,995	37,995
11.1% Repurchase Agreements	24,790	24,790
100.0% Total Investments	223,269	223,269
0.0% Other Assets and Liabilities		77
100.0% Net Assets		223,346

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
-------------------------------	-----------------------------	-----------------------

Fixed-Rate Obligations 71.9% of net assets**Commercial Paper & Other Corporate Obligations** 43.4%**AB Spintab**

3.23%, 08/11/05	2,000	1,993
-----------------	-------	-------

◆+ Amsterdam Funding Corp., Section 4(2) / 144A

3.09%, 07/07/05	3,000	2,998
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◆+ ASAP Funding Ltd., Section 4(2) / 144A

3.23%, 08/09/05	1,000	996
-----------------	-------	-----

◆+ Atlantic Asset Securitization Corp., Section 4(2) / 144A

3.18%, 07/14/05	1,000	999
-----------------	-------	-----

◆ Atlantis One Funding Corp., Section 4(2) / 144A

2.82%, 07/11/05	1,000	999
-----------------	-------	-----

3.25%, 09/20/05	2,000	1,986
-----------------	-------	-------

3.44%, 11/18/05	2,000	1,974
-----------------	-------	-------

◆+ Barton Capital Corp., Section 4(2) / 144A

3.16%, 07/14/05	1,000	999
-----------------	-------	-----

◆+ Blue Spice, L.L.C., Section 4(2) / 144A

3.21%, 07/20/05	1,000	998
-----------------	-------	-----

✦ Citigroup Funding, Inc.

3.11%, 07/01/05	4,000	4,000
-----------------	-------	-------

3.21%, 07/22/05	2,000	1,996
-----------------	-------	-------

◆+ Clipper Receivables Co., Section 4(2) / 144A

3.11%, 07/21/05	2,000	1,997
-----------------	-------	-------

◆+ Concord Minutemen Capital Co., Series A Section 3c7 / 144A

2.80%, 07/06/05	1,000	1,000
-----------------	-------	-------

2.96%, 08/08/05	1,000	997
-----------------	-------	-----

◆+ Crown Point Capital Co., L.L.C., Section 3c7 / 144A

3.17%, 07/26/05	1,000	998
-----------------	-------	-----

3.44%, 11/16/05	1,000	987
-----------------	-------	-----

◆ Dakota CP Notes of Citibank Credit Card Issuance Trust, Section 4(2) / 144A

3.17%, 07/25/05	2,000	1,996
-----------------	-------	-------

3.30%, 09/07/05	3,000	2,981
-----------------	-------	-------

Danske Bank A/S

3.23%, 08/11/05	1,000	996
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Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
◆◆ Eiffel Funding, L.L.C., Section 4(2) / 144A			◆ Park Granada, L.L.C., Section 4(2) / 144A		
3.26%, 07/21/05	1,000	998	3.20%, 08/01/05	1,000	997
◆◆ Fairway Finance Co., L.L.C., Section 4(2) / 144A			◆◆ Ranger Funding Co. L.L.C., Section 4(2) / 144A		
3.25%, 07/20/05	1,403	1,401	3.19%, 07/19/05	4,000	3,994
2.96%, 07/28/05	1,000	998	◆ Santander Central Hispano Finance (Delaware), Inc.		
◆◆ Falcon Asset Securitization Corp., Section 4(2) / 144A			2.81%, 07/13/05	1,000	999
3.18%, 07/18/05	3,500	3,495	◆◆ Scaldis Capital Ltd., Section 4(2) / 144A		
◆ Galaxy Funding, Inc., Section 4(2) / 144A			2.84%, 07/11/05	1,000	999
3.05%, 07/01/05	2,000	2,000	3.33%, 09/15/05	1,000	993
General Electric Capital Corp.			◆◆ Sigma Finance, Inc., Section 3c7 / 144A		
2.86%, 07/21/05	2,000	1,997	3.08%, 07/12/05	2,000	1,998
◆ Giro Funding U.S. Corp., Section 4(2) / 144A			Skandinaviska Enskilda Banken AB		
3.18%, 07/14/05	1,000	999	2.81%, 07/12/05	1,000	999
+ HBOS Treasury Services, PLC			3.25%, 08/18/05	1,300	1,294
3.26%, 07/28/05	3,000	2,993	◆◆ Thunder Bay Funding, LLC., Section 4(2) / 144A		
+ ING (U.S.) Funding, L.L.C.			3.09%, 07/07/05	2,000	1,999
3.25%, 07/20/05	3,000	2,995	◆◆ Ticonderoga Funding, LLC., Section 4(2) / 144A		
◆◆ Jupiter Securitization Corp., Section 4(2) / 144A			3.26%, 07/22/05	1,000	998
3.16%, 07/18/05	3,000	2,996	+ UBS Finance (Delaware) Inc.		
3.23%, 07/26/05	1,000	998	3.11%, 07/14/05	8,000	7,991
◆ K2 (USA), L.L.C., Section 3c7 / 144A			◆◆ Windmill Funding Corp., Section 4(2) / 144A		
2.84%, 07/15/05	1,000	999	3.17%, 07/18/05	1,000	998
3.33%, 10/11/05	1,000	991	3.23%, 07/21/05	2,000	1,996
◆◆ Kitty Hawk Funding Corp., Section 4(2) / 144A			96,984		
3.18%, 07/15/05	2,000	1,997	Certificates of Deposit 27.5%		
◆◆ Lexington Parker Capital Co., L.L.C., Section 4(2) / 144A			Alliance & Leicester, PLC		
3.07%, 07/06/05	3,000	2,999	3.58%, 12/20/05	2,000	2,000
3.26%, 07/18/05	1,000	998	Banco Bilbao Vizcaya Argentaria S.A.		
2.88%, 07/25/05	1,000	998	3.46%, 11/28/05	5,000	5,000
◆ Mane Funding Corp., Section 4(2) / 144A			Bank of The West		
3.31%, 07/27/05	2,000	1,995	3.33%, 09/27/05	5,000	5,000
Morgan Stanley			BNP Paribas		
3.19%, 07/20/05	2,000	1,997	3.46%, 11/28/05	1,000	1,000
3.23%, 07/20/05	2,000	1,997	Calyon		
◆◆ Park Avenue Receivables Corp. L.L.C., Section 4(2) / 144A			2.95%, 08/10/05	1,000	1,000
3.14%, 07/14/05	2,000	1,998	3.37%, 11/09/05	5,000	5,000
			3.40%, 11/10/05	3,000	3,000

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Canadian Imperial Bank of Commerce			Variable-Rate Obligations 17.0% of net assets		
2.72%, 07/05/05	4,000	4,000	Barclays Bank, PLC		
Credit Suisse First Boston			3.15%, 07/18/05	5,000	4,998
3.15%, 07/29/05	5,000	5,000	3.18%, 07/18/05	5,000	4,999
Dexia Credit Local			• The Goldman Sachs Group, Inc.		
3.23%, 07/22/05	1,000	1,000	3.32%, 07/22/05	2,000	2,000
DnB NOR Bank ASA			HSB Nordbank, AG		
3.25%, 09/22/05	3,000	3,000	3.12%, 07/11/05	3,000	3,000
HSBC Bank, PLC			3.13%, 07/11/05	2,000	2,000
3.11%, 07/25/05	2,000	2,000	Landesbank Baden-Wurtemberg		
HSBC Bank, USA			3.15%, 07/13/05	3,000	3,000
3.44%, 11/21/05	1,000	1,000	Norddeutsche Landesbank Girozentrale		
Mizuho Corp. Bank, Ltd.			3.10%, 07/07/05	7,000	6,999
3.14%, 07/19/05	5,000	5,000	3.17%, 07/14/05	3,000	2,999
Royal Bank of Scotland, PLC			Royal Bank of Scotland, PLC		
3.25%, 07/28/05	1,000	1,000	3.36%, 07/29/05	2,000	2,000
Skandinaviska Enskilda Banken AB			◆+ Sigma Finance, Inc., Section 3c7 / 144A		
3.20%, 07/22/05	2,500	2,500	3.17%, 07/15/05	2,000	2,000
Toronto Dominion Bank			3.26%, 07/25/05	1,000	1,000
3.45%, 11/28/05	4,000	4,000	+ Tenderfoot Seasonal Housing, L.L.C.		
3.47%, 12/05/05	2,000	2,000	Series B		
3.54%, 12/09/05	2,000	2,000	3.39%, 07/07/05	3,000	3,000
Washington Mutual Bank, FA					37,995
3.44%, 11/22/05	1,000	1,000	Security Maturity Amount (\$ x 1,000)		
Wells Fargo Bank, N.A.			Other Investments 11.1% of net assets		
3.27%, 07/12/05	6,000	6,000	Repurchase Agreements 11.1%		
		61,500	Credit Suisse First Boston L.L.C.		
Bank Notes 0.5%			Tri-Party Repurchase Agreement		
Bank of America, N.A.			Collateralized by U.S. Government Securities with a value of \$25,288		
2.98%, 08/23/05	1,000	1,000	3.40%, issued 06/30/05		
Promissory Notes 0.5%			due 07/01/05	24,792	24,790
• The Goldman Sachs Group, Inc.					
2.85%, 07/06/05	1,000	1,000			

End of investments.

Issuer Rate, Acquisition Date, Maturity Date	Face Amount (\$ x 1,000)	Cost/ Value (\$ x 1,000)
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At June 30, 2005, portfolio holdings included restricted and/or illiquid securities as follows:

The Goldman Sachs Group, Inc.		
2.85%, 01/05/05, 07/06/05	1,000	1,000
3.32%, 02/22/05, 07/22/05	2,000	2,000
		3,000
Blue Spice L.L.C. Section 4(2) / 144A		
3.21%, 06/16/05, 07/20/05	1,000	998

Statement of

Assets and Liabilities

As of June 30, 2005; unaudited. All numbers x 1,000 except NAV.

Assets

Investments, at value	\$198,479
Repurchase agreements, at value	24,790
Interest receivable	381
Prepaid expenses	+ 73
Total assets	223,723

Liabilities

Payables:	
Dividends to shareholders	234
Investment adviser and administrator fees	2
Transfer agent and shareholder service fees	8
Trustees' fees	3
Accrued expenses	+ 130
Total liabilities	377

Net Assets

Total assets	223,723
Total liabilities	- 377
Net assets	\$223,346

Net Assets by Source

Capital received from investors	223,346
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Net Asset Value (NAV)

Net Assets	+	Shares Outstanding	=	NAV
\$223,346		223,346		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost of the fund's securities was \$223,269. Includes illiquid and/or restricted securities worth \$3,998, or 1.8% of the fund's total net assets. Also, includes other restricted but deemed liquid securities comprised of 144A, section 4(2) and 3c7 securities, worth \$66,739 or 29.9% of the fund's total net assets.

Federal Tax Data

Cost basis of portfolio	\$223,269
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Statement of

Operations

For January 1, 2005 through June 30, 2005; unaudited. All numbers x 1,000.

Investment IncomeInterest **\$2,683****Expenses**

Investment adviser and administrator fees	359	
Transfer agent and shareholder service fees	426	
Trustees' fees	13	
Custodian and portfolio accounting fees	16	
Professional fees	14	
Registration fees	19	
Shareholder reports	75	
Other expenses	2	+
Total expenses	924	
Expense reduction	272	-
Net expenses	652	

Increase in Net Assets from Operations

Total investment income	2,683	
Net expenses	652	-
Net investment income	2,031	
Increase in net assets from operations	\$2,031	

Unless stated, all numbers x 1,000.

Calculated on a graduated basis as a percentage of average daily net assets: 38% of the first \$1 billion, 0.35% over \$1 billion, 0.32% over \$10 billion, 0.30% over \$20 billion and 0.27% over \$40 billion. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

Calculated as a percentage of average daily net assets: for transfer agent services, 0.25% of the fund's assets; for shareholder services, 0.20% of the fund's assets. These fees are paid to Charles Schwab & Co., Inc. (Schwab).

For the fund's independent trustees only.

This reduction was made by the investment adviser (CSIM). It reflects a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the annual operating expenses of this fund through April 29, 2006, to 0.69% of average daily net assets. This limit excludes interest, taxes and certain non-routine expenses.

Statement of

Changes in Net Assets

For the current and prior report periods. The fund commenced operations on August 12, 2004. All numbers x 1,000. Figures for the current period are unaudited.

Operations

	1/1/05-6/30/05	08/12/04-12/31/04
Net investment income	\$2,031	\$521
Increase in net assets from operations	2,031	521

Distributions Paid

Dividends from net investment income	2,031	521
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Transactions in Fund Shares

Shares sold	721,930	384,505
Shares reinvested	1,763	510
Shares redeemed	+ (640,834)	(244,528)
Net transactions in fund shares	82,859	140,487

Net Assets

Beginning of period	140,487	—
Total increase	+ 82,859	140,487
End of period	\$223,346	\$140,487

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 12/31/04 are:

Current year	
Ordinary income	\$521
Long-term capital gains	\$—

Because all transactions in this section took place at \$1.00 per share, figures for share quantities are the same as for dollars.

Represents the changes in net assets from operations plus the changes in value of transactions in fund shares, minus distributions paid.

Financial Notes unaudited

Business Structure of the Funds

The fund discussed in this report is a series of The Charles Schwab Family of Funds, a no-load, open-end management investment company. The company is organized as a Massachusetts business trust and is registered under the Investment Company Act of 1940, as amended. The sidebar shows the funds in this report and their trust.

The fund offers one share class. Shares are bought and sold at \$1.00 per share. Each share has a par value of 1/1,000 of a cent, and the trust may issue as many shares as necessary.

Fund Operations

Most of the fund's investments are described in sections earlier in this report. However, there are certain other fund operations and policies that may affect the fund's financials, as described below. Other policies concerning the fund's business operations also are described here.

The fund declares dividends every day it is open for business. These dividends, which are equal to a fund's net investment income for that day, are paid out to shareholders once a month. The fund may make distributions from any net realized capital gains once a year.

The fund may buy securities on a delayed-delivery basis. In these transactions, the fund agrees to buy a security for a stated price, with settlement generally occurring within two weeks. If the security's value falls before settlement occurs, the fund could end up paying more for the security than its market value at the time of settlement. The fund has set aside sufficient securities as collateral for those securities bought on a delayed-delivery basis.

The fund may enter into repurchase agreements. In a repurchase agreement, the fund buys a security from another party (usually a financial institution) with the agreement that it be sold back in the future. The date, price and other conditions are all specified when the agreement is created. Any repurchase agreements with due dates later than seven days from issue dates may be subject to seven day put features for liquidity purposes.

The fund's repurchase agreements will be fully collateralized by U.S. government securities. All collateral is held by the fund's custodian (or, with tri-party agreements, the agent's bank) and is monitored daily to ensure that its market value is at least equal to the repurchase price under the agreement.

The fund pays fees to affiliates of the investment adviser for various services. Through its trust, the fund has agreements with Charles Schwab Investment Management, Inc. (CSIM) to provide investment advisory and administrative services and with Charles Schwab & Co., Inc. (Schwab) to provide transfer agent and shareholder services.

The Trust and Its Funds

This list shows all of the funds included in The Charles Schwab Family of Funds. The funds discussed in this report are highlighted.

The Charles Schwab Family of Funds

organized October 20, 1989

- Schwab Money Market Fund
- Schwab Government Money Fund
- Schwab U.S. Treasury Money Fund
- Schwab Value Advantage Money Fund
- Schwab Municipal Money Fund
- Schwab California Municipal Money Fund
- Schwab New York Municipal Money Fund
- Schwab New Jersey Municipal Money Fund
- Schwab Pennsylvania Municipal Money Fund
- Schwab Florida Municipal Money Fund
- Schwab Massachusetts Municipal Money Fund
- Schwab Retirement Advantage Money Fund
- Schwab Retirement Money Fund
- Schwab Advisor Cash Reserves
- Schwab Government Cash Reserves

Schwab Cash Reserves

Although these agreements specify certain fees for these services, CSIM and Schwab have made additional agreements with the fund that may limit the total expenses charged. The rates and limitations for these fees are described in the fund's Statement of Operations.

The fund may engage in certain transactions involving affiliates. The fund may make direct transactions with certain other Schwab Funds® when practical. When one fund is seeking to sell a security that another is seeking to buy, an interfund transaction can allow both funds to benefit by reducing transaction costs. This practice is limited to funds that share the same investment adviser, trustees and officers.

Pursuant to an exemptive order issued by the SEC, the fund may enter into interfund borrowing and lending transactions within the Schwab Funds. All loans are for temporary or emergency purposes only. The interest rate charged on the loan is the average of the overnight repurchase agreement rate and the short-term bank loan rate. The interfund lending facility is subject to the oversight and periodic review of the Board of Trustees of the Schwab Funds.

Trustees may include people who are officers and/or directors of the investment adviser or Schwab. Federal securities law limits the percentage of such "interested persons" who may serve on a trust's board, and the trust was in compliance with these limitations throughout the report period. The trust did not pay any of these persons for their service as trustees, but it did pay non-interested persons (independent trustees), as noted in the fund's Statement of Operations.

The fund may borrow money from banks and custodians. The fund may obtain temporary bank loans through the trust to which the fund belongs, to use for meeting shareholder redemptions or for extraordinary or emergency purposes. The Schwab Funds have custodian overdraft facilities and line of credit arrangements of \$150 million and \$100 million with PNC Bank, N.A. and Bank of America, N.A., respectively. The fund pays interest on the amounts it borrows at rates that are negotiated periodically. There was no borrowing for the fund during the period.

The fund intends to meet federal income and excise tax requirements for regulated investment companies. Accordingly, the fund distributes substantially all of its net investment income and net realized capital gains (if any) to its respective shareholders each year. As long as the fund meets the tax requirements, it is not required to pay federal income tax.

Under the fund's organizational documents, its officers and trustees are indemnified against certain liability arising out of the performance of their duties to the fund. In addition, in the normal course of business the fund enters into contracts with its vendors and others that 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. However, based on experience, the fund expects the risk of loss to be remote.

Accounting Policies

The following are the main policies the fund uses in preparing its financial statements.

The fund values its securities at amortized cost, which approximates market value.

Security transactions are recorded as of the date the order to buy or sell the security is executed.

Interest income is recorded as it accrues. If the fund buys a debt instrument at a discount (that is, for less than its face value) or a premium (more than face value), it amortizes the discount or premium from the current date up to maturity. The fund then increases (in the case of discounts) or reduces (in the case of premiums) the income it records from the security. If the security is callable (meaning that the issuer has the option to pay it off before its maturity date), then the fund amortizes the premium to the security's call date and price, rather than the maturity date and price.

Realized gains and losses from security transactions are based on the identified costs of the securities involved.

Expenses that are specific to the fund are charged directly to the fund. Expenses that are common to all funds within the trust generally are allocated among the funds in proportion to their average daily net assets.

The fund maintains its own account for purposes of holding assets and accounting, and is considered a separate entity for tax purposes. Within its account, the fund also may keep certain assets in segregated accounts, as required by securities law.

The accounting policies described above conform with accounting principles generally accepted in the United States of America. Notwithstanding this, shareholders should understand that in order to follow these principles, fund management has to make estimates and assumptions that affect the information reported in the financial statements. It's possible that once the results are known, they may turn out to be different from these estimates.

Investment Advisory Agreement Approval

The Investment Company Act of 1940 (the “1940 Act”) requires that initial approval of, as well as the continuation of, a fund’s investment advisory agreement must be specifically approved (1) by the vote of the trustees or by a vote of the shareholders of the fund, and (2) by the vote of a majority of the trustees who are not parties to the investment advisory agreement or “interested persons” of any party (the “Independent Trustees”), cast in person at a meeting called for the purpose of voting on such approval. In connection with such approvals, the fund’s trustees must request and evaluate, and the investment adviser is required to furnish, such information as may be reasonably necessary to evaluate the terms of the advisory agreement. In addition, the Securities and Exchange Commission (the “SEC”) takes the position that, as part of their fiduciary duties with respect to fund fees, fund boards are required to evaluate the material factors applicable to a decision to approve an investment advisory agreement.

Consistent with these responsibilities, the Board of Trustees (the “Board”) calls and holds one or more meetings each year that are dedicated, in whole or in part, to considering whether to renew the investment advisory agreement between The Charles Schwab Family of Funds (the “Trust”) and CSIM (the “Agreement”) with respect to existing funds in the Trust, including the Schwab Cash Reserves, and to review certain other agreements pursuant to which CSIM provides investment advisory services to certain other registered investment companies. In preparation for the meeting(s), the Board requests and reviews a wide variety of materials provided by CSIM, including information about CSIM’s affiliates, personnel and operations. The Board also receives extensive data provided by third parties. This information is in addition to the detailed information about the funds that the Board reviews during the course of each year, including information that relates to fund operations and fund performance.

The trustees also receive a memorandum from fund counsel regarding the responsibilities of trustees for the approval of investment advisory contracts. In addition, the Independent Trustees receive advice from independent counsel to the Independent Trustees, meet in executive session outside the presence of fund management and participate in question and answer sessions with representatives of CSIM.

At the May 24, 2005 meeting of the Board, the trustees, including a majority of the Independent Trustees, approved the renewal of the Agreement on an interim basis through September 30, 2005. The Board’s approval of the Agreement was based on consideration and evaluation of a variety of specific factors discussed at that meeting and at prior meetings, including:

1. the nature, extent and quality of the services provided to the funds under the Agreement, including the resources of CSIM and its affiliates dedicated to the funds;
2. each fund’s investment performance and how it compared to that of certain other comparable mutual funds;
3. each fund’s expenses and how those expenses compared to those of certain other comparable mutual funds;
4. the profitability of CSIM and its affiliates, including Schwab, with respect to each fund, including both direct and indirect benefits accruing to CSIM and its affiliates; and
5. the extent to which economies of scale would be realized as the funds grow and whether fee levels in the Agreement reflect those economies of scale for the benefit of fund investors.

Nature, Extent and Quality of Services. The Board considered the nature, extent and quality of the services provided by CSIM to the funds and the resources of CSIM and its affiliates dedicated to the funds. In this regard, the trustees evaluated, among other things, CSIM's personnel, experience, track record and compliance program. The trustees also considered the fact that Schwab's extensive branch network, Internet access, investment and research tools, telephone services, and array of account features benefit the funds. The trustees also considered Schwab's excellent reputation as a full service brokerage firm and its overall financial condition. Finally, the trustees considered that the vast majority of the funds' investors are also brokerage clients of Schwab, and that CSIM and its affiliates are uniquely positioned to provide services and support to the funds and such shareholders. Following such evaluation, the Board concluded, within the context of its full deliberations, that the nature, extent and quality of services provided by CSIM to the funds and the resources of CSIM and its affiliates dedicated to the funds supported interim renewal of the Agreement.

Fund Performance. The Board considered fund performance in determining whether to renew the Agreement. Specifically, the trustees considered each fund's performance relative to a peer group of other mutual funds and appropriate indices/benchmarks, in light of total return, yield and market trends. As part of this review, the trustees considered the composition of the peer group, selection criteria and the reputation of the third party who prepared the peer group analysis. In evaluating the performance of each fund, the trustees considered both risk and shareholder risk expectations for such fund. Following such evaluation the Board concluded, within the context of its full deliberations, that the performance of the funds supported interim renewal of the Agreement.

Fund Expenses. With respect to the funds' expenses, the trustees considered the rate of compensation called for by the Agreement, and each fund's net operating expense ratio, in each case, in comparison to those of other comparable mutual funds, such peer groups and comparisons having been selected and calculated by an independent third party. The trustees considered the effects of CSIM's and Schwab's voluntary waiver of management and other fees to prevent total fund expenses from exceeding a specified cap. The trustees also considered fees charged by CSIM to other mutual funds and to other types of accounts, such as wrap accounts and offshore funds, but, with respect to such other types of accounts, accorded less weight to such comparisons due to the unique legal, regulatory, compliance and operating features of mutual funds as compared to these other types of accounts. Following such evaluation the Board concluded, within the context of its full deliberations, that the expenses of the funds are reasonable and supported interim renewal of the Agreement.

Profitability. With regard to profitability, the trustees considered the compensation flowing to CSIM and its affiliates, directly or indirectly. In this connection, the trustees reviewed management's profitability analyses, together with certain commentary thereon from an independent accounting firm. The trustees also considered any other benefits derived by CSIM from its relationship with the funds, such as whether, by virtue of its management of the Funds, CSIM obtains investment information or other research resources that aid it in providing advisory services to other clients. The trustees considered whether the varied levels of compensation and profitability under the Agreement and other service agreements were reasonable and justified in light of the quality of all services rendered to each fund by CSIM and its affiliates. Based on this evaluation, the Board concluded,

within the context of its full deliberations, that the profitability of CSIM is reasonable and supported interim renewal of the Agreement.

Economies of Scale. The trustees considered the existence of any economies of scale and whether those are passed along to a fund's shareholders through a graduated investment advisory fee schedule or other means, including any fee waivers by CSIM and its affiliates. In this regard, and consistent with their consideration of fund expenses, the trustees considered that CSIM and Schwab have previously committed resources to minimize the effects on shareholders of diseconomies of scale during periods when fund assets were relatively small through their contractual expense waivers. For example, such diseconomies of scale may particularly affect newer funds or funds with investment strategies that are from time to time out of favor, but shareholders may benefit from the continued availability of such funds at subsidized expense levels. The trustees also considered CSIM's agreement to contractual investment advisory fee schedules which include lower fees at higher graduated asset levels. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the funds obtain reasonable benefit from economies of scale.

In the course of their deliberations, the trustees did not identify any particular information or factor that was all-important or controlling. Based on the trustees' deliberation and their evaluation of the information described above, the Board, including all of the Independent Trustees, unanimously approved the interim continuation of the Agreement and concluded that the compensation under the Agreement is fair and reasonable in light of such services and expenses and such other matters as the trustees have considered to be relevant in the exercise of their reasonable judgment.

Trustees and Officers

A fund's Board of Trustees is responsible for protecting the interests of that fund's shareholders. The tables below give information about the people who serve as trustees and officers for the Schwab Funds®, including the funds covered in this report. Trustees remain in office until they resign, retire or are removed by shareholder vote.¹

Under the Investment Company Act of 1940, any officer, director, or employee of Schwab or CSIM is considered an “interested person,” meaning that he or she is considered to have a business interest in Schwab or CSIM. These individuals are listed as “interested trustees.” The “independent trustees” are individuals who, under the 1940 Act, are not considered to have a business interest in Schwab or CSIM.

Each of the 56 Schwab Funds belongs to one of these trusts: The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust or Schwab Annuity Portfolios. Currently all these trusts have the same trustees and officers. The address for all trustees and officers is 101 Montgomery Street, San Francisco, CA 94104. You can find more information about the trustees and officers in the Statement of Additional Information, which is available free by calling 1-800-435-4000.

Trustees and Officers

Name and Birthdate	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
Charles R. Schwab ² 7/29/37	Chairman, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Director, The Charles Schwab Corp., Charles Schwab & Co., Inc.; Chair, Director, Charles Schwab Investment Management, Inc.; Chair, Charles Schwab Holdings (UK); Chair, Director, U.S. Trust Corp., United States Trust Co. of New York, U.S. Trust Co., N.A.; CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, Charles Schwab Bank, N.A., The Charles and Helen Schwab Foundation, All Kinds of Minds (education); Trustee, Stanford University. <i>Until 5/04</i> : Director, The Gap, Inc. (clothing retailer). <i>Until 5/03</i> : Co-CEO, The Charles Schwab Corp. <i>Until 3/02</i> : Director, Audiobase, Inc. (Internet audio solutions). <i>Until 5/02</i> : Director, Vodafone AirTouch PLC (telecommunications). <i>Until 7/01</i> : Director, The Charles Schwab Trust Co.

¹ The Schwab Funds retirement policy requires that independent trustees elected after January 1, 2000 retire at age 72 or after twenty years of service as a trustee, whichever comes first. Independent trustees elected prior to January 1, 2000 will retire on the following schedule: Messrs. Holmes and Dorward will retire on December 31, 2007, and Messrs. Stephens and Wilsley will retire on December 31, 2010.

² In addition to his position with the investment adviser and the distributor, Mr. Schwab also owns stock of The Charles Schwab Corporation.

Interested Trustees but Not Officers

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Randall W. Merk 7/25/54	2005 (all trusts).	EVP, President, AMPS Enterprise. <i>Until 7/04</i> : President, CEO, Charles Schwab Investment Management, Inc.; VP, Charles Schwab & Co., Inc. <i>Until 8/02</i> : President, Chief Investment Officer, American Century Management; Director, American Century Companies, Inc. <i>Until 6/01</i> : Chief Investment Officer, Fixed Income, American Century Companies, Inc.

Officers of the Trust

Name and Birthdate	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
Evelyn Dilsaver 5/4/55	President, CEO (all trusts).	EVP, President, Director, Charles Schwab Investment Management, Inc. <i>Until 7/04</i> : SVP for Development and Distribution, Asset Management Products and Services Enterprise. <i>Until 6/03</i> : EVP, CFO, Chief Administrative Officer, U.S. Trust.
Stephen B. Ward 4/5/55	SVP, Chief Investment Officer (all trusts).	SVP, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co.
Kimon Daifotis 7/10/59	SVP, Chief Investment Officer (all trusts).	<i>Since 9/04</i> : Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Since 6/04</i> : SVP, Charles Schwab Investment Management, Inc. <i>Until 6/04</i> : VP, Charles Schwab Investment Management, Inc.
Jeffrey Mortimer 9/29/63	SVP, Chief Investment Officer (all trusts).	<i>Since 5/04</i> : SVP, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc. <i>Since 6/04</i> : VP, Chief Investment Officer, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 5/04</i> : VP, Charles Schwab Investment Management, Inc.
Randall Fillmore 11/11/60	Chief Compliance Officer (all trusts).	<i>Since 9/04</i> : SVP, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Chief Compliance Officer, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 9/04</i> : VP, Charles Schwab & Co., Inc., Charles Schwab Investment Management, Inc. <i>Until 2002</i> : VP of Internal Audit, Charles Schwab & Co., Inc. <i>Prior to 2000</i> : PricewaterhouseCoopers.
Koji E. Felton 3/13/61	Secretary (all trusts).	SVP, Chief Counsel, Assistant Corporate Secretary, Charles Schwab Investment Management, Inc. <i>Until 6/98</i> : Branch Chief in Enforcement, U.S. Securities and Exchange Commission, San Francisco.
George Pereira 6/9/64	Treasurer, Principal Financial Officer (all trusts).	<i>Since 11/04</i> : SVP, CFO, Charles Schwab Investment Management, Inc. <i>Until 11/04</i> : SVP, Financial Reporting, Charles Schwab & Co., Inc. <i>Until 12/99</i> : CFO, Commerzbank Capital Markets. <i>Until 9/99</i> : Managing Director at the New York Stock Exchange.

Independent Trustees

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Mariann Byerwalter 8/13/60	2000 (all trusts).	Chair, JDN Corp. Advisory LLC (real estate); Trustee, Stanford University, America First Cos., Omaha, NE (venture capital/fund management), Redwood Trust, Inc. (mortgage finance), Stanford Hospitals and Clinics, SRI International (research), PMI Group, Inc. (mortgage insurance), Lucile Packard Children's Hospital. <i>Since 2/05</i> : Director, Pacific Mutual Holding Company (insurance). <i>Since 2004</i> : Laudus Trust, Laudus Variable Insurance Trust. <i>Until 2001</i> : Stanford University, Special Assistant to the President. <i>From 1996-2001</i> : VP of Business Affairs, CFO.
Donald F. Dorward 9/23/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	CEO, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999</i> : EVP, Managing Director, Grey Advertising. <i>Until 1996</i> : President, CEO, Allen & Dorward Advertising.
William A. Hasler 11/22/41	2000 (all trusts).	Dean Emeritus, Haas School of Business, University of California, Berkeley; Director, Apton Corp. (bio-pharmaceuticals); Non-Executive Chair, Solectron Corp. (manufacturing), Mission West Properties (commercial real estate), Stratex Networks (network equipment), TOUSA (home building); Public Governor, Member, executive committee, Pacific Stock & Options Exchange. <i>Since 2004</i> : Trustee, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 2/04</i> : Co-CEO, Apton Corp. (bio-pharmaceuticals).
Robert G. Holmes 5/15/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Director, Semloh Financial, Inc. (international financial services and investment advisory firm).
Gerald B. Smith 9/28/50	2000 (all trusts).	Chair, CEO, Founder, Smith Graham & Co. (investment advisers); Trustee, Cooper Industries (electrical products, tools and hardware); Chairman, audit committee, Northern Border Partners, L.P. (energy).
Donald R. Stephens 6/28/38	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chair, CEO, North American Trust (real estate investment trust).
Michael W. Wilsey 8/18/43	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Wilsey Bennett, Inc. (real estate investment and management, and other investments).

Glossary

agency discount notes Notes issued by federal agencies—known as Government Sponsored Enterprises, or GSEs—at a discount to their value at maturity. An agency discount note is a short-term investment alternative offering a high degree of credit quality.

Alternative Minimum Tax (AMT) A federal income tax designed to limit the extent to which high-income taxpayers (including individuals, estates, trusts and corporations) can benefit from certain deductions and exemptions. For example, some types of income that are exempt from regular federal income tax are not exempt from the AMT.

asset-backed securities Bonds or other debt securities that represent ownership in a pool of assets such as credit card debt.

bond A security representing a loan from the investor to the issuer. A bond typically pays interest at a fixed rate (the “coupon rate”) until a specified date (the “maturity date”), at which time the issuer returns the money borrowed (“principal” or “face value”) to the bondholder. Because of their structure, bonds are sometimes called “fixed income securities” or “debt securities.”

An individual bond is subject to the credit risk of the issuer. Changes in interest rates can affect a bond’s market value prior to call or maturity. There is no guarantee that a bond’s yield to call or maturity will provide a positive return over the rate of inflation.

bond fund A bond fund is subject to the same credit, interest rate, and inflation risks as bonds. In addition, a bond fund incurs ongoing fees and expenses. A bond fund’s net asset value will fluctuate with the price of the underlying bonds and the portfolio turnover activity; return of principal is not guaranteed.

bond anticipation notes Obligations sold by a municipality on an interim basis in anticipation of the municipality’s issuance of a longer-term bond in the future.

capital gain, capital loss The difference between the amount paid for an investment and its value at a later time. If the investment has been sold, the capital gain or loss is considered a realized gain or loss. If the investment is still held, the gain or loss is still “on paper” and is considered unrealized.

commercial paper Promissory notes issued by banks, corporations, state and local governments and other entities to finance short-term credit needs. These securities generally are structured on a discounted basis but

sometimes may be interest-bearing notes. Commercial paper, which may be unsecured, is subject to credit risk.

credit-enhanced securities Securities that are backed by the credit of an entity other than the issuer (such as a financial institution). Credit enhancements, which can equal up to 100% of the security’s value, are designed to help lower the risk of default on a security and may also make the security more liquid.

credit quality The capacity of an issuer to make its interest and principal payments. Federal regulations strictly limit the credit quality of the securities a money market fund can buy.

credit ratings Debt issuers, including corporations, states and municipalities, may arrange with a recognized independent rating organization, such as Standard & Poor’s, Fitch, Inc. and Moody’s Investor Service, to rate their creditworthiness and/or the creditworthiness of their debt issues. For example, an issuer may obtain a long-term rating within the investment grade rating category, which is, from high to low, AAA, AA, A and BBB for Standard & Poor’s and Fitch, and Aaa, Aa, A and Baa for Moody’s.

credit risk The risk that a debt issuer may be unable to pay interest or principal to its debtholders.

Portfolio terms

To help reduce the space occupied by the portfolio holdings, we use the following terms. Most of them appear within descriptions of individual securities in municipal funds, and describe features of the issuer or the security. Some of these are more fully defined elsewhere in the Glossary.

ACES	Adjustable convertible extendable security
BAN	Bond anticipation note
COP	Certificate of participation
GAN	Grant anticipation note
GO	General obligation
HDA	Housing Development Authority
HFA	Housing Finance Agency
IDA	Industrial Development Authority
IDB	Industrial Development Board
IDRB	Industrial Development Revenue Bond
M/F	Multi-family
RAN	Revenue anticipation note
RB	Revenue bond
S/F	Single-family
TAN	Tax anticipation note
TECP	Tax-exempt commercial paper
TRAN	Tax and revenue anticipation note
VRD	Variable-rate demand

dollar-weighted average maturity (DWAM) See weighted average maturity.

effective yield A measurement of a fund's yield that assumes that all dividends were reinvested in additional shares of the fund.

expense ratio The amount that is taken from a mutual fund's assets each year to cover the fund's operating expenses. An expense ratio of 0.50% means that a fund's expenses amount to half of one percent of its average net assets a year.

face value The value of a bond, note, mortgage or other security as given on the certificate or instrument. Face value is also referred to as par value or nominal value.

illiquid securities Securities are generally considered illiquid if they cannot be disposed of promptly (typically within seven days) and in the ordinary course of business at approximately the amount at which a fund has valued the instruments.

interest Payments to holders of debt securities as compensation for loaning a security's principal to the issuer.

liquidity-enhanced security A security that when tendered is paid from funds advanced by an entity other than the issuer (such as a large financial institution). Liquidity enhancements are often used on variable-rate securities where the portfolio manager has an option to tender the securities prior to their final maturity.

maturity The date a debt security is scheduled to be "retired" and its principal amount returned to the bondholder.

money market securities High-quality, short-term debt securities that may be issued by entities such as the U.S. government, corporations and financial institutions (such as banks). Money market securities include commercial paper, promissory notes, certificates of deposit, banker's acceptances, notes and time deposits.

muni, municipal bonds, municipal securities Debt securities issued by a state, its counties, municipalities, authorities and other subdivisions, or the territories and possessions of the United States and the District of Columbia, including their subdivisions, agencies and instrumentalities and corporations. These securities may be issued to obtain money for various public purposes, including the construction of a wide range of public facilities such as airports, bridges, highways, housing, hospitals, mass transportation, public utilities, schools, streets, and water and sewer works.

net asset value per share (NAV) The value of one share of a mutual fund. NAV is calculated by taking the fund's total assets, subtracting liabilities, and dividing by the number of shares outstanding. Money funds seek to maintain a steady NAV of \$1.00.

outstanding shares, shares outstanding When speaking of a company or mutual fund, indicates all shares currently held by investors.

restricted securities Securities that are subject to contractual restrictions on resale. These securities are often purchased in private placement transactions.

revenue anticipation notes Obligations that are issued in expectation of the receipt of revenue, such as income taxes, property taxes, etc.

section 3c7 securities Section 3c7 of the Investment Company Act of 1940 (the "1940 Act") exempts certain issuers from many regulatory requirements applicable to investment companies under the 1940 Act. An issuer whose outstanding securities are exclusively owned by "qualified purchasers" and who is not making or proposing to make a public offering of the securities may qualify for this exemption.

section 4(2)/144A securities Securities exempt from registration under Section 4(2) of the Securities Act of 1933. These securities may be sold only to qualified institutional buyers under Securities Act Rule 144A.

taxable-equivalent yield The yield an investor would need to get from a taxable investment in order to match the yield paid by a given tax-exempt investment, once the effect of all applicable taxes is taken into account. For example, if your tax rate were 25%, a tax-exempt investment paying 4.5% would have a taxable-equivalent yield for you of 6.0% ($4.5\% \div [1 - 0.25\%] = 6.0\%$).

total return The percentage that an investor would have earned or lost on an investment in the fund assuming dividends and distributions were reinvested.

tax anticipation notes Notes that typically are sold to finance the cash flow needs of municipalities in anticipation of the receipt of taxes on a future date.

Tier 1, Tier 2 Tier 1 is the highest category of credit quality, Tier 2 the second highest. A security's tier can be established either by an independent rating organization or by a determination of the investment adviser. Money market fund shares and U.S. government securities are automatically considered Tier 1 securities.

weighted average maturity For mutual funds, the maturity of all the debt securities in its portfolio, calculated as a weighted average. As a rule, the longer a fund's weighted average maturity, the greater its interest rate risk. Money funds are required to maintain a weighted average maturity of no more than 90 days.

yield The income paid out by an investment, expressed as a percentage of the investment's market value.

Notes

Notes

Notes

Schwab Funds® offers you a complete family of mutual funds, each one based on a clearly defined investment approach and using disciplined management strategies. The list at right shows all currently available Schwab Funds.

Whether you're an experienced investor or just starting out, Schwab Funds can help you achieve your financial goals. An investor should consider a fund's investment objectives, risks, and charges and expenses carefully before investing or sending money. This and other important information can be found in the fund's prospectus. Please call 1-800-435-4000 for a prospectus and brochure for any Schwab Fund. Please read the prospectus carefully before you invest. This report must be preceded or accompanied by a current prospectus.

Methods for Placing Orders

The following information outlines how Schwab investors can place orders. If you are investing through a third-party investment provider, methods for placing orders may be different.

Internet¹

www.schwab.com

Schwab by Phone™²

Use our automated voice service or speak to a representative. Call **1-800-435-4000**, day or night (for TDD service, call **1-800-345-2550**).

TeleBroker®

Use our automated touch-tone phone service at **1-800-272-4922**.

Mail

Write to Schwab Funds at:
P.O. Box 3812
Englewood, CO
80155-3812

When selling or exchanging shares, be sure to include the signatures of at least one of the persons whose name is on the account.

Proxy Voting Policies, Procedures and Results

A description of the proxy voting policies and procedures used to determine how to vote proxies on behalf of the funds is available without charge, upon request, by visiting Schwab's website at www.schwab.com/schwabfunds, the SEC's website at <http://www.sec.gov>, or by contacting Schwab Funds at 1-800-435-4000.

Information regarding how a fund voted proxies relating to portfolio securities during the most recent twelve-month period ended June 30 is available, without charge, by visiting Schwab's website at www.schwab.com/schwabfunds or the SEC's website at <http://www.sec.gov>.

The Schwab Funds Family®

Stock Funds

Schwab S&P 500 Index Fund
Schwab 1000 Index® Fund
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Schwab Total Stock Market Index Fund®
Schwab International Index Fund™
Schwab Premier Equity Fund™
Schwab Core Equity Fund™
Schwab Dividend Equity Fund™
Schwab Small-Cap Equity Fund™
Schwab Hedged Equity Fund™
Schwab Financial Services Fund™
Schwab Health Care Fund™
Schwab Technology Fund™
Schwab Institutional Select® S&P 500 Fund

Asset Allocation Funds

Schwab MarketTrack All Equity Portfolio™
Schwab MarketTrack Growth Portfolio™
Schwab MarketTrack Balanced Portfolio™
Schwab MarketTrack Conservative Portfolio™
Schwab Target 2010 Fund
Schwab Target 2020 Fund
Schwab Target 2030 Fund
Schwab Target 2040 Fund
Schwab Retirement Income Fund

Bond Funds

Schwab YieldPlus Fund®
Schwab Short-Term Bond Market Fund™
Schwab Total Bond Market Fund™
Schwab GNMA Fund™
Schwab Tax-Free YieldPlus Fund™
Schwab Short/Intermediate Tax-Free Bond Fund™
Schwab Long-Term Tax-Free Bond Fund™
Schwab California Tax-Free YieldPlus Fund™
Schwab California Short/Intermediate Tax-Free Bond Fund™
Schwab California Long-Term Tax-Free Bond Fund™

Schwab Money Funds

Schwab offers an array of money market funds that seek high current income consistent with safety and liquidity.³ Choose from taxable or tax-advantaged alternatives. Many can be linked to your eligible Schwab account to "sweep" cash balances automatically, subject to availability, when you're between investments. Or, for your larger cash reserves, choose one of our Value Advantage Investments®.

¹ Shares of Sweep Investments™ may not be purchased directly over the Internet.

² Orders placed in person or through a telephone representative may be subject to a service fee payable to Schwab.

³ Investments in money market funds are neither insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency and, although they seek to preserve the value of your investment at \$1 per share, it is possible to lose money.

charles SCHWAB

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