

Schwab Government Cash ReservesTM

Annual Report

December 31, 2004

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Schwab Government Cash Reserves™

Ticker Symbol: **SWHXX**

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From the Chairman



Charles Schwab
Chairman

Dear Shareholder,

I understand that selecting a financial services company is an important decision you make as an investor and is one that we take very seriously. In fact, we made recent changes that we believe will both improve the quality of service you receive and give you the best value possible. For example, we reduced the average cost of security trades and we also expanded access to high-quality investment products.

Looking forward, we continue to see tremendous opportunities for investors, and my colleagues and I are committed to helping you maximize them. The changes we made last year at Schwab laid a foundation for more improvements this year. We will continue to expand the array of products and services that you are looking for, including new cash management and credit products from the Schwab Bank and new mutual fund products.

During the period since our semi-annual money fund report, I'm happy to announce that Evelyn Dilsaver has been named CEO and President of Schwab Funds®. Although new to the position, Evelyn is no stranger to Schwab Funds, having been an officer in several other capacities at Schwab. Her broad experience in product creation, coupled with a comprehensive understanding of your financial needs, make her the ideal candidate for her new role.

I speak for Evelyn, as well as the rest of the Schwab Funds group, when I say we want Schwab to be a place where investors can find useful, quality financial products and services to help them succeed. Regardless of the size of their portfolios, Schwab should be the place investors can always trust to watch out for their best interests.

This commitment to our shareholders will not change, as nothing is more important to us than your trust. Thank you for investing with us.

Sincerely,

A handwritten signature in black ink that reads "Charles R. Schwab".

Management's Discussion for the year ended December 31, 2004



Evelyn Dilsaver is President and CEO of Charles Schwab Investment Management, Inc. and is president of each 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,

I am very excited about my new role as President and CEO of Schwab Funds®. My experience at Schwab has given me many opportunities to focus on meeting the needs of our clients. This will continue to be my emphasis, and I reiterate what Chuck Schwab noted in his letter, that our goal is to offer you better value and more relevant choices.

When we discuss Schwab Funds with our clients, we often hear that you want to know that you're getting the best value. We find that shareholders may be unaware that some of the Schwab Funds offer additional share classes that carry lower expenses in exchange for higher initial investments of \$25,000 or more. I encourage you to review your accounts to see if you are eligible to purchase these money-saving shares. If you would like to learn more about these potentially cost-saving shares, our investment consultants are available to assist you.

I'm pleased to announce that we launched a new sweep money fund last summer—Schwab Cash Reserves—which offers eligible investors lower expenses on a sweep fund. My plan is to build on this legacy of value and continue to offer unique investment solutions to help you meet your financial goals.

I also want to point out that over the past year, the Federal Reserve raised short-term interest rates five times, up to 2.25% at year-end, making yields on the Schwab Funds' money funds more attractive than they were earlier in the year. I'm noting this because, no matter what the economic outlook is, most investors' asset-allocation strategies include a cash component, which offers liquidity and capital preservation that can help to lessen the effect of the market's volatility.

I look forward to serving you in my new role. 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.



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

2004 started off positively, continuing the encouraging economic trend that was reported toward the end of 2003. Businesses added to their inventories, factory orders rose and production gained some strength. Retail sales continued to rise and higher commodity prices were holding. Mortgage refinancing activity, while still significant, waned as mortgage rates inched slightly upward. And finally, the last piece of the economic puzzle—job growth—began to exhibit solid gains. In fact, aside from a “soft patch” in early summer, the economy stayed strong throughout 2004.

The firming labor market, as well as steady gains in capital spending, kept the expansion on a self-sustaining path. The caution surrounding the economic outlook and geopolitical environment began to dissipate last spring and firms, unable to continue boosting productivity by restraining hiring, added more than two million new jobs during the year. Moreover, many leading indicators, such as the Institute for Supply Management’s business activity surveys, suggested further improvement, while continuing claims for unemployment benefits remained near cyclical lows. In addition, consumer sentiment rebounded, the labor market continued to sustain consumer spending, and corporate liquidity remained positive.

Strong productivity growth and slack in the economy kept a lid on inflation. The Federal Reserve (Fed) began to take the Fed funds rate higher beginning in June amid signs of solidly expanding output and improved hiring. The rate was raised another four times in 2004, ending the year at a moderate 2.25%. The moves had a limited impact on overall economic growth, due primarily to the record-low level of rates from which the hikes began.

Strengthening global demand for oil, particularly in the Pacific Rim, and supply constraints in the wake of the Florida hurricanes drove crude prices to record highs, above \$50 per barrel in late October. Since then, crude prices backed off to the mid-\$40 range, as supply concerns dissipated and China’s economy continues to attempt to engineer a soft landing. Though some pass-through from high oil and commodity prices earlier in the year may hamper growth and stir inflationary pressures, inflation has remained generally benign.

Though some pass-through from high oil and commodity prices earlier in the year may hamper growth and stir inflationary pressures, inflation has remained generally benign.

In this type of economic environment, we factored in what the Fed had done and what it was likely to do throughout the year. When the strong employment numbers came in April, adding to the positive news described above, it appeared that short-term interest rates would slowly head higher. And they did, starting in June, causing the money market curve to steepen.

The fund maintained a conservative investment approach, but took advantage of the periodic spreads in yields between agency and repurchase agreements as accounting irregularities and potential political action affected some agencies. With rates rising mid-year and expected to head higher, we maintained a short weighted average maturity (WAM) for the fund, ranging from 25 to 35 days. In doing so we lowered the fund's exposure to rising rates. This is a similar strategy to that used by our peers, as shortening the WAM enabled the fund 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 12/31/04

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 Yield ¹	1.28%
Seven-Day Yield–No Waiver ²	0.90%
Seven-Day Effective Yield ¹	1.29%

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	24 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. Please refer to the Statement of Operations for additional information on expense waivers.

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 July 1, 2004 and held through December 31, 2004.

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 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 7/1/04	Ending Account Value (Net of Expenses) at 12/31/04	Expenses Paid During Period ² 7/1/04–12/31/04
Schwab Government Cash Reserves™				
Actual Return	1.07%	\$1,000	\$1,003.30	\$5.39
Hypothetical 5% Return	1.07%	\$1,000	\$1,019.76	\$5.43

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 the fund's annualized expense ratio, multiplied by the average account value over the period, multiplied by 184 days of the period, and divided by 366 days of the fiscal year.

Financial Statements

Financial Highlights

	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
Income from investment operations:					
Net investment income	0.00 ¹	0.00 ¹	0.01	0.03	0.05
Less distributions:					
Dividends from net investment income	(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
Total return (%)	0.36	0.08	0.68	3.08	5.33
Ratios/Supplemental Data (%)					
Ratios to average net assets:					
Net operating expenses	1.03 ²	1.14 ³	1.25	1.25	1.14 ⁴
Gross operating expenses	1.40	1.45	1.41	1.50	1.47
Net investment income	0.35	0.08	0.67	2.99	5.24
Net assets, end of period (\$ x 1,000,000)	650	644	639	562	412

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

² 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%.

³ 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%.

⁴ 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 December 31, 2004

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 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)
46.0% U.S. Government Securities	298,884	298,884
54.1% Other Investments	352,047	352,047
100.1% Total Investments	650,931	650,931
(0.1)% Other Assets and Liabilities		(655)
100.0% Total Net Assets		650,276

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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U.S. Government Securities 46.0% of net assets**Discount Notes** 43.8%**Fannie Mae**

2.18%, 01/05/05	1,502	1,502
2.27%, 01/11/05	5,400	5,397
1.99%, 01/12/05	10,000	9,994
2.00%, 01/24/05	10,000	9,987
2.11%, 02/01/05	10,000	9,982
2.33%, 02/08/05	1,863	1,858
2.20%, 02/09/05	6,881	6,865
2.34%, 02/16/05	2,204	2,197
2.22%, 03/04/05	1,000	996
2.35%, 03/09/05	10,000	9,956
2.41%, 03/09/05	1,300	1,294
2.43%, 03/16/05	10,000	9,950
2.47%, 03/23/05	7,350	7,309
2.15%, 04/06/05	10,000	9,944
2.13%, 04/13/05	5,000	4,970

Federal Home Loan Bank

2.21%, 01/12/05	3,100	3,098
2.06%, 01/14/05	1,200	1,199
2.19%, 01/14/05	3,300	3,297
2.06%, 01/21/05	1,900	1,898
2.00%, 01/26/05	15,000	14,979
2.06%, 01/26/05	1,516	1,514
2.20%, 01/26/05	1,600	1,598
2.04%, 01/28/05	10,000	9,985
2.29%, 02/09/05	1,402	1,399
2.30%, 02/09/05	1,500	1,496
2.22%, 02/16/05	15,000	14,958
2.28%, 02/18/05	1,130	1,127
2.21%, 04/22/05	1,943	1,930

Freddie Mac

2.21%, 01/10/05	1,300	1,299
2.22%, 01/10/05	2,200	2,199
2.17%, 01/11/05	8,000	7,995
2.18%, 01/11/05	10,257	10,251
2.21%, 01/11/05	1,200	1,199
1.99%, 01/18/05	20,000	19,982
2.07%, 01/18/05	4,000	3,996
2.19%, 01/18/05	3,000	2,997
2.21%, 01/18/05	1,500	1,498
2.26%, 01/19/05	2,000	1,998
2.06%, 01/24/05	1,400	1,398

Issuer Rate, Maturity Date	Face Amount (\$ × 1,000)	Value (\$ × 1,000)	Security	Maturity Amount (\$ × 1,000)	Value (\$ × 1,000)
2.04%, 01/25/05	2,541	2,538	Goldman Sachs & Co. Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$16,320 2.35%, issued 12/30/04, due 01/06/05 2.35%, issued 12/30/04, due 01/07/05	8,004	8,000
2.06%, 01/25/05	3,300	3,295			
2.27%, 02/15/05	2,900	2,892			
2.26%, 02/22/05	10,000	9,968			
2.27%, 02/22/05	12,445	12,404			
2.22%, 03/01/05	5,000	4,982			
2.32%, 03/01/05	14,295	14,241			
2.09%, 03/29/05	5,000	4,975			
2.50%, 04/04/05	1,500	1,490			
2.42%, 05/17/05	10,000	9,910			
2.47%, 05/17/05	5,000	4,954			
2.70%, 06/28/05	7,832	7,729			
		284,869	End of investments.		352,047

Coupon Notes 2.2%**Federal Home Loan Bank**

4.13%, 01/14/05	11,000	11,008
4.00%, 02/15/05	3,000	3,007
		14,015

Security	Maturity Amount (\$ x 1,000)
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Other Investments 54.1% of net assets

Repurchase Agreements 54.1%**Bank of America Corp.**

Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$114,240 2.28%, issued 12/31/04, due 01/03/05	112,021	112,000
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Bear Stearns Companies, Inc.

Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$114,245 2.28%, issued 12/31/04, due 01/03/05	112,021	112,000
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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 \$114,291 2.30%, issued 12/31/04, due 01/03/05	112,069	112,047
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Statement of

Assets and Liabilities

As of December 31, 2004. All numbers x 1,000 except NAV.

Unless stated, all numbers x 1,000.

Assets

Investments, at value	\$298,884
Repurchase agreements, at value	352,047
Interest receivable	279
Prepaid expenses	+ 246
Total assets	651,456

The amortized cost for the fund's securities was \$650,931.

Liabilities

Payables:	
Dividends to shareholders	36
Investments bought	15
Transfer agent and shareholder service fees	15
Transaction service fees	1,055
Trustees' fees	5
Accrued expenses	+ 54
Total liabilities	1,180

Net Assets

Total assets	651,456
Total liabilities	- 1,180
Net assets	\$650,276

Net Assets by Source

Capital received from investors	650,299
Net realized capital losses	(23)

Net Asset Value (NAV)

Net Assets	÷	Shares Outstanding	=	NAV
\$650,276		650,300		\$1.00

Federal Tax Data

Cost basis of portfolio \$650,931

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, 2004 through December 31, 2004. All numbers x 1,000.

Investment IncomeInterest **\$8,479****Expenses**

Investment adviser and administrator fees 2,323

Transfer agent and shareholder service fees 2,751

Transaction service fees 3,092

Trustees' fees 28

Custodian and portfolio accounting fees 64

Professional fees 33

Registration fees 201

Shareholder reports 52

Other expenses + 10

Total expenses 8,554

Expense reduction - 2,228

Net expenses 6,326**Increase in Net Assets from Operations****Total investment income 8,479****Net expenses - 6,326****Net investment income 2,153****Increase in net assets from operations \$2,153**

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.

This reduction consisted of two components. A reduction of \$1,437, which reduced the fund's annualized operating expense ratio (OER) by 0.24%, was made by the investment adviser (CSIM) to reflect a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the OER of this fund through April 30, 2005, to 0.99% of average daily net assets. Prior to September 1, 2004, this limit was 1.25%. This limit excludes interest, taxes and certain non-routine expenses. Also, CSIM voluntarily waived an additional \$791 of the fund's expenses, which reduced the fund's annualized OER by an additional 0.13%. The combination of these two waivers resulted in a net annualized OER for the period of 1.03%.

Statements of

Changes in Net Assets

For the current and prior report periods. All numbers x 1,000.

Operations

	1/1/04–12/31/04	1/1/03–12/31/03
Net investment income	\$2,153	\$502
Net realized losses	+ —	(22)
Increase in net assets from operations	2,153	480

Distributions Paid

Dividends from net investment income	2,153	502
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Transactions in Fund Shares

Shares sold	5,885,347	6,056,415
Shares reinvested	2,065	481
Shares redeemed	+ (5,880,712)	(6,052,786)
Net transactions in fund shares	6,700	4,110

Net Assets

Beginning of period	643,576	639,488
Total increase	+ 6,700	4,088
End of period	\$650,276	\$643,576

Unless stated, all numbers x 1,000.

The tax-basis components of distributions are:

Current year

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

Prior year

Ordinary income	\$502
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

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.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Shareholders of:

Schwab Government Cash Reserves

In our opinion, the accompanying statement of assets and liabilities, including the portfolio holdings, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Schwab Government Cash Reserves (one of the portfolios constituting The Charles Schwab Family of Funds, hereafter referred to as the “Fund”) at December 31, 2004, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Fund’s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2004 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California

February 14, 2005

Fund Trustees

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 fund 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 Schwab Funds (of which there were 53 as of 12/31/04) 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.

Individuals Who Are Interested Trustees and Officers of the Trust		
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); CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, Charles Schwab Bank, N.A., U.S. Trust, United States Trust Co. of New York, Siebel Systems (software), Xsign, Inc. (electronic payment systems), TrustMark, Inc., 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, Vodaphone 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.

Individuals Who Are Officers of the Trust but Not Trustees

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; <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.; <i>Until 9/04</i> : VP, Charles Schwab & Co., Charles Schwab Investment Management, Inc.; <i>Until 2002</i> : VP of Internal Audit, Charles Schwab & Co.; <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> : Chief Financial Officer, Commerzbank Capital Markets; <i>Until 9/99</i> : Managing Director at the New York Stock Exchange.

Individuals Who Are Independent Trustees

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Mariann Byerwalter 8/13/60	2000 (all trusts).	<i>Since 2/05:</i> Director, Pacific Life Insurance Company; Chair, JDN Corp. Advisory LLC; 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, Laudus Trust, Laudus Variable Insurance Trust. <i>2007:</i> Special Advisor to the President, Stanford University. <i>Until 2001:</i> VP, Business Affairs, CFO, Stanford University.
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).	Director, Aphton Corp. (bio-pharmaceuticals); Non-Executive Chair, Trustee, Soletron Corp. (manufacturing), Mission West Properties (commercial real estate), Stratex Networks (network equipment), Laudus Trust, Laudus Variable Insurance Trust; Public Governor, Member, executive committee, Pacific Stock & Options Exchange. <i>Until 2/04:</i> Co-CEO, Aphton Corp. (bio-pharmaceuticals). <i>Until 1998:</i> Dean, Haas School of Business, University of California, Berkeley.
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 advisors); Trustee, Cooper Industries (electrical products, tools and hardware); Member, 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 debt obligations 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 and may be sold only to "qualified institutional buyers" under Securities Act Rule 144A. 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 web site at www.schwab.com/schwabfunds, the SEC's web site 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 web site 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 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® Funds
 Schwab® Institutional Select® S&P 500 Fund
 Schwab® Institutional Select® Large-Cap Value Index Fund
 Schwab® Institutional Select® Small-Cap Value Index Fund

Asset Allocation Funds

Schwab MarketTrack Portfolios®
 Schwab MarketTrack All Equity Portfolio™
 Schwab MarketTrack Growth Portfolio™
 Schwab MarketTrack Balanced Portfolio™
 Schwab MarketTrack Conservative Portfolio™

Bond Funds

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

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

Annual Report

December 31, 2004

Schwab Government
Money Fund™

Schwab U.S. Treasury
Money Fund™

Schwab Value Advantage
Money Fund®

charles SCHWAB

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From the Chairman



Charles Schwab
Chairman

Dear Shareholder,

I understand that selecting a financial services company is an important decision you make as an investor and is one that we take very seriously. In fact, we made recent changes that we believe will both improve the quality of service you receive and give you the best value possible. For example, we reduced the average cost of security trades and we also expanded access to high-quality investment products.

Looking forward, we continue to see tremendous opportunities for investors, and my colleagues and I are committed to helping you maximize them. The changes we made last year at Schwab laid a foundation for more improvements this year. We will continue to expand the array of products and services that you are looking for, including new cash management and credit products from the Schwab Bank and new mutual fund products.

During the period since our semi-annual money fund report, I'm happy to announce that Evelyn Dilsaver has been named CEO and President of Schwab Funds®. Although new to the position, Evelyn is no stranger to Schwab Funds, having been an officer in several other capacities at Schwab. Her broad experience in product creation, coupled with a comprehensive understanding of your financial needs, make her the ideal candidate for her new role.

I speak for Evelyn, as well as the rest of the Schwab Funds group, when I say we want Schwab to be a place where investors can find useful, quality financial products and services to help them succeed. Regardless of the size of their portfolios, Schwab should be the place investors can always trust to watch out for their best interests.

This commitment to our shareholders will not change, as nothing is more important to us than your trust. Thank you for investing with us.

Sincerely,

A handwritten signature in black ink that reads "Charles R. Schwab".

Management's Discussion for the year ended December 31, 2004



Evelyn Dilsaver is President and CEO of Charles Schwab Investment Management, Inc. and is president of each 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,

I am very excited about my new role as President and CEO of Schwab Funds®. My experience at Schwab has given me many opportunities to focus on meeting the needs of our clients. This will continue to be my emphasis, and I reiterate what Chuck Schwab noted in his letter, that our goal is to offer you better value and more relevant choices.

When we discuss Schwab Funds with our clients, we often hear that you want to know that you're getting the best value. We find that shareholders may be unaware that some of the Schwab Funds offer additional share classes that carry lower expenses in exchange for higher initial investments of \$25,000 or more. I encourage you to review your accounts to see if you are eligible to purchase these money-saving shares. If you would like to learn more about these potentially cost-saving shares, our investment consultants are available to assist you.

I'm pleased to announce that we launched a new sweep money fund last summer—Schwab Cash Reserves—which offers eligible investors lower expenses on a sweep fund. My plan is to build on this legacy of value and continue to offer unique investment solutions to help you meet your financial goals.

I also want to point out that over the past year, the Federal Reserve raised short-term interest rates five times, up to 2.25% at year-end, making yields on the Schwab Funds' money funds more attractive than they were earlier in the year. I'm noting this because, no matter what the economic outlook is, most investors' asset-allocation strategies include a cash component, which offers liquidity and capital preservation that can help to lessen the effect of the market's volatility.

I look forward to serving you in my new role. 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 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 Funds

2004 started off positively, continuing the encouraging economic trend that was reported toward the end of 2003. Businesses added to their inventories, factory orders rose and production gained some strength. Retail sales continued to rise and higher commodity prices were holding. Mortgage refinancing activity, while still significant, waned as mortgage rates inched slightly upward. And finally, the last piece of the economic puzzle—job growth—began to exhibit solid gains. In fact, aside from a “soft patch” in early summer, the economy stayed strong throughout 2004.

The firming labor market, as well as steady gains in capital spending, kept the expansion on a self-sustaining path. The caution surrounding the economic outlook and geopolitical environment began to dissipate last spring and firms, unable to continue boosting productivity by restraining hiring, added more than two million new jobs during the year. Moreover, many leading indicators, such as the Institute for Supply Management’s business activity surveys, suggested further improvement, while continuing claims for unemployment benefits remained near cyclical lows. In addition, consumer sentiment rebounded, the labor market continued to sustain consumer spending, and corporate liquidity remained positive.

Strong productivity growth and slack in the economy kept a lid on inflation. The Federal Reserve (Fed) began to take the Fed funds rate higher beginning in June amid signs of solidly expanding output and improved hiring. The rate was raised another four times in 2004, ending the year at a moderate 2.25%. The moves had a limited impact on overall economic growth, due primarily to the record-low level of rates from which the hikes began.

Strengthening global demand for oil, particularly in the Pacific Rim, and supply constraints in the wake of the Florida hurricanes drove crude prices to record highs, above \$50 per barrel in late October. Since then, crude prices backed off to the mid-\$40 range, as supply concerns dissipated and China’s economy continues to attempt to engineer a soft landing. Though some pass-through from high oil and commodity prices earlier in the year may hamper growth and stir inflationary pressures, inflation has remained generally benign.



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.

The Schwab Government Money Fund™ maintained a conservative investment approach, but took advantage of the periodic spreads in yields between agency and repurchase agreements (repo) as accounting irregularities and potential political action affected some agencies. With rates rising mid-year and expected to head higher, we increased the fund's position in variable rate securities. The interest rates on these types of securities reset frequently, allowing us the opportunity to capture a rise in market rates. We also reduced the fund's weighted average maturity (WAM) from approximately 60 to 40 days, thus positioning the fund to benefit from rising rates. This is a similar strategy to that used by our peers, as shortening the WAM enabled money funds to more quickly reinvest at higher rates.

The Schwab U.S. Treasury Money Fund™ was able to take advantage of increased Treasury supply that narrowed the spread between Treasury securities and other money market instruments. Prior to the Fed's first rate hike in June we kept the fund's weighted average maturity (WAM) slightly long. Being longer in a low-interest rate environment provides certain longer-term yield advantages. But as the economy improved and the Fed focused on bringing interest rates to a more "neutral" level, we shortened the fund's WAM from approximately 70 days to 50 days.

The Schwab Value Advantage Money Fund® increased its position in variable-rate securities as the economy showed signs of strength and the Fed began to raise interest rates. Investing in variable-rate securities in a rising interest rate environment is beneficial because this type of security resets its interest rate frequently, providing the opportunity to capture a rise in market rates in a timely manner. We also reduced the fund's weighted average maturity (WAM) from approximately 60 to 45 days, lowering the fund's exposure to rising rates. This is a similar strategy to that used by 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 12/31/04

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.

	Government Money Fund	U.S. Treasury Money Fund	Value Advantage Money Fund		
			Investor Shares	Select Shares*	Institutional Shares
Seven-Day Yield ¹	1.46%	1.30%	1.79%	1.89%	2.00%
Seven-Day Yield—No Waiver ²	1.37%	1.12%	1.68%	1.68%	1.68%
Seven-Day Effective Yield ¹	1.47%	1.30%	1.81%	1.91%	2.02%

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	42 days	56 days	41 days
Credit Quality of Holdings % of portfolio	100% Tier 1	100% Tier 1	100% Tier 1
Minimum Initial Investment ³			
Sweep Investments*	*	*	n/a
Investor Shares (\$15,000 for IRA and custodial accounts)	n/a	n/a	\$25,000
Select Shares	n/a	n/a	\$1,000,000
Institutional Shares			
Investment Manager Per Client Account	n/a	n/a	\$3,000,000
Other Investors	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 July 1, 2004 and held through December 31, 2004.

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 7/1/04	Ending Account Value (Net of Expenses) at 12/31/04	Expenses Paid During Period ² 7/1/04–12/31/04
Schwab Government Money Fund™				
Actual Return	0.75%	\$1,000	\$1,004.70	\$3.78
Hypothetical 5% Return	0.75%	\$1,000	\$1,021.37	\$3.81
Schwab U.S. Treasury Money Fund™				
Actual Return	0.65%	\$1,000	\$1,004.40	\$3.27
Hypothetical 5% Return	0.65%	\$1,000	\$1,021.87	\$3.30
Schwab Value Advantage Money Fund™				
<i>Investor Shares</i>				
Actual Return	0.45%	\$1,000	\$1,006.40	\$2.27
Hypothetical 5% Return	0.45%	\$1,000	\$1,022.87	\$2.29
<i>Select Shares®</i>				
Actual Return	0.35%	\$1,000	\$1,006.90	\$1.77
Hypothetical 5% Return	0.35%	\$1,000	\$1,023.38	\$1.78
<i>Institutional Shares</i>				
Actual Return	0.24%	\$1,000	\$1,007.50	\$1.21
Hypothetical 5% Return	0.24%	\$1,000	\$1,023.93	\$1.22

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 that fund's or share class' annualized expense ratio, multiplied by the average account value over the period, multiplied by 184 days of the period, and divided by 366 days of the fiscal year.

Schwab Government Money Fund™

Financial Statements

Financial Highlights

	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
Income from investment operations:					
Net investment income	0.01	0.00 ¹	0.01	0.04	0.06
Less distributions:					
Dividends from net investment income	(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
Total return (%)	0.65	0.48	1.20	3.63	5.69
Ratios/Supplemental Data (%)					
Ratios to average net assets:					
Net operating expenses	0.75	0.75	0.75	0.75	0.76 ²
Gross operating expenses	0.83	0.83	0.83	0.84	0.85
Net investment income	0.64	0.49	1.19	3.52	5.54
Net assets, end of period (\$ x 1,000,000)	2,535	2,838	3,092	3,054	2,509

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

² 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 December 31, 2004

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 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)
41.4% U.S. Government Securities	1,049,396	1,049,396
21.1% Variable-Rate Obligations	533,973	533,973
37.4% Other Investments	949,160	949,160
99.9% Total Investments	2,532,529	2,532,529
0.1% Other Assets and Liabilities		2,737
100.0% Net Assets		2,535,266

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
---	------------------------------------	------------------------------

U.S. Government Securities 41.4% of net assets**Discount Notes** 34.3%**Fannie Mae**

1.33%, 01/07/05	15,000	14,997
1.99%, 01/12/05	30,000	29,982
2.00%, 01/24/05	32,000	31,959
2.11%, 02/01/05	30,000	29,946
2.20%, 02/09/05	10,000	9,976
2.39%, 03/01/05	25,000	24,902
1.89%, 03/02/05	25,000	24,922
1.91%, 03/02/05	15,000	14,953
2.40%, 03/04/05	25,000	24,897
2.35%, 03/09/05	30,000	29,869
1.39%, 03/28/05	10,000	9,967
2.12%, 04/06/05	8,804	8,755
2.15%, 04/06/05	10,000	9,944
2.13%, 04/13/05	15,000	14,911
2.25%, 04/27/05	15,000	14,892
2.27%, 04/27/05	18,000	17,870
2.53%, 05/11/05	15,492	15,352
2.70%, 06/24/05	34,400	33,958

Federal Home Loan Bank

2.06%, 01/19/05	3,325	3,322
2.21%, 01/21/05	8,000	7,990
2.00%, 01/26/05	25,000	24,965
2.04%, 01/28/05	22,000	21,967
2.22%, 02/16/05	30,000	29,915

Freddie Mac

2.17%, 01/11/05	10,600	10,594
2.21%, 01/11/05	3,000	2,998
1.99%, 01/18/05	65,000	64,939
2.00%, 01/18/05	25,904	25,880
2.06%, 01/18/05	4,100	4,096
2.21%, 01/24/05	13,000	12,982
2.21%, 01/25/05	3,115	3,110
2.21%, 02/15/05	40,000	39,890
2.26%, 02/22/05	20,000	19,935
2.27%, 02/22/05	22,000	21,928
2.32%, 03/01/05	25,218	25,123
2.09%, 03/29/05	24,000	23,880
2.49%, 03/29/05	18,025	17,917
1.38%, 04/05/05	15,000	14,947
2.15%, 04/19/05	15,000	14,904
2.21%, 04/19/05	15,000	14,901
2.42%, 05/17/05	40,000	39,639

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
2.47%, 05/17/05	15,000	14,862
2.53%, 05/24/05	13,621	13,486
2.66%, 06/14/05	13,450	13,289
2.68%, 06/21/05	20,000	19,749
		869,260

Coupon Notes 7.1%**Fannie Mae**

1.40%, 02/25/05	20,000	20,000
1.35%, 04/28/05	20,000	20,000
1.61%, 05/13/05	15,000	15,000

Federal Home Loan Bank

4.13%, 01/14/05	20,000	20,014
1.50%, 02/28/05	10,000	10,000
1.60%, 03/01/05	15,000	15,000
1.40%, 04/01/05	15,000	15,000
4.13%, 05/13/05	10,000	10,090

Freddie Mac

1.88%, 01/15/05	20,000	20,000
3.88%, 02/15/05	10,000	10,032
1.32%, 02/23/05	25,000	25,000
		180,136

Variable-Rate Obligations 21.1% of net assets**Coupon Notes 21.1%****Fannie Mae**

1.88%, 01/03/05	30,000	29,985
2.23%, 01/07/05	25,000	24,986
2.35%, 01/18/05	40,000	39,999
2.30%, 01/31/05	50,000	49,984
2.31%, 03/07/05	50,000	49,980
2.33%, 03/09/05	40,000	39,985

Federal Home Loan Bank

2.17%, 01/03/05	35,000	34,968
2.23%, 01/05/05	60,000	59,977
2.31%, 01/18/05	50,000	49,987
2.33%, 01/26/05	40,000	39,995
2.48%, 03/30/05	50,000	50,000

Freddie Mac

2.00%, 01/07/05	64,125	64,127
		533,973

Security	Maturity Amount (\$ x 1,000)	Value (\$ x 1,000)
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Other Investments 37.4% of net assets**Repurchase Agreements 37.4%****Bank of America Securities L.L.C.**

Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$94,860		
2.28%, issued 12/31/04, due 01/03/05	93,018	93,000

Bear Stearns & Co., Inc.

Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$125,464		
2.28%, issued 12/31/04, due 01/03/05	93,018	93,000
2.24%, issued 11/17/04, due 01/07/05	30,095	30,000

Credit Suisse First Boston L.L.C.

Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$395,934		
2.30%, issued 12/31/04, due 01/03/05	93,178	93,160
2.40%, issued 12/27/04, due 01/04/05	20,011	20,000
2.30%, issued 12/22/04, due 01/05/05	50,045	50,000
2.31%, issued 12/15/04, due 01/05/05	40,054	40,000
2.31%, issued 12/17/04, due 01/06/05	30,039	30,000
2.31%, issued 12/23/04, due 01/07/05	40,039	40,000
2.31%, issued 12/16/04, due 01/07/05	35,049	35,000
2.32%, issued 12/20/04, due 01/07/05	30,035	30,000
2.33%, issued 12/23/04, due 01/07/05	50,049	50,000

Portfolio Holdings continued

Security	Maturity Amount (\$ x 1,000)	Value (\$ x 1,000)
Goldman Sachs & Co.		
Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$61,200		
2.34%, issued 12/29/04, due 01/07/05	50,029	50,000
2.38%, issued 12/29/04, due 01/06/05	10,005	10,000
Morgan Stanley & Co.		
Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$76,500		
2.03%, issued 10/26/04, due 01/07/05	40,165	40,000
2.28%, issued 12/09/04, due 01/06/05	35,062	35,000
UBS Financial Services, Inc.		
Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$214,212		
2.31%, issued 12/14/04, due 01/04/05	30,040	30,000
2.22%, issued 12/02/04, due 01/05/05	35,073	35,000
2.19%, issued 11/08/04, due 01/07/05	30,110	30,000
2.31%, issued 12/13/04, due 01/07/05	35,056	35,000
2.32%, issued 12/03/04, due 01/07/05	40,090	40,000
2.40%, issued 12/27/04, due 01/07/05	40,029	40,000
		949,160

End of investments.

Statement of

Assets and Liabilities

As of December 31, 2004. All numbers x 1,000 except NAV.

Unless stated, all numbers x 1,000.

Assets

Investments, at value	\$1,583,369
Repurchase agreements, at value	949,160
Interest receivable	3,048
Prepaid expenses	+ 10
Total assets	2,535,587

The amortized cost for the fund's securities was \$2,532,529.

Liabilities

Payables:	
Dividends to shareholders	111
Investment adviser and administrator fees	39
Transfer agent and shareholder service fees	62
Trustees' fees	5
Accrued expenses	+ 104
Total liabilities	321

Net Assets

Total assets	2,535,587
Total liabilities	- 321
Net assets	\$2,535,266

Net Assets by Source

Capital received from investors	2,535,825
Net realized capital losses	(559)

Net Asset Value (NAV)

Net Assets	÷	Shares Outstanding	=	NAV
\$2,535,266		2,536,378		\$1.00

Federal Tax Data

Cost basis of portfolio \$2,532,529

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

Reclassifications:

Net realized capital gains	\$162
Reclassified as:	
Capital received from investors	(\$162)

Statement of

Operations

For January 1, 2004 through December 31, 2004. All numbers x 1,000.

Investment Income

Interest	\$39,042
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Expenses

Investment adviser and administrator fees	10,135	
Transfer agent and shareholder service fees	12,645	
Trustees' fees	30	
Custodian and portfolio accounting fees	232	
Professional fees	33	
Registration fees	173	
Shareholder reports	88	
Other expenses	40	+
Total expenses	23,376	
Expense reduction	2,301	-
Net expenses	21,075	

Increase in Net Assets from Operations

Total investment income	39,042
Net expenses	- 21,075
Net investment income	17,967
Increase in net assets from operations	\$17,967

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 30, 2005 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.

Operations

	1/1/04–12/31/04	1/1/03–12/31/03
Net investment income	\$17,967	\$14,944
Net realized losses	+ —	(16)
Increase in net assets from operations	17,967	14,928

Distributions Paid

Dividends from net investment income	17,967	14,944
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Transactions in Fund Shares

Shares sold	8,723,826	8,476,017
Shares reinvested	17,617	14,704
Shares redeemed	+ (9,043,706)	(8,744,747)
Net transactions in fund shares	(302,263)	(254,026)

Net Assets

Beginning of period	2,837,529	3,091,571
Total decrease	+ (302,263)	(254,042)
End of period	\$2,535,266	\$2,837,529

Unless stated, all numbers x 1,000.

The tax-basis components of distributions are:

Current year

Ordinary income	\$17,967
Long-term capital gains	\$—

Prior year

Ordinary income	\$14,944
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

	1/1/04– 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
Income from investment operations:					
Net investment income	0.01	0.00 ¹	0.01	0.04	0.05
Less distributions:					
Dividends from net investment income	(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
Total return (%)	0.62	0.49	1.15	3.61	5.40
Ratios/Supplemental Data (%)					
Ratios to average net assets:					
Net operating expenses	0.65	0.65	0.65	0.65	0.66 ²
Gross operating expenses	0.82	0.82	0.82	0.84	0.85
Net investment income	0.61	0.49	1.15	3.44	5.27
Net assets, end of period (\$ x 1,000,000)	3,811	4,046	4,323	4,042	2,750

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

² 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 December 31, 2004

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)
100.0%	U.S. Government Securities	3,810,191	3,810,191
100.0%	Total Investments	3,810,191	3,810,191
0.0%	Other Assets and Liabilities		852
100.0%	Net Assets		3,811,043

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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U.S. Government Securities 100.0% of net assets

Treasury Bills 94.4%**U.S. Treasury Bills**

1.66%, 01/06/05	870	870
1.75%, 01/06/05	50,000	49,988
2.07%, 01/06/05	50,000	49,986
1.69%, 01/13/05	178,930	178,830

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
1.70%, 01/13/05	36,320	36,299
1.76%, 01/20/05	264,235	263,991
1.77%, 01/20/05	75,000	74,931
1.79%, 01/20/05	92,280	92,193
1.80%, 01/20/05	1,775	1,773
1.65%, 01/27/05	1,995	1,993
1.78%, 01/27/05	50,000	49,936
1.79%, 01/27/05	200,000	199,743
1.86%, 01/27/05	50,000	49,933
1.87%, 01/27/05	25,000	24,966
1.89%, 01/27/05	40,000	39,946
1.76%, 02/03/05	50,000	49,919
1.82%, 02/03/05	200,000	199,669
1.86%, 02/03/05	14,180	14,156
2.02%, 02/03/05	80,000	79,852
1.83%, 02/10/05	200,525	200,120
1.96%, 02/10/05	200,000	199,567
1.83%, 02/17/05	5,370	5,357
1.86%, 02/17/05	100,000	99,759
2.01%, 02/17/05	4,505	4,493
2.06%, 02/17/05	50,000	49,866
2.08%, 02/17/05	250,000	249,324
2.10%, 02/17/05	4,365	4,353
2.12%, 02/17/05	11,705	11,673
1.87%, 02/24/05	200,000	199,444
2.02%, 02/24/05	107,770	107,446
2.18%, 02/24/05	30,000	29,902
1.87%, 03/03/05	50,000	49,843
2.21%, 03/10/05	100,000	99,584
2.22%, 03/10/05	50,000	49,791
2.19%, 03/24/05	50,000	49,752
2.20%, 03/31/05	100,000	99,460
1.97%, 04/14/05	150,000	149,161
1.98%, 04/14/05	50,000	49,720
1.99%, 04/14/05	13,530	13,454
2.03%, 04/14/05	3,985	3,962
1.99%, 04/21/05	50,000	49,698
2.01%, 04/21/05	50,000	49,696
2.27%, 04/21/05	30,000	29,794
2.11%, 04/28/05	88,940	88,335
2.14%, 04/28/05	13,225	13,134
2.25%, 04/28/05	20,000	19,855
2.27%, 05/12/05	6,425	6,373
2.39%, 06/09/05	25,000	24,739
2.49%, 06/23/05	109,850	108,551
2.53%, 06/23/05	23,770	23,485
		3,598,665

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Value (\$ x 1,000)	Value (\$ x 1,000)
Treasury Notes 5.6%		
U.S. Treasury Notes		
1.63%, 01/31/05	11,025	11,021
1.50%, 02/28/05	27,245	27,256
1.63%, 03/31/05	124,285	124,329
6.75%, 05/15/05	48,160	48,920
		211,526

End of investments.

Statement of

Assets and Liabilities

As of December 31, 2004. All numbers x 1,000 except NAV.

Unless stated, all numbers x 1,000.

Assets

Investments, at value	\$3,810,191	
Cash	1	
Interest receivable	1,152	
Prepaid expenses	+	70
Total assets		3,811,414

— The amortized cost for the fund's securities was \$3,810,191.

Liabilities

Payables:		
Dividends to shareholders		152
Investment adviser and administrator fees		38
Transfer agent and shareholder service fees		94
Trustees' fees		3
Accrued expenses	+	84
Total liabilities		371

Net Assets

Total assets		3,811,414
Total liabilities	—	371
Net assets		\$3,811,043

Net Assets by Source

Capital received from investors	3,812,107
Net realized capital losses	(1,064)

Net Asset Value (NAV)

Net Assets	÷	Shares Outstanding	=	NAV
\$3,811,043		3,812,171		\$1.00

Federal Tax Data**Cost basis of portfolio** \$3,810,207**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	<u>+</u> 125
	\$997

Deferred capital losses \$51

Statement of

Operations

For January 1, 2004 through December 31, 2004. All numbers x 1,000.

Investment Income

Interest	\$52,287
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Net Realized Gains and Losses

Net realized losses on investments sold	(192)
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Expenses

Investment adviser and administrator fees	14,802
Transfer agent and shareholder service fees	18,635
Trustees' fees	35
Custodian and portfolio accounting fees	321
Professional fees	38
Registration fees	119
Shareholder reports	74
Other expenses	+ 47
Total expenses	34,071
Expense reduction	- 7,154
Net expenses	26,917

Increase in Net Assets from Operations

Total investment income	52,287
Net expenses	- 26,917
Net investment income	25,370
Net realized losses	+ (192)
Increase in net assets from operations	\$25,178

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 30, 2005 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.

Operations

	1/1/04–12/31/04	1/1/03–12/31/03
Net investment income	\$25,370	\$20,290
Net realized losses	+ (192)	(56)
Increase in net assets from operations	25,178	20,234

Distributions Paid

Dividends from net investment income	25,370	20,290
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Transactions in Fund Shares

Shares sold	11,353,793	10,404,314
Shares reinvested	25,007	20,037
Shares redeemed	+ (11,613,375)	(10,701,867)
Net transactions in fund shares	(234,575)	(277,516)

Net Assets

Beginning of period	4,045,810	4,323,382
Total decrease	+ (234,767)	(277,572)
End of period	\$3,811,043	\$4,045,810

Unless stated, all numbers x 1,000.

The tax-basis components of distributions are:

Current year

Ordinary income	\$25,370
Long-term capital gains	\$–

Prior year

Ordinary income	\$20,290
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	1/1/04– 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
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Per-Share Data (\$)

Net asset value at beginning of period	1.00	1.00	1.00	1.00	1.00
Income from investment operations:					
Net investment income	0.01	0.01	0.02	0.04	0.06
Less distributions:					
Dividends from net investment income	(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
Total return (%)	0.98	0.80	1.55	4.05	6.22

Ratios/Supplemental Data (%)

Ratios to average net assets:					
Net operating expenses	0.45	0.45	0.45	0.43	0.41 ¹
Gross operating expenses	0.56	0.55	0.54	0.56	0.60
Net investment income	0.97	0.81	1.55	3.92	6.07
Net assets, end of period (\$ x 1,000,000)	23,365	28,860	38,728	44,247	36,319

Select Shares	1/1/04– 12/31/04	2/28/03 ² – 12/31/03
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Per-Share Data (\$)

Net asset value at beginning of period	1.00	1.00
Income from investment operations:		
Net investment income	0.01	0.01
Less distributions:		
Dividends from net investment income	(0.01)	(0.01)
Net asset value at end of period	1.00	1.00
Total return (%)	1.09	0.72 ³

Ratios/Supplemental Data (%)

Ratios to average net assets:		
Net operating expenses	0.35	0.35 ⁴
Gross operating expenses	0.56	0.55 ⁴
Net investment income	1.10	0.83 ⁴
Net assets, end of period (\$ x 1,000,000)	1,209	1,013

¹ The ratio of net operating expenses would have been 0.40% if certain non-routine expenses (proxy fees) had not been included.

² Commencement of operations.

³ Not annualized.

⁴ Annualized.

Institutional Shares	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
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 (%)	1.20	1.01	0.81 ²
Ratios/Supplemental Data (%)			
Ratios to average net assets:			
Net operating expenses	0.24	0.24	0.24 ³
Gross operating expenses	0.56	0.55	0.55 ³
Net investment income	1.20	1.00	1.57 ³
Net assets, end of period (\$ x 1,000,000)	1,054	720	521

¹ Commencement of operations.² Not annualized.³ Annualized.

Portfolio Holdings as of December 31, 2004

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
- Restricted and/or illiquid 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)
68.8% Fixed-Rate Obligations	17,644,633	17,644,633
1.7% U.S. Government Securities	419,775	419,775
19.4% Variable-Rate Obligations	4,973,270	4,973,270
9.9% Other Investments	2,542,119	2,542,119
99.8% Total Investments	25,579,797	25,579,797
0.2% Other Assets and Liabilities		48,191
100.0% Total Net Assets		25,627,988

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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Fixed-Rate Obligations 68.8% of net assets**Commercial Paper & Other Corporate Obligations** 44.9%

AB Spintab		
2.33%, 02/25/05	105,000	104,628
Alliance & Leicester, PLC, Section 4(2) / 144A		
2.03%, 01/18/05	8,000	7,992
2.11%, 03/01/05	35,000	34,880
2.38%, 03/10/05	79,000	78,648
✦ Allied Irish Banks North America		
2.27%, 01/06/05	10,000	9,997
◆✦ Alpine Securitization Corp., Section 4(2) / 144A		
2.01%, 01/06/05	37,000	36,990
◆ Amstel Funding Corp., Section 4(2) / 144A		
2.30%, 02/22/05	58,227	58,034
2.33%, 02/22/05	15,836	15,783
✦ ANZ National (Int'l) Ltd.		
2.31%, 01/14/05	130,000	129,892
◆✦ Aquinas Funding, L.L.C., Section 4(2) / 144A		
2.01%, 01/11/05	36,000	35,980
2.08%, 03/21/05	10,000	9,955
2.51%, 05/17/05	44,000	43,588
◆✦ ASAP Funding Ltd., Section 4(2) / 144A		
2.26%, 01/24/05	83,000	82,881
2.39%, 01/27/05	23,000	22,960
2.26%, 02/01/05	12,000	11,977
2.27%, 02/03/05	10,000	9,979
2.40%, 03/02/05	77,000	76,693
◆✦ Atlantic Asset Securitization Corp., Section 4(2) / 144A		
2.29%, 01/03/05	20,060	20,057
2.36%, 01/05/05	50,000	49,987
2.36%, 01/19/05	46,347	46,292
◆ Atlantis One Funding Corp., Section 4(2) / 144A		
1.97%, 01/03/05	128,690	128,676
1.97%, 01/04/05	128,445	128,424
2.03%, 01/19/05	143,883	143,738
2.28%, 02/23/05	20,000	19,933
2.20%, 04/08/05	74,382	73,945
2.49%, 04/20/05	73,160	72,615

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)
Bank of America Corp.			2.06%, 01/21/05	86,949	86,850
2.01%, 01/13/05	310,000	309,793	2.29%, 02/18/05	15,000	14,954
2.05%, 02/04/05	90,000	89,827	♦♦ Crown Point Capital Co., L.L.C., Section 4(2) / 144A		
2.27%, 02/17/05	388,000	386,855	2.02%, 01/07/05	25,000	24,992
Bank of Ireland, Section 4(2) / 144A			2.01%, 01/11/05	20,493	20,482
2.35%, 01/06/05	172,000	171,944	2.03%, 01/11/05	35,195	35,175
2.38%, 03/09/05	33,000	32,855	2.02%, 01/12/05	22,862	22,848
♦ Barclays U.S. Funding Corp.			2.04%, 01/14/05	36,330	36,303
2.26%, 02/22/05	55,000	54,821	2.03%, 01/18/05	18,500	18,482
Bear Stearns Companies, Inc.			2.04%, 01/19/05	55,000	54,944
1.98%, 01/10/05	33,000	32,984	2.28%, 02/16/05	50,000	49,855
2.02%, 01/19/05	43,000	42,957	♦ Dakota CP Notes of Citibank Credit Card Issuance Trust, Section 4(2) / 144A		
♦♦ Beta Finance, Inc., Section 3c7 / 144A			2.27%, 01/03/05	25,000	24,997
1.97%, 01/05/05	43,000	42,991	2.00%, 01/05/05	90,000	89,980
1.99%, 01/05/05	12,000	11,997	2.02%, 01/05/05	48,000	47,989
2.01%, 01/11/05	44,000	43,976	1.99%, 01/06/05	83,000	82,977
2.07%, 01/28/05	12,000	11,981	2.02%, 01/06/05	32,000	31,991
2.26%, 02/15/05	74,500	74,290	2.30%, 01/12/05	88,000	87,938
2.33%, 02/25/05	19,000	18,933	2.32%, 01/13/05	120,000	119,908
♦ Calyon North America, Inc.			2.31%, 01/14/05	6,500	6,495
2.26%, 01/07/05	50,000	49,981	2.04%, 01/19/05	15,000	14,985
♦ CBA (Delaware) Finance, Inc.			2.39%, 02/16/05	145,000	144,559
2.28%, 02/22/05	28,000	27,908	♦ Danske Corp.		
♦ CC (USA), Inc., Section 3c7 / 144A			2.38%, 02/23/05	193,000	192,327
2.02%, 01/18/05	82,000	81,922	2.38%, 02/25/05	40,000	39,855
2.07%, 01/27/05	10,000	9,985	DePfa Bank PLC, Section 4(2) / 144A		
2.08%, 01/27/05	30,000	29,955	2.07%, 01/26/05	65,000	64,907
2.27%, 02/16/05	30,000	29,913	♦ Deutsche Bank Financial, L.L.C.		
2.29%, 02/22/05	53,000	52,825	2.06%, 03/03/05	200,000	199,309
2.38%, 03/01/05	10,000	9,961	♦ Dexia Delaware L.L.C.		
2.09%, 03/24/05	5,000	4,976	2.44%, 03/08/05	57,900	57,642
2.17%, 04/13/05	16,000	15,903	2.44%, 03/14/05	60,000	59,708
Citicorp			DnB NOR Bank ASA		
2.37%, 01/28/05	100,000	99,823	2.25%, 02/14/05	104,000	103,715
2.41%, 03/14/05	11,000	10,947	♦ Dorada Finance, Inc., Section 3c7 / 144A		
Citigroup Global Markets Holdings, Inc.			2.06%, 01/25/05	88,000	87,880
2.07%, 01/24/05	85,000	84,888	2.29%, 02/15/05	71,000	70,798
♦♦ Concord Minutemen Capital Co., Section 3c7 / 144A			2.29%, 02/17/05	31,500	31,406
2.29%, 01/05/05	30,000	29,992	♦♦ Eiffel Funding, L.L.C., Section 4(2) / 144A		
2.30%, 01/06/05	30,067	30,057	2.03%, 01/18/05	100,000	99,905
2.00%, 01/10/05	33,503	33,486	2.04%, 01/20/05	25,000	24,973
2.00%, 01/10/05	74,060	74,023	2.04%, 01/21/05	25,000	24,972
2.01%, 01/10/05	40,000	39,980	2.07%, 01/24/05	25,000	24,967
2.33%, 01/10/05	35,074	35,054	2.06%, 01/25/05	23,000	22,969
2.02%, 01/11/05	10,000	9,994			

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)
2.07%, 01/25/05	20,000	19,973	Irish Life & Permanent, PLC, Section 4(2) / 144A		
2.28%, 02/16/05	2,000	1,994	2.29%, 05/02/05	40,000	39,696
◆◆ Fairway Finance Co., L.L.C., Section 4(2) / 144A			2.48%, 05/18/05	65,000	64,394
2.06%, 01/21/05	29,000	28,967	◆ IXIS Commercial Paper Corp., Section 4(2) / 144A		
2.14%, 03/28/05	9,178	9,132	2.06%, 03/03/05	28,000	27,903
◆◆ Falcon Asset Securitization Corp., Section 4(2) / 144A			2.38%, 03/07/05	10,000	9,957
2.28%, 01/12/05	148,609	148,506	◆◆ Jupiter Securitization Corp., Section 4(2) / 144A		
2.34%, 01/20/05	220,321	220,050	2.26%, 01/11/05	11,265	11,258
ForeningsSparbanken AB (Swedbank)			2.29%, 01/11/05	106,381	106,314
2.34%, 02/23/05	180,000	179,383	2.33%, 02/22/05	38,000	37,873
◆ Galaxy Funding, Inc., Section 4(2) / 144A			◆ K2 (USA), L.L.C., Section 3c7 / 144A		
1.99%, 01/03/05	45,000	44,995	2.02%, 01/14/05	55,000	54,960
2.04%, 01/20/05	120,000	119,871	2.03%, 01/18/05	24,000	23,977
2.04%, 01/21/05	48,000	47,946	2.07%, 01/31/05	11,400	11,380
2.06%, 01/24/05	22,550	22,520	2.29%, 02/14/05	12,100	12,066
2.07%, 01/27/05	11,000	10,984	2.29%, 02/22/05	1,000	997
2.38%, 03/01/05	15,000	14,942	2.30%, 02/22/05	33,300	33,190
General Electric Capital Corp.			2.33%, 02/23/05	25,000	24,915
2.00%, 01/07/05	298,000	297,901	2.58%, 05/31/05	15,400	15,236
2.04%, 01/19/05	40,000	39,959	◆ KBC Financial Products International, Ltd., Section 4(2) / 144A		
2.25%, 02/15/05	140,000	139,608	2.16%, 04/01/05	36,000	35,807
2.28%, 02/18/05	222,000	221,328	◆◆ Kitty Hawk Funding Corp., Section 4(2) / 144A		
General Electric Capital Services			2.04%, 01/19/05	34,000	33,965
2.06%, 01/26/05	25,000	24,964	◆◆ Lexington Parker Capital Co., L.L.C., Section 4(2) / 144A		
2.25%, 02/15/05	50,000	49,860	2.00%, 01/05/05	1,000	1,000
◆ Giro Funding U.S. Corp., Section 4(2) / 144A			2.07%, 01/25/05	48,000	47,934
2.02%, 01/13/05	70,000	69,953	2.26%, 02/08/05	15,000	14,964
2.08%, 01/14/05	50,000	49,963	1.95%, 03/01/05	171,000	170,459
2.26%, 02/14/05	6,000	5,984	2.07%, 03/01/05	129,609	129,174
2.26%, 02/15/05	125,000	124,648	2.09%, 03/02/05	15,000	14,948
◆◆ Grampian Funding, L.L.C., Section 4(2) / 144A			◆◆ Liberty Lighthouse Funding Co., Section 4(2) / 144A		
1.97%, 01/03/05	75,000	74,992	2.40%, 01/24/05	20,000	19,969
2.04%, 01/21/05	84,000	83,905	◆◆ Links Finance, L.L.C., Section 3c7 / 144A		
2.29%, 02/22/05	71,500	71,265	2.39%, 03/01/05	15,500	15,440
2.35%, 03/02/05	24,000	23,906	◆ Mane Funding Corp., Section 4(2) / 144A		
2.42%, 03/16/05	25,000	24,877	2.31%, 01/10/05	53,000	52,970
◆◆ Greyhawk Funding, L.L.C., Section 4(2) / 144A			2.22%, 01/18/05	10,000	9,990
2.01%, 01/05/05	50,000	49,989	2.23%, 01/20/05	65,890	65,813
2.30%, 01/10/05	20,000	19,989	◆◆ Mont Blanc Capital Corp., Section 4(2) / 144A		
2.26%, 02/16/05	25,000	24,928	2.02%, 01/13/05	15,035	15,025
HSBC U.S.A., Inc.			◆◆ Newcastle Certificates Program, Section 4(2) / 144A		
2.29%, 05/06/05	38,000	37,702	2.00%, 01/04/05	25,000	24,996
◆ ING (U.S.) Funding, L.L.C.			2.30%, 01/07/05	25,300	25,290
2.45%, 03/10/05	10,000	9,954	2.32%, 01/12/05	69,000	68,951

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)
2.06%, 01/19/05	8,000	7,992	♦♦ Ticonderoga Funding, L.L.C., Section 4(2) / 144A		
2.03%, 01/20/05	27,000	26,971	2.39%, 02/14/05	30,000	29,913
2.34%, 02/22/05	43,000	42,855	2.40%, 02/22/05	122,618	122,195
2.33%, 02/25/05	11,000	10,961	2.41%, 02/23/05	120,575	120,149
♦♦ Nieuw Amsterdam Receivables Corp., Section 4(2) / 144A			2.42%, 02/25/05	11,000	10,960
1.99%, 01/03/05	21,000	20,998	♦♦ Triple-A One Funding Corp., Section 4(2) / 144A		
2.30%, 01/07/05	15,000	14,994	2.35%, 01/04/05	16,657	16,654
2.30%, 01/10/05	8,100	8,095	♦♦ Tulip Funding Corp., Section 4(2) / 144A		
2.03%, 01/18/05	12,000	11,989	1.98%, 01/04/05	64,000	63,990
2.08%, 01/25/05	25,000	24,966	+ Westpac Capital Corp.		
+ Nordea North America, Inc.			2.40%, 03/03/05	15,270	15,208
2.07%, 01/31/05	38,000	37,935	2.40%, 03/07/05	51,275	51,054
2.26%, 05/03/05	100,000	99,244	+ Westpac Trust Securities NZ Ltd		
♦ Park Granada, L.L.C., Section 4(2) / 144A			2.32%, 02/23/05	74,000	73,749
2.04%, 01/18/05	30,000	29,971	2.41%, 03/09/05	75,000	74,666
2.04%, 01/19/05	50,000	49,949	2.53%, 05/23/05	20,000	19,803
2.06%, 01/20/05	19,000	18,979	♦ White Pine Finance, L.L.C., Section 3c7 / 144A		
2.04%, 01/21/05	36,000	35,959	2.25%, 02/07/05	7,103	7,087
2.06%, 01/21/05	15,000	14,983	2.13%, 02/25/05	15,947	15,896
♦♦ Preferred Receivables Funding Corp., Section 4(2) / 144A			2.07%, 03/17/05	31,048	30,915
2.28%, 01/11/05	44,129	44,101	2.18%, 04/11/05	23,000	22,862
2.30%, 01/11/05	97,036	96,974	2.54%, 05/23/05	7,452	7,378
2.33%, 01/12/05	168,581	168,462	2.73%, 06/06/05	5,766	5,699
+ Santander Central Hispano Finance (Delaware), Inc.			2.74%, 06/08/05	10,134	10,014
2.04%, 01/14/05	50,000	49,963	♦♦ Windmill Funding Corp., Section 4(2) / 144A		
2.12%, 04/05/05	85,000	84,534	2.28%, 01/11/05	100,000	99,937
♦♦ Scaldis Capital Ltd., Section 4(2) / 144A			♦♦ Yorktown Capital, L.L.C., Section 4(2) / 144A		
2.02%, 01/18/05	100,000	99,905	2.26%, 01/05/05	66,000	65,984
2.04%, 01/20/05	66,210	66,139			11,521,197
2.06%, 01/24/05	7,202	7,193	Certificates of Deposit 22.3%		
2.07%, 01/25/05	44,000	43,940	American Express Centurion Bank		
2.17%, 03/30/05	4,000	3,979	2.25%, 01/04/05	82,000	82,000
2.17%, 04/01/05	31,866	31,695	Banco Bilbao Vizcaya Argentaria S.A.		
2.25%, 04/18/05	20,000	19,867	2.02%, 03/02/05	36,000	36,000
♦♦ Sigma Finance, Inc., Section 3c7 / 144A			Bayerische Landesbank Girozentrale		
2.04%, 01/10/05	18,634	18,625	1.71%, 05/23/05	30,000	29,998
2.02%, 01/14/05	29,000	28,979	BNP Paribas		
2.04%, 01/14/05	24,500	24,482	2.28%, 02/24/05	419,000	419,000
2.12%, 03/22/05	68,000	67,683	2.30%, 02/25/05	128,000	128,000
Skandinaviska Enskilda Banken AB			2.44%, 03/11/05	210,000	210,000
1.97%, 01/04/05	70,000	69,989	1.50%, 05/06/05	150,000	149,995
♦♦ Thunder Bay Funding, L.L.C., Section 4(2) / 144A			Calyon		
2.04%, 01/20/05	54,294	54,236	2.35%, 03/04/05	140,000	140,000
2.06%, 02/08/05	19,452	19,410			

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			Royal Bank of Scotland, PLC		
2.38%, 02/22/05	275,000	275,000	1.75%, 05/27/05	45,000	44,997
Citibank, N.A.			2.17%, 07/01/05	75,000	74,991
2.31%, 02/24/05	295,000	295,000	Skandinaviska Enskilda Banken AB		
2.40%, 03/07/05	172,000	172,000	2.06%, 01/25/05	34,000	34,000
Credit Suisse First Boston			2.32%, 02/02/05	40,000	40,000
2.21%, 01/25/05	50,000	50,000	Toronto Dominion Bank		
2.40%, 02/25/05	221,000	221,000	2.32%, 02/02/05	6,000	6,000
Danske Bank A/S			2.40%, 03/09/05	39,000	39,000
1.95%, 01/05/05	80,000	80,000	2.30%, 05/12/05	102,000	102,000
Deutsche Bank, AG			U.S. Bank, N.A.		
1.60%, 05/20/05	40,000	40,000	2.25%, 01/13/05	50,000	50,000
Dexia Bank Belgium			2.36%, 03/11/05	260,000	260,000
2.05%, 01/25/05	35,000	35,000	UBS, AG		
1.50%, 05/04/05	74,000	73,996	1.40%, 04/04/05	200,000	199,992
First Tennessee Bank, N.A.			Unicredito Italiano SpA		
2.43%, 03/02/05	50,000	50,000	2.02%, 01/19/05	85,000	85,000
+ HBOS Treasury Services, PLC			2.40%, 02/28/05	108,000	108,000
2.36%, 03/07/05	41,000	41,000	2.37%, 03/08/05	100,000	100,000
2.73%, 06/29/05	65,000	65,000	2.40%, 03/09/05	100,000	100,000
HSH Nordbank, AG			2.70%, 06/24/05	95,000	95,000
2.12%, 06/15/05	65,000	64,994	Washington Mutual Bank, FA		
Landesbank Baden-Wuerttemberg			1.99%, 01/10/05	45,000	45,000
2.10%, 03/07/05	50,000	50,000	2.02%, 01/20/05	85,000	85,000
Landesbank Hessen-Thuringen Girozentrale			2.05%, 01/26/05	85,000	85,000
2.37%, 03/07/05	135,000	135,000	Wells Fargo Bank, N.A.		
1.52%, 05/13/05	20,000	20,000	2.36%, 01/27/05	375,000	375,000
Lloyds TSB Bank, PLC			2.05%, 01/31/05	140,000	140,000
2.04%, 03/01/05	39,000	39,000	WestLB AG		
2.02%, 03/04/05	48,000	48,000	2.29%, 01/10/05	90,000	89,982
Nationwide Building Society					5,718,436
2.39%, 03/09/05	146,000	146,000	Bank Notes 1.3%		
Norddeutsche Landesbank Girozentrale			Bank of America, N.A.		
1.50%, 05/06/05	30,000	30,000	2.42%, 03/03/05	285,000	285,000
1.51%, 05/13/05	46,000	45,997	Standard Federal Bank, N.A.		
1.63%, 05/16/05	117,000	116,994	2.38%, 02/23/05	39,000	39,000
1.60%, 05/20/05	28,000	28,000			324,000
Nordea Bank Finland, PLC					
2.21%, 01/25/05	37,000	37,000			
2.37%, 03/10/05	25,500	25,500			
Rabobank Nederland					
2.32%, 02/02/05	180,000	180,000			

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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Promissory Notes 0.3%

• The Goldman Sachs Group, Inc.		
2.00%, 02/17/05	36,000	36,000
1.94%, 02/18/05	45,000	45,000
		81,000

U.S. Government Securities 1.7% of net assets**Discount Notes 0.2%**

Freddie Mac		
2.09%, 03/29/05	45,000	44,775

Coupon Notes 1.5%

Fannie Mae		
1.43%, 02/09/05	175,000	175,000
1.35%, 04/28/05	50,000	50,000
1.50%, 05/09/05	70,000	70,000
1.61%, 05/13/05	80,000	80,000
		375,000

Variable-Rate Obligations 19.4% of net assets**+ Access Loans for Learning Student Loan Corp.**

Taxable Student Loan RB Series II-A-6		
2.39%, 01/07/05	27,800	27,800

Bank of New York Co., Inc., 144A		
2.44%, 01/27/05	50,000	50,000

Barclays Bank, PLC		
2.32%, 01/18/05	400,000	399,925
2.34%, 01/25/05	40,000	39,995
2.35%, 01/31/05	260,000	259,930

Bayerische Landesbank Girozentrale		
2.37%, 01/31/05	30,000	30,000
2.34%, 01/31/05	75,000	74,976

Canadian Imperial Bank of Commerce		
2.45%, 01/18/05	100,000	100,000

+ Central Baptist Church of Hixson, Tennessee

2.47%, 01/07/05	13,000	13,000
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Chase Manhattan Bank (USA) NA		
2.34%, 01/11/05	100,000	100,000

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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+ City of New Britain, Connecticut

GO Pension Bonds Series 1998		
2.47%, 01/07/05	40,000	40,000

+ Columbus, Georgia Development Authority

Taxable RB (Jay Leasing, Inc. Project) Series 1997		
2.47%, 01/07/05	5,860	5,860

♦ Dorada Finance, Inc., Section 3c7 / 144A

2.41%, 01/07/05	65,000	65,000
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Fannie Mae

1.88%, 01/03/05	100,000	99,951
2.30%, 01/31/05	200,000	199,937

Federal Home Loan Bank

2.23%, 01/05/05	225,000	224,914
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• GE Capital Assurance Co.

2.34%, 01/01/05	50,000	50,000
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General Electric Capital Corp.

2.51%, 01/18/05	225,000	225,000
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HSH Nordbank, AG

2.30%, 01/10/05	93,000	92,981
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• J.P. Morgan Securities, Inc.

2.41%, 01/01/05	100,000	100,000
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Landesbank Baden-Wuerttemberg

2.35%, 01/24/05	30,000	29,991
2.36%, 01/24/05	50,000	49,996
2.37%, 03/04/05	185,000	184,994

♦ Liberty Lighthouse U.S. Capital Co. L.L.C. 4(2) / 144A

2.39%, 01/24/05	47,000	47,000
2.38%, 01/26/05	50,000	49,993

♦♦ Links Finance, L.L.C.,

2.35%, 01/18/05	127,000	126,969
2.36%, 01/20/05	50,000	49,995
2.37%, 01/25/05	50,000	49,994
2.40%, 01/26/05	25,000	25,001

+ Loanstar Assets Partners II, L.P.

2.52%, 01/07/05	25,000	25,000
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+ Merlot Trust Section 4(2) / 144A

Series 2000B		
2.57%, 01/07/05	30,000	30,000

Merrill Lynch & Co, Inc.

2.23%, 01/03/05	85,000	85,000
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• Metropolitan Life Insurance Co.

2.33%, 01/30/05	50,000	50,000
2.24%, 02/01/05	100,000	100,000

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)
• Monumental Life Insurance Co.			Wells Fargo & Co.		
2.29%, 01/03/05	100,000	100,000	2.57%, 03/24/05	98,750	98,773
2.38%, 01/03/05	110,000	110,000	Wells Fargo & Co., 144A		
+ New Jersey Economic Development Authority			2.37%, 01/18/05	120,000	120,002
Taxable Economic Development Bonds (MSNBC CNBC Project) Series 1997A			WestLB, AG		
2.27%, 01/03/05	19,500	19,500	2.36%, 01/20/05	30,000	29,997
Norddeutsche Landesbank Girozentrale			♦ White Pine Finance, L.L.C., Section 3c7 / 144A		
2.32%, 01/12/05	20,000	19,996	2.38%, 01/28/05	45,000	44,994
Nordea Bank Finland, PLC					4,973,270
2.35%, 01/24/05	20,000	19,997			
Royal Bank of Canada					
2.25%, 01/04/05	40,000	39,998			
Royal Bank of Canada, 144A					
2.38%, 01/10/05	40,000	40,000			
Royal Bank of Scotland, PLC					
2.31%, 01/11/05	34,000	33,995			
2.33%, 01/14/05	75,000	74,990			
2.34%, 01/31/05	18,000	17,995			
♦+ Sigma Finance, Inc., Section 3c7 / 144A					
2.35%, 01/18/05	45,000	44,996			
2.36%, 01/18/05	18,000	17,996			
2.39%, 01/18/05	20,000	20,001			
2.36%, 01/20/05	160,000	159,985			
2.37%, 01/25/05	150,000	149,984			
2.37%, 01/25/05	115,000	114,971			
2.37%, 01/31/05	15,000	14,998			
Societe Generale					
2.29%, 01/10/05	50,000	49,999			
• The Goldman Sachs Group, Inc., 144A					
2.41%, 01/10/05	125,000	125,000			
+ Town of Islip, New York IDA					
Taxable Adjustable Rate IDRB (Nussdorf Associates/Quality King Distributions, Inc. Facility) Series 1992					
2.71%, 01/07/05	1,940	1,940			
• Travelers Insurance Co., 144A					
2.48%, 01/20/05	100,000	100,000			
2.22%, 01/29/05	25,000	25,000			
2.47%, 01/31/05	25,000	25,000			
UBS, AG					
2.43%, 01/18/05	250,000	249,961			

Security Maturity Amount
(\$ x 1,000)

Other Investments 9.9% of net assets

Repurchase Agreements 9.9%

Bank of America Securities, L.L.C.

Tri-Party Repurchase Agreement
Collateralized by U.S. Government
Securities with a value of \$606,900
2.28%, issued 12/31/04,
due 01/03/05 595,113 595,000

Credit Suisse First Boston L.L.C.

Tri-Party Repurchase Agreement
Collateralized by U.S. Government
Securities with a value of \$20,524
2.30%, issued 12/31/04,
due 01/03/05 20,123 20,119

Goldman Sachs & Co.

Tri-Party Repurchase Agreement
Collateralized by U.S. Government
Securities with a value of \$384,540
2.38%, issued 12/29/04,
due 01/05/05 127,059 127,000
2.38%, issued 12/29/04,
due 01/06/05 250,132 250,000

Morgan Stanley & Co. Inc.

Tri-Party Repurchase Agreement
Collateralized by U.S. Government
Securities with a value of \$718,796
2.28%, issued 12/31/04,
due 01/03/05 700,133 700,000

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 \$867,005		
2.28%, issued 12/31/04, due 01/03/05	800,152	800,000
2.29%, issued 12/07/04, due 01/07/05	50,099	50,000
		2,542,119

End of investments.

Issuer Rate, Acquisition Date, Maturity Date	Face Amount (\$ x 1,000)	Cost/ Value (\$ x 1,000)
At 12/31/04, portfolio holdings included restricted and/or illiquid securities as follows:		
GE Capital Assurance Co.		
2.34%, 10/01/04, 01/01/05	50,000	50,000
J.P. Morgan Securities, Inc.		
2.41%, 12/20/04, 01/01/05	100,000	100,000
Metropolitan Life Insurance Co.		
2.23%, 12/28/00, 01/30/05	50,000	50,000
2.24%, 02/03/03, 02/01/05	100,000	100,000
		150,000
Monumental Life Insurance Co.		
2.29%, 10/09/96, 01/03/05	100,000	100,000
2.38%, 06/10/93, 01/03/05	10,000	10,000
2.38%, 01/12/00, 01/03/05	100,000	100,000
		210,000
The Goldman Sachs Group, Inc., 144A		
2.41%, 07/07/04, 01/10/05	125,000	125,000
The Goldman Sachs Group, Inc.		
2.00%, 08/31/04, 02/17/05	36,000	36,000
1.94%, 08/18/04, 02/18/05	45,000	45,000
		81,000
Travelers Insurance Co.		
2.48%, 08/20/04, 01/20/05	100,000	100,000
2.47%, 01/30/04, 01/31/05	25,000	25,000
2.22%, 10/29/04, 01/29/05	25,000	25,000
		150,000

Statement of

Assets and Liabilities

As of December 31, 2004. All numbers x 1,000 except NAV.

Assets

Investments, at value	\$23,037,678
Repurchase agreements, at value	2,542,119
Receivables:	
Fund shares sold	119,001
Interest	30,791
Prepaid expenses	+ 219
Total assets	25,729,808

Liabilities

Payables:	
Fund shares redeemed	94,535
Dividends to shareholders	6,051
Investment adviser and administrator fees	447
Transfer agent and shareholder service fees	285
Trustees' fees	18
Accrued expenses	+ 484
Total liabilities	101,820

Net Assets

Total assets	25,729,808
Total liabilities	− 101,820
Net assets	\$25,627,988

Net Assets by Source

Capital received from investors	25,628,091
Net realized capital losses	(103)

Net Asset Value (NAV) by Share Class

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Investor Shares	\$23,365,496		23,365,707		\$1.00
Select Shares	\$1,208,891		1,208,891		\$1.00
Institutional Shares	\$1,053,601		1,053,602		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost of the fund's securities was \$25,579,797. Includes restricted and/or illiquid securities worth \$866,000, or 3.38% 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 \$9,101,456 or 35.51% of the fund's total net assets.

Federal Tax Data**Cost basis of portfolio** \$25,579,797**As of December 31, 2004:****Unused capital losses:**

Expires 12/31 of:	Loss amount:
2005	\$103

Statement of

Operations

For January 1, 2004 through December 31, 2004. All numbers x 1,000.

Investment Income

Interest	\$398,844
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Expenses

Investment adviser and administrator fees	91,723	
Transfer agent and shareholder service fees:		
Investor Shares	57,228	
Select Shares	2,437	
Institutional Shares	2,245	
Trustees' fees	84	
Custodian and portfolio accounting fees	2,487	
Professional fees	120	
Registration fees	847	
Shareholder reports	242	
Other expenses	+	407
Total expenses		157,820
Expense reduction	-	34,437
Net expenses		123,383

Increase in Net Assets from Operations

Total investment income	398,844
Net expenses	- 123,383
Net investment income	275,461
Increase in net assets from operations	\$275,461

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 \$31,187 from the investment adviser (CSIM) and \$3,250 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 30, 2005, 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.

Unless stated, all numbers x 1,000.

Operations

	1/1/04–12/31/04	1/1/03–12/31/03
Net investment income	\$275,461	\$296,987
Net realized gains	—	1
Increase in net assets from operations	275,461	296,988

Distributions Paid

Dividends from net investment income		
Investor Shares	251,075	283,303
Select Shares	12,183	6,346
Institutional Shares	+ 12,203	7,338
Total dividends from net investment income	275,461	296,987

Transactions in Fund Shares**Shares Sold**

Investor Shares	18,381,853	22,006,388
Select Shares	2,590,824	2,532,939
Institutional Shares	+ 2,979,806	2,319,828
Total shares sold	23,952,483	26,859,155

Shares Reinvested

Investor Shares	229,151	263,067
Select Shares	10,546	5,541
Institutional Shares	+ 10,215	6,123
Total shares reinvested	249,912	274,731

Shares Redeemed

Investor Shares	(24,105,952)	(32,136,966)
Select Shares	(2,405,370)	(1,525,589)
Institutional Shares	+ (2,656,903)	(2,126,860)
Total shares redeemed	(29,168,225)	(35,789,415)

Net transactions in fund shares	(4,965,830)	(8,655,529)
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Net Assets

Beginning of period	30,593,818	39,249,346
Total decrease	+ (4,965,830)	(8,655,528)
End of period	\$25,627,988	\$30,593,818

The tax-basis components of distributions are:

Current year

Ordinary income	\$275,461
Long-term capital gains	\$—

Prior year

Ordinary income	\$296,987
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. The fund started offering Select Shares on February 28, 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.

Financial Notes

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.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Shareholders of:

Schwab Government Money Fund™

Schwab U.S. Treasury Money Fund™

Schwab Value Advantage Money Fund®

In our opinion, the accompanying statements of assets and liabilities, including the portfolio holdings, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Schwab Government Money Fund, Schwab U.S. Treasury Money Fund, and Schwab Value Advantage Money Fund (three of the funds constituting The Charles Schwab Family of Funds, hereafter referred to as the “Funds”) at December 31, 2004, the results of each of their operations for the year then ended, the changes in each of their net assets for each of the two years in the period then ended and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Funds’ management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2004 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California

February 14, 2005

Fund Trustees

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 Schwab Funds (of which there were 53 as of 12/31/04) 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.

Individuals Who Are Interested Trustees and Officers of the Trust		
Name and Birthdate	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
Charles R. Schwab² 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); CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, Charles Schwab Bank, N.A., U.S. Trust, United States Trust Co. of New York, Siebel Systems (software), Xsign, Inc. (electronic payment systems), TrustMark, Inc., 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, Vodaphone 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.

Individuals Who Are Officers of the Trust but Not Trustees

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; <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.; <i>Until 9/04</i> : VP, Charles Schwab & Co., Charles Schwab Investment Management, Inc.; <i>Until 2002</i> : VP of Internal Audit, Charles Schwab & Co.; <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> : Chief Financial Officer, Commerzbank Capital Markets; <i>Until 9/99</i> : Managing Director at the New York Stock Exchange.

Individuals Who Are Independent Trustees

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Mariann Byerwalter 8/13/60	2000 (all trusts).	<i>Since 2/05:</i> Director, Pacific Life Insurance Company; Chair, JDN Corp. Advisory LLC; 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, Laudus Trust, Laudus Variable Insurance Trust. <i>2007:</i> Special Advisor to the President, Stanford University. <i>Until 2001:</i> VP, Business Affairs, CFO, Stanford University.
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).	Director, Aphton Corp. (bio-pharmaceuticals); Non-Executive Chair, Trustee, Soletron Corp. (manufacturing), Mission West Properties (commercial real estate), Stratex Networks (network equipment), Laudus Trust, Laudus Variable Insurance Trust; Public Governor, Member, executive committee, Pacific Stock & Options Exchange. <i>Until 2/04:</i> Co-CEO, Aphton Corp. (bio-pharmaceuticals). <i>Until 1998:</i> Dean, Haas School of Business, University of California, Berkeley.
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 advisors); Trustee, Cooper Industries (electrical products, tools and hardware); Member, 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 debt obligations 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 and may be sold only to "qualified institutional buyers" under Securities Act Rule 144A. 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 web site at www.schwab.com/schwabfunds, the SEC's web site 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 web site 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 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® Funds
 Schwab® Institutional Select® S&P 500 Fund
 Schwab® Institutional Select® Large-Cap Value Index Fund
 Schwab® Institutional Select® Small-Cap Value Index Fund

Asset Allocation Funds

Schwab MarketTrack Portfolios®
 Schwab MarketTrack All Equity Portfolio™
 Schwab MarketTrack Growth Portfolio™
 Schwab MarketTrack Balanced Portfolio™
 Schwab MarketTrack Conservative Portfolio™

Bond Funds

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

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™

Annual Report

December 31, 2004

charles SCHWAB

In This Report

Schwab Municipal Money Fund™

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Value Advantage Shares™: **SWTXX**

Select Shares®: **SWLXX**

Institutional Shares: **SWOXX**

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From the Chairman



Charles Schwab
Chairman

Dear Shareholder,

I understand that selecting a financial services company is an important decision you make as an investor and is one that we take very seriously. In fact, we made recent changes that we believe will both improve the quality of service you receive and give you the best value possible. For example, we reduced the average cost of security trades and we also expanded access to high-quality investment products.

Looking forward, we continue to see tremendous opportunities for investors, and my colleagues and I are committed to helping you maximize them. The changes we made last year at Schwab laid a foundation for more improvements this year. We will continue to expand the array of products and services that you are looking for, including new cash management and credit products from the Schwab Bank and new mutual fund products.

During the period since our semi-annual money fund report, I'm happy to announce that Evelyn Dilsaver has been named CEO and President of Schwab Funds®. Although new to the position, Evelyn is no stranger to Schwab Funds, having been an officer in several other capacities at Schwab. Her broad experience in product creation, coupled with a comprehensive understanding of your financial needs, make her the ideal candidate for her new role.

I speak for Evelyn, as well as the rest of the Schwab Funds group, when I say we want Schwab to be a place where investors can find useful, quality financial products and services to help them succeed. Regardless of the size of their portfolios, Schwab should be the place investors can always trust to watch out for their best interests.

This commitment to our shareholders will not change, as nothing is more important to us than your trust. Thank you for investing with us.

Sincerely,

A handwritten signature in dark ink that reads "Charles R. Schwab".

Management's Discussion for the year ended December 31, 2004



Evelyn Dilsaver is President and CEO of Charles Schwab Investment Management, Inc. and is president of each 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,

I am very excited about my new role as President and CEO of Schwab Funds®. My experience at Schwab has given me many opportunities to focus on meeting the needs of our clients. This will continue to be my emphasis, and I reiterate what Chuck Schwab noted in his letter, that our goal is to offer you better value and more relevant choices.

When we discuss Schwab Funds with our clients, we often hear that you want to know that you're getting the best value. We find that shareholders may be unaware that some of the Schwab Funds offer additional share classes that carry lower expenses in exchange for higher initial investments of \$25,000 or more. I encourage you to review your accounts to see if you are eligible to purchase these money-saving shares. If you would like to learn more about these potentially cost-saving shares, our investment consultants are available to assist you.

I'm pleased to announce that we launched a new sweep money fund last summer—Schwab Cash Reserves—which offers eligible investors lower expenses on a sweep fund. My plan is to build on this legacy of value and continue to offer unique investment solutions to help you meet your financial goals.

I also want to point out that over the past year, the Federal Reserve raised short-term interest rates five times, up to 2.25% at year-end, making yields on the Schwab Funds' money funds more attractive than they were earlier in the year. I'm noting this because, no matter what the economic outlook is, most investors' asset-allocation strategies include a cash component, which offers liquidity and capital preservation that can help to lessen the effect of the market's volatility.

I look forward to serving you in my new role. 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 overall management of the fund. Prior to joining the firm in 2000, he worked for more than ten 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 ten years in asset management.

The Investment Environment and the Fund

2004 started off positively, continuing the encouraging economic trend that was reported toward the end of 2003. Businesses added to their inventories, factory orders rose and production gained some strength. Retail sales continued to rise and higher commodity prices were holding. Mortgage refinancing activity, while still significant, waned as mortgage rates inched slightly upward. And finally, the last piece of the economic puzzle—job growth—began to exhibit solid gains. In fact, aside from a “soft patch” in early summer, the economy stayed strong throughout 2004.

The firming labor market, as well as steady gains in capital spending, kept the expansion on a self-sustaining path. The caution surrounding the economic outlook and geopolitical environment began to dissipate last spring and firms, unable to continue boosting productivity by restraining hiring, added more than two million new jobs during the year. Moreover, many leading indicators, such as the Institute for Supply Management’s business activity surveys, suggested further improvement, while continuing claims for unemployment benefits remained near cyclical lows. In addition, consumer sentiment rebounded, the labor market continued to sustain consumer spending, and corporate liquidity remained positive.

Strong productivity growth and slack in the economy kept a lid on inflation. The Federal Reserve (Fed) began to take the Fed funds rate higher beginning in June amid signs of solidly expanding output and improved hiring. The rate was raised another four times in 2004, ending the year at a moderate 2.25%. The moves had a limited impact on overall economic growth, due primarily to the record-low level of rates from which the hikes began.

Strengthening global demand for oil, particularly in the Pacific Rim, and supply constraints in the wake of the Florida hurricanes drove crude prices to record highs, above \$50 per barrel in late October. Since then, crude prices backed off to the mid-\$40 range, as supply concerns dissipated and China’s economy continues to attempt to engineer a soft landing. Though some pass-through from high oil and commodity prices earlier in the year may hamper growth and stir inflationary pressures, inflation has remained generally benign.

Though some pass-through from high oil and commodity prices earlier in the year may hamper growth and stir inflationary pressures, inflation has remained generally benign.

As noted above, the Fed began a series of five tightening moves in June, eventually bringing the rate to 2.25% at year end. These actions significantly impacted municipal money market yields. On average, yields on both fixed- and variable-rate muni notes increased by 1.0% from mid-March to year end. As a result, yields on muni money funds increased as well.

Anticipating the Fed tightening, yields on fixed-rate notes maturing from 6-12 months rose approximately 0.60% during the second quarter of the year. Since they offered the best relative value at the time, compared to other variable-rate securities, we increased the fund's position in this asset class, continuing to do so as yields rose. This resulted in an extension of the fund's weighted average maturity (WAM), which averaged 18 days longer when compared to the peer group.

For 2004, municipal note supply declined approximately 17% from 2003. This was a result of municipalities enjoying more robust economies and stronger tax receipts than they did in the previous year. As a result, there was less of a need for them to issue short-term notes. Demand for munis, however, remained steady for the year. This demand, combined with the decrease in new issuance, caused muni yields to rise at a slower pace than yields on short-term taxable securities.

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 12/31/04

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.

	Sweep Shares	Value Advantage Shares™	Select Shares®	Institutional Shares
Seven-Day Yield¹	1.22%	1.43%	1.53%	1.64%
Seven-Day Yield–No Waiver²	1.07%	1.30%	1.30%	1.30%
Seven-Day Effective Yield¹	1.23%	1.44%	1.54%	1.65%
Seven-Day Taxable-Equivalent Effective Yield¹,³	1.89%	2.22%	2.37%	2.54%

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
Credit-Enhanced Securities % of portfolio	68%
Minimum Initial Investment⁴	
Sweep Investments™	*
Value Advantage Shares (\$15,000 for IRA and custodial accounts)	\$25,000
Select Shares	\$1,000,000
Institutional Shares	\$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 2004 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 July 1, 2004 and held through December 31, 2004.

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 7/1/04	Ending Account Value (Net of Expenses) at 12/31/04	Expenses Paid During Period ² 7/1/04–12/31/04
Schwab Municipal Money Fund™				
<i>Sweep Shares</i>				
Actual Return	0.66%	\$1,000	\$1,004.00	\$3.32
Hypothetical 5% Return	0.66%	\$1,000	\$1,021.82	\$3.35
<i>Value Advantage Shares™</i>				
Actual Return	0.45%	\$1,000	\$1,005.10	\$2.27
Hypothetical 5% Return	0.45%	\$1,000	\$1,022.87	\$2.29
<i>Select Shares®</i>				
Actual Return	0.35%	\$1,000	\$1,005.60	\$1.76
Hypothetical 5% Return	0.35%	\$1,000	\$1,023.38	\$1.78
<i>Institutional Shares</i>				
Actual Return	0.24%	\$1,000	\$1,006.10	\$1.21
Hypothetical 5% Return	0.24%	\$1,000	\$1,023.93	\$1.22

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 that share class' annualized expense ratio, multiplied by the average account value over the period, multiplied by 184 days of the period, and divided by 366 days of the fiscal year.

Financial Statements

Financial Highlights

Sweep Shares	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
Income from investment operations:					
Net investment income	0.01	(0.00) ¹	0.01	0.02	0.03
Less distributions:					
Dividends from net investment income	(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
Total return (%)	0.60	0.46	0.91	2.23	3.53
Ratios/Supplemental Data (%)					
Ratios to average net assets:					
Net operating expenses	0.66	0.66	0.66	0.66	0.67 ²
Gross operating expenses	0.81	0.81	0.82	0.83	0.84
Net investment income	0.60	0.46	0.90	2.21	3.47
Net assets, end of period (\$ x 1,000,000)	7,563	7,494	7,435	7,265	6,780
Value Advantage Shares					
	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
Income from investment operations:					
Net investment income	0.01	0.01	0.01	0.02	0.04
Less distributions:					
Dividends from net investment income	(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
Total return (%)	0.81	0.68	1.12	2.45	3.75
Ratios/Supplemental Data (%)					
Ratios to average net assets:					
Net operating expenses	0.45	0.45	0.45	0.45	0.46 ³
Gross operating expenses	0.58	0.58	0.59	0.61	0.64
Net investment income	0.80	0.68	1.11	2.35	3.70
Net assets, end of period (\$ x 1,000,000)	3,245	3,901	4,480	3,778	2,919

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

² The ratio of net operating expenses would have been 0.66% if certain non-routine expenses (proxy fees) had not been included.

³ The ratio of net operating expenses would have been 0.45% if certain non-routine expenses (proxy fees) had not been included.

Select Shares	1/1/04– 12/31/04	6/2/03¹– 12/31/03
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 (%)	0.92	0.39³
Ratios/Supplemental Data (%)		
Ratios to average net assets:		
Net operating expenses	0.35	0.35⁴
Gross operating expenses	0.58	0.58⁴
Net investment income	0.93	0.68⁴
Net assets, end of period (\$ x 1,000,000)	727	474
Institutional Shares	1/1/04– 12/31/04	6/2/03¹– 12/31/03
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 (%)	1.03	0.45³
Ratios/Supplemental Data (%)		
Ratios to average net assets:		
Net operating expenses	0.24	0.24⁴
Gross operating expenses	0.58	0.58⁴
Net investment income	1.08	0.80⁴
Net assets, end of period (\$ x 1,000,000)	1,459	718

¹ Commencement of operations.

² Per-share amount was less than \$0.01.

³ Not annualized.

⁴ Annualized.

Portfolio Holdings as of December 31, 2004

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
- ◆ 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)
100.0%	Municipal Securities	12,990,258	12,990,258
100.0%	Total Investments	12,990,258	12,990,258
0.0%	Other Assets and Liabilities		3,399
100.0%	Total Net Assets		12,993,657

Issuer	Face Amount	Value
Rate, Maturity Date	(\$ x 1,000)	(\$ x 1,000)

Municipal Securities 100.0% of net assets**Alabama 0.8%****Alabama IDA**

✚■ IDR (Scientific Utilization)		
Series 1996		
2.28%, 01/07/05	1,890	1,890

Birmingham Special Care Facilities Financing Auth

✚■ Health Care Facility RB (Eastern Health System)		
Series 2003A		
2.00%, 01/07/05	36,500	36,500

Daphne Utilities Board

✚■ Water, Gas & Sewer Refunding RB Series 2000		
2.01%, 01/07/05	8,100	8,100

Decatur IDB

■ Exempt Facilities Refunding RB (Nucor Steel Decatur)		
Series 2003A		
2.08%, 01/07/05	17,000	17,000

Dothan IDB

✚■ IDR (Baxley Blowpipe)		
Series 1997		
2.49%, 01/07/05	200	200

Ft Payne IDA

✚■ IDR (Charleston Hosiery)		
Series 1997		
2.09%, 01/07/05	1,000	1,000

Hoover Board of Education

✚■ Capital Outlay TAN Series 2001		
2.04%, 01/07/05	9,860	9,860

Indian Springs Village

✚■ RB (Joseph Bruno Montessori Academy) Series 1999		
2.15%, 01/07/05	1,255	1,255

Scottsboro

✚■ School Warrants Series 1997		
2.00%, 01/07/05	3,655	3,655

Stevenson IDB

✚■ Environmental Improvement RB (Mead Corp) Series 1997		
2.02%, 01/07/05	17,300	17,300

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)
Tuscaloosa Cnty			Sun Devil Energy Center		
+■ IDRB (Knight Specialties) Series 1998 2.15%, 01/07/05	940	940	+■ RB (Arizona State Univ) Series 2004 2.01%, 01/07/05	16,000	16,000
		97,700			
Alaska 0.2%			Tempe Industrial Development Auth		
Alaska HFC			+■ RB (ASUF Brickyard) Series 2004A 2.00%, 01/07/05	11,210	11,210
+■ General Mortgage RB Series 1999A 2.06%, 01/07/05	21,805	21,805	Yavapai Cnty IDA		
■ General Mortgage RB Series 2002A 2.04%, 01/07/05	5,995	5,995	+■ Hospital RB (Yavapai Regional Medical Center) Series 1997B 2.00%, 01/07/05	14,250	14,250
		27,800			73,465
Arizona 0.6%			Arkansas 0.1%		
Arizona Health Facilities Auth			Arkansas Development Finance Auth		
+■ Hospital RB (Northern Arizona Healthcare System) Series 1996B 2.00%, 01/07/05	7,050	7,050	+■ IDRB (C&C Holding Co) Series 1998 2.10%, 01/07/05	850	850
+■ RB (Arizona Voluntary Hospital Federation Pooled Loan Program) Series 1985A 2.00%, 01/07/05	5,595	5,595	Independence Cnty		
+■ RB (Arizona Voluntary Hospital Federation Pooled Loan Program) Series 1985B 2.00%, 01/07/05	9,310	9,310	+■ IDRB (Townsend) Series 1996 2.06%, 01/07/05	9,000	9,000
Chandler IDA					9,850
+■ IDRB (South Bay Circuits) Series 1999A 2.10%, 01/07/05	1,300	1,300	California 6.2%		
Maricopa Cnty IDA			Access Loans For Learning Student Loan Corp		
+■ M/F Mortgage Refunding RB (San Fernando Apts) Series 2004 2.03%, 01/07/05	7,750	7,750	+■ Student Loan Program RB Senior Series II-A8 2.05%, 01/07/05	22,150	22,150
Phoenix Civic Improvement Corp			+■ Student Loan Program RB Senior Series II-A9 1.98%, 01/07/05	64,000	64,000
+■ Subordinated Excise Tax RB (Airport Improvements) Series 1995 2.02%, 01/07/05	1,000	1,000	+■ Student Loan Program RB Series II-A1 2.04%, 01/07/05	35,000	35,000
			+■ Student Loan Program RB Series II-A2 2.05%, 01/07/05	20,000	20,000
			+■ Student Loan Program RB Series II-A3 2.04%, 01/07/05	23,700	23,700
			Anaheim Housing Auth		
			+■ M/F Housing Refunding RB (Sage Park) Series 1998A 2.02%, 01/07/05	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)
Bay Area Toll Auth			California State Public Works Board		
➤■ San Francisco Bay Area Toll Bridge RB Series 2003C 1.96%, 01/07/05	12,900	12,900	➤■ Dept of Corrections Lease Refunding RB Series 2004E 2.02%, 01/07/05	7,100	7,100
➤■ San Francisco Bay Area Toll Bridge RB Series 2001C 1.96%, 01/07/05	600	600	CHELA Financial		
California			✚ Student Loan Senior Lien Refunding RB Series 1992 A-4 1.05%, 03/01/05	16,725	16,725
2004-05 RAN Series A 1.73%, 06/30/05	170,250	171,299	Irvine Ranch Water District		
➤■ Economic Recovery Bonds Series 2004C-21 1.97%, 01/07/05	38,500	38,500	➤■ 1986 Capital Improvement COP 2.10%, 01/03/05	1,000	1,000
✚ GO Bonds Series 2004B-6 2.01%, 01/07/05	25,000	25,000	Los Angeles		
California Dept of Water Resources			▶ Wastewater System TECP 1.83%, 01/12/05	46,875	46,875
✚ Power Supply RB Series 2002B-2 2.25%, 01/03/05	1,500	1,500	Los Angeles Cnty		
✚ Power Supply RB Series 2002C-17 2.00%, 01/07/05	1,700	1,700	2004-05 TRAN Series A 1.60%, 06/30/05	85,000	85,578
California HFA			Los Angeles Convention & Exhibition Center Auth		
➤■ Home Mortgage RB 2000 Series N 2.03%, 01/07/05	4,200	4,200	➤■ Refunding Lease RB Series 2003E 1.97%, 01/07/05	22,700	22,700
Home Mortgage RB 2001 Series R 2.14%, 01/03/05	3,850	3,850	Orange Cnty Housing Auth		
➤■ 2.14%, 01/03/05	1,000	1,000	✚ Apartment Development RB (Lantern Pines) Series 1985CC 1.92%, 01/07/05	8,500	8,500
➤■ Home Mortgage RB 2003 Series H 1.99%, 01/07/05	1,100	1,100	Pittsburg Redevelopment Agency		
▶ M/F Housing RB III 2002 Series A 1.99%, 01/07/05	17,825	17,825	➤■ Subordinate Tax Allocation Bonds (Los Medanos Community Development) Series 2004A 2.22%, 01/07/05	43,000	43,000
▶ M/F Housing RB III Series 2002 E 2.04%, 01/07/05	58,975	58,975	Riverside Cnty Asset Leasing Corp.		
California School Cash Reserve Program Auth			➤■ Leasehold RB (Southwest Justice Ctr) Series 2000B 1.94%, 01/07/05	15,400	15,400
✚ Pool Bonds Series 2004A 1.60%, 07/06/05	10,000	10,070	San Jose		
			✚ M/F Housing RB (Almaden Lake Village Apts) Series 1997A 2.00%, 01/07/05	4,500	4,500

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)
Santa Rosa					
+■ Wastewater Refunding RB Series 2004A 2.00%, 01/07/05	23,000	23,000	+■ Senior Lien Student Loan RB Series 1999A-3 2.03%, 01/07/05	29,800	29,800
Southern California Metropolitan Water District			+■ Student Loan Program Senior Bonds Series 1990A 2.03%, 01/07/05	14,400	14,400
■ Water RB Series 2001 C-1 2.25%, 01/03/05	6,000	6,000	+■ Student Loan RB Series 1989A 2.03%, 01/07/05	49,400	49,400
		799,247	Denver City & Cnty		
Colorado 3.9%			+■ Airport System RB Series 1992F 2.05%, 01/07/05	17,875	17,875
Arapahoe Cnty			+■ Airport System RB Series 1992G 2.05%, 01/07/05	18,325	18,325
+■ Refunding IDR (Denver Jetcenter) Series 1997 1.95%, 01/30/05	3,500	3,500	+■ Airport System Refunding RB Series 2000B 2.05%, 01/07/05	10,000	10,000
Arvada			+■ Airport System Refunding RB Series 2000C 2.05%, 01/07/05	50,000	50,000
+■ Water Enterprise RB Series 2001 1.85%, 01/03/05	4,100	4,100	+■ Refunding COP (Wellington E. Webb Municipal Office Building) Series 2003 C-3 2.00%, 01/07/05	20,000	20,000
Centerra Metropolitan District No.			Lowry Economic Development Auth		
+■ Revenue Bonds Series 2004 2.02%, 01/07/05	10,000	10,000	+■ IDR Series 2002B 2.00%, 01/07/05	14,140	14,140
Colorado			+■ Refunding RB Series 2002A 2.00%, 01/07/05	11,260	11,260
■ Education Loan Program TRAN Series 2004A 2.05%, 01/07/05	34,920	34,920	Regional Transportation Dist		
General Fund TRAN Series 2004A 1.60%, 06/27/05	38,400	38,656	+ Subordinate Lien Sales Tax Revenue TECP Series 2001A 1.85%, 03/03/05	7,500	7,500
1.58%, 06/27/05	98,000	98,664	Westminster Economic Development Auth		
1.58%, 06/27/05	10,000	10,044	+■ Tax Increment RB (Westminster Plaza) Series 1997A 2.10%, 01/07/05	6,310	6,310
Colorado Housing & Finance Auth					507,984
+■ Economic Development RB (Pembracs) Series 2000A 2.10%, 01/07/05	3,440	3,440	Connecticut 1.3%		
S/F Mortgage Class I Bonds Series 2004A-4 1.82%, 08/01/05	26,300	26,300	Connecticut HFA		
■ S/F Program Senior Bonds Series 1995D 2.14%, 01/07/05	950	950	+■ S/F Mortgage RB Draw Down Series 2004B 2.04%, 01/07/05	147,540	147,540
Colorado Student Loan Auth					
+■ Senior Lien Student Loan RB Series 1999A-2 2.03%, 01/07/05	28,400	28,400			

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			✚✚ Airport System Refunding RB		
GO BAN Series 2004			Series 2002C		
1.50%, 07/28/05	25,000	25,210	2.00%, 01/07/05	26,900	26,900
		172,750	✚✚ Airport System Refunding RB		
			Series 2004D		
			2.08%, 01/07/05	2,750	2,750
Delaware 0.7%			✚ TECP Series A		
Delaware Economic			1.85%, 01/06/05	30,000	30,000
Development Auth			Washington DC Metropolitan		
✚✚ RB (Hospital Billing & Collection			Area Transit Auth		
Service) Series 1985			✚ Gross Revenue Transit		
1.99%, 01/07/05	6,115	6,115	Refunding Bonds, Series 2003		
✚✚ RB (Hospital Billing & Collection			1.95%, 01/01/05	9,100	9,100
Service) Series 1985C					115,715
1.99%, 01/07/05	43,600	43,600			
New Castle Cnty			Florida 1.6%		
✚ Airport Facility RB (Flightsafety			Charlotte Cnty		
Int'l) Series 2002			✚✚ Refunding RB Series 2003A		
2.02%, 01/07/05	16,600	16,600	1.99%, 01/07/05	1,455	1,455
Sussex Cnty			✚✚ Refunding RB Series 2003B		
✚ IDR (Perdue-Agrirecycle)			2.00%, 01/07/05	5,800	5,800
Series 2000			Charlotte Cnty HFA		
2.06%, 01/07/05	5,300	5,300	✚ M/F Housing RB (Murdock		
✚ RB (Baywood) Series 1997A			Circle Apts) Series 2000		
2.20%, 01/07/05	2,400	2,400	2.05%, 01/07/05	3,280	3,280
Wilmington			Clay Cnty Utility Auth		
✚ RB (Delaware Art Museum)			✚ Utilities System RB		
Series 2003			Series 2003A		
2.00%, 01/07/05	21,800	21,800	2.00%, 01/07/05	3,225	3,225
		95,815	Collier Cnty IDA		
District of Columbia 0.9%			✚ Educational Facilities RB		
District of Columbia			(Community School of Naples)		
✚ Enterprise Zone RB (Crowell &			Series 2002		
Moring) Series 2001			2.00%, 01/07/05	7,650	7,650
2.06%, 01/07/05	3,700	3,700	Escambia HFA		
✚✚ GO Bonds Series 2003D-3			✚✚ S/F RB Series 2001A		
2.02%, 01/07/05	20,000	20,000	2.11%, 01/07/05	1,845	1,845
✚✚ GO Refunding Bonds			Florida HFA		
Series 1999B			✚ Housing RB (Heron Park)		
2.03%, 01/07/05	14,640	14,640	Series 1996U		
✚ RB (American Psychological			1.99%, 01/07/05	3,750	3,750
Assn) Series 2003			✚ M/F Mortgage RB (Arlington		
2.05%, 01/07/05	2,755	2,755	Apts) Series 2004 G-1		
Metropolitan Washington			2.03%, 01/07/05	11,340	11,340
Airports Auth					
✚✚ Airport System RB					
Series 2001A					
2.08%, 01/07/05	5,870	5,870			

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)
Florida Local Government Finance Comm			Manatee Cnty HFA		
+ Pooled TECP Series 1998B 1.88%, 03/08/05	9,601	9,601	+■ M/F Housing RB (Sabal Palm Harbor Apts) Series 2000A 2.05%, 01/07/05	4,200	4,200
+ Pooled TECP Series 1994A 1.83%, 01/04/05 1.80%, 03/09/05	11,700 8,500	11,700 8,500	Miami-Dade Cnty IDA		
Fort Lauderdale			+■ IDRB (Airbus Service Co) Series 1998A 1.84%, 01/07/05	10	10
+■ RB (Pine Crest Preparatory School) Series 2002 2.00%, 01/07/05	15,935	15,935	Orlando-Orange Cnty Expressway Auth		
Gulf Breeze			+■ Refunding RB Series 2003 C-3 1.93%, 01/07/05	15,800	15,800
+■ Local Government Loan Program RB Series 1985B 1.93%, 01/03/05	5,000	5,000	+■ Refunding RB Series 2003C-2 1.93%, 01/07/05	11,500	11,500
Halifax Hospital Medical Center			Palm Beach Cnty Educational Facilities Auth		
+■ RB (Florida Health Care Plan) Series 1998 2.00%, 01/07/05	5,200	5,200	+■ Educational Facilities RB (Lynn Univ.) Series 2001 2.00%, 01/07/05	7,135	7,135
Hillsborough Cnty Educational Facilities Auth			Pinellas Cnty Educational Facilities Auth		
+■ RB (Univ of Tampa) Series 2000 2.05%, 01/07/05	5,500	5,500	+■ RB (Shorecrest Preparatory School) Series 2001 2.00%, 01/07/05	1,000	1,000
Hillsborough Cnty IDA			+■ Refunding RB (Canterbury School of Florida) Series 2004 2.00%, 01/07/05	4,645	4,645
+■ IDRB (University Community Hospital) Series 1994 2.02%, 01/07/05	1,970	1,970	Pinellas Cnty Health Facilities Auth		
Jacksonville Economic Development Comm			+■ Hospital Facilities Refunding & RB (Bayfront Hospital) Series 2004 2.22%, 01/03/05	200	200
+■ Educational Facilities RB (Episcopal High School) Series 2002 2.00%, 01/07/05	5,600	5,600	Pinellas Cnty IDA		
+■ Special Facility Airport RB (Holland Sheltair Aviation Group) Series 2004A-1 2.05%, 01/07/05	11,020	11,020	+■ RB (Pact) Series 2003 2.00%, 01/07/05	7,500	7,500
Jacksonville Electric Auth			Pinellas Cnty Industry Council		
■ Electric System RB Series Three 2000A 2.06%, 01/07/05	3,575	3,575	+■ RB (Operation Par) Series 1999 1.79%, 01/07/05	4,765	4,765
Jacksonville Health Facilities Auth			Santa Rosa Cnty		
+■ Health Facilities RB (River Garden) Series 1994 1.79%, 01/07/05	3,265	3,265	+■ Health Facilities RB (Baptist Hospital) Series 2003 2.00%, 01/07/05	7,590	7,590

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)
Tampa					
➤■ RB (Tampa Preparatory School) Series 2000 1.88%, 01/07/05	4,500	4,500	➤■ M/F Housing RB (Carver Redevelopment Phase III) Series 2001 2.06%, 01/07/05	3,440	3,440
Tampa Bay Water Utility			➤■ M/F Housing RB (Delmonte/ Brownlee Court) Series 2001A 2.06%, 01/07/05	4,600	4,600
➤■ Utility System RB Series 2002 2.05%, 01/07/05	6,900	6,900	➤■ M/F Housing RB (Lindbergh City Center Apts) Series 2004 2.06%, 01/07/05	5,000	5,000
Volusia Cnty Health Facilities Auth			➤■ M/F Housing RB (M St Apts) Series 2003 2.08%, 01/07/05	7,000	7,000
➤■ Hospital RB (Southwest Volusia Healthcare Corp) Series 1994A 1.74%, 01/07/05	8,280	8,280	➤■ M/F Housing RB (Peaks at West Atlanta Apts) Series 2001 2.06%, 01/07/05	5,000	5,000
		209,236	➤■ M/F Senior Housing RB (Big Bethel Village) Series 2001 2.06%, 01/07/05	4,400	4,400
Georgia 5.0%			Augusta Housing Auth		
Atlanta			➤■ M/F Housing RB (G-Hope) Series 2001 2.06%, 01/07/05	3,745	3,745
➤■ Airport General Refunding RB Series 2000A 2.07%, 01/07/05	11,195	11,195	Bartow Cnty		
➤■ Airport General Refunding RB Series 2000C 2.08%, 01/07/05	3,385	3,385	➤■ IDRB (Bartow Paving Co) Series 1998 2.09%, 01/07/05	1,800	1,800
➤■ Airport General Refunding RB Series 2003RF-B1 2.01%, 01/07/05	73,330	73,330	Cartersville Development Auth		
➤■ Airport General Refunding RB Series 2003RF-C2 1.99%, 01/07/05	16,710	16,710	➤■ IDRB (Cartersville Facilities) Series 1998 2.12%, 01/07/05	1,800	1,800
➤■ Airport General Refunding RB Series 2003RF-D 2.08%, 01/07/05	6,180	6,180	Cherokee Cnty		
➤■ Water & Wastewater RB Series 2004 2.04%, 01/07/05	20,000	20,000	➤■ IDRB (Universal Alloy Corp) Series 1996 2.04%, 01/07/05	1,900	1,900
Atlanta Urban Residential Finance Auth			Clayton Cnty Development Auth		
➤■ M/F Housing RB (Brentwood Creek Apts) Series 1999 2.06%, 01/07/05	4,425	4,425	➤■ IDRB (Wilson Holdings) Series 1998 2.11%, 01/07/05	400	400
➤■ M/F Housing RB (Brentwood Meadows Apts) Series 1999 2.06%, 01/07/05	2,865	2,865	Clayton Cnty Housing Auth		
➤■ M/F Housing RB (Brentwood Village Apts) Series 1999 2.06%, 01/07/05	5,810	5,810	➤■ M/F Housing RB (Hyde Park Club Apts) Series 1997 2.03%, 01/07/05	11,995	11,995

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)
Cobb Cnty Housing Auth			+■ M/F Housing RB (Mountain Crest Apts) Series 2002		
+■ M/F Housing RB (Walton Green Apts) Series 1995 2.04%, 01/07/05	13,500	13,500	2.06%, 01/07/05	7,915	7,915
+■ M/F Housing RB (Woodchase Village Apt) Series 2003 2.06%, 01/07/05	4,000	4,000	+■ M/F Housing RB (Villas of Friendly Heights Apts) Series 2001 2.06%, 01/07/05	3,575	3,575
+■ M/F Housing Refunding RB (Walton Park Apts) Series 2000 1.99%, 01/07/05	21,100	21,100	+■ M/F Housing RB (Wesley Club Apts) Series 2002 2.06%, 01/07/05	5,970	5,970
Columbus Development Auth			Douglas Cnty IDA		
+■ RB (Foundation Properties) Series 2002 2.03%, 01/07/05	11,430	11,430	+■ IDRB (Blue Circle Aggregates) Series 1997 2.05%, 01/07/05	3,800	3,800
Columbus Housing Auth			Effingham Cnty IDA		
+■ M/F Housing RB (Eagles Trace Apts) Series 2002 2.06%, 01/07/05	6,300	6,300	+■ RB (TEMCOR) Series 2001 2.06%, 01/07/05	3,685	3,685
Crisp Cnty – Cordele IDA			Forsyth Cnty Development Auth		
+■ RB (Georgia Ductile) Series 2000 2.08%, 01/07/05	12,700	12,700	+■ Economic Development RB (Federal Road) Series 2001 2.06%, 01/07/05	6,700	6,700
Dalton Development Auth			Fulton Cnty		
+■ Revenue Certificates (Hamilton Health Care System) Series 2003B 2.00%, 01/07/05	15,750	15,750	+■ Water & Sewerage RB Series 2004 1.75%, 03/30/05	10,000	10,000
Dawson Cnty			Fulton Cnty Development Auth		
+■ IDRB (World Wide Mnf) Series 1998 2.09%, 01/07/05	2,200	2,200	+■ RB (Atlanta International School) Series 1997 2.00%, 01/07/05	2,500	2,500
Dekalb Cnty Development Auth			+■ RB (Robert W. Woodruff Arts Center) Series 2004B 2.00%, 01/07/05	16,000	16,000
+■ RB (Arbor Montessori School) Series 1998 2.00%, 01/07/05	1,100	1,100	+■ RB (Trinity School) Series 2001 2.00%, 01/07/05	7,000	7,000
Dekalb Cnty Public Safety & Judicial Facilities Auth			Gainesville Redevelopment Auth		
+■ RB Series 2004A 2.04%, 01/07/05	11,860	11,860	+■ Educational Facilities RB (Riverside Military Academy) Series 1999 1.99%, 01/07/05	29,500	29,500
Dekalb Cny Housing Auth			Georgia		
+■ M/F Housing RB (Brittany Apts) Series 2001 2.03%, 01/07/05	8,000	8,000	+■ GO Bonds Series 1998B 2.04%, 01/07/05	20,245	20,245
+■ M/F Housing RB (Eagles Trace Apts) Series 1996 2.02%, 01/07/05	8,750	8,750	Gordon Cnty Development Auth		
			+■ RB (Constantine Dyeing) Series 2001 2.06%, 01/07/05	3,020	3,020

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)
Gwinnett Cnty Housing Auth			Metropolitan Atlanta Rapid Transit Auth		
+■ M/F Housing RB (Post Court) Series 1998 2.00%, 01/07/05	5,000	5,000	Sales Tax Revenue CP BAN (Third Indenture) Series 2004A		
Hapeville Development Auth			+ 1.70%, 01/10/05	2,500	2,500
+■ IDR B (Hapeville Hotel) Series 1985 2.10%, 01/03/05	1,150	1,150	+ 1.77%, 03/08/05	5,000	5,000
Hart Cnty			+ Sales Tax Revenue CP BAN (Third Indenture) Series 2004B 1.75%, 03/08/05	9,500	9,500
+■ Refunding RB & IDR B (Dundee Mills) Series 1994 2.06%, 01/07/05	2,115	2,115	Miller Cnty Development Auth		
Houston Cnty Development Auth			+■ IDR B (Birdsong Corp) Series 2000 2.06%, 01/07/05	2,600	2,600
+■ IDR B (Douglas Asphalt Co) Series 2000 2.06%, 01/07/05	1,800	1,800	Municipal Gas Auth of Georgia		
Jefferson Cnty Development Auth			+■ Gas RB (Gas Portfolio III) Series B 2.02%, 01/07/05	54,900	54,900
+■ IDR B (Grove River Mills) Series 1997 2.09%, 01/07/05	1,800	1,800	Savannah Economic Development Auth		
Laurens Cnty Development Auth			+■ Exempt Facility RB (Georgia Kaolin Terminal) Series 1997 2.05%, 01/07/05	11,000	11,000
+■ Solid Waste Disposal RB (Southeast Paper Mnfg Co) Series 1993 2.06%, 01/07/05	25,000	25,000	+■ Exempt Facility RB (Home Depot) Series 1995B 2.06%, 01/07/05	5,000	5,000
+■ Solid Waste Disposal RB (Southeast Paper Mnfg Co) Series 1997 2.06%, 01/07/05	26,000	26,000	+■ First Mortgage RB (Marshes of Skidaway Island) Series 2003C 2.02%, 01/07/05	15,000	15,000
Lawrenceville Housing Auth			Savannah Housing Auth		
+■ M/F Housing RB (Chatham Club Apts) Series 2002 2.07%, 01/07/05	7,700	7,700	+■ M/F Housing RB (Indigo Pointe Apts) Series 2001A-1 2.06%, 01/07/05	3,500	3,500
Lowndes Cnty Development Auth			+■ M/F Housing RB (Live Oak Plantation Apts) Series 2001A-1 2.06%, 01/07/05	2,500	2,500
+■ M/F Housing RB (FMPH Valdosta) Series 1999 2.06%, 01/07/05	4,735	4,735	Summerville Development Auth		
Macon-Bibb Cnty Hospital Auth			+■ Exempt Facility RB (Image Industries) Series 1997 2.06%, 01/07/05	11,000	11,000
+■ Revenue Anticipation Certificates (Medical Center of Central Georgia) Series 1998 2.00%, 01/07/05	4,000	4,000	Thomasville Hospital Auth		
			+■ Revenue Anticipation Certificates (John D. Archbold Memorial Hospital) Series 2003 2.00%, 01/07/05	5,900	5,900

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)
Walton Cnty Development Auth			Idaho 0.7%		
+■ RB (Tucker Door & Trim Corp) Series 2000 2.16%, 01/07/05	2,600	2,600	Custer Cnty		
Webster Cnty IDA			■ Pollution Control RB (Amoco) Series 1983 1.55%, 04/01/05	13,000	13,000
+■ IDRB (Tolleson Lumber Co) Series 1999 2.04%, 01/07/05	4,000	4,000	Idaho		
Whitfield Cnty Development Auth			TAN Series 2004 1.58%, 06/30/05	50,000	50,345
+■ RB (Product Concepts Residential) Series 2001 2.06%, 01/07/05	480	480	1.59%, 06/30/05	25,000	25,171
Winder-Barrow Industrial Building Auth			Idaho HFA		
+■ IDRB (Progress Container Corp) Series 2000 2.06%, 01/07/05	2,605	2,605	+■ Housing RB (Assisted Living Concepts) Series 1997 2.10%, 01/07/05	2,990	2,990
Worth Cnty			Idaho State University Foundation		
+■ Refunding IDRB (Seabrook Peanut Co) Series 1996B 2.06%, 01/07/05	1,300	1,300	+■ RB Series 2001 (LE & Thelma E. Stephens Performing Arts Center) Series 2001 1.99%, 01/07/05	3,955	3,955
		650,265			95,461
Hawaii 0.3%			Illinois 8.5%		
Hawaii			Aurora		
+►■ GO Bonds of 2002 Series CZ 2.03%, 01/07/05	5,900	5,900	+■ M/F Housing Refunding RB (Apts of Fox Valley Villages) Series 1999A 2.00%, 01/07/05	9,445	9,445
+►■ Special Purpose Refunding RB (Hawaiian Electric Co) Series 2000 2.08%, 01/07/05	9,095	9,095	Bartlett		
Hawaii Airports System			+■ Special Service Area #1 Unlimited Ad Valorem Tax Bonds, Series 2004 2.00%, 01/07/05	16,600	16,600
+►■ Airport System Refunding RB Series 2000B 2.08%, 01/07/05	2,215	2,215	Carol Stream		
Hawaii Housing Finance & Development Corp			+■ M/F Housing Refunding RB (St Charles Square) Series 1997 2.10%, 01/07/05	4,415	4,415
►■ S/F Mortgage Purchase RB Series 1997 2.14%, 01/07/05	3,470	3,470	Chicago		
Honolulu City & County			►■ Collateralized S/F Mortgage RB Series 1999A 2.14%, 01/07/05	2,590	2,590
+►■ GO Bonds Series 2003A 2.04%, 01/07/05	14,995	14,995	+►■ GO Bonds Series 2002B 2.00%, 01/07/05	20,000	20,000
		35,675	+►■ GO Refunding Bonds Series 2003 B-1 1.99%, 01/07/05	26,100	26,100
			+ GO Tender Series 2004 1.05%, 01/13/05	28,500	28,500

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 (Morse Automotive Corp) Series 1995 2.05%, 01/07/05	1,200	1,200	■ Second Lien Passenger Facility Charge RB Series 2001A 2.08%, 01/07/05	6,315	6,315
■ M/F Housing RB (Central Station Senior Housing) Series 2004 2.05%, 01/07/05	9,500	9,500	■ Special Facilities RB (O'Hare Tech Center II) Series 2002 2.08%, 01/07/05	15,500	15,500
■ M/F Housing RB (Central Station) Series 2004A 2.05%, 01/07/05	25,170	25,170	■ Special Facility Refunding RB (Lufthansa Airlines) Series 2001 2.01%, 01/07/05	43,770	43,770
■ Midway Airport RB Series 1998C 2.04%, 01/07/05	24,480	24,480	Chicago Park District Corporate Purpose Tax Anticipation Warrants Series 2004A 1.55%, 05/01/05	16,000	16,076
■ RB (Homestart Program) Series 2000A 2.07%, 01/07/05	4,740	4,740	Dupage Cnty ■ RB (Morton Arboretum) Series 2003 2.00%, 01/07/05	10,000	10,000
■ Second Lien Water RB Series 2000 2.00%, 01/07/05	2,000	2,000	East Dundee, Kane & Cook Counties ■ IDRB (Otto Engineering) Series 1998 2.10%, 01/07/05	1,860	1,860
■ Second Lien Water Refunding RB Series 2004 2.00%, 01/07/05	102,560	102,560	Elmhurst ■ IDRB (Elm Machining Corp) Series 1997 2.15%, 01/07/05	1,670	1,670
■ Senior Lien Water RB Series 2000 2.04%, 01/07/05	12,975	12,975	Hampshire ■ IDRB (Poli-Film America) Series 1998A 2.07%, 01/07/05	3,200	3,200
Chicago Board of Education ■ Unlimited Tax GO Bonds Series 1997 2.03%, 01/07/05	7,120	7,120	Illinois ■ Civic Center Bonds Series 1991 2.09%, 01/07/05	2,940	2,940
Chicago O'Hare International Airport ■ General Airport Second Lien RB Series 1988B 2.01%, 01/07/05	12,800	12,800	GO Bonds Illinois First Series 2000 ■ 2.04%, 01/07/05	14,000	14,000
■ General Airport Second Lien RB Series 1994B 2.05%, 01/07/05	41,484	41,484	■ 2.04%, 01/07/05	5,000	5,000
■ General Airport Third Lien Refunding RB Series 2003 A-2 2.08%, 01/07/05	5,295	5,295	■ GO Bonds Illinois First Series 2002 2.04%, 01/07/05	14,125	14,125
■ General Airport Third Lien Refunding RB Series 2003 B-2 2.06%, 01/07/05	10,800	10,800	■ GO Bonds Series 2003B 2.00%, 01/07/05	5,000	5,000
■ Second Lien Passenger Facility Charge RB Series 2001A 2.11%, 01/07/05	11,070	11,070			

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)
Illinois Development Finance Auth					
➤■ Economic Development RB (Korex Corp) Series 1990 2.10%, 01/07/05	4,000	4,000	➤■ RB (Chicago Horticultural Society) Series 1999 2.00%, 01/07/05	20,000	20,000
➤■ Gas Supply Refunding RB (People's Gas) Series 2003E 2.12%, 01/07/05	14,995	14,995	➤■ RB (Francis W. Parker School) Series 1999 1.98%, 01/07/05	2,500	2,500
➤■ IDRB (Arc-Tronics) Series 1999 2.05%, 01/07/05	1,990	1,990	➤■ RB (Illinois Institute of Technology) Series 2004 2.00%, 01/07/05	2,500	2,500
➤■ IDRB (Camcraft Inc) Series 1993 2.20%, 01/07/05	2,000	2,000	➤■ RB (Lake Forest Academy) Series 1994 2.00%, 01/07/05	4,000	4,000
➤■ IDRB (Plano Molding Co) Series 1990 2.15%, 01/07/05	4,300	4,300	➤■ RB (Loyola Academy) Series 2001 2.00%, 01/07/05	10,000	10,000
➤■ IDRB (Radiological Society of North America) Series 1997 2.00%, 01/07/05	3,480	3,480	➤■ RB (McCormick Theological Seminary) Series 2001B 2.00%, 01/07/05	20,435	20,435
➤■ IDRB (Rich Graphics Corp) Series 1996 2.15%, 01/07/05	2,080	2,080	➤■ RB (Perspectives Charter School) Series 2003 2.03%, 01/07/05	5,500	5,500
➤■ Qualified Residential Rental Bonds (River Oaks) Series 1989 2.02%, 01/07/05	32,000	32,000	➤■ RB (Presbyterian Home Lake Forest Place) Series 1996A 2.00%, 01/07/05	55,250	55,250
➤■ RB (American College of Surgeons) Series 1996 2.04%, 01/07/05	13,100	13,100	➤■ RB (Presbyterian Homes Two Arbor Lane) Series 2001 2.00%, 01/07/05	9,000	9,000
➤■ RB (Aurora Central Catholic High School) Series 1994 2.25%, 01/07/05	1,000	1,000	➤■ RB (Sacred Heart Schools) Series 2003 2.00%, 01/07/05	7,100	7,100
➤■ RB (Carmel High School) Series 2003 2.00%, 01/07/05	6,200	6,200	➤■ RB (Slovak American Charitable Assn) Series 2000 2.00%, 01/07/05	7,745	7,745
➤■ RB (Catholic Charities Housing Development Corp) Series 1993A 2.15%, 01/07/05	9,160	9,160	➤■ RB (St. Ignatius College Prep) Series 2002 2.00%, 01/07/05	2,800	2,800
➤■ RB (Catholic Charities Housing Development Corp) Series 1993B 2.15%, 01/07/05	910	910	➤■ RB (St. Ignatius College) Series 1994 2.00%, 01/07/05	12,000	12,000
➤■ RB (Chicago Academy of Sciences) Series 1997 2.00%, 01/07/05	2,615	2,615	➤■ RB (Wheaton Academy) Series 1998 2.00%, 01/07/05	9,000	9,000
➤■ RB (Chicago Academy of Sciences) Series 1998 2.00%, 01/07/05	5,700	5,700	■ Refunding RB (Univ. of Chicago) Series 2004-C 1.98%, 01/07/05	45,000	45,000
			➤■ Residential Rental RB (FC Harris Pavilion) Series 1994 1.98%, 01/07/05	7,200	7,200

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)
Water Facilities Refunding RB (Illinois-American Water Co) Series 2002 2.05%, 01/07/05	5,000	5,000	Metropolitan Pier & Exposition Auth		
Illinois Education Facility Auth			McCormick Place Expansion & Refunding Bonds Series 1999A-C 2.04%, 01/07/05	9,790	9,790
RB (Chicago Historical Society) Series 1989 2.00%, 01/07/05	7,800	7,800	McCormick Place Expansion Refunding Bonds Series 1998A 2.04%, 01/07/05	14,355	14,355
RB (Shedd Aquarium) Series 1997 2.06%, 01/07/05	2,000	2,000	McCormick Place Expansion Refunding Bonds Series 2002B 2.06%, 01/07/05	18,490	18,490
Illinois Health Facilities Auth			Montgomery Special Service Area #10		
RB (Bensenville Home Society) Series 1989A 2.00%, 01/07/05	2,050	2,050	Special Tax Bonds (Blackberry Crossing West) Series 2004 2.00%, 01/07/05	20,000	20,000
RB (Ingalls Health System) Series 1994 1.95%, 01/07/05	18,305	18,305	Oak Forest		
RB (Villa St. Benedict) Series 2003B 2.07%, 01/07/05	10,250	10,250	RB (Homewood) Series 1989 1.99%, 01/07/05	10,000	10,000
RB (Washington & Jane Smith Home) Series 1991 2.05%, 01/07/05	2,800	2,800	Palatine		
Illinois Housing Development Auth			Special Facility Limited Obligation RB (Little City for Community Development) Series 1998 2.00%, 01/07/05	4,000	4,000
Homeowner Mortgage RB Series 2004D 1.68%, 07/27/05	15,000	15,000	Regional Transportation Auth		
Homeowner Mortgage Revenue Notes Series 2004 B-2 1.04%, 04/01/05	14,000	14,000	GO Refunding Bonds Series 1999		
M/F Mortgage Refunding RB (Hyde Park Tower Apts) Series 2000A 2.05%, 01/07/05	4,500	4,500	2.04%, 01/07/05	9,730	9,730
Illinois Student Assistance Commission			2.04%, 01/07/05	12,055	12,055
Student Loan RB Series 1996A 2.03%, 01/07/05	7,600	7,600	Rockford		
Lombard			IDRB (Ring Can Corp) Series 1998 2.06%, 01/07/05	1,220	1,220
Refunding IDRB (B&H Partnership) Series 1995 2.39%, 01/07/05	1,850	1,850	IDRB (Rockford Industrial Welding Supply) Series 1996 2.15%, 01/07/05	2,000	2,000
			Southwestern Illinois Development Auth		
			Refunding IDRB (Holten Meat) Series 2004 2.10%, 01/07/05	6,860	6,860

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)
University of Illinois			+■ IDRB (Cives Corp) Series 1998		
+■ Auxiliary Facilities RB			2.04%, 01/07/05	7,150	7,150
Series 1999A			Indiana Educational Facilities		
2.06%, 01/07/05	3,500	3,500	Auth		
■ COP (Utility Infrastructure)			+■ Educational Facilities RB		
Series 2004			(St Joseph's College)		
1.99%, 01/07/05	10,000	10,000	Series 2004		
Wheeling			2.00%, 01/07/05	12,000	12,000
+■ M/F Housing Refunding RB			Indiana Health Facilities		
(Woodland Creek Apts II)			Financing Auth		
Series 2002			+■ Insured RB Series 1985A		
2.05%, 01/07/05	17,655	17,655	2.00%, 01/07/05	62,900	62,900
Will-Kankakee Regional			■ RB (Ascension Health)		
Development Auth			Series 2001-A-3		
+■ IDRB Series 2002 (Toltec Steel			1.60%, 03/01/05	16,000	15,986
Services) Series 2002			■ RB (Ascension Health)		
2.12%, 01/07/05	7,170	7,170	Series 2001-A-4		
Woodridge			1.60%, 03/01/05	20,000	19,982
+■ M/F Housing Refunding RB			RB (Ascension Health)		
(Hinsdale Lake Terrace Apts)			Series 2001A-2		
Series 1990			1.73%, 07/05/05	9,000	9,000
2.05%, 01/07/05	20,760	20,760	Indiana HFA		
Yorkville			■ S/F Mortgage RB		
+■ IDRB (FE Wheaton & Co)			Series 1998 D-2		
Series 1996			2.14%, 01/07/05	9,995	9,995
2.15%, 01/07/05	950	950	■ S/F Mortgage RB		
			Series 2000 B-2		
			2.16%, 01/07/05	5,745	5,745
		1,101,550	■ S/F Mortgage RB		
Indiana 2.1%			Series 2004 D-2		
Elkhart Cnty			1.00%, 12/15/05	60,650	60,650
+■ Economic Development RB			Indianapolis		
(West Plains Apts)			+■ M/F Housing RB (Nora Pines		
Series 1998A			Apts) Series 2001		
2.05%, 01/07/05	1,850	1,850	2.03%, 01/07/05	5,500	5,500
Gary Redevelopment District			+■ Thermal Energy System RB		
+■ Economic Growth RB			Series 2001A		
Series 2001A			2.04%, 01/07/05	9,900	9,900
2.02%, 01/07/05	4,530	4,530	Marion		
Indiana Development Finance			+■ Economic Development RB		
Auth			(Indiana Wesleyan Univ)		
+■ Environmental RB (PSI Energy)			Series 2000		
Series 2004A			2.00%, 01/07/05	7,500	7,500
2.00%, 01/07/05	11,000	11,000	St Joseph Cnty		
+■ IDRB (Big Sky Park)			+■ Economic Development RB		
Series 1999			(Corby Apts) Series 1997B		
2.08%, 01/07/05	5,000	5,000	2.10%, 01/07/05	3,430	3,430

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)
■ Economic Development RB (Pin Oaks Apts) Series 1997A 2.10%, 01/07/05 1,000 1,000			Kansas 0.6% Kansas Dept of Transportation ■ Highway RB Series 1999 2.04%, 01/07/05 37,500 37,500		
■ Economic Development RB (Western Manor Apts) Series 1997C 2.10%, 01/07/05 2,130 2,130			Kansas Development Finance Auth ■ M/F Housing RB (Saddlewood Apts) Series 2004M 2.08%, 01/07/05 6,400 6,400		
University of Southern Indiana ■ Auxiliary System RB Series 2001B 2.00%, 01/07/05 10,400 10,400			Wichita ■ Airport Facilities Refunding RB (Cessna Citation Service Center) 1997 Series III 2.05%, 01/07/05 11,245 11,245		
Vigo Cnty ■ Economic Development RB (Sisters of Providence) Series 2001 2.02%, 01/07/05 3,500 3,500			■ Airport Facility Refunding & Improvement RB (Flightsafety Intl) 1999 Series II 2.02%, 01/07/05 26,170 26,170		
Vincennes University ■ Student Fee Bonds Series G 2.00%, 01/07/05 5,730 5,730					
		274,878			81,315
Iowa 0.7% Iowa TRAN Series 2004 1.83%, 06/30/05 34,000 34,195			Kentucky 0.9% Elizabethtown ■ IDRB (ALTEC) Series 1997 2.05%, 01/07/05 3,000 3,000		
Iowa Finance Auth ■ Retirement Community RB (Western Home Communities) Series 2004 2.05%, 01/07/05 3,000 3,000			Jefferson Cnty ■ M/F Housing Refunding RB (Camden Brookside Apts) Series 2002 2.04%, 01/07/05 8,900 8,900		
Iowa Higher Education Loan Auth ■ Private College Facility RB (Graceland Univ) Series 2003 2.05%, 01/07/05 2,000 2,000			■ Sports Stadium RB (Univ of Louisville Athletic Assn) Series 1997 2.10%, 01/07/05 3,000 3,000		
■ Private College Facility RB (St Ambrose University) Series 2003 2.22%, 01/03/05 10,595 10,595			Kentucky Higher Education Student Loan Corp ■ Insured Student Loan RB Series 1991E 1.98%, 01/07/05 12,600 12,600		
Iowa Student Loan Liquidity Corp ■ Student Loan RB Series 1988B 2.01%, 01/07/05 46,500 46,500			■ Insured Student Loan RB Series 1996A 1.98%, 01/07/05 23,850 23,850		
		96,290	Kentucky Housing Corp ■ Housing RB Series 1998F 2.14%, 01/07/05 19,320 19,320		
			■ Housing RB Series 2002A 1.67%, 01/07/05 5,200 5,200		

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)
Louisville & Jefferson Cnty Metropolitan Sewer District			Lafayette Public Power Auth		
+►■ Sewage & Drainage System RB Series 1999A 2.04%, 01/07/05	6,115	6,115	+►■ Electric Refunding RB Series 2003A&B 2.04%, 01/07/05	5,310	5,310
Louisville & Jefferson Cnty Regional Airport Auth			Lake Charles Harbor & Terminal District		
■ Special Facilities RB Series 1999C 2.10%, 01/03/05	5,100	5,100	+■ Dock & Wharf RB (Conoco Inc) Series 2000 2.05%, 01/07/05	10,500	10,500
Louisville & Jefferson Cnty Visitors & Convention Comm			Louisiana Local Gov't Environmental Facilities & Comm Development Auth		
+►■ Dedicated Tax Refunding RB (Kentucky Intl Convention Center Expansion) Series 2004B 2.00%, 01/07/05	15,175	15,175	+■ RB (Univ of Louisiana-Monroe) Series 2004C 2.00%, 01/07/05	12,515	12,515
Richmond			+■ RB (University of Louisiana-Monroe) Series 2004A 2.01%, 01/07/05	8,000	8,000
+■ IDRB (Mikron) Series 1995 2.05%, 01/07/05	7,175	7,175	Louisiana Offshore Terminal Auth		
Wickliffe			+■ Deepwater Port Refunding RB First State Series 1992A 2.00%, 01/07/05	10,000	10,000
+■ Pollution Control & Solid Waste Disposal Refunding RB (Westvaco Corp) Series 2001 2.00%, 01/07/05	4,250	4,250	+■ Deepwater Port Refunding RB Series 2003B 2.00%, 01/07/05	5,700	5,700
		113,685	Louisiana Public Facility Auth		
Louisiana 1.5%			+►■ Lease Purchase RB Series 2003 2.04%, 01/07/05	20,000	20,000
Calcasieu Parish IDB			+■ RB (Tiger Athletic Foundation) Series 2004 2.01%, 01/07/05	18,800	18,800
+■ Refunding IDRB (Weingarten Realty Investors) Series 1995 2.04%, 01/07/05	1,990	1,990	New Orleans Aviation Board		
East Baton Rouge Parish IDB			+►■ Refunding Bonds Series 1993B 2.00%, 01/07/05	4,860	4,860
+■ Solid Waste Disposal RB (Georgia-Pacific Corp) Series 2004 2.06%, 01/07/05	7,100	7,100	Ouachita Parish IDB		
Ernest N. Morial – New Orleans Exhibit Hall Auth			+■ IDRB (Sulzer Escher Wyss) Series 1989 2.04%, 01/07/05	1,500	1,500
+►■ Senior Subordinate Special Tax Bonds Series 2003A 2.04%, 01/07/05	4,995	4,995	St James Parish		
Lafayette Parish IDB			Pollution Control Refunding RB (Texaco) Series 1988A 1.88%, 02/10/05	36,500	36,500
+■ Refunding IDRB (Westwood Village) Series 1995 2.04%, 01/07/05	3,735	3,735			

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)
Pollution Control Refunding RB (Texaco) Series 1988B 1.88%, 02/10/05	44,030	44,030	Maryland Health & Higher Educational Facilities Auth		
		195,535	+■ Pooled Loan Program RB		
Maine 0.5%			Series D	39,365	39,365
Maine			1.98%, 01/07/05		
GO TAN	52,000	52,356	+►■ RB (University of Maryland		
1.59%, 06/30/05			Medical System)		
Maine Finance Auth			Series 2004A	9,900	9,900
+■ RB (Jackson Laboratory)			2.00%, 01/07/05		
Series 2002	5,800	5,800	Maryland State Economic		
2.02%, 01/07/05			Development Corp		
Maine Housing Auth			+■ IDR B (Dixon Valve & Coupling		
►■ Mortgage Purchase Bonds			Co) Series 1998	1,815	1,815
Series 2002 F-2	4,585	4,585	2.09%, 01/07/05		
2.08%, 01/07/05		62,741	Montgomery Cnty Housing		
Maryland 1.4%			Opportunities Comm		
Anne Arundel Cnty			S/F Mortgage RB 2004		
► TECP GO BAN Series A			Series C	24,840	24,840
1.75%, 01/04/05	20,000	20,000	1.10%, 03/08/05		
Baltimore Cnty			S/F Mortgage RB 2004		
► Consolidated Public			Series D	3,985	3,985
Improvement TECP	30,000	30,000	1.15%, 03/08/05		182,240
Series 2002			Massachusetts 4.6%		
1.68%, 01/10/05			Amesbury		
Howard Cnty			BAN	10,170	10,178
+■ M/F Housing Refunding RB			Bedford		
(Sherwood Crossing Apts)			BAN	11,526	11,554
Series 2003	10,000	10,000	1.14%, 02/18/05		
2.00%, 01/07/05			Clinton		
Maryland Community			BAN Series 2004	20,000	20,017
Development Admin.			1.07%, 02/04/05		
►■ S/F Program Bonds 1999 Third			Cohasset		
Series	32,335	32,335	BAN	25,164	25,350
2.14%, 01/07/05			1.57%, 08/12/05		
Maryland Energy Financing			Concord		
Admin.			Unlimited Tax School BAN	15,200	15,353
+■ Limited Obligation Local District			1.63%, 09/29/05		
Cooling Facilities RB (Comfort	10,000	10,000	Dighton-Rehoboth Regional SD		
Link) Series 2001			BAN Series R-1	17,500	17,598
2.06%, 01/07/05			1.64%, 06/03/05		
			Duxbury		
			BAN	15,511	15,516
			1.12%, 01/14/05		

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)
Easton			+ ■ M/F Housing RB (Salem Heights Apts) Series 2003A		
BAN			2.00%, 01/07/05	15,900	15,900
1.60%, 06/10/05	19,094	19,189	+ ■ RB (Assumption College) Series 2002A		
Foxborough			1.97%, 01/07/05	5,600	5,600
BAN			+ ■ RB (Boston University) Series R-3		
1.63%, 06/16/05	21,235	21,341	2.00%, 01/07/05	3,800	3,800
Gateway Regional SD			+ ■ RB (Brandon Residential Treatment Center) Series 2003		
BAN			2.00%, 01/07/05	2,290	2,290
1.22%, 02/10/05	12,092	12,115	+ ■ RB (FIBA Technologies) Series 2003		
Haverhill			2.07%, 01/07/05	2,200	2,200
+ BAN			+ ■ RB (Judge Rotenberg Center) Series 2003		
1.20%, 04/01/05	3,000	3,008	1.97%, 01/07/05	5,815	5,815
Hudson			■ RB (Phillips Academy) Series 2003		
BAN			1.97%, 01/07/05	2,000	2,000
1.27%, 05/13/05	25,419	25,576	+ ■ RB (Sophia Snow Home) Series 2004A		
Lawrence			1.98%, 01/07/05	6,000	6,000
School BAN			+ ■ RB (Sophia Snow Home) Series 2004B		
2.28%, 12/22/05	12,000	12,111	1.98%, 01/07/05	4,000	4,000
Marion			+ ■ RB (Wentworth Institute of Technology) Series 2000		
BAN			1.97%, 01/07/05	6,585	6,585
1.68%, 07/15/05	2,000	2,014	+ ■ Senior Living Facility RB (New England Deaconess Assn) Series 2004		
Marlborough			1.95%, 01/07/05	3,000	3,000
BAN			Massachusetts Health & Educational Facilities Auth		
1.60%, 06/16/05	11,359	11,430	+ ■ RB (Baystate Medical Ctr) Series D		
Masconomet Regional SD			2.02%, 01/07/05	13,300	13,300
BAN			+ ■ RB (Boston Home) Series 2002B		
1.10%, 02/10/05	10,000	10,010	1.97%, 01/07/05	2,500	2,500
1.12%, 02/10/05	7,000	7,007	■ RB (MIT) Series K		
Massachusetts			2.03%, 01/07/05	6,710	6,710
+ ■ GO Bonds Consolidated Loan Series 2001D			+ ■ RB (Sherrill House) Series A-1		
2.03%, 01/07/05	2,785	2,785	1.99%, 01/07/05	6,100	6,100
+ ■ Route 3 North Transportation Improvements Assoc Lease RB Series 2002B			■ RB (Williams College) Series I		
1.95%, 01/07/05	2,200	2,200	1.05%, 04/01/05	15,000	15,000
Massachusetts Bay Transit Auth					
+ ■ General Transportation System Bonds Series 1999A					
2.00%, 01/07/05	9,000	9,000			
Massachusetts Development Finance Agency					
+ ■ Education RB (Dexter School) Series 2000					
1.97%, 01/07/05	12,000	12,000			

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 (Winchester Hospital) Series D 2.03%, 01/07/05	3,000	3,000	Silver Lake Regional SD GO BAN 1.61%, 08/26/05	20,000	20,179
Massachusetts HFA RB (Housing Bonds Series 2003F) 1.95%, 01/07/05	1,500	1,500	Somerville GO BAN 1.44%, 08/19/05	3,162	3,188
Massachusetts Industrial Finance Agency RB (Whitehead Institute For Biomedical Research) 1995 1.92%, 01/07/05	2,200	2,200	Springfield GO BAN 1.75%, 06/17/05	7,500	7,542
RB (Williston Northampton School) Series B 2.00%, 01/07/05	1,800	1,800	Weymouth BAN 1.02%, 03/10/05 1.46%, 03/10/05	25,000 10,000	25,034 10,028
Massachusetts Port Auth TECP Series 2003B 1.73%, 01/10/05	15,800	15,800	Williamstown Unlimited Tax BAN 1.37%, 05/05/05	6,900	6,938
Massachusetts Turnpike Auth Metropolitan Highway System Subordinate RB Series 1999A 1.99%, 01/07/05	7,110	7,110	Woburn BAN 1.19%, 04/08/05	22,000	22,032
Massachusetts Water Pollution Abatement Trust Water Pollution Abatement RB Subordinate Series 1999A 2.05%, 01/07/05	1,500	1,500			592,246
Medway Unlimited Tax BAN 1.04%, 03/18/05	15,000	15,030	Michigan 5.6%		
Mendon-Upton Regional SD BAN 2004 1.24%, 04/28/05	29,500	29,664	Allen Park Public Schools Unlimited Tax School Building Bonds Series 2003 2.04%, 01/07/05	10,760	10,760
Nashoba Valley Technical High SD BAN 1.48%, 08/12/05	7,441	7,509	Ann Arbor Economic Development Corp Limited Obligation RB (Glacier Hills) Series 2000A 2.09%, 01/07/05	12,700	12,700
Natick BAN 1.09%, 04/29/05	12,900	12,937	Limited Obligation Refunding RB (Glacier Hills) Series 2000B 2.09%, 01/07/05	8,685	8,685
New Bedford BAN 1.14%, 02/25/05	12,950	12,966	Detroit Sewage Disposal System RB Series 1999A 2.04%, 01/07/05	34,650	34,650
Ralph C. Mahar Regional SD BAN 1.69%, 07/14/05	20,000	20,137	Sewage Disposal System Second Lien RB Series 2001B 2.07%, 01/07/05	4,260	4,260
			Water Supply System Refunding Second Lien RB Series 2004-A 2.01%, 01/07/05	26,500	26,500

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)
Water Supply System Refunding Second Lien RB Series 2004-B 2.01%, 01/07/05	90,190	90,190	Michigan Housing Development Auth		
Water Supply System Refunding Senior Lien RB Series 2003D 2.00%, 01/07/05	11,900	11,900	S/F Mortgage RB Series 2001A 2.07%, 01/07/05	3,630	3,630
Detroit City SD			Michigan Job Development Auth		
School Building & Site Improvement Bonds Series 2001A 2.07%, 01/07/05	4,620	4,620	Limited Obligation RB (Frankenmuth Bavarian Inn Motor Lodge) Series 1985 2.15%, 01/30/05	7,100	7,100
Georgetown Economic Development Corp			Michigan Municipal Bond Auth		
Limited Obligation RB (Sunset Manor) Series 2000 2.00%, 01/07/05	8,860	8,860	Revenue Notes, Series 2004 B-2 2.05%, 01/07/05	32,550	32,550
Grand Rapids Economic Development Corp			Michigan Strategic Fund		
Refunding RB (Amway Hotel Corp) Series 1991A 2.12%, 01/07/05	8,755	8,755	Limited Obligation RB (Advance Plastics Corp) Series 1996 2.15%, 01/07/05	1,530	1,530
Macomb Cnty Hospital Finance Auth			Limited Obligation RB (American Cancer Society) Series 2000 2.05%, 01/07/05	4,210	4,210
Hospital Refunding RB (Mt Clemens General Hospital) Series 2003 A-2 2.14%, 01/03/05	9,300	9,300	Limited Obligation RB (EPI Printers) Series 1997 2.15%, 01/07/05	720	720
Michigan GO Notes Fiscal 2005 Series A 2.02%, 09/30/05	170,000	171,869	Limited Obligation RB (Mans) Series 1991 2.19%, 01/07/05	420	420
Michigan Building Auth			Limited Obligation RB (Mans) Series 1998B 2.15%, 01/07/05	935	935
TECP Series 4 1.75%, 01/20/05	50,000	50,000	Limited Obligation RB (Mechanics Uniform Rental Co) Series 1995 2.15%, 01/07/05	1,000	1,000
Michigan Higher Education Facilities Auth			Limited Obligation RB (United Machining) Series 1998 2.15%, 01/07/05	4,000	4,000
Limited Obligation Refunding RB (Hope College) Series 2004 2.03%, 01/07/05	4,000	4,000	Limited Obligation Refunding RB (Detroit Edison Co) Series 2003A 2.08%, 01/07/05	5,995	5,995
Michigan Hospital Financing Auth					
Hospital Refunding & RB (Crittenton Hospital Medical Ctr) Series 2003A 1.99%, 01/03/05	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			Hennepin Cnty		
➔■ State Trunk Line Fund			■ GO Refunding Bonds		
Refunding Bonds			Series 1996C		
Series 1998A			2.15%, 01/07/05	1,350	1,350
2.04%, 01/07/05	46,666	46,666	Hennepin Cnty Housing & Redevelopment Auth		
Oakland Cnty			➔■ M/F Housing Refunding RB		
➔■ Limited Obligation RB (Husky			(Stone Arch Apts)		
Envelope Products)			Series 2002		
Series 1999			2.05%, 01/07/05	2,800	2,800
2.15%, 01/07/05	2,100	2,100	Mendota Heights		
➔■ Limited Obligation RB (Pontiac			➔■ Refunding IDRB (Dakota		
Vision 2000 Schools)			Business Plaza) Series 2000		
Series 2000			2.24%, 01/07/05	2,300	2,300
2.05%, 01/07/05	8,800	8,800	Minneapolis		
Wayne Cnty			➔■ RB (Guthrie Theater)		
➔■ Airport RB (Detroit Metropolitan			Series 2003A		
Wayne Cnty Airport) Junior			2.00%, 01/07/05	18,000	18,000
Lien Series 2001			Minneapolis-St Paul		
2.01%, 01/07/05	68,075	68,075	Metropolitan Airports Comm		
➔■ Airport RB (Detroit Metropolitan			➔■ Airport RB Series 2000B		
Wayne Cnty Airport)			2.08%, 01/07/05	5,225	5,225
Series 2002A			➔ Subordinate Revenue TECP		
2.01%, 01/07/05	29,770	29,770	Series B		
➔■ Airport Refunding RB (Detroit			1.90%, 01/12/05	17,500	17,500
Metropolitan Wayne County			Minnesota		
Airport) Series 1996B			Tax & Aid Anticipation		
2.01%, 01/07/05	45,890	45,890	Borrowing Program COP		
			Series 2004		
			1.53%, 09/02/05	73,915	74,628
		728,340	Minnesota Agricultural & Economic Development Board		
Minnesota 1.8%			➔■ RB (Evangelical Lutheran Good		
Andover			Samaritan Society)		
➔■ Senior Housing Refunding RB			Series 1996		
(Presbyterian Homes)			2.05%, 01/07/05	7,400	7,400
Series 2003			Minnesota HFA		
2.00%, 01/07/05	6,600	6,600	■ Residential Housing Finance		
Bloomington Port Auth			Bonds Series 2004G		
➔■ Special Tax Refunding RB (Mall			2.05%, 01/07/05	12,000	12,000
of America) Series 1999B			Minnesota Higher Education		
2.05%, 01/07/05	23,900	23,900	Facilities Auth		
Burnsville			➔■ RB (Univ of St. Thomas)		
➔■ M/F Housing Refunding RB			Series 4-O		
(Southwind Apts) Series 2004			2.03%, 01/07/05	9,700	9,700
2.00%, 01/07/05	8,350	8,350			
Eden Prairie					
➔■ M/F Housing RB (Eden Prairie					
Leased Housing Associates I)					
Series 2003A					
2.15%, 01/07/05	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)
+■ RB (Univ of St. Thomas) Series 5-I 2.03%, 01/07/05	3,800	3,800	Missouri 0.3% Clay Cnty IDA		
Rochester Health Care Facilities RB (Mayo Foundation) Series 1992B 1.85%, 01/06/05	20,200	20,200	+■ IDRB (KS Salad Real Estate) Series 1999 2.12%, 01/07/05	6,000	6,000
Health Care Facilities RB (Mayo Foundation) Series 2000A 1.85%, 01/06/05	12,000	12,000	Missouri Development Finance Board		
St Louis Park			+■ IDRB (Milbank Mnfg Co) Series 1997 2.20%, 01/07/05	3,000	3,000
+■ M/F Housing RB (Park) Series 2002A 2.15%, 01/07/05	3,300	3,300	St Charles Cnty IDA		
St Paul Housing & Redevelopment Auth			+■ M/F Housing Refunding RB (Time Centre Apts Phase I) Series 2004A 2.02%, 01/07/05	15,600	15,600
+■ District Heating RB Series 1999D 2.05%, 01/07/05	3,230	3,230	+■ M/F Housing Refunding RB (Time Centre Apts Phase II) Series 2004B 2.06%, 01/07/05	4,500	4,500
		238,283	St Louis IDA		
Mississippi 0.3%			+■ IDRB (Kessler Container) Series 1997A 2.05%, 01/07/05	1,900	1,900
Mississippi			Washington IDA		
►■ GO Refunding Bonds Series 2001 2.04%, 01/07/05	14,880	14,880	+■ IDRB (Pauwels Transformers) Series 1995 2.28%, 01/07/05	2,800	2,800
Mississippi Business Finance Corp					33,800
+■ IDRB (Electric Mills Wood Preserving) Series 1999 2.13%, 01/07/05	5,000	5,000	Montana 0.0%		
+■ IDRB (Omega Motion) Series 1996 2.04%, 01/07/05	4,000	4,000	Montana Health Facilities Auth		
+■ IDRB (VC Regional Assembly & Mnfg) Series 2003 2.02%, 01/07/05	9,210	9,210	+►■ Health Care RB (Pooled Loan Program) Series 1985A 2.00%, 01/07/05	4,325	4,325
Mississippi Home Corp			Nebraska 0.3%		
+►■ S/F Mortgage RB Series 1997C 2.14%, 01/07/05	3,775	3,775	Dodge Cnty		
		36,865	+■ IDRB (Oilgear Co) Series 1997 2.29%, 01/07/05	835	835
			Lancaster County Hospital District #1		
			+►■ Hospital RB (Bryan LGH Medical Ctr) Series 2002 2.22%, 01/03/05	13,000	13,000

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)
Nebraska Investment Finance Auth					
■ S/F Housing RB Series 1998G 2.14%, 01/07/05	10,735	10,735	■ Multi-unit Housing RB (Banbridge Apts) Series 2000A 2.00%, 01/07/05	3,960	3,960
■ S/F Housing RB Series 1999E 2.11%, 01/07/05	880	880	■ Multi-unit Housing RB (Bluffs Apts) Series 2002A 2.00%, 01/07/05	17,850	17,850
Stanton Cnty			■ Multi-unit Housing RB (City Center) Series 2000A 2.00%, 01/07/05	7,600	7,600
■ IDR (Nucor Corp) Series 1996 2.08%, 01/07/05	19,300	19,300	■ Multi-unit Housing RB (Home Suites) Series 1989A 1.95%, 01/07/05	4,900	4,900
		44,750	■ Multi-unit Housing RB (Silver Pines Apts) Series 2002A 1.98%, 01/07/05	5,500	5,500
Nevada 1.4%			■ Multi-unit Housing RB (Silver Terrace Apts) Series 2003A 2.00%, 01/07/05	5,150	5,150
Clark Cnty			■ Multi-unit Housing RB (St Rose Seniors Apts) Series 2002A 2.00%, 01/07/05	14,770	14,770
■ Airport System Refunding RB Series 1993A 1.96%, 01/07/05	4,500	4,500	Washoe Cnty		
■ Airport System Subordinate Lien RB Series 1995 A-2 1.98%, 01/07/05	1,100	1,100	■ GO Convention Center Refunding Bonds Series 2001A 2.04%, 01/07/05	21,000	21,000
■ Airport System Subordinate Lien RB Series 2001A 2.17%, 01/03/05	2,500	2,500			175,465
■ Airport System Subordinate Lien RB Series 2001C 1.96%, 01/07/05	25,260	25,260	New Hampshire 0.7%		
■ Economic Development RB (UNLV Fndn) Series 1999 1.99%, 01/07/05	395	395	New Hampshire Business Finance Auth		
■ IDR (Southwest Gas Corp) Series 2003A 2.03%, 01/07/05	12,500	12,500	■ Solid Waste Disposal RB (Lonza Biologics) Series 2003 2.08%, 01/07/05	30,000	30,000
Clark Cnty SD			New Hampshire Health & Educational Facilities Auth		
■ GO (Limited Tax) Building Bonds Series 2001F 2.04%, 01/07/05	21,715	21,715	■ RB (Dartmouth-Hitchcock Obligated Group) Series 2001A 1.99%, 01/07/05	38,135	38,135
Nevada Housing Division			■ RB (Easter Seals New Hampshire) Series 2004A 2.02%, 01/07/05	6,060	6,060
■ Multi-Unit Housing RB (Sundance Village Apts) Series 2004 2.00%, 01/07/05	15,000	15,000	■ RB (Riverwoods) Series 2003 2.00%, 01/07/05	7,250	7,250
■ Multi-Unit Housing Refunding RB (Oakmont) Series 2002 2.00%, 01/07/05	4,350	4,350			
■ Multi-unit Housing RB (Apache Pines Apts) Series 1999A 2.00%, 01/07/05	7,415	7,415			

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 Hampshire HFA			Turnpike RB Series 2000A		
+►■ S/F Mortgage Acquisition RB Series 1997C 2.14%, 01/07/05	2,035	2,035	2.02%, 01/07/05	6,100	6,100
+►■ S/F Mortgage Acquisition RB Series 1998B 2.14%, 01/07/05	9,730	9,730	Woodbridge Township		
			General & Sewer Utility BAN 1.65%, 07/08/05	5,481	5,519
			1.67%, 07/08/05	6,519	6,563
		93,210			114,682
New Jersey 0.9%			New Mexico 1.8%		
Delaware River Port Auth			Farmington		
+►■ RB Series 1999 2.03%, 01/07/05	4,900	4,900	+■ Hospital RB (San Juan Regional Medical Center) Series 2004B 2.02%, 01/07/05	2,000	2,000
Englewood			New Mexico		
General Improvement & Special Assessment BANs 1.63%, 07/08/05	23,750	23,915	2004-2005 TRAN ►■ 2.05%, 01/07/05	30,000	30,000
Gloucester Cnty			►■ 2.05%, 01/07/05	90,000	90,000
■ Pollution Control Refunding RB (Exxon Mobil) Series 2003 2.00%, 01/07/05	6,200	6,200	2004-2005 TRAN Series 2004A 1.90%, 06/30/05	75,000	75,526
New Jersey			1.92%, 06/30/05	25,000	25,132
TRAN Series Fiscal 2005A ►■ 1.25%, 04/23/05	25,000	25,000	Santa Fe		
►■ 2.05%, 01/07/05	15,000	15,000	+■ Gross Receipts Tax Subordinate Lien Wastewater System RB Series 1997B 2.02%, 01/07/05	16,600	16,600
New Jersey Health Care Facilities Financing Auth					239,258
+►■ RB (JFK Health Systems Obligated Group) Series 1993 2.02%, 01/07/05	3,355	3,355	New York 4.8%		
+►■ Refunding & RB (St Barnabas Health Care System) Series 1998B 2.01%, 01/07/05	2,030	2,030	Dutchess Cnty IDA		
New Jersey Housing and Mortgage Finance Agency			+■ Civic Facility RB (Trinity-Pawling School Corp) Series 1998 1.98%, 01/07/05	4,500	4,500
S/F Housing RB Series 2004F 1.05%, 04/01/05	5,000	5,000	Jay Street Dev Corp		
New Jersey Sports & Exposition Auth			+■ Courts Facility Lease RB (Jay St) Fiscal 2004 Bonds A-2 1.98%, 01/07/05	6,000	6,000
+►■ State Contract Bonds Series 1992C 1.95%, 01/07/05	9,100	9,100	Long Island Power Auth		
New Jersey Turnpike Auth			+►■ Electric System RB Series 1998A 2.01%, 01/07/05	10,970	10,970
+►■ RB Series C 2.02%, 01/07/05	2,000	2,000	+►■ Electric System Subordinated RB Series 1998 7B 1.95%, 01/07/05	1,700	1,700

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)
Metropolitan Transportation Auth			Water & Sewer System RB Series 2002G		
+ ■■ Dedicated Tax Fund Series 2002B 1.98%, 01/07/05	8,800	8,800	2.02%, 01/07/05	13,545	13,545
New York City			New York City Transitional Finance Auth		
+ ■■ GO Bonds Fiscal 1998D 2.03%, 01/07/05	17,825	17,825	■■ Future Tax Secured Bonds Fiscal 1999 Series C 2.03%, 01/07/05	14,745	14,745
+ ■■ GO Bonds Fiscal 2002 Series A 2.01%, 01/07/05	15,000	15,000	■■ Future Tax Secured Refunding Bonds Fiscal 2003 Series A 2.02%, 01/07/05	4,640	4,640
+ ■■ GO Bonds Fiscal 2002 Series A-6 2.17%, 01/03/05	3,000	3,000	■■ Recovery Bonds Fiscal 2003 Series 2D 1.98%, 01/07/05	3,500	3,500
+ ■ GO Bonds Fiscal 2004 Series H-7 2.15%, 01/03/05	2,100	2,100	New York State		
New York City Housing Development Corp			+ ■■ GO Bonds Fiscal 2004 Series F 2.06%, 01/07/05	50,000	50,000
+ ■ M/F Mortgage RB (2 Gold St) Series 2003A 1.95%, 01/07/05	500	500	New York State Dormitory Auth		
+ ■ M/F Rental Housing RB (One Columbus Place) Series 1998A 1.99%, 01/07/05	51,200	51,200	+ ■■ State University Educational Facilities RB Series 2000B 1.99%, 01/07/05	20,000	20,000
+ ■ M/F Rental Housing RB (Sierra) Series 2003A 1.99%, 01/07/05	9,300	9,300	New York State Energy Research Dev Auth		
New York City IDA			+ ■■ Gas Facilities RB (Brooklyn Union Gas) Series 1996 2.01%, 01/07/05	1,570	1,570
+ ■ Special Facility RB (Korean Air Lines) Series 1997A 1.99%, 01/07/05	31,400	31,400	New York State HFA		
New York City Municipal Water Finance Auth			+ ■ Housing RB (101 West End Ave) Series 1998A 1.99%, 01/07/05	13,200	13,200
+ ■■ Water & Sewer System RB Series 1995A 2.17%, 01/03/05	1,600	1,600	+ ■ Housing RB (150 E44th St) Series 2000A 1.99%, 01/07/05	43,500	43,500
+ ■■ Water & Sewer System RB Series 1996B 2.01%, 01/07/05	9,995	9,995	+ ■ Housing RB (250 W50th St) Series 1997A 1.98%, 01/07/05	57,000	57,000
■■ Water & Sewer System RB Series 2000C 2.18%, 01/03/05	23,700	23,700	+ ■ Housing RB (345 E94th St) Series 1998A 1.99%, 01/07/05	5,265	5,265
■■ Water & Sewer System RB Series 2001 F-2 1.96%, 01/07/05	10,000	10,000	+ ■ Housing RB (350 W43rd St) Series 2004A 1.99%, 01/07/05	9,400	9,400
			+ ■ Housing RB (350 W43rd St) Series 2002A 1.99%, 01/07/05	5,000	5,000
			+ ■ Housing RB (Avalon Chrystie Place I) Series 2004A 1.96%, 01/07/05	20,000	20,000

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)
+ ■ Housing RB (E84th St) Series 1995A 1.98%, 01/07/05 + ■ Housing RB (The Helena) Series 2003A 1.98%, 01/07/05 + ■ Housing RB (Union Square South) Series 1996A 1.98%, 01/07/05 + ■ Housing RB (W20th St) Series 2001A 2.02%, 01/07/05	 11,300 12,200 14,000 33,000	 11,300 12,200 14,000 33,000	Yonkers IDA + ■ Civic Facility RB (Consumers Union) Series 1994 2.00%, 01/07/05	 440 	 440 624,390
New York State Mortgage Agency ■ ■ Homeowner Mortgage RB Series 79 2.03%, 01/07/05 ■ ■ Homeowner Mortgage RB Series 77A 1.20%, 02/03/05 ■ ■ S/F Mortgage RB Series 92 2.03%, 01/07/05	 14,995 10,700 3,685	 14,995 10,700 3,685	North Carolina 2.0% Charlotte + ■ Airport Refunding RB Series 1997A 2.01%, 01/07/05	 37,400 	 37,400
Pittsford Central SD GO BAN 2004B 1.50%, 06/29/05 1.55%, 06/29/05	 12,500 7,500	 12,590 7,554	Durham Housing Auth + ■ M/F Housing RB (Pendleton Townhomes) Series 2001 2.06%, 01/07/05	 5,490 	 5,490
Port Auth of New York & New Jersey TECP Series A 1.79%, 03/04/05	 3,000	 3,000	Forsyth Cnty + ■ RB (Plymouth Printing Co) Series 1998 2.09%, 01/07/05	 1,140 	 1,140
Smithtown Central SD 2004-2005 TAN 1.58%, 06/29/05	 12,490	 12,576	Gates Cnty Industrial Facilities & Pollution Control Financing Auth + ■ IDRB (Coxe-Lewis Corp) Series 1999 2.14%, 01/07/05	 970 	 970
Tompkins Cnty IDA ■ Civic Facility RB (Cornell Univ) Series 2002A 1.97%, 01/07/05	 8,400	 8,400	Guilford Cnty Industrial Facilities & Pollution Control Financing Auth + ■ IDRB (Metalcraft of Mayville SE Mnfg) Series 1997 2.05%, 01/07/05	 1,300 	 1,300
Triborough Bridge & Tunnel Auth ■ ■ General Refunding RB Series 2002B 2.01%, 01/07/05	 9,995	 9,995	Hertford Cnty Industrial Facilities & Pollution Control Financing Auth IDRB (Nucor Corp) Series 2000A ■ 2.02%, 01/07/05 ■ 2.18%, 01/07/05	 17,500 26,500	 17,500 26,500
Westchester Cnty IDA + ■ IDRB (Levister Redevelopment Co) Series 2001A 1.98%, 01/07/05	 1,000	 1,000	Johnston Cnty Industrial Facilities & Pollution Control Financing Auth + ■ IDRB (Flanders Corp) Series 1998 2.05%, 01/07/05	 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)
North Carolina Educational Facilities Finance Agency			Wake Cnty Housing Auth		
+■ Educational Facilities RB (High Point Univ) Series 1997 1.99%, 01/07/05	4,410	4,410	+■ M/F Housing RB (Walnut Ridge Apts) Series 2000 2.06%, 01/07/05	9,975	9,975
+■ Educational Facilities RB (Queens College) Series 1999B 1.99%, 01/07/05	5,755	5,755	Wilmington Housing Auth		
			+■ M/F Housing RB (Garden Lakes Estates) Series 1999 2.06%, 01/07/05	7,055	7,055
					261,899
North Carolina HFA			North Dakota 0.3%		
■ Home Ownership RB Series 1A 1.62%, 07/14/05	12,000	12,000	North Dakota HFA		
Piedmont Triad Airport Auth			Home Mortgage Finance Program Series 2004B		
+■ Airport RB Series 2004B 2.05%, 01/07/05	19,500	19,500	■ 2.01%, 01/07/05	12,990	12,990
Rockingham Cnty Industrial Facilities & Pollution Control Financing Auth			■ 2.01%, 01/07/05	11,735	11,735
+■ IDRB (McMichael Mills) Series 1997 2.04%, 01/07/05	1,100	1,100	Richland Cnty		
Rowan Cnty Industrial Facilities & Pollution Control Financing Auth			+■ Solid Waste Disposal RB (Minn-Dak Farmers Coop) Series 1996A 2.30%, 01/07/05	7,250	7,250
+■ IDRB (Taylor Clay Products) Series 1999 2.04%, 01/07/05	3,400	3,400	+■ Solid Waste Disposal RB (Minn-Dak Farmers Coop) Series 1996B 2.30%, 01/07/05	665	665
Sampson Cnty Industrial Facilities & Pollution Control Finance Auth					32,640
+■ IDRB (Crumpler Plastic Pipe) Series 1999 2.09%, 01/07/05	2,600	2,600	Ohio 1.6%		
Union Cnty Industrial Facilities & Pollution Control Financing Auth			Akron, Bath & Copley Joint Township Hospital District		
+■ RB (Rock-Tenn Converting Co) Series 1997 2.06%, 01/07/05	1,750	1,750	+■ Hospital Facilities RB (Summa Health System) Series 2004B 2.01%, 01/07/05	7,500	7,500
Wake Cnty			Cleveland		
■ Public Improvement Bonds Series 2003B 1.30%, 04/01/05	28,000	28,082	+■ Airport System RB Series 1997D 2.01%, 01/07/05	35,640	35,640
■ School Bonds Series 2004A 1.13%, 04/01/05	30,000	30,064	Cuyahoga Cnty		
■ School Bonds Series 2004B 1.13%, 04/01/05	41,320	41,408	+■ Economic Development RB (Hathaway Brown School) Series 1999 2.02%, 01/07/05	9,450	9,450
			Hamilton		
			+■ Electric System Refunding RB Series 2002A 1.99%, 01/07/05	5,210	5,210

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ × 1,000)	Value (\$ × 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ × 1,000)	Value (\$ × 1,000)
Ohio			Oklahoma 1.0%		
■ Infrastructure Improvement Refunding GO Bonds Series 2004A 1.98%, 01/07/05	1,000	1,000	■ Muldrow Public Works Auth ■ IDRB (OK Foods) Series 1995 2.10%, 01/07/05	5,000	5,000
■ RB (Pooled Financing) Series 2004 2.01%, 01/07/05	9,820	9,820	■ Oklahoma Cnty Industrial Auth ■ RB (National Cowboy Hall of Fame) Series 1999 2.00%, 01/07/05	1,080	1,080
Ohio Air Quality Development Auth			Oklahoma Development Finance Auth		
■ Air Quality Development RB (JMG Funding) Series 1994A 2.01%, 01/07/05	30,725	30,725	■ RB (Shawnee Funding) Series 1996 2.06%, 01/07/05	3,100	3,100
■ Air Quality Development RB (JMG Funding) Series 1994B 2.10%, 01/07/05	14,400	14,400	Oklahoma HFA		
Ohio HFA			■ S/F Mortgage RB Series 1998B-2 & 2000C-2 2.08%, 01/07/05	3,300	3,300
■ M/F Refunding RB (10 Wilmington Place) Series 1991B 2.00%, 01/07/05	8,945	8,945	Oklahoma Student Loan Auth		
■ Residential Mortgage RB 2001C 2.11%, 01/07/05	6,195	6,195	■ Student Loan Bonds & Notes Series 1996A 2.00%, 01/07/05	32,580	32,580
Ohio Higher Educational Facility Commission			■ Student Loan Bonds & Notes Series 1997A 2.03%, 01/07/05	33,000	33,000
■ Higher Educational Facility RB (Pooled Financing) Series 2003B 2.01%, 01/07/05	4,900	4,900	■ Student Loan Bonds & Notes Series 1998A 2.03%, 01/07/05	33,100	33,100
Port of Greater Cincinnati Development Auth			■ Student Loan Bonds & Notes Series 2000A-4 2.03%, 01/07/05	10,945	10,945
■ RB (National Underground Railroad Freedom Center) Series 2003A 2.05%, 01/07/05	15,000	15,000	Tulsa IDA		
University of Cincinnati			■ RB (YMCA) Series 1999 2.00%, 01/07/05	2,500	2,500
General Receipts BAN Series 2004C 1.03%, 03/28/05	37,122	37,207			
1.13%, 03/28/05	5,000	5,010	Oregon 1.9%		
■ General Receipts Bonds Series 2004B 1.99%, 01/07/05	20,000	20,000	Oregon		
		211,002	■ TAN Series 2004A 2.05%, 01/07/05	25,000	25,000
			1.77%, 06/30/05	71,750	72,182
			Oregon Economic Development Comm		
			■ Economic Development RB (Pendleton Flour Mills) Series 1997-182 2.05%, 01/07/05	3,875	3,875

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)
Oregon Health & Science University			Pennsylvania 7.1%		
+ ■ Economic Development RB (Kettle Foods) 1998 Series 196 2.07%, 01/07/05	4,760	4,760	+ ■ Hospital RB (Magee-Womens Hospital) Series 1993 2.01%, 01/07/05	5,000	5,000
+ ■ Special RB (OHSU Medical Group) Series 2004A 1.96%, 01/07/05	10,000	10,000	+ ■ RB (UPMC Senior Communities) Series 2003 2.00%, 01/07/05	250	250
Oregon Health, Housing, Educational & Cultural Facilities Auth			Allegheny Cnty Port Auth		
+ ■ RB (Quatama Crossing) Series 1998A 2.05%, 01/07/05	8,510	8,510	+ Grant Anticipation Notes Series 2004 1.63%, 06/30/05	15,000	15,100
Oregon Housing & Community Services Dept			Berks Cnty		
■ S/F Mortgage RB Series 20030 1.25%, 01/07/05	40,000	40,000	+ ■ RB (Beacon Container) Series 1998A 2.14%, 01/07/05	745	745
■ S/F Mortgage RB Series 2003M 1.20%, 01/07/05	7,000	7,000	Cambria Cnty IDA		
■ S/F Mortgage RB Series 2004D 1.16%, 05/05/05	12,800	12,800	+ ■ Resource Recovery RB (Cambria Cogen Co) Series 1998A-1 2.00%, 01/07/05	90,000	90,000
■ S/F Mortgage RB Series 2004E 1.21%, 05/05/05	13,400	13,400	+ ■ Resource Recovery RB (Cambria Cogen Co) Series 1998A-2 2.24%, 01/07/05	14,430	14,430
+ ■ S/F Mortgage RB Series 2004L 2.03%, 01/07/05	5,000	5,000	Central Bucks SD		
S/F Mortgage RB Series 2004R 2.15%, 09/01/05	5,500	5,500	+ ■ GO Series 2000A 2.04%, 01/07/05	1,550	1,550
Port of Portland			Chester IDA		
+ ■ Special Obligation RB (Portland Bulk Terminals) Series 1996 2.04%, 01/07/05	28,000	28,000	+ ■ RB (Archdiocese of Philadelphia) Series 2001 2.10%, 01/03/05	13,050	13,050
+ ■ Special Obligation RB (Portland Bulk Terminals) Series 1999 2.04%, 01/07/05	4,500	4,500	Clarion Cnty IDA		
Portland			+ ■ Energy Development RB (Piney Creek) Series 1990 2.01%, 01/07/05	16,065	16,065
+ ■ M/F Housing RB (Village of Lovejoy Fountain) Series 1997 2.07%, 01/07/05	8,500	8,500	Daniel Boone Area SD		
			+ ■ GO Bonds Series 2004 1.99%, 01/07/05	5,895	5,895
			Dauphin Cnty General Auth		
			+ ■ RB (Education & Health Loan) Series 1997 2.04%, 01/07/05	6,880	6,880
		249,027			

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 Cnty IDA			+■ School RB (Friends' Central School) Series 2002		
+■ Hospital RB (Crozer-Chester Medical Ctr) Series 2002			2.04%, 01/07/05	4,800	4,800
1.99%, 01/07/05	1,700	1,700	Montgomery Cnty Redevelopment Auth		
Delaware Valley Regional Finance Auth			+■ M/F Housing RB (Kingswood Apts) Series 2001A		
+▶■ Local Government RB Series 1998A			1.95%, 01/07/05	1,205	1,205
2.07%, 01/07/05	14,510	14,510	+■ M/F Housing Refunding RB (Glenmore Associates) Series 1995A		
Emmaus General Auth			2.01%, 01/07/05	750	750
+▶■ Bonds Series 1996			Northhampton Cnty		
1.99%, 01/07/05	3,125	3,125	+▶■ County Agreement RB Series 2001		
Erie SD			2.04%, 01/07/05	6,995	6,995
+▶■ GO Bonds Series 2001A			Norwin SD		
2.04%, 01/07/05	15,845	15,845	+▶■ GO Bonds Series 2001A		
Harrisburg Auth			2.04%, 01/07/05	12,500	12,500
+▶■ Water Refunding RB Series 2002B			Pennsylvania		
2.04%, 01/07/05	2,000	2,000	+▶■ GO Bonds First Series 1995		
+▶■ Water Refunding RB Series 2003A			2.03%, 01/07/05	1,000	1,000
2.04%, 01/07/05	13,600	13,600	■ GO Bonds First Series 2001		
Lampeter-Strasburg SD			2.07%, 01/07/05	6,860	6,860
+▶■ GO Bonds Series 2004A			+▶■ GO Bonds First Series 2003		
2.02%, 01/07/05	6,000	6,000	2.01%, 01/07/05	300	300
Lancaster Cnty Hospital Auth			+▶■ GO Bonds Second Series 2002		
+▶■ Health Center RB (Masonic Homes) Series 2002			2.01%, 01/07/05	14,995	14,995
1.99%, 01/07/05	17,435	17,435	Pennsylvania Convention Center Auth		
Manheim Township SD			+▶■ RB Series 1989A		
+▶■ GO Bonds Series 2004			2.01%, 01/07/05	4,500	4,500
2.01%, 01/07/05	7,000	7,000	Pennsylvania Economic Development Financing Auth		
Mercer Cnty			+■ Exempt Facilities RB (Amtrak) Series 2001B		
+▶■ GO Bonds Series 2001			2.03%, 01/07/05	8,700	8,700
2.04%, 01/07/05	9,000	9,000	■ Exempt Facilities RB (Merck & Co) Series 2001		
Montgomery Cnty IDA			2.11%, 01/07/05	15,700	15,700
+■ Pollution Control Refunding RB (PECO Energy Co) Series 1999A			Pennsylvania Energy Development Auth		
2.00%, 01/07/05	14,000	14,000	+■ Energy Development RB (B&W Ebensburg) Series 1986		
Pollution Control Refunding RB (Peco Energy Co) Series 1994A			2.01%, 01/07/05	10,190	10,190
+ 1.25%, 01/06/05	9,000	9,000			
+ 1.80%, 01/13/05	19,160	19,160			

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)
+ ■ Energy Development RB (Piney Creek) Series 1986A 2.01%, 01/07/05	18,480	18,480	+ ■ Student Loan RB Series 2003A-1 2.05%, 01/07/05	7,000	7,000
+ ■ Energy Development RB (Piney Creek) Series 1986C 2.01%, 01/05/05	4,155	4,155	+ ■ Student Loan RB Series 2003A-2 2.05%, 01/07/05	38,000	38,000
+ ■ Energy Development RB (Westrum Hanover) Series 2004 2.05%, 01/07/05	5,900	5,900	Pennsylvania Intergovernmental Cooperation Auth		
Pennsylvania HFA			+ ■ Special Tax Refunding RB (Philadelphia Funding Program) Series 2003 2.00%, 01/07/05	28,900	28,900
+ ■ S/F Mortgage RB Drawdown Series 2003 2.06%, 01/07/05	6,920	6,920	Pennsylvania Public School Building Auth		
■ S/F Mortgage RB Series 1999A 1.35%, 01/13/05	18,820	18,820	+ ■ School Lease RB (Philadelphia SD) Series 2003 2.03%, 01/07/05	5,900	5,900
■ S/F Mortgage RB Series 2002-74B 2.04%, 01/07/05	1,895	1,895	+ ■ School RB (Parkland SD) Series 1999D 2.04%, 01/07/05	18,865	18,865
■ S/F Mortgage RB Series 2004-83C 1.95%, 01/03/05	8,000	8,000	Pennsylvania State University		
■ S/F Mortgage RB Series 2004-84C 1.99%, 01/07/05	2,000	2,000	■ RB Series 2001A 1.98%, 01/07/05	1,300	1,300
■ S/F Mortgage RB Series 2004-84D 1.99%, 01/07/05	22,100	22,100	Philadelphia		
■ S/F Mortgage RB Series 1998-64 2.08%, 01/07/05	495	495	+ ■ Water & Wastewater Refunding RB Series 2003 1.97%, 01/07/05	9,800	9,800
Pennsylvania Higher Education Assistance Agency			Philadelphia Gas Works		
+ ■ Student Loan RB Series 1988A 1.93%, 01/07/05	38,600	38,600	+ Gas Works Revenue Notes TECP Series D 2.15%, 01/04/05	37,000	37,000
+ ■ Student Loan RB Series 1988B 1.93%, 01/07/05	25,000	25,000	+ ■ RB Third Series 2001 2.01%, 01/07/05	5,995	5,995
+ ■ Student Loan RB Series 1994A 1.93%, 01/07/05	16,000	16,000	Philadelphia Hospital & Higher Education Facilities Auth		
+ ■ Student Loan RB Series 1997A 2.05%, 01/07/05	25,650	25,650	+ ■ RB (Wills Eye Hospital) Series 2000 2.00%, 01/07/05	7,000	7,000
+ ■ Student Loan RB Series 1999A 2.01%, 01/07/05	35,000	35,000	Philadelphia IDA		
+ ■ Student Loan RB Series 2000A 2.05%, 01/07/05	39,225	39,225	+ ■ Airport RB Series 1998A 1.35%, 01/13/05	12,710	12,710
+ ■ Student Loan RB Series 2001A 2.05%, 01/07/05	21,900	21,900	+ ■ RB (City Line Holiday Inn) Series 1996 1.95%, 01/07/05	6,800	6,800

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)
Quakertown General Auth			Rhode Island IDA		
+■ RB (Pooled Financing Program) Series 1998A 1.90%, 01/07/05	335	335	+■ IDRB (Greystone of Lincoln) 2000 Series 2.20%, 01/07/05	1,700	1,700
Temple University			Rhode Island Student Loan Auth		
University Funding Obligations Series 2004 1.27%, 05/02/05 1.84%, 05/02/05	29,800 9,000	29,896 9,012	+►■ Student Loan Program RB 1995 Series 1 2.01%, 01/07/05	30,000	30,000
University of Pittsburgh			+►■ Student Loan Program RB 1996 Series 1 2.01%, 01/07/05	19,000	19,000
Pitt Asset Notes Series 2004 1.57%, 10/14/05	8,000	8,088	+►■ Student Loan Program RB 1996 Series 2 2.01%, 01/07/05	6,900	6,900
Washington Cnty Lease Auth			+►■ Student Loan Program RB 1996 Series 3 2.01%, 01/07/05	23,000	23,000
+■ Municipal Facilities Lease RB (Reading II) Series 1985 A-1-B 2.00%, 01/07/05	7,400	7,400			
■ Refunding RB (Univ of Pennsylvania) Series 2004 1.96%, 01/07/05	10,000	10,000			99,620
West Cornwall Twp Municipal Auth			South Carolina 1.2%		
+■ RB (Lebanon Valley Brethren Home) Series 1995 2.04%, 01/07/05	1,720	1,720	Berkeley Cnty SD		
		925,696	+►■ School Building Bonds Series 2002 1.44%, 01/07/05	7,575	7,575
Puerto Rico 0.0%			Florence Cnty Public Facilities Corp		
Puerto Rice Public Buildings Auth			+►■ Refunding COP (Law Enforcement & Civic Centers) Series 2003 2.00%, 01/07/05	27,290	27,290
+►■ Government Facilities RB Series B 2.00%, 01/07/05	1,500	1,500	Greenville IDA		
Puerto Rico Hwy & Transp Auth			+■ IDRB (Stevens Aviation Technical Services) Series 1997 2.09%, 01/07/05	3,500	3,500
+►■ Highway RB Series Y 1.99%, 01/07/05	1,800	1,800	Piedmont Municipal Power Agency		
+►■ Subordinated Transportation RB Series 2003 1.99%, 01/07/05	300	300	+►■ Electric RB Series 2004 B-5 1.95%, 01/07/05	10,000	10,000
		3,600	South Carolina Assn of Gov'tal Organizations		
Rhode Island 0.8%			COP Series 2004 1.53%, 04/15/05	15,000	15,052
Rhode Island Housing & Mortgage Finance Corp					
►■ Home Ownership Opportunity Bonds 1998 Series 29A 2.14%, 01/07/05	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)
South Carolina Housing & Develop Auth			South Dakota 0.4%		
+■ M/F Rental Housing RB (Ashley Apts) Series 1999 2.06%, 01/07/05	4,105	4,105	+■ RB (McKenna Hospital) Series 1994 2.05%, 01/07/05	27,240	27,240
+■ M/F Rental Housing RB (Piedmont Manor Apts) Series 2000B-1 2.06%, 01/07/05	5,755	5,755	South Dakota Housing Develop Auth		
+■ M/F Rental Housing RB (Spartanburg Terrace Apts) Series 2000C-1 2.06%, 01/07/05	1,960	1,960	■ Homeownership Mortgage Bonds Series 2003C-1 1.95%, 01/07/05	10,000	10,000
+■ M/F Rental Housing Refunding RB (Fairway Apts) Series 2001A 2.02%, 01/07/05	7,735	7,735	■ Homeownership Mortgage Bonds Series 2004G 1.95%, 01/07/05	11,000	11,000
South Carolina Jobs Economic Develop Auth			+■ M/F Housing RB (Harmony Heights) Series 2001 2.15%, 01/07/05	6,500	6,500
+■ Economic Development RB (Holcim) Series 2003 2.15%, 01/07/05	6,250	6,250			54,740
+■ Economic Development RB (Thomas & Betts Corp) Series 1997 2.09%, 01/07/05	3,250	3,250	Tennessee 3.3%		
+■ IDRB (Sanders Brothers Construction Co) Series 1996 2.09%, 01/07/05	700	700	Bristol Health & Educational Facilities Board		
South Carolina Public Service Auth			+■ RB (King College) Series 2001 2.00%, 01/07/05	1,650	1,650
▶ TECP 1.85%, 01/25/05	29,701	29,701	Carter Cnty IDB		
South Carolina Transportation Infrastructure Bank			+■ M/F Housing Refunding RB (Willow Run Apts) Series 1990 2.20%, 01/07/05	6,675	6,675
+■ RB Series 1999A 2.04%, 01/07/05	22,610	22,610	Chattanooga Health, Education & Housing Facilities Board		
Spartanburg Cnty IDA			+■ RB (Baylor School) Series 1996 2.00%, 01/07/05	2,035	2,035
+■ Refunding IDRB (Bemis Co) Series 1991 2.04%, 01/07/05	4,750	4,750	+■ THA Program RB (Cumberland Medical Ctr) Series 2004A 2.00%, 01/07/05	40,800	40,800
		150,233	Clarksville Public Build Auth		
			+■ Pooled Financing RB Series 2001 2.15%, 01/03/05	3,240	3,240
			Franklin Co IDB		
			+■ IDRB (Hi-Tech) Series 1997 2.05%, 01/07/05	3,800	3,800
			Grundy Cnty IDB		
			+■ Limited Obligation RB (Toyo Seat USA Corp) Series 2001 2.20%, 01/07/05	3,795	3,795

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)
Hendersonville IDB			+■ IDRB (Bindtech) Series 1997		
+■ Refunding IDRB (Betty Machine Co) Series 2001			2.05%, 01/07/05	2,850	2,850
2.06%, 01/07/05	3,445	3,445	+■ M/F Housing RB (Arbor Crest) Series 1985B		
Huntingdon IDB			2.01%, 01/07/05	12,550	12,550
+■ IDRB (Associated Rubber Co) Series 1999			+■ M/F Housing RB (Arbor Knoll) Series 1985A		
2.06%, 01/07/05	2,200	2,200	2.01%, 01/07/05	13,400	13,400
Jackson Energy Auth			+■ RB (Nashville Symphony Hall) Series 2004		
+■ Gas System RB Series 2002			2.00%, 01/07/05	13,000	13,000
2.00%, 01/07/05	5,730	5,730	Metropolitan Nashville Airport Auth		
+■ Water System RB Series 2002			+■ Passenger Facility Charge Refunding Bonds Series 2003		
2.00%, 01/07/05	4,800	4,800	2.06%, 01/07/05	6,300	6,300
Jackson IDB			Sevier Cnty Public Building Auth		
+■ Solid Waste Facility Bonds (Ameristeel Corp) Series 1997			+■ Public Improvement Bonds Series 1995 C-1		
2.05%, 01/07/05	3,800	3,800	2.00%, 01/07/05	2,975	2,975
McMinn Cnty IDA			+■ Public Improvement Bonds Series 1996 E-4		
+■ Solid Waste Disposal Facilities RB (Bowater) Series 1999			2.00%, 01/07/05	2,340	2,340
2.04%, 01/07/05	13,500	13,500	+■ Public Improvement Bonds Series 1996 E-5		
Memphis Health, Educational & Housing Facility Board			2.00%, 01/07/05	1,310	1,310
+■ M/F Housing Refunding RB (Watergrove Apts) Series 2004			+■ Public Improvement Bonds Series 1996 F-1		
2.00%, 01/07/05	7,945	7,945	2.00%, 01/07/05	8,700	8,700
Metropolitan Govt of Nashville & Davidson Cnty			+■ Public Improvement Bonds Series 1996 F-2		
GO TECP			2.00%, 01/07/05	4,775	4,775
1.85%, 01/11/05	15,000	15,000	+■ Public Improvement Bonds Series 1996 G		
1.78%, 03/16/05	15,000	15,000	2.00%, 01/07/05	4,810	4,810
Metropolitan Govt of Nashville & Davidson Cnty Health & Educational Facilities Board			+■ Public Improvement Bonds Series 1996 II-C		
■ RB (Ascension Health) Series 2001 B-1			2.00%, 01/07/05	805	805
1.65%, 08/03/05	4,000	4,000	+■ Public Improvement Bonds Series 1998 III-C-1		
+■ RB (Ensworth School) Series 2002			2.00%, 01/07/05	7,980	7,980
2.00%, 01/07/05	7,525	7,525	Shelby Cnty		
Metropolitan Govt of Nashville Davidson Cnty IDB			TAN Series 2004		
+■ Educational Facilities Refunding RB (David Lipscomb Univ) Series 2003			1.52%, 06/30/05	31,300	31,525
2.00%, 01/07/05	8,500	8,500			

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)
Shelby Cnty Health, Education & Housing Facility Board			Bexar Cnty Health Facilities Development Corp.		
➤■ Educational Facilities RB (Rhodes College) Series 2000 2.00%, 01/07/05	9,545	9,545	➤■ Health Care RB (Chandler Memorial Home) Series 1995 2.02%, 01/07/05	3,700	3,700
➤■ M/F Housing RB (TUP I) Series 1997A 2.15%, 01/07/05	5,000	5,000	Brazos River Auth		
➤■ RB (St. Benedict at Auburndale High School) Series 2003 2.04%, 01/07/05	5,000	5,000	➤■ Pollution Control Refunding RB (TXU Electric Co) Series 2001D-1 2.03%, 01/07/05	14,300	14,300
Tennessee			Collin Cnty HFA		
GO TECP Series A 1.77%, 01/04/05	15,000	15,000	➤■ M/F Housing RB (Huntington Apts) Series 1996 2.08%, 01/07/05	6,150	6,150
1.80%, 03/07/05	20,000	20,000	Dallas		
1.83%, 03/09/05	10,000	10,000	▶ Waterworks & Sewer System CP Notes Series B 1.77%, 03/07/05	14,475	14,475
Tennessee Housing Development Agency			Dallas Area Rapid Transit		
▶■ Homeownership Program Bonds Series 2001-1C 2.12%, 01/07/05	7,350	7,350	➤▶■ Senior Lien Sales Tax RB Series 2001 2.04%, 01/07/05	16,130	16,130
Volunteer Student Loan Funding Corp			Dallas-Fort Worth International Airport		
➤■ Student Loan RB Series 1987 A-1 2.02%, 01/07/05	15,000	15,000	➤▶■ Airport Joint Improvement RB Series 2003A 1.65%, 01/07/05	9,995	9,995
➤■ Student Loan RB Series 1987 A-2 2.02%, 01/07/05	13,700	13,700	➤▶■ Joint Improvement & Refunding RB Series 2002A 2.08%, 01/07/05	8,995	8,995
➤■ Student Loan RB Series 1987 A-3 2.02%, 01/07/05	59,700	59,700	Joint RB Series 2003A 2.06%, 01/07/05	2,500	2,500
		427,055	➤▶■ 2.08%, 01/07/05	3,370	3,370
Texas 11.0%			■ Refunding RB (United Parcel Service) Refunding RB Series 2002 2.10%, 01/03/05	4,900	4,900
Amarillo Health Facility Corp			Denton Utility System		
➤■ Hospital RB (Panhandle Pooled Health Care Loan) Series 1985 2.10%, 01/07/05	3,000	3,000	➤▶■ Utility System RB Series 2000A 2.03%, 01/07/05	5,230	5,230
Austin			El Paso		
▶■ Public Improvement Bonds Series 2000 2.04%, 01/07/05	6,000	6,000	➤▶■ Water & Sewer Refunding RB Series 1998 2.14%, 01/07/05	10,610	10,610
➤▶■ Water & Wastewater Refunding RB Series 2001A&B 2.06%, 01/07/05	1,225	1,225	El Paso Independent SD		
			▶■ Unlimited Tax School Building Bonds Series 2004B 2.00%, 01/07/05	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)
Garland Independent SD			Harris Cnty		
➔■ Unlimited Tax School Building Bonds Series 2004B 2.05%, 06/15/05	7,125	7,125	➔■ Junior Lien Special RB (Rodeo) Series 2001C 2.00%, 01/07/05	1,900	1,900
Grand Prairie IDA			■ TAN Series 2004 2.05%, 01/07/05	63,975	63,975
➔■ IDRB (NTA Leasing Co) Series 1994 2.15%, 01/07/05	1,400	1,400	Harris Cnty Flood Control Dist		
Grapevine IDA			➔ 1.80%, 03/03/05	3,500	3,500
➔■ Airport Improvement RB (Simuflite Training Int'l) Series 1983A 1.15%, 04/01/05	18,975	18,975	➔ 1.86%, 03/03/05	5,605	5,605
Greater East Texas Student Loan Corp			Harris Cnty Health Facility Development Corp		
Student Loan RB Series 1992B			➔■ RB (SCH Health Care) Series 1997B 2.04%, 01/07/05	14,850	14,850
➔■ 1.80%, 07/01/05	14,000	14,000	Harris Cnty HFA		
➔■ 2.05%, 01/07/05	30,200	30,200	➔■ M/F Housing RB (Dominion Square Apts) Series 2000 2.14%, 01/07/05	2,860	2,860
➔■ Student Loan RB Series 1995B 1.80%, 07/01/05	10,000	10,000	➔■ M/F Housing RB (Village At Cornerstone Apts) Series 2004 2.03%, 01/07/05	8,360	8,360
➔■ Student Loan RB Series 1998A 2.05%, 01/07/05	10,250	10,250	Houston		
➔■ Student Loan Refunding RB Series 1993A 2.05%, 01/07/05	48,150	48,150	■ Public Improvement Refunding Bonds Series 1998A 2.04%, 01/07/05	21,655	21,655
➔■ Student Loan Refunding RB Series 1993B 2.05%, 01/07/05	7,000	7,000	■ TRAN Series 2004 2.05%, 01/07/05	13,460	13,460
➔■ Student Loan Refunding RB Series 1995A 2.05%, 01/07/05	35,700	35,700	➔■ Water & Sewer System Junior Lien Refunding RB Series 2002A 2.07%, 01/07/05	6,530	6,530
➔■ Student Loan Refunding RB Series 1996A 2.05%, 01/07/05	56,000	56,000	Houston Independent SD		
Gregg Cnty Health Facilities Dev Corp			■ Limited Tax Schoolhouse & Refunding Bonds Series 2003 1.73%, 06/15/05	97,270	97,270
➔■ Hospital RB (Good Shepherd Medical Ctr) Series 2004 1.99%, 01/07/05	21,400	21,400	■ Limited Tax Schoolhouse Bonds Series 2004 1.75%, 06/09/05	105,000	104,941
Gulf Coast Industrial Development Auth			Jewett Economic Development Corp		
➔■ IDRB (Gruma Corp) Series 1994 2.10%, 01/07/05	6,440	6,440	■ IDRB (Nucor Corp) Series 2003 2.08%, 01/07/05	6,200	6,200
Gulf Coast Waste Disposal Auth					
■ Solid Waste Disposal RB (Amoco Oil Co) Series 1991 1.32%, 04/01/05	9,200	9,200			

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)
Katy Independent SD			Panhandle Plains Higher Education Auth		
+►■• Unlimited Tax School Building Bonds Series 2000A 2.04%, 01/07/05	10,145	10,145	+►■ Student Loan RB Series 1991A 2.01%, 01/07/05	20,700	20,700
►■ Unlimited Tax School Building Bonds Series 2004C 2.00%, 01/07/05	38,000	38,000	Student Loan RB Series 1992A +►■ 2.01%, 01/07/05	10,500	10,500
Lavaca-Navidad River Auth			+►■ 2.01%, 01/07/05	7,300	7,300
+■ Water Supply System Contract RB (Formosa Plastics Corp) Series 1990 2.08%, 01/07/05	13,600	13,600	+►■ Student Loan RB Series 1993A 2.01%, 01/07/05	5,400	5,400
Leander Independent SD			San Antonio IDA		
+►■• Unlimited Tax School Building & Refunding Bonds Series 2003 1.28%, 02/23/05	10,000	10,000	+■ IDRB (Gruma Corp) Series 1994 2.10%, 01/07/05	4,095	4,095
Lower Colorado River Auth			Southeast Texas HFA		
+►■• Refunding RB Series 1999A 2.04%, 01/07/05	10,770	10,770	S/F Mortgage Refunding & RB Series 1998A +►■• 2.08%, 01/07/05	4,665	4,665
Lower Neches Valley Auth			►■• 2.08%, 01/07/05	4,735	4,735
■ Pollution Control RB (Chevron USA) Series 1987 1.28%, 02/15/05	10,540	10,540	Texas		
Lubbock Independent SD			GO College Student Loan & Refunding Bonds Series 2003		
+►■▲ Unlimited Tax School Building Bonds Series 2005-A 2.20%, 12/15/05	23,050	23,296	►■ 1.80%, 07/01/05	10,130	10,130
Mansfield IDA			►■ 1.80%, 07/01/05	15,560	15,560
+■ IDRB (Southern Champion Tray) Series 1999 2.06%, 01/07/05	1,900	1,900	TRAN Series 2004 1.60%, 08/31/05	100,820	101,741
Matagorda Cnty Navigation District # 1			►■• 2.05%, 01/07/05	88,000	88,000
+►■• Refunding RB (Houston Lighting & Power Co) 1.76%, 01/07/05	19,385	19,385	►■ Veterans' Housing Assistance Program Fund II Series 2002 A-2 2.00%, 01/07/05	6,000	6,000
Midlothian Independent SD			Texas A&M University		
+►■• Unlimited Tax School Building & Refunding Bonds Series 2004 2.03%, 01/07/05	8,840	8,840	►■ Permanent University Fund Bonds Series 1998 2.04%, 01/07/05	28,445	28,445
North Texas Higher Education Auth			Texas Dept of Housing & Community Affairs		
+■◆ Student Loan RB Series 1987 2.00%, 01/07/05	87,750	87,750	+■ M/F Housing RB (Bristol Apts) Series 2004 2.03%, 01/07/05	8,625	8,625
+■ Student Loan RB Series 1998 1.98%, 01/07/05	9,000	9,000	+■ M/F Housing RB (Creek Point Apts) Series 2000 2.03%, 01/07/05	7,100	7,100
			+■ M/F Housing RB (Montgomery Pines Apts) Series 2004 2.03%, 01/07/05	12,300	12,300
			+■ M/F Housing RB (Pinnacle Apartments) Series 2004 2.03%, 01/07/05	7,000	7,000

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)
►■ Residential Mortgage RB Series 1998A 2.14%, 01/07/05	14,950	14,950	University of Utah ►■ Auxiliary & Campus Facilities System Refunding & RB Series 1998A 2.04%, 01/07/05	30,060	30,060
►■ S/F Mortgage RB Series 2002A&B 2.08%, 01/07/05	4,160	4,160	►■ Student Loan RB Series 1993A 1.98%, 01/07/05	15,000	15,000
►■ S/F Mortgage RB Series 2004D 2.05%, 01/07/05	10,950	10,950	►■ Student Loan RB Series 1995I 1.98%, 01/07/05	27,500	27,500
Texas Municipal Gas Corp ►■ Senior Lien Gas Reserve RB Series 1998 2.00%, 01/07/05	2,385	2,385	Utah ►■ GO Highway Bonds Series 1998A 2.02%, 01/07/05	31,085	31,085
Texas Public Finance Auth ► Unemployment Compensation Obligation Accessment RB Series 2003C-1 1.80%, 04/05/05	45,000	45,000	Utah Building Ownership Auth ►■ Lease Refunding RB Series 1998C 2.04%, 01/07/05	9,695	9,695
Trinity River Auth ►■ Solid Waste Disposal RB (Community Waste Disposal) Series 1999 2.07%, 01/07/05	4,945	4,945	Woods Cross City ►■ M/F Housing Refunding RB (Springwood Apts) Series 2001A 1.99%, 01/07/05	3,605	3,605
Waco Education Finance Corp ►■ RB (Baylor Univ) Series 2002A 2.00%, 01/07/05	9,775	9,775			223,573
		1,427,313	Vermont 0.1% Vermont Economic Development Auth ►■ IDRB (Agri-Mark) Series 1999A 2.20%, 01/07/05	17,000	17,000
Utah 1.7% Davis Cnty SD TAN Series 2004 1.60%, 06/30/05	25,000	25,170	►■ IDRB (Agri-Mark) Series 1999B 2.20%, 01/07/05	1,000	1,000
Intermountain Power Agency ►■ Power Supply Refunding RB Series 1996C 2.03%, 01/07/05	15,330	15,330			18,000
Salt Lake City ►■ Hospital RB (IHC Health Services) Series 2001 2.04%, 01/07/05	26,730	26,730	Virginia 0.6% Fairfax Cnty Public Improvement Refunding Bonds Series 2003A 1.73%, 06/01/05	11,325	11,425
■ Pollution Control RB (Amoco) Series 1983 1.55%, 04/01/05	4,715	4,713	King George Cnty ►■ Solid Waste Disposal Facility RB (Garnet) Series 1996 2.05%, 01/07/05	3,700	3,700
►■ RB (Rowland Hall - St. Mark's School) Series 2001 2.00%, 01/07/05	9,515	9,515	Loudoun Cnty IDA ■ RB (Howard Hughes Medical Institute) Series 2003E 2.10%, 01/03/05	2,000	2,000
TRAN Series 2004 1.60%, 06/30/05	25,000	25,170			

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)
Montgomery Cnty IDA			Washington 3.3%		
➤■ RB (Virginia Tech Foundation) Series 2001A 1.99%, 01/07/05	8,900	8,900	Douglas Cnty Development Corp		
➤■ RB (Virginia Tech Foundation) Series 2001B 2.09%, 01/07/05	1,015	1,015	➤■ RB (Executive Flight) Series 1998 2.05%, 01/07/05	6,300	6,300
➤■ RB (Virginia Tech Foundation) Series 2002 1.99%, 01/07/05	4,485	4,485	Energy Northwest		
Newport News IDA			➤■• Columbia Generating Station & Project #3 Refunding Electric RB Series 2001A 2.04%, 01/07/05	29,700	29,700
➤■ RB (CNU Warwick Student Apts) Series 2004 2.00%, 01/07/05	4,300	4,300	➤■• Project #3 Refunding Electric RB Series 2003A 2.03%, 01/07/05	8,690	8,690
Norfolk			➤■• Project #3 Refunding Electric RB Series 2003D-3-2 2.00%, 01/07/05	8,000	8,000
➤■• Parking System Refunding & RB Series 2000B 2.04%, 01/07/05	9,450	9,450	➤■• Project #1 Refunding Electric RB Series 2002A 2.03%, 01/07/05	16,230	16,230
Norfolk Redevelopment & Housing Auth			Everett IDA		
➤■ RB (Old Dominion University Real Estate Foundation Student Housing) Series 2004B 2.00%, 01/07/05	6,000	6,000	■ Exempt Facilities RB (Kimberly-Clark Corp) Series 2002 2.05%, 01/07/05	3,200	3,200
Portsmouth Redevelopment & Housing Auth			➤■ RB (Partners Trust I) Series 1996 2.05%, 01/07/05	3,300	3,300
➤■ M/F Housing RB (Churchland North Apts) Series 1999 2.06%, 01/07/05	6,550	6,550	Olympia		
Richmond IDA			➤■ Solid Waste RB (LeMay Enterprises) Series 1999 2.07%, 01/07/05	5,905	5,905
➤■ Educational Facilities RB (Church Schools) Series 2002 2.00%, 01/07/05	9,640	9,640	Pierce Cnty		
Virginia Beach Development Auth			➤■ IDRB (McFarland Cascade) Series 1996 2.10%, 01/07/05	3,945	3,945
➤■ M/F Residential Rental Housing RB (Silver Hill at Thalia) Series 1999 2.06%, 01/07/05	4,200	4,200	➤■• Unlimited Tax GO Bonds Series 2001 2.04%, 01/07/05	43,655	43,655
Virginia Port Authority			Pierce Cnty Economic Development Corp		
Commonwealth Port Fund Refunding RB Series 1998 1.70%, 07/01/05	8,630	8,780	➤■ RB (Flex-A-Lite Consolidated) Series 1996 2.05%, 01/07/05	2,250	2,250
		80,445	➤■ RB (K&M Holdings II) Series 1997 2.32%, 01/07/05	1,300	1,300

	Face Amount	Value	Issuer	Face Amount	Value
Rate, Maturity Date	(\$ x 1,000)	(\$ x 1,000)	Rate, Maturity Date	(\$ x 1,000)	(\$ x 1,000)
• Solid Waste RB (LeMay Enterprises) Series 1999 2.07%, 01/07/05	2,145	2,145	Washington Economic Development Finance Auth		
Port of Centralia IDA			+■ Economic Development RB (Skills) Series 1998N	2,805	2,805
• Solid Waste RB (LeMay Enterprises) Series 1999 2.07%, 01/07/05	1,345	1,345	+■ IDRB (Tonkin Building Associates) Series 1997A	1,000	1,000
Port of Moses Lake Public Corp			+■ RB (Ace Tank) Series 1998	1,150	1,150
• RB (National Frozen Foods Corp) Series 1997 2.00%, 01/07/05	2,900	2,900	+■ RB (Hunter Douglas) Series 1997A	3,500	3,500
Port of Seattle			+■ Solid Waste Disposal RB (Cedar Grove Composting) Series 2004B	5,905	5,905
• RB Series 2001B 2.08%, 01/07/05	4,430	4,430	+■ Solid Waste Disposal RB (Waste Management) Series 2000C	5,500	5,500
• Special Facility RB (Terminal 18) Series 1999B 2.11%, 01/07/05	49,795	49,795	+■ Solid Waste Disposal RB (Waste Management) Series 2000H	6,825	6,825
Port of Tacoma			Solid Waste Disposal RB (Waste Management) Series 2000I	10,240	10,240
• Subordinate Lien Revenue TECP Series A 1.83%, 03/09/05	11,000	11,000	+■ 2.02%, 01/07/05	7,235	7,235
Seattle			+■ 2.08%, 01/07/05		
• Drainage & Wastewater Refunding & RB Series 2002 2.03%, 01/07/05	6,875	6,875	Washington Health Care Facilities Auth		
Seattle Housing Auth			+■ RB (Yakima Valley Farm Workers Clinic) Series 1997	3,200	3,200
• RB (CHHIP & HRG) Series 1996 2.05%, 01/07/05	3,410	3,410	Washington Housing Finance Comm		
• RB (Casa Pacifica Apts) Series 1997 2.05%, 01/07/05	2,950	2,950	+■ M/F Housing RB (Highlander Apts) Series 2004A	7,000	7,000
Tacoma Housing Auth			+■ M/F Housing RB (Lakewood Meadows Apts) Series 2000A	3,140	3,140
• RB (Crown Assisted Living) Series 1998 2.07%, 01/07/05	3,160	3,160	+■ M/F Housing RB (Rainier Court Apts) Series 2003A	12,750	12,750
Washington			+■ M/F Housing RB (Silver Creek Apts) Series 2004	4,100	4,100
• GO Bonds Series 1998C 2.04%, 01/07/05	12,150	12,150	+■ M/F Housing RB (Vintage at Burien) Series 2004A	6,570	6,570
• GO Bonds Series 2000B 2.04%, 01/07/05	13,380	13,380			
• GO Bonds Series 2003A 2.03%, 01/07/05	5,170	5,170			
• Unlimited GO Bonds Series B 2.04%, 01/07/05	30,485	30,485			

See financial notes. 49

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
■ Home Ownership RB Series 1997H 2.08%, 01/07/05	330	330
■ Home Ownership RB Series 2002C 1.98%, 01/07/05	3,000	3,000
■ Home Ownership RB Series 2002D 2.00%, 01/07/05	1,195	1,195
■ Home Ownership RB Series 2003B 2.00%, 01/07/05	14,600	14,600
Home Ownership RB Series 2004A 2.00%, 01/07/05	8,000	8,000
■ 2.00%, 01/07/05	11,020	11,020
■ 2.00%, 01/07/05	10,000	10,000
■ Home Ownership RB Series 2004D 2.03%, 01/07/05	73,800	73,800
+■ Housing RB Series 2002 B 2.03%, 01/07/05	16,380	16,380
+■ S/F Draw Down RB Series 2003I 2.09%, 01/07/05	9,855	9,855
Wisconsin Rapids		
+■ IDR (Thiele Kaolin) Series 1998 2.06%, 01/07/05	4,500	4,500
		277,666
Wyoming 0.2%		
Lincoln Cnty		
■ Pollution Control RB (Amoco) Series 1983 1.51%, 04/01/05	15,200	15,193
Wyoming Community Development Auth		
■ Housing RB 2001 Series 1 2.08%, 01/07/05	5,225	5,225
		20,418

End of investments.

Statement of

Assets and Liabilities

As of December 31, 2004. All numbers x 1,000 except NAV.

Assets

Investments, at value	\$12,990,258
Cash	2,866
Receivables:	
Fund shares sold	62,718
Interest	51,485
Prepaid expenses	+ 797
Total assets	13,108,124

Liabilities

Payables:	
Fund shares redeemed	55,907
Dividends to shareholders	2,127
Investments bought	55,699
Investment adviser and administrator fees	210
Transfer agent and shareholder service fees	221
Trustees' fees	7
Accrued expenses	+ 296
Total liabilities	114,467

Net Assets

Total assets	13,108,124
Total liabilities	- 114,467
Net assets	\$12,993,657

Net Assets by Source

Capital received from investors	12,997,564
Net investment income not yet distributed	196
Net realized capital losses	(4,103)

Net Asset Value (NAV) by Share Class

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Sweep Shares	\$7,563,094		7,566,874		\$1.00
Value Advantage Shares	\$3,244,873		3,245,305		\$1.00
Select Shares	\$727,035		727,132		\$1.00
Institutional Shares	\$1,458,655		1,458,858		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost for the fund's securities was \$12,990,258. During the reporting period, the fund had \$6,269,760 in transactions with other Schwab Funds.

Federal Tax Data**Cost basis of portfolio** \$12,990,274**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

Reclassifications:

Net realized capital gains	\$403
Reclassified as:	
Capital received from investors	(\$338)
Net investment income not yet distributed	(\$65)

Statement of

Operations

For January 1, 2004 through December 31, 2004. All numbers x 1,000.

Investment Income

Interest	\$166,668
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Net Realized Gains and Losses

Net realized losses on investments sold	(1,704)
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Expenses

Investment adviser and administrator fees	45,374
Transfer agent and shareholder service fees:	
Sweep Shares	33,777
Value Advantage Shares	8,146
Select Shares	1,406
Institutional Shares	2,861
Trustees' fees	67
Custodian and portfolio accounting fees	1,084
Professional fees	75
Registration fees	589
Shareholder reports	142
Other expenses	+ 162
Total expenses	93,683
Expense reduction	- 22,123
Net expenses	71,560

Increase in Net Assets from Operations

Total investment income	166,668
Net expenses	- 71,560
Net investment income	95,108
Net realized losses	+ (1,704)
Increase in net assets from operations	\$93,404

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 \$17,253 from the investment adviser (CSIM) and \$4,870 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 30, 2005, as follows:

Share Class	% of Average Daily Net Assets
Sweep Shares	0.66
Value Advantage 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.

Operations

	1/1/04–12/31/04	1/1/03–12/31/03
Net investment income	\$95,108	\$69,287
Net realized losses	+ (1,704)	(208)
Increase in net assets from operations	93,404	69,079

Distributions Paid**Dividends from Net Investment Income**

Sweep Shares	45,088	34,685
Value Advantage Shares	29,727	31,426
Select Shares	5,971	1,306
Institutional Shares	+ 14,086	1,845
Total dividends from net investment income	94,872	69,262

Transactions in Fund Shares**Shares Sold**

Sweep Shares	32,230,523	27,215,378
Value Advantage Shares	3,977,079	5,280,015
Select Shares	1,518,310	859,347
Institutional Shares	+ 4,180,409	1,161,958
Total shares sold	41,906,321	34,516,698

Shares Reinvested

Sweep Shares	44,201	34,072
Value Advantage Shares	26,335	28,395
Select Shares	5,139	1,192
Institutional Shares	+ 11,892	1,497
Total shares reinvested	87,567	65,156

Shares Redeemed

Sweep Shares	(32,204,616)	(27,190,937)
Value Advantage Shares	(4,658,834)	(5,887,801)
Select Shares	(1,270,436)	(386,420)
Institutional Shares	+ (3,451,756)	(445,142)
Total shares redeemed	(41,585,642)	(33,910,300)

Net transactions in fund shares	408,246	671,554
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Net Assets

Beginning of period	12,586,879	11,915,508
Total increase	+ 406,778	671,371
End of period	\$12,993,657	\$12,586,879

Unless stated, all numbers x 1,000.

Unaudited

The fund hereby designates 100% of its dividends for the current report period as tax-exempt interest dividends.

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 \$196 at the end of current period.

Financial Notes

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 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 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.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Shareholders of:

Schwab Municipal Money Fund

In our opinion, the accompanying statement of assets and liabilities, including the portfolio holdings, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Schwab Municipal Money Fund (one of the portfolios constituting The Charles Schwab Family of Funds, hereafter referred to as the “Fund”) at December 31, 2004, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Fund’s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2004 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California

February 14, 2005

Fund Trustees

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 fund 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 Schwab Funds (of which there were 53 as of 12/31/04) 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.

Individuals Who Are Interested Trustees and Officers of the Trust		
Name and Birthdate	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
Charles R. Schwab² 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); CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, Charles Schwab Bank, N.A., U.S. Trust, United States Trust Co. of New York, Siebel Systems (software), Xsign, Inc. (electronic payment systems), TrustMark, Inc., 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, Vodaphone 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.

Individuals Who Are Officers of the Trust but Not Trustees

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; <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.; <i>Until 9/04</i> : VP, Charles Schwab & Co., Charles Schwab Investment Management, Inc.; <i>Until 2002</i> : VP of Internal Audit, Charles Schwab & Co.; <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> : Chief Financial Officer, Commerzbank Capital Markets; <i>Until 9/99</i> : Managing Director at the New York Stock Exchange.

Individuals Who Are Independent Trustees

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Mariann Byerwalter 8/13/60	2000 (all trusts).	<i>Since 2/05:</i> Director, Pacific Life Insurance Company; Chair, JDN Corp. Advisory LLC; 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, Laudus Trust, Laudus Variable Insurance Trust. <i>2007:</i> Special Advisor to the President, Stanford University. <i>Until 2001:</i> VP, Business Affairs, CFO, Stanford University.
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).	Director, Aphton Corp. (bio-pharmaceuticals); Non-Executive Chair, Trustee, Soletron Corp. (manufacturing), Mission West Properties (commercial real estate), Stratex Networks (network equipment), Laudus Trust, Laudus Variable Insurance Trust; Public Governor, Member, executive committee, Pacific Stock & Options Exchange. <i>Until 2/04:</i> Co-CEO, Aphton Corp. (bio-pharmaceuticals). <i>Until 1998:</i> Dean, Haas School of Business, University of California, Berkeley.
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 advisors); Trustee, Cooper Industries (electrical products, tools and hardware); Member, 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 debt obligations 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 and may be sold only to "qualified institutional buyers" under Securities Act Rule 144A. 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 web site at www.schwab.com/schwabfunds, the SEC's web site 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 web site 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 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® Funds
 Schwab® Institutional Select® S&P 500 Fund
 Schwab® Institutional Select® Large-Cap Value Index Fund
 Schwab® Institutional Select® Small-Cap Value Index Fund

Asset Allocation Funds

Schwab MarketTrack Portfolios®
 Schwab MarketTrack All Equity Portfolio™
 Schwab MarketTrack Growth Portfolio™
 Schwab MarketTrack Balanced Portfolio™
 Schwab MarketTrack Conservative Portfolio™

Bond Funds

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

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

This report is not authorized for distribution to prospective investors unless preceded or accompanied by a current prospectus.

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Schwab California Municipal Money FundTM

Annual Report

December 31, 2004

In This Report

Schwab California Municipal Money Fund™

Sweep Shares: **SWCXX**

Value Advantage Shares™: **SWKXX**

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The president of Schwab Funds® and the fund's manager take a look at the factors that shaped fund performance during the report period.	
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From the Chairman



Charles Schwab
Chairman

Dear Shareholder,

I understand that selecting a financial services company is an important decision you make as an investor and is one that we take very seriously. In fact, we made recent changes that we believe will both improve the quality of service you receive and give you the best value possible. For example, we reduced the average cost of security trades and we also expanded access to high-quality investment products.

Looking forward, we continue to see tremendous opportunities for investors, and my colleagues and I are committed to helping you maximize them. The changes we made last year at Schwab laid a foundation for more improvements this year. We will continue to expand the array of products and services that you are looking for, including new cash management and credit products from the Schwab Bank and new mutual fund products.

During the period since our semi-annual money fund report, I'm happy to announce that Evelyn Dilsaver has been named CEO and President of Schwab Funds®. Although new to the position, Evelyn is no stranger to Schwab Funds, having been an officer in several other capacities at Schwab. Her broad experience in product creation, coupled with a comprehensive understanding of your financial needs, make her the ideal candidate for her new role.

I speak for Evelyn, as well as the rest of the Schwab Funds group, when I say we want Schwab to be a place where investors can find useful, quality financial products and services to help them succeed. Regardless of the size of their portfolios, Schwab should be the place investors can always trust to watch out for their best interests.

This commitment to our shareholders will not change, as nothing is more important to us than your trust. Thank you for investing with us.

Sincerely,

A handwritten signature in black ink that reads "Charles R. Schwab".

Management's Discussion for the year ended December 31, 2004



Evelyn Dilsaver is President and CEO of Charles Schwab Investment Management, Inc. and is president of each 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,

I am very excited about my new role as President and CEO of Schwab Funds®. My experience at Schwab has given me many opportunities to focus on meeting the needs of our clients. This will continue to be my emphasis, and I reiterate what Chuck Schwab noted in his letter, that our goal is to offer you better value and more relevant choices.

When we discuss Schwab Funds with our clients, we often hear that you want to know that you're getting the best value. We find that shareholders may be unaware that some of the Schwab Funds offer additional share classes that carry lower expenses in exchange for higher initial investments of \$25,000 or more. I encourage you to review your accounts to see if you are eligible to purchase these money-saving shares. If you would like to learn more about these potentially cost-saving shares, our investment consultants are available to assist you.

I'm pleased to announce that we launched a new sweep money fund last summer—Schwab Cash Reserves—which offers eligible investors lower expenses on a sweep fund. My plan is to build on this legacy of value and continue to offer unique investment solutions to help you meet your financial goals.

I also want to point out that over the past year, the Federal Reserve raised short-term interest rates five times, up to 2.25% at year-end, making yields on the Schwab Funds' money funds more attractive than they were earlier in the year. I'm noting this because, no matter what the economic outlook is, most investors' asset-allocation strategies include a cash component, which offers liquidity and capital preservation that can help to lessen the effect of the market's volatility.

I look forward to serving you in my new role. 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.



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 ten years in fixed-income portfolio management.

The Investment Environment and the Fund

2004 started off positively, continuing the encouraging economic trend that was reported toward the end of 2003. Businesses added to their inventories, factory orders rose and production gained some strength. Retail sales continued to rise and higher commodity prices were holding. Mortgage refinancing activity, while still significant, waned as mortgage rates inched slightly upward. And finally, the last piece of the economic puzzle—job growth—began to exhibit solid gains. In fact, aside from a “soft patch” in early summer, the economy stayed strong throughout 2004.

The firming labor market, as well as steady gains in capital spending, kept the expansion on a self-sustaining path. The caution surrounding the economic outlook and geopolitical environment began to dissipate last spring and firms, unable to continue boosting productivity by restraining hiring, added more than two million new jobs during the year. Moreover, many leading indicators, such as the Institute for Supply Management’s business activity surveys, suggested further improvement, while continuing claims for unemployment benefits remained near cyclical lows. In addition, consumer sentiment rebounded, the labor market continued to sustain consumer spending, and corporate liquidity remained positive.

Strong productivity growth and slack in the economy kept a lid on inflation. The Federal Reserve (Fed) began to take the Fed funds rate higher beginning in June amid signs of solidly expanding output and improved hiring. The rate was raised another four times in 2004, ending the year at a moderate 2.25%. The moves had a limited impact on overall economic growth, due primarily to the record-low level of rates from which the hikes began.

Strengthening global demand for oil, particularly in the Pacific Rim, and supply constraints in the wake of the Florida hurricanes drove crude prices to record highs, above \$50 per barrel in late October. Since then, crude prices backed off to the mid-\$40 range, as supply concerns dissipated and China’s economy continues to attempt to engineer a soft landing. Though some pass-through from high oil and commodity prices earlier in the year may hamper growth and stir inflationary pressures, inflation has remained generally benign.

Though some pass-through from high oil and commodity prices earlier in the year may hamper growth and stir inflationary pressures, inflation has remained generally benign.

As noted above, the Fed began a series of five tightening moves in June, eventually bringing the rate to 2.25% at year end. These actions significantly impacted municipal money market yields. On average, yields on both fixed- and variable-rate muni notes increased by 1.0% from mid-March to year end. As a result, yields on muni money funds increased as well.

Anticipating the Fed tightening, yields on fixed-rate notes maturing from 6-12 months rose approximately 0.60% during the second quarter of the year. Since they offered the best relative value at the time, compared to other variable-rate securities, we increased the fund's position in this asset class, continuing to do so as yields rose. This resulted in an extension of the fund's weighted average maturity (WAM), which averaged 18 days longer when compared to the peer group.

For 2004, municipal note supply declined approximately 17% from 2003. This was a result of municipalities enjoying more robust economies and stronger tax receipts than they did in the previous year. As a result, there was less of a need for them to issue short-term notes. Demand for munis, however, remained steady for the year. This demand, combined with the decrease in new issuance, caused muni yields to rise at a slower pace than yields on short-term taxable securities.

California's fiscal 2005 budget was adopted on July 29, 2004 and addressed a multi-year general fund gap estimated at nearly \$26 billion. A key component of the budget plan was the sale of up to \$15 billion of deficit bonds, \$11 billion of which had been sold by the end of June. The bond sale eased the State's near-term liquidity crisis, but a significant underlying structural budget gap remains. While State personal income taxes and corporate taxes are running ahead of the budget forecast, the budget included a number of revenue items that are increasingly unlikely to materialize, including the sale of \$800 million of pension obligation bonds (currently tied up in court) and \$450 million in punitive damage awards. In early January 2005, the governor introduced his spending plan for fiscal 2006 (beginning 7/1/05). The general fund deficit is forecast to be more than \$8.5 billion for fiscal 2006 and, without adjustment, to grow to nearly \$10 billion by fiscal 2007.

The financial difficulties of the last few years can be traced to the State's dependence on income taxes and the growth in stock-related income, especially options, which were widely used by the technology

California's economic recovery is strengthening, with renewed growth in exports and accelerating growth in personal income.

and business-services industries in the late 1990s. During this period, the State increased spending and reduced taxes without full regard for the volatility of these revenues. As economic and revenue growth slowed, a politically divided legislature failed to cut spending or raise revenues proportionately, passing deficit budgets and relying on one-time solutions that left the underlying problems largely unaddressed.

California's economic recovery is strengthening, with renewed growth in exports and accelerating growth in personal income. From November 2003 through November 2004, the State added nearly 147,000 payroll jobs, a 1.0% increase. This compares with 0.8% job growth projected earlier in 2004. The strongest gains were in the construction, and professional- and business-services job sectors. The State's unemployment rate dipped to 5.7% in November 2004, its lowest recording since September 2001 and down from 6.6% in November 2003.

With voter approval of the deficit bonds in March and the subsequent bond sales, the State's credit ratings began to improve. Moody's upgraded California's rating to A3 in May 2004, and maintains a positive rating outlook. Standard & Poor's upgraded the State's rating to A in August 2004 and Fitch raised its rating to A- in September 2004. Though some of the State's underlying units of government, particularly counties, absorbed cuts to their revenues as a result of the State's budget cuts, only a few credit ratings were lowered and most remain solidly investment grade.

Performance and Fund Facts as of 12/31/04

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.

	Sweep Shares	Value Advantage Shares™
Seven-Day Yield ¹	1.19%	1.39%
Seven-Day Yield–No Waiver ²	1.02%	1.25%
Seven-Day Effective Yield ¹	1.20%	1.40%
Seven-Day Taxable-Equivalent Effective Yield ^{1, 3}	2.04%	2.37%

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	52 days
Credit Quality of Holdings % of portfolio	100% Tier 1
Credit-Enhanced Securities % of portfolio	55%
Minimum Initial Investment ⁴	
Sweep Investments*	*
Value Advantage Shares	\$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 2004 maximum combined federal regular income and California state personal income tax rate of 41.05%. 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 July 1, 2004 and held through December 31, 2004.

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 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 7/1/04	Ending Account Value (Net of Expenses) at 12/31/04	Expenses Paid During Period ² 7/1/04–12/31/04
Schwab California Municipal Money Fund™				
<i>Sweep Shares</i>				
Actual Return	0.65%	\$1,000.00	\$1,003.80	\$3.27
Hypothetical 5% Return	0.65%	\$1,000.00	\$1,021.87	\$3.30
<i>Value Advantage Shares™</i>				
Actual Return	0.45%	\$1,000.00	\$1,004.80	\$2.27
Hypothetical 5% Return	0.45%	\$1,000.00	\$1,022.87	\$2.29

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 the fund's annualized expense ratio, multiplied by the average account value over the period, multiplied by 184 days of the period, and divided by 366 days of the fiscal year.

Financial Statements

Financial Highlights

Sweep Shares	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
Income from investment operations:					
Net investment income	0.01	0.00 ¹	0.01	0.02	0.03
Less distributions:					
Dividends from net investment income	(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
Total return (%)	0.59	0.46	0.83	1.99	3.02
Ratios/Supplemental Data (%)					
Ratios to average net assets:					
Net operating expenses	0.65	0.65	0.65	0.65	0.66 ²
Gross operating expenses	0.82	0.82	0.82	0.82	0.84
Net investment income	0.58	0.45	0.83	1.98	2.98
Net assets, end of period (\$ x 1,000,000)	4,147	4,169	4,056	3,897	3,923
Value Advantage Shares	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
Income from investment operations:					
Net investment income	0.01	0.01	0.01	0.02	0.03
Less distributions:					
Dividends from net investment income	(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
Total return (%)	0.79	0.66	1.03	2.19	3.22
Ratios/Supplemental Data (%)					
Ratios to average net assets:					
Net operating expenses	0.45	0.45	0.45	0.45	0.46 ³
Gross operating expenses	0.59	0.59	0.59	0.61	0.63
Net investment income	0.78	0.65	1.03	2.11	3.20
Net assets, end of period (\$ x 1,000,000)	2,825	3,061	3,081	2,563	2,170

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

² The ratio of net operating expenses would have been 0.65% if certain non-routine expenses (proxy fees) had not been included.

³ 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 December 31, 2004

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

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)
99.4% Municipal Securities	6,930,109	6,930,109
99.4% Total Investments	6,930,109	6,930,109
0.6% Other Assets and Liabilities		42,355
100.0% Total Net Assets		6,972,464

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
---	------------------------------------	------------------------------

Municipal Securities 99.4% of net assets**California 97.1%****Affordable Housing Agency**

+■ M/F Housing RB (Westridge at Hilltop Apts) Series 2003A		
1.98%, 01/07/05	14,100	14,100

Alameda Cnty IDA

+■ RB (Scientific Technology) Series 1994A		
2.05%, 01/07/05	2,200	2,200
+■ RB (Aitchison Family Partnership) Series 1993A		
2.00%, 01/07/05	2,560	2,560
+■ RB (JMS Family Partnership) Series 1995A		
2.00%, 01/07/05	1,000	1,000
+■ RB (Malmberg Engineering) Series 1999A		
2.23%, 01/07/05	2,310	2,310

Alameda-Contra Costa Transit Dist

+ 2004-05 RAN		
1.58%, 07/07/05	12,000	12,086

Anaheim Housing Auth

+■ M/F Housing RB (Casa Granada Apts) Series 1997A		
2.00%, 01/07/05	3,595	3,595
+■ M/F Housing RB (Park Vista Apts) Series 2000D		
2.02%, 01/07/05	21,000	21,000
+■ M/F Housing RB (Port Trinidad Apts) Series 1997C		
2.00%, 01/07/05	2,040	2,040

Association of Bay Area Governments

+■ Bart SFO Extension Bonds (Airport Premium Fare) Series 2002A		
1.25%, 01/07/05	9,995	9,995
+■ COP (Harker School Foundation) Series 1998		
2.01%, 01/07/05	4,500	4,500
+■ Lease RB Series 2003A		
2.05%, 01/07/05	1,000	1,000

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 (Artech Building) Series 1999A 2.02%, 01/07/05 + ■ M/F Housing RB (Crossing Apts) Series 2002A 2.02%, 01/07/05 + ■ M/F Housing RB (Miramar Apts) Series 2000A 2.02%, 01/07/05 + ■ M/F Housing RB (Mountain View Apts) Series 1997A 2.07%, 01/07/05 + ■ RB (Public Policy Institute of California) Series 2001A 2.00%, 01/07/05	3,200 55,700 30,000 6,130 9,000	3,200 55,700 30,000 6,130 9,000	+ ■ Economic Recovery Bonds Series 2004C-21 2.05%, 01/07/05 ▶ ■ Economic Recovery Bonds Series 2004C-3 2.10%, 01/03/05 + ■ Economic Recovery Bonds Series 2004C-9 2.17%, 01/03/05 GO Bonds + ■• 2.00%, 01/07/05 + ■• 2.01%, 01/07/05 + ■• 2.02%, 01/07/05 + ■• 2.03%, 01/07/05 + ■• 1.35%, 02/03/05 1.99%, 06/01/05 GO Bonds Series 1999 + ■• 2.01%, 01/07/05 + ■• 2.02%, 01/07/05 + ■ GO Bonds Series 2003 C-1 1.98%, 01/07/05 + ■ GO Bonds Series 2003 C-3 2.01%, 01/07/05 + ■ GO Bonds Series 2004 A-7 1.98%, 01/07/05 + ■ GO Bonds Series 2004 A-8 2.00%, 01/07/05 + ■ GO Bonds Series 2004 B-2 2.17%, 01/07/05	5,000 10,700 21,600 28,480 49,915 110,290 107,565 4,810 27,765 10,835 13,675 20,145 35,000 12,625 10,000 400	5,000 10,700 21,600 28,480 49,915 110,290 107,565 4,810 27,880 10,835 13,675 20,145 35,000 12,625 10,000 400
Bay Area Toll Auth					
+ ■• San Francisco Bay Area Toll Bridge RB Series 2001G 2.03%, 01/07/05 + ■ San Francisco Bay Area Toll Bridge RB Series 2003C 1.96%, 01/07/05 + ■ San Francisco Bay Area Toll Bridge RB Series 2001C 1.96%, 01/07/05	10,125 4,400 5,000	10,125 4,400 5,000			
California					
2004-05 RAN Series A 1.73%, 06/30/05 2004-05 RAN Series C ▶ ■• 2.05%, 01/07/05 1.97%, 06/30/05 Economic Recovery Bonds Series 2004A + ■• 2.01%, 01/07/05 ▶ ■• 2.01%, 01/07/05 + ■• 2.02%, 01/07/05 ▶ ■• 2.02%, 01/07/05 ▶ ■• 2.05%, 01/07/05 + ■ Economic Recovery Bonds Series 2004C-15 1.98%, 01/07/05 + ■ Economic Recovery Bonds Series 2004C-18 1.95%, 01/07/05 ▶ ■ Economic Recovery Bonds Series 2004C-2 2.10%, 01/03/05	250,000 100,000 175,000 31,420 39,995 51,358 18,745 115,650 8,785 1,000 10,000	251,540 100,000 177,571 31,420 39,995 51,358 18,745 115,650 8,785 1,000 10,000			
			California Alternative Energy Source Financing Auth		
			■ Cogeneration Facility RB Series 1993B 1.98%, 01/07/05		
			California Dept of Water Resources		
			+ ■ 1996 Water Refunding RB (Big Bear Lake) 2.01%, 01/07/05 Power Supply RB Series 2002A + ■• 2.01%, 01/07/05 + ■• 2.05%, 01/07/05 + ■ Power Supply RB Series 2002B-2 2.25%, 01/03/05 + ■ Power Supply RB Series 2002B-3 2.17%, 01/03/05		
			8,445 47,575 16,525 5,985 3,200		8,445 47,575 16,525 5,985 3,200

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)
■ Power Supply RB Series 2002C-10 1.97%, 01/07/05 ■ Power Supply RB Series 2002C-11 1.95%, 01/07/05 ■ Power Supply RB Series 2002C-14 1.98%, 01/07/05 ■ Power Supply RB Series 2002C-17 2.00%, 01/07/05 ■ Power Supply RB Series 2002C-7 2.00%, 01/07/05	15,000 3,100 40,430 8,300 13,700	15,000 3,100 40,430 8,300 13,700	■ Insured RB (Southern California Presbyterian Homes) Series 1998 2.00%, 01/07/05 ■ RB (Kaiser Permanente) Series 1998A 2.02%, 01/07/05 California HFA ■ Home Mortgage RB 1998 Series J 1.48%, 03/03/05 ■ Home Mortgage RB 2000 Series N 2.03%, 01/07/05 ■ Home Mortgage RB 2001 Series R 2.14%, 01/03/05 ■ Home Mortgage RB 2002 Series J 2.25%, 01/03/05 ■ Home Mortgage RB 2002 Series P 2.05%, 01/07/05 ■ Home Mortgage RB 2003 Series D 2.00%, 01/07/05 ■ Home Mortgage RB 2003 Series H 2.00%, 01/07/05 ■ Home Mortgage RB 2003 Series K 2.08%, 01/07/05 ■ Home Mortgage RB 2003 Series M 2.00%, 01/07/05 ■ M/F Housing RB III 2001 Series G 2.05%, 01/07/05 ■ M/F Housing RB III 2002 Series A 2.04%, 01/07/05 ■ M/F Housing RB III Series 2002 E 2.04%, 01/07/05 ■ S/F Mortgage Bonds II, 1997 Series C-4 2.01%, 01/07/05	28,600 9,995 2,435 26,565 7,100 10,000 61,000 14,800 8,300 67,500 34,580 57,125 26,070 6,125 1,725	28,600 9,995 2,435 26,565 7,100 10,000 61,000 14,800 8,300 67,500 34,580 57,125 26,070 6,125 1,725
California Economic Development Financing Auth					
■ Airport Facilities RB (Mercury Air Group) Series 1998 2.03%, 01/07/05 ■ IDRB (Calco) Series 1997 2.08%, 01/07/05 ■ IDRB (Gaiser Tool Co) Series 1997 2.00%, 01/07/05 ■ IDRB (Lion Raisins) Series 1998 2.03%, 01/07/05	14,000 480 1,775 1,250	14,000 480 1,775 1,250			
California Educational Facilities Auth					
■ RB (Chapman University) Series 2000 2.12%, 01/07/05 ■ RB (University of Judaism) Series 1998A 2.01%, 01/07/05 ■ RB (University of San Francisco) Series 1996 2.01%, 01/07/05 ■ RB (San Francisco Conservatory of Music) Series 2000 1.98%, 01/07/05	4,600 5,200 8,995 2,760	4,600 5,200 8,995 2,760			
California Health Facilities Financing Auth					
■ Insured RB (Catholic Healthcare West) Series 1988A 1.98%, 01/07/05	4,200	4,200			

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)
➔■ S/F Mortgage RB Draw Down Series 2004 B-1 2.07%, 01/07/05	58,085	58,085	➔■ Resource Recovery RB (Wadham Energy) Series 1987B 2.00%, 01/07/05	2,800	2,800
➔■ S/F Mortgage RB Draw Down Series 2004 B-2 2.07%, 01/07/05	150,300	150,300	➔■ Solid Waste Disposal RB (Ag Resources III) Series 2004 2.07%, 01/07/05	2,790	2,790
California Infrastructure & Economic Development Bank			➔■ Solid Waste Disposal RB (Agrifab) Series 2003 2.07%, 01/07/05	2,900	2,900
➔■ IDRB (American-De Rosa Lamp Arts) Series 1999 2.05%, 01/07/05	4,950	4,950	➔■ Solid Waste Disposal RB (Alameda County Industries) Series 2000A 2.07%, 01/07/05	3,760	3,760
➔■ IDRB (Fairmont Sign Co) Series 2000A 2.15%, 01/07/05	4,250	4,250	➔■ Solid Waste Disposal RB (Athens Disposal Co) Series 1995A 2.07%, 01/07/05	11,435	11,435
➔■ IDRB (Lafayette Textile Industries) Series 1999 2.05%, 01/07/05	1,170	1,170	➔■ Solid Waste Disposal RB (Athens Disposal Co) Series 1999A 2.07%, 01/07/05	5,700	5,700
➔■ IDRB (Nelson Name Plate Co) Series 1999 2.00%, 01/07/05	3,150	3,150	➔■ Solid Waste Disposal RB (Athens Services) Series 2001A 2.07%, 01/07/05	4,100	4,100
➔■ IDRB (Roller Bearing Co) Series 1999 2.21%, 01/07/05	2,400	2,400	➔■ Solid Waste Disposal RB (Atlas Disposal Industries) Series 1999A 2.07%, 01/07/05	3,000	3,000
➔■ RB (California ISO) Series 2000A 1.98%, 01/07/05	11,100	11,100	➔■ Solid Waste Disposal RB (BLT Enterprises of Sacramento) Series 1999A 2.07%, 01/07/05	6,725	6,725
➔■ RB (California ISO) Series 2004B 1.97%, 01/07/05	10,000	10,000	➔■ Solid Waste Disposal RB (Blue Line Transfer) Series 1999A 2.07%, 01/07/05	4,300	4,300
RB (J. Paul Getty Trust) Series 2003A 1.17%, 02/01/05	50,000	50,000	➔■ Solid Waste Disposal RB (Blue Line Transfer) Series 2001A 2.07%, 01/07/05	4,400	4,400
RB (J. Paul Getty Trust) Series 2003C 1.17%, 02/01/05	14,000	14,000	➔■ Solid Waste Disposal RB (Burrtec Waste Group) Series 2004 2.22%, 01/07/05	1,985	1,985
RB (J. Paul Getty Trust) Series 2003D 1.17%, 02/01/05	14,000	14,000	➔■ Solid Waste Disposal RB (Burrtec Waste Industries) Series 1997B 2.22%, 01/07/05	3,200	3,200
➔■ RB (SRI International) Series 2003A 2.08%, 01/07/05	4,000	4,000			
California Pollution Control Finance Auth					
➔■ Resource Recovery RB (Sanger) Series 1990A 2.04%, 01/07/05	19,200	19,200			

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)
■ Solid Waste Disposal RB (Burrtec Waste Industries) Series 1998A 2.22%, 01/07/05	695	695	■ Solid Waste Disposal RB (Federal Disposal Service) Series 2001A 2.12%, 01/07/05	2,400	2,400
■ Solid Waste Disposal RB (CR&R Inc) Series 2002A 2.10%, 01/07/05	3,900	3,900	■ Solid Waste Disposal RB (Greenteam of San Jose) Series 2001A 2.07%, 01/07/05	10,900	10,900
■ Solid Waste Disposal RB (Cal-San) Series 1996B 2.07%, 01/07/05	1,750	1,750	■ Solid Waste Disposal RB (Greenwaste of Tehama) Series 1999A 2.07%, 01/07/05	1,630	1,630
■ Solid Waste Disposal RB (California Waste Solutions) Series 2002A 2.07%, 01/07/05	3,570	3,570	■ Solid Waste Disposal RB (Madera Disposal Systems) Series 1998A 2.07%, 01/07/05	1,800	1,800
■ Solid Waste Disposal RB (California Waste Solutions) Series 2004A 2.07%, 01/07/05	8,350	8,350	■ Solid Waste Disposal RB (Marborg Industries) Series 2000A 2.07%, 01/07/05	4,505	4,505
■ Solid Waste Disposal RB (Cheese & Protein Intl) Series 2001A 2.01%, 01/07/05	10,000	10,000	■ Solid Waste Disposal RB (Metropolitan Recycling Corp) Series 2000B 2.12%, 01/07/05	3,690	3,690
■ Solid Waste Disposal RB (Cold Canyon Landfill) Series 1998A 2.07%, 01/07/05	5,845	5,845	■ Solid Waste Disposal RB (Mottra Corp) Series 2002A 2.07%, 01/07/05	2,105	2,105
■ Solid Waste Disposal RB (Colmac Energy) Series 1990A 1.99%, 01/07/05	5,345	5,345	■ Solid Waste Disposal RB (Norcal Waste System) Series 2001 2.07%, 01/07/05	8,740	8,740
■ Solid Waste Disposal RB (Contra Costa Waste Service) Series 1995A 2.07%, 01/07/05	2,000	2,000	■ Solid Waste Disposal RB (Norcal Waste System) Series 2002A 2.07%, 01/07/05	6,000	6,000
■ Solid Waste Disposal RB (EDCO Disposal Corp) Series 1996A 2.07%, 01/07/05	13,950	13,950	■ Solid Waste Disposal RB (Norcal Waste Systems) Series 2003A 2.07%, 01/07/05	4,000	4,000
■ Solid Waste Disposal RB (EDCO Disposal Corp) Series 2004A 2.07%, 01/07/05	22,200	22,200	■ Solid Waste Disposal RB (Orange Ave Disposal Co) Series 2002A 2.07%, 01/07/05	6,105	6,105
■ Solid Waste Disposal RB (Escondido Disposal/Jemco Equipment Corp.) Series 1998A 2.22%, 01/07/05	7,845	7,845	■ Solid Waste Disposal RB (Ratto Group of Companies) Series 2001A 2.07%, 01/07/05	4,045	4,045

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 (Sanco Services) Series 2002A 2.22%, 01/07/05	3,600	3,600	California School Cash Reserve Program Auth Pool Bonds Series 2004A		
■ Solid Waste Disposal RB (Santa Clara Valley Disposal) Series 2001A 2.07%, 01/07/05	5,135	5,135	+ 1.60%, 07/06/05	130,000	130,912
■ Solid Waste Disposal RB (Santa Clara Valley Industries) Series 1998A 2.12%, 01/07/05	2,600	2,600	+ 1.89%, 07/06/05	12,525	12,594
■ Solid Waste Disposal RB (Solag Disposal) Series 1997A 2.10%, 01/07/05	2,135	2,135	+ 1.94%, 07/06/05	65,000	65,341
■ Solid Waste Disposal RB (Specialty Solid Waste & Recycling) Series 2001A 2.12%, 01/07/05	3,160	3,160	+ 2.01%, 07/06/05	25,000	25,122
■ Solid Waste Disposal RB (Talco Plastics) Series 1997A 2.05%, 01/07/05	3,350	3,350	California Statewide Communities Development Auth.		
■ Solid Waste Disposal RB (Tri-CED Community Recycling) Series 1998A 2.05%, 01/07/05	1,585	1,585	+ 2004 TRAN Series A-1 1.59%, 06/30/05	23,000	23,157
■ Solid Waste Disposal RB (Valley Vista Services) Series 2003A 2.07%, 01/07/05	2,155	2,155	+ 2004 TRAN Series A-2 1.59%, 06/30/05	18,000	18,123
■ Solid Waste Disposal RB (West Valley MRF) Series 1997A 2.22%, 01/07/05	3,960	3,960	+ 2004 TRAN Series A-3 1.59%, 06/30/05	65,500	65,948
■ Solid Waste Disposal RB (Zanker Road Landfill) Series 1999C 2.12%, 01/07/05	6,265	6,265	++■ 2004 TRAN Series B-1 2.05%, 01/07/05	24,365	24,365
California Public Works Board			■ 2004 TRAN Series B-2 2.05%, 01/07/05	50,000	50,000
++■ Lease RB (University of California) Series 1997C 2.02%, 01/07/05	10,900	10,900	++■ COP (Sutter Health Related Group) 2.03%, 01/07/05	5,000	5,000
++■ Lease RB Series 1999A 2.03%, 01/07/05	9,985	9,985	■ IDRB (Biocol Investments) Series 1997B 2.20%, 01/07/05	1,500	1,500
++■ Refunding Lease RB (Dept of Corrections) Series 1993A 2.03%, 01/07/05	3,000	3,000	■ IDRB (Cowden Metal Stamping & Tooling) Series 1997A 2.20%, 01/07/05	1,290	1,290
			■ IDRB (Golden Valley Grape Juice & Wine) Series 1998 2.10%, 01/07/05	840	840
			■ IDRB (Integrated Rolling Co) Series 1999A 2.00%, 01/07/05	1,600	1,600
			■ IDRB (RL Group) Series 1998C 2.10%, 01/07/05	1,600	1,600
			■ M/F Housing RB (Agave at Elk Grove Apts) Series 2003DD 2.02%, 01/07/05	15,100	15,100
			■ M/F Housing RB (Bay Vista at MeadowPark Apts) Series 2003 NN-1 2.05%, 01/07/05	15,000	15,000
			■ M/F Housing RB (Bay Vista at Meadowpark Apts) 2003 Series NN-2 2.05%, 01/07/05	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)
➤■ M/F Housing RB (Creekside at MeadowPark Apts) Series 2002HH 2.02%, 01/07/05	15,000	15,000	➤■ M/F Housing RB (Victoria Palm Villa Apts) Series 2003VV 2.07%, 01/07/05	34,000	34,000
➤■ M/F Housing RB (Cypress Villa Apts) Series 2000F 2.02%, 01/07/05	4,725	4,725	➤■ M/F Housing RB (Wilshire Court Apt) Series 2003-M 2.03%, 01/07/05	15,000	15,000
➤■ M/F Housing RB (Dublin Ranch Senior Apts) Series 2003OO 2.05%, 01/07/05	15,090	15,090	➤■ M/F Housing RB (Wilshire Court Apts) Series 2004-AAA 2.03%, 01/07/05	5,000	5,000
➤■ M/F Housing RB (Emerald Gardens Apts) Series 2000E 2.02%, 01/07/05	7,320	7,320	➤■ M/F Housing RB (Woodsong Apts) Series 1997B 2.00%, 01/07/05	3,227	3,227
➤■ M/F Housing RB (Fairway Family Apts) Series 2003PP 2.05%, 01/07/05	30,000	30,000	➤■ M/F Housing RB (Wyndover Apts) Series 2004 LL 2.02%, 01/07/05	9,000	9,000
➤■ M/F Housing RB (Kimberly Woods Apts) Series 1995B 2.02%, 01/07/05	13,400	13,400	➤■ RB (Elder Care Alliance) Series 2000 2.00%, 01/07/05	12,560	12,560
➤■ M/F Housing RB (Laurel Park Senior Apts) Series 2002H 2.02%, 01/07/05	5,500	5,500	➤■ RB (Gemological Institute) Series 2001 1.96%, 01/07/05	9,225	9,225
➤■ M/F Housing RB (Los Padres Apts) Series 2003E 2.02%, 01/07/05	10,750	10,750	➤■ RB (Japanese American National Museum) Series 2000A 2.00%, 01/07/05	4,600	4,600
➤■ M/F Housing RB (Marlin Cove Apts) Series 2000V 2.02%, 01/07/05	8,000	8,000	➤■ RB (Jewish Federation Council of Greater Los Angeles) Series 2000A 2.02%, 01/07/05	3,600	3,600
➤■ M/F Housing RB (Oakmont of Concord) Series 2002Q 2.05%, 01/07/05	25,000	25,000	■ RB (Kaiser Permanente) Series 2001A 1.25%, 01/04/05	24,000	24,000
➤■ M/F Housing RB (Park David Senior Apts) Series 1999D 2.02%, 01/07/05	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 2.00%, 01/07/05	10,290	10,290	■ RB (Kaiser Permanente) Series 2002B 2.00%, 01/07/05	8,000	8,000
➤■ M/F Housing RB (Rancho Santa Fe Village Apts) Series 2004EE 1.98%, 01/07/05	13,000	13,000	■ RB (Kaiser Permanente) Series 2003A 2.00%, 01/07/05	10,300	10,300
➤■ M/F Housing RB (Silvercrest Residence) Series 2003EEE 2.03%, 01/07/05	23,130	23,130	■ RB (Kaiser Permanente) Series 2003B 2.00%, 01/07/05	13,700	13,700
➤■ M/F Housing RB (Valley Palms Apts) Series 2002C 2.02%, 01/07/05	12,000	12,000	■ RB (Kaiser Permanente) Series 2004E 1.08%, 04/01/05	53,000	53,000
			1.10%, 04/01/05	52,300	52,066

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)
RB (Kaiser Permanente) Series 2004K			East Bay Municipal Utility District		
1.85%, 02/08/05	27,000	27,000	Water System TECP		
1.86%, 02/16/05	11,000	11,000	▶ 1.80%, 01/11/05	30,000	30,000
■ RB (Kaiser Permanente) Series 2004L			▶ 1.83%, 01/13/05	26,300	26,300
2.00%, 01/07/05	7,800	7,800	▶ 1.80%, 01/19/05	36,900	36,900
■ RB (Kaiser Permanente) Series 2004M			▶ 1.83%, 02/03/05	9,500	9,500
2.00%, 01/07/05	13,000	13,000	▶ 1.85%, 02/03/05	39,400	39,400
▶ RB (Laurence School) Series 2003			▶ 1.85%, 02/10/05	17,800	17,800
2.00%, 01/07/05	3,950	3,950	▶ 1.85%, 02/15/05	36,500	36,500
▶ RB (National Public Radio) Series 2002			El Cajon Redevelopment Agency		
2.00%, 01/07/05	1,400	1,400	▶ M/F Housing RB (Park-Mollison & Madison Apts) Series 1998		
▶ RB (Painted Turtle) Series 2003			2.00%, 01/07/05	4,900	4,900
2.00%, 01/07/05	7,560	7,560	El Camino Community College District		
▶ Refunding RB (13th & I Associates) Series 1991			▶ GO Bonds Series 2003A		
2.20%, 01/07/05	4,165	4,165	1.32%, 01/12/05	16,100	16,100
Carlsbad			Emeryville Redevelopment Agency		
▶ M/F Housing Refunding RB (Santa Fe Ranch Apts) Series 1993A			▶ M/F Housing RB (Bay St Apts) Series 2002A		
2.00%, 01/07/05	14,400	14,400	2.00%, 01/07/05	33,215	33,215
Contra Costa Cnty			Fillmore Public Financing Auth		
▶ M/F Mortgage RB (El Cerrito Royale) Series 1987A			▶ RB (Central City Redevelopment Area) Series 2003A		
2.03%, 01/07/05	2,480	2,480	2.00%, 01/07/05	27,775	27,775
Davis Community Facilities District 1992-2			Foothill-De Anza Community College District		
▶ Special Tax Bonds (East Davis Mace Ranch Area II) Series 2000			▶ GO Bonds Series A		
2.01%, 01/07/05	3,100	3,100	2.03%, 01/07/05	9,975	9,975
Diamond Bar Public Financing Auth			Fresno IDA		
▶ Lease RB (Community Center) Series 2002A			▶ IDR (Keiser Corp.) Series 1997		
2.07%, 01/07/05	5,755	5,755	2.05%, 01/07/05	1,500	1,500
Dublin Housing Auth			Hayward		
▶ M/F Housing RB (Park Sierra At Iron Horse Trail) Series 1998A			▶ M/F Housing RB (Shorewood Apts) Series 1984A		
2.01%, 01/07/05	14,900	14,900	2.00%, 01/07/05	12,100	12,100
			Hayward Housing Auth		
			▶ M/F Mortgage Refunding RB (Huntwood Terrace Apts) Series 1993A		
			2.01%, 01/07/05	5,365	5,365
			Hercules Public Financing Auth		
			▶ Lease RB Series 2003A		
			2.00%, 01/07/05	7,000	7,000

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)
Hercules Redevelopment Agency			Los Angeles		
■ IDRB (Pro Media) Series 2000A			2004 TRAN		
2.21%, 01/07/05	2,500	2,500	■ 2.05%, 01/07/05	34,000	34,000
Hesperia Unified SD			■ 1.97%, 06/30/05	85,000	86,659
■ COP (Interim School Facility			■ GO Bonds Series 2004A		
Funding) Series 2004			2.01%, 01/07/05	9,000	9,000
2.00%, 01/07/05	10,000	10,000	■ GO Refunding Bonds Series		
Huntington Beach			1998A		
■ M/F Housing RB (Five Points			2.01%, 01/07/05	4,150	4,150
Seniors) Series 1991A			■ M/F Housing RB (Beverly Park		
2.00%, 01/07/05	9,500	9,500	Apts) Series 1988A		
Huntington Park			2.02%, 01/07/05	34,000	34,000
Redevelopment Agency			■ M/F Housing RB (Channel		
■ M/F Housing RB (Casa Rita			Gateway Apts) Issue 1989B		
Apts) Series 1994A			2.03%, 01/07/05	47,700	47,700
2.00%, 01/07/05	4,950	4,950	■ M/F Housing RB (Studio		
Irvine Assessment District			Colony) Series 1985C		
#03-19			1.97%, 01/07/05	15,111	15,111
■ Limited Obligation Improvement			■ M/F Housing RB Series 1985K		
Series A			2.05%, 01/07/05	852	852
2.15%, 01/03/05	3,000	3,000	■ M/F Housing Refunding RB		
Irvine Unified SD			(Tri-City) Series 2001I		
■ Special Tax Bonds (South Irvine			2.00%, 01/07/05	600	600
Communities) Series 2003			■ Wastewater System TECP		
2.15%, 01/03/05	1,300	1,300	1.84%, 02/04/05	34,000	34,000
Kern Cnty			Los Angeles Cnty		
2004-05 TRAN			2004-05 TRAN Series A		
1.60%, 06/30/05	45,000	45,306	1.60%, 06/30/05	150,000	151,019
■ COP Series 1986A			Los Angeles Cnty Capital		
1.95%, 01/07/05	1,500	1,500	Leasing Corp		
Long Beach Harbor Facilities			Lease Revenue TECP		
Corp			■ 1.70%, 01/10/05	12,300	12,300
■ Harbor RB Series 2002A			■ 1.79%, 01/18/05	28,800	28,800
1.99%, 01/07/05	14,000	14,000	■ 1.80%, 03/11/05	17,000	17,000
■ Harbor TECP Series A			■ 1.82%, 03/16/05	17,500	17,500
1.85%, 02/09/05	28,750	28,750	■ 1.80%, 12/01/05	16,500	16,500
Long Beach Housing Auth			Los Angeles Cnty Metropolitan		
■ M/F Housing Refunding RB			Transportation Auth		
(Channel Point Apts) Series			■ Sales Tax RB Series 1997A		
1998A			2.03%, 01/07/05	23,830	23,830
1.98%, 01/07/05	7,000	7,000	Second Subordinate Sales Tax		
Long Beach Unified SD			Revenue TECP Series A		
■ Capital Improvement			■ 1.87%, 01/05/05	25,267	25,267
Refinancing COP Series 2001			■ 1.87%, 01/06/05	10,054	10,054
1.99%, 01/07/05	4,645	4,645	■ 1.75%, 01/10/05	12,000	12,000
			■ 1.85%, 01/12/05	13,139	13,139
			■ 1.85%, 01/13/05	20,000	20,000
			■ 1.85%, 02/07/05	10,784	10,784
			■ 1.82%, 03/14/05	38,684	38,684

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 Community Redevelopment Agency			Los Angeles Municipal Improvement Corp		
➔■ Senior Sales Tax RB Series 2001A 1.32%, 01/12/05	12,600	12,600	Lease Revenue TECP Series A-1		
➔■ Senior Sales Tax Refunding RB Series 2001B 2.02%, 01/07/05	24,750	24,750	➕ 1.68%, 01/06/05	14,293	14,293
			➕ 1.25%, 01/11/05	10,000	10,000
			➕ 1.50%, 01/11/05	200	200
Los Angeles Convention & Exhibition Center Auth			Los Angeles Unified SD		
➕■ M/F Housing RB (Metropolitan Lofts Apts) Series 2002A 2.05%, 01/07/05	17,750	17,750	■ 2004-2005 TRAN Series A 2.00%, 01/07/05	121,500	121,500
			➔■ GO Bonds Series 1999C 2.02%, 01/07/05	16,400	16,400
Los Angeles Dept. of Water & Power			Los Angeles Wastewater System		
■ Power System RB Series 2001 B-6 2.19%, 01/03/05	13,600	13,600	➔■ RB Series 1998A 2.02%, 01/07/05	17,000	17,000
➔■ Power System RB Series 2001A 2.02%, 01/07/05	24,750	24,750	➔■ Refunding RB Series 2002A 2.03%, 01/07/05	12,245	12,245
Power System RB Series 2001A-1			Madera Cnty		
➔■ 2.02%, 01/07/05	15,000	15,000	➕■ Lease RB (Madera Municipal Golf Course) Series 1993 1.96%, 01/07/05	3,050	3,050
■ 2.03%, 01/07/05	7,120	7,120	Martinez		
Power System Revenue CP Notes			➕■ M/F Housing Refunding RB (Muirwood Garden Apts) Series 2003A 1.95%, 01/07/05	6,800	6,800
▮ 1.70%, 01/10/05	40,000	40,000	Mt. San Antonio Community College District		
▮ 1.87%, 03/10/05	10,000	10,000	➔■ GO Bonds 2001 Election Series 2004B 1.90%, 03/09/05	13,140	13,140
➔■ Water System RB Series 1999 2.03%, 01/07/05	22,090	22,090	Mt. San Jacinto Winter Park Auth		
➔■ Water System RB Series 2001A 2.01%, 01/07/05	12,708	12,708	➕■ COP (Palm Springs Aerial Tramway) Series 1998 2.00%, 01/07/05	3,300	3,300
Los Angeles Harbor Department			➕■ COP (Palm Springs Aerial Tramway) Series 2000B 2.00%, 01/07/05	2,900	2,900
TECP Series B			Oakland		
▮ 1.86%, 01/12/05	27,465	27,465	➔■ Insured RB (180 Harrison Foundation) Series 1999A 2.03%, 01/07/05	4,500	4,500
▮ 1.86%, 01/13/05	8,204	8,204	Oceanside		
▮ 1.88%, 02/03/05	11,282	11,282	➕■ M/F Mortgage RB (Riverview Springs Apts) Series 1990A 2.00%, 01/07/05	12,070	12,070
▮ 1.87%, 02/14/05	24,457	24,457			

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 Cnty			Pleasanton		
+ ■ Apartment Development Refunding RB (Villas Aliento) Series 1998E 1.98%, 01/07/05	4,500	4,500	+ ■ M/F Housing RB (Busch Senior Housing) Series 2003A 2.02%, 01/07/05	13,360	13,360
+ ■ Apartment Development Refunding RB (Vintage Woods) Series 1998H 1.98%, 01/07/05	10,000	10,000	Port of Oakland		
+ ■ Apartment Development Refunding RB (WLCO LF Partners) Series 1998G 1.98%, 01/07/05	14,250	14,250	+ ■ 2.04%, 01/07/05	8,415	8,415
+ ■ COP (Florence Crittenton Services) Series 1990 1.95%, 01/07/05	5,200	5,200	+ ■ 2.08%, 01/07/05	15,000	15,000
Orange Cnty Local Transp Auth			Redwood City		
Sales Tax Revenue TECP			+ ■ COP (City Hall) Series 1998 2.00%, 01/07/05	3,070	3,070
+ 1.83%, 01/14/05	20,000	20,000	Richmond		
+ 1.63%, 01/19/05	15,500	15,500	+ ■ M/F Housing RB (Baycliff Apts) Series 2004A 2.02%, 01/07/05	28,800	28,800
Palo Alto Unified SD			Riverside Cnty Housing Auth		
+ ■ GO Bonds Series B TOB Series 1997R 2.03%, 01/07/05	6,000	6,000	+ ■ M/F Housing RB (Victoria Springs Apts) Series 1989C 2.00%, 01/07/05	9,000	9,000
Petaluma Community Development Commission			+ ■ M/F Housing RB (Briarwood Apts) Series 1985C 1.99%, 01/07/05	4,500	4,500
+ ■ M/F Housing RB (Oakmont) Series 1996A 2.02%, 01/07/05	3,450	3,450	+ ■ M/F Housing Refunding RB (Tyler Springs Apts) Series 1999C 1.98%, 01/07/05	8,300	8,300
Pinole Redevelopment Agency			Roseville Joint Union High SD		
+ ■ M/F Housing RB (East Bluff Apts) Series 1998A 2.07%, 01/07/05	4,959	4,959	+ ■ COP Series 2003 2.00%, 01/07/05	6,300	6,300
Pittsburg Redevelopment Agency			Sacramento Cnty		
+ ■ Subordinate Tax Allocation Bonds (Los Medanos Community Develop.) Series 2004A 2.25%, 01/07/05	27,000	27,000	2004 TRAN Series A 1.65%, 07/11/05	35,000	35,243
Pleasant Hill			+ ■ Special Facilities Airport RB (Cessna Aircraft Co) Series 1998 2.00%, 01/07/05	3,300	3,300
+ ■ M/F Mortgage RB (Brookside Apts) Series 1988A 1.95%, 01/07/05	4,400	4,400	Sacramento Cnty Housing Auth		
			+ ■ M/F Housing RB (Carlton Plaza Senior Apts) Series 2003E 2.02%, 01/07/05	14,000	14,000
			+ ■ M/F Housing RB (Hidden Oaks Apts) Series 1999C 2.02%, 01/07/05	6,300	6,300

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)
+ ■ M/F Housing Refunding RB (Chesapeake Commons Apts) Series 2001C 2.00%, 01/07/05 Sacramento Cnty Sanitation District	28,000	28,000	++ ■ Second Series RB Series 24A 2.07%, 01/07/05 San Francisco City & Cnty	12,670	12,670
■ ■ RB Series 2000A 2.01%, 01/07/05 Sacramento Housing Auth	18,535	18,535	+ ■ M/F Housing Refunding RB (City Heights Apts) Series 1997A 2.02%, 01/07/05 San Francisco City & Cnty Housing Auth	19,800	19,800
+ ■ M/F Housing RB (St. Anton Building Apts) Series 2003I 2.02%, 01/07/05 Sacramento Redevelopment Agency	8,000	8,000	+ ■ M/F Housing Refunding RB (Valencia Gardens) Series 2004 2.07%, 01/07/05 San Francisco City & Cnty Redevelopment Agency	14,000	14,000
+ ■ M/F Housing RB (18th & L Apts) Series 2002E 2.02%, 01/07/05 Sacramento Unified SD 2004-05 TRAN 2.05%, 11/30/05 San Diego Cnty & School Districts TRAN Program Note Participations Series 2004A 1.58%, 07/25/05 1.59%, 07/25/05	10,525	10,525	+ ■ M/F Housing RB (Ocean Beach Apts) Series 2001B 2.05%, 01/07/05 + ■ M/F Housing Refunding RB (Fillmore Center) Series 1992A2 2.05%, 01/07/05 San Francisco Cnty Transportation Auth CP Notes Series A & B	7,235	7,235
15,000	15,138			7,500	7,500
102,600	103,541			25,000	25,000
San Diego Housing Auth				12,500	12,500
+ ■ M/F Housing RB (Hillside Garden Apts) Series 2004B 2.08%, 01/07/05 + ■ M/F Mortgage Refunding RB (Creekside Villa Apts) Series 1999B 2.00%, 01/07/05 San Diego Unified SD 2004-2005 TRAN Series A 1.59%, 07/25/05	12,800	12,800		12,500	12,500
75,000	75,584		San Francisco Unified SD 2004 TRAN 2.06%, 12/01/05 San Gabriel Valley Council of Governments	37,500	37,984
++ ■ GO Bonds Series 2002D 1.30%, 02/16/05 ++ ■ GO Bonds Series 2003E 1.30%, 02/16/05 San Francisco Airports Commission	12,280	12,280	+ Grant Anticipation Notes (Alameda Corridor Transportation) 1.83%, 01/14/05 San Joaquin Cnty Transportation Auth	30,300	30,300
21,665	21,665		+ Sales Tax Revenue TECP 1.83%, 02/11/05	4,000	4,000
++ ■ Second Series RB Series 18B 2.01%, 01/07/05	16,255	16,255			

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 Jose			Santa Clara Valley Transportation Auth		
➔■ GO Bonds Series 2002 (Libraries, Parks & Public Safety) 2.01%, 01/07/05	11,223	11,223	➔■ Measure A Sales Tax RB Series 2004B 2.05%, 01/07/05	39,975	39,975
■ M/F Housing RB (Almaden Family Apts) Series 2003D 2.02%, 01/07/05	5,000	5,000	Santa Cruz Cnty 2004-2005 TRAN Series A 1.62%, 07/06/05		
■ M/F Housing RB (Almaden Lake Village Apts) Series 1997A 2.00%, 01/07/05	15,900	15,900	Santa Fe Springs IDA ■ IDR (Tri-West) Series 1983 1.85%, 01/30/05		
■ M/F Housing RB (Betty Anne Gardens Apts), Series 2002A 2.00%, 01/07/05	7,610	7,610	Santa Rosa Housing Auth ■ M/F Housing RB (Quail Run Apts) Series 1997A 2.07%, 01/07/05		
■ M/F Housing RB (El Paseo Apts) Series 2002B 2.00%, 01/07/05	2,700	2,700	South Placer Wastewater Auth ➔■ Wastewater RB Series B 1.97%, 01/07/05		
■ M/F Housing RB (Siena at Renaissance Square Apts) Series 1996A 2.02%, 01/07/05	21,500	21,500	South San Francisco ■ M/F Housing RB (Magnolia Plaza Apts) Series 1987A 2.04%, 01/07/05		
San Jose Redevelopment Agency			Southern California Home Financing Auth		
■ M/F Housing RB (101 San Fernando Apts) Series 1998A 2.02%, 01/07/05	38,000	38,000	■ S/F Mortgage RB Series 2004A 2.04%, 01/07/05		
San Marcos Redevelopment Agency			S/F Mortgage RB Series 2004B ■ 1.15%, 02/01/05		
■ M/F Housing RB (Grandon Village) Series 2002A 1.98%, 01/07/05	13,500	13,500	■ 1.45%, 02/01/05		
Santa Barbara Cnty 2004-2005 TRAN Series A 1.57%, 07/26/05			Southern California Metropolitan Water District		
Santa Clara Cnty			■ Water RB 2000 Authorization Series B-3 2.10%, 01/03/05		
■ M/F Housing Refunding RB (Briarwood Apts) Series 1996B 1.98%, 01/07/05	12,400	12,400	■ Water RB Series 1999A 2.03%, 01/07/05		
■ M/F Housing Refunding RB (Grove Garden Apts) Series 1997A 1.98%, 01/07/05	14,000	14,000	■ Water RB Series 2001 C-1 2.25%, 01/03/05		
			■ Water Refunding RB Series 2003 C-1 1.92%, 01/07/05		

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)
Southern California Public Power Auth			West Sacramento Community Facilities District #6		
+■ Transmission Project Subordinate Refunding RB Series 1991 1.94%, 01/07/05	2,100	2,100	+■ Special Tax Bonds Series 1997A 2.16%, 01/07/05	3,210	3,210
Stockton			Western Placer Unified SD		
+■ Arch Road East Community Facilities District No. 99-02 Special Tax Bonds Series 1999 2.01%, 01/07/05	1,255	1,255	+■ COP (School Facilities) Series 2003 2.03%, 01/07/05	9,000	9,000
Sunnyvale			Westminster Redevelopment Agency		
+■ COP (Government Center Site Acquisition) Series 2001A 1.96%, 01/07/05	6,800	6,800	+■ Commercial Redevelopment Project No. 1 Tax Allocation Refunding RB Series 1997 2.00%, 01/07/05	21,500	21,500
Union City			+■ M/F Housing RB (Brookhurst Royale Senior Assisted Living) Series 2000A 2.20%, 01/07/05	7,700	7,700
+■ M/F Housing Refunding RB (Greenhaven Apts) Series 1997A 1.98%, 01/07/05	7,975	7,975	Westminster		
University of California			+■ COP (Civic Center Refunding) Series 1998A 2.00%, 01/07/05	3,410	3,410
+■ General RB Series 2003A 2.01%, 01/07/05	8,265	8,265	6,772,764		
+■ General RB 2003 Series A 2.01%, 01/07/05	9,005	9,005	Puerto Rico 2.3%		
■ RB (Multiple Purpose) Series K 2.02%, 01/07/05	19,430	19,430	Government Development Bank of Puerto Rico		
+■ RB (Multiple Purpose) Series O 2.01%, 01/07/05	7,495	7,495	TECP Series 1997 1.88%, 02/17/05	8,340	8,340
TECP Series A 1.82%, 01/18/05	25,200	25,200	Puerto Rice Public Buildings Auth		
1.83%, 02/03/05	12,545	12,545	+■ Government Facilities RB Series B 2.00%, 01/07/05	10,295	10,295
1.85%, 02/23/05	8,600	8,600	Puerto Rico		
Val Verde Unified SD			+■ Public Improvement & Refunding Bonds Series 2000 1.99%, 01/07/05	4,535	4,535
+■ COP (Land Bank) Series 2004A 1.98%, 01/07/05	2,600	2,600	+■ Public Improvement Bonds Series 2000 1.99%, 01/07/05	300	300
Ventura Cnty			+■ Public Improvement Bonds Series 2001A 2.03%, 01/07/05	12,835	12,835
2004-05 TRAN 1.60%, 07/01/05	60,000	60,410	+■ Public Improvement Bonds Series 2001B 2.00%, 01/07/05	7,295	7,295
Victor Valley Community College District					
+■ COP Series 1997 2.03%, 01/07/05	50,475	50,475			

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)
➤■ Public Improvement Refunding Bonds Series 2002A 2.09%, 01/07/05	4,995	4,995	Puerto Rico Public Buildings Auth		
Puerto Rico Electric Power Auth ➤■ Power RB Series HH 2.00%, 01/07/05	20,765	20,765	➤■ Refunding RB Series L 2.00%, 01/07/05	2,500	2,500
➤■ Power RB Series II 2.00%, 01/07/05	6,600	6,600			157,345
Puerto Rico HFC ➤■ M/F Mortgage RB Portfolio A Series I 2.00%, 01/07/05	9,010	9,010	End of investments.		
Puerto Rico Highway & Transportation Auth ➤■ Transportation RB Series A 1.95%, 01/07/05	2,610	2,610			
➤■ Transportation RB Series J and I 2.00%, 01/07/05	4,995	4,995			
Puerto Rico Hwy & Transp Auth ➤■ Grant Anticipation RB 2.00%, 01/07/05 Highway RB Series Y	4,250	4,250			
➤■ 1.99%, 01/07/05	7,800	7,800			
➤■ 2.00%, 01/07/05	8,600	8,600			
➤■ Highway Refunding RB Series AA 2.00%, 01/07/05	3,995	3,995			
➤■ Transportation RB Series 2000B 2.03%, 01/07/05	4,955	4,955			
➤■ Transportation RB Series G & Subordinated RB Series 2003 2.00%, 01/07/05	9,380	9,380			
Puerto Rico Infrastructure Financing Auth ■ Special Obligation Bonds Series 2000A 2.00%, 01/07/05	20,000	20,000			
➤■ Special Tax RB Series 1997A 1.99%, 01/07/05	3,290	3,290			

Statement of

Assets and Liabilities

As of December 31, 2004. All numbers x 1,000 except NAV.

Assets

Investments, at value	\$6,930,109
Cash	1,508
Receivables:	
Fund shares sold	12,997
Interest	37,182
Prepaid expenses	+ 42
Total assets	6,981,838

Liabilities

Payables:	
Fund shares redeemed	8,324
Dividends to shareholders	626
Investment adviser and administrator fees	133
Transfer agent and shareholder service fees	129
Trustees' fees	5
Accrued expenses	+ 157
Total liabilities	9,374

Net Assets

Total assets	6,981,838
Total liabilities	- 9,374
Net assets	\$6,972,464

Net Assets by Source

Capital received from investors	6,974,318
Net investment income not yet distributed	6
Net realized capital losses	(1,860)

Net Asset Value (NAV) by Share Class

Share Class	Net Assets	+	Shares Outstanding	=	NAV
Sweep Shares	\$4,147,594		4,149,156		\$1.00
Value Advantage Shares	\$2,824,870		2,825,277		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost for the fund's securities was \$6,930,109.

During the reporting period, the fund had \$1,959,595 in transactions with other Schwab Funds.

Federal Tax Data**Cost basis of portfolio** \$6,930,103**As of December 31, 2004:****Unused capital losses:**

Expires 12/31 of:	Loss amount:
2008	\$955
2011	508
2012	+ 397
	\$1,860

Reclassifications:

Net realized capital gains: \$34

Reclassified as:

Net investment income not yet distributed (\$34)

Statement of

Operations

For January 1, 2004 through December 31, 2004. All numbers x 1,000.

Investment Income

Interest	\$88,122
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Net Realized Gains and Losses

Net realized losses on investments sold	(431)
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Expenses

Investment adviser and administrator fees	25,314
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Transfer agent and shareholder service fees:	
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Sweep Shares	18,836
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Value Advantage Shares	6,514
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Trustees' fees	44
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Custodian and portfolio accounting fees	573
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Professional fees	54
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Registration fees	88
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Shareholder reports	37
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Other expenses	+	94
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Total expenses	51,554
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Expense reduction	-	11,022
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Net expenses	40,532
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Increase in Net Assets from Operations

Total investment income	88,122
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Net expenses	-	40,532
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Net investment income	47,590
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Net realized losses	+	(431)
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Increase in net assets from operations	\$47,159
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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 \$9,766 from the investment adviser (CSIM) and \$1,256 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 30, 2005, 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.

Operations

	1/1/04–12/31/04	1/1/03–12/31/03
Net investment income	\$47,590	\$39,181
Net realized losses	+ (431)	(322)
Increase in net assets from operations	47,159	38,859

Distributions Paid**Dividends from Net Investment Income**

Sweep Shares	24,386	18,595
Value Advantage Shares	+ 23,164	20,586
Total dividends from net investment income	47,550	39,181

Transactions in Fund Shares**Shares Sold**

Sweep Shares	15,986,392	13,539,485
Value Advantage Shares	+ 3,464,257	3,354,779
Total shares sold	19,450,649	16,894,264

Shares Reinvested

Sweep Shares	23,979	18,322
Value Advantage Shares	+ 20,603	19,098
Total shares reinvested	44,582	37,420

Shares Redeemed

Sweep Shares	(16,031,992)	(13,443,811)
Value Advantage Shares	+ (3,720,576)	(3,394,287)
Total shares redeemed	(19,752,568)	(16,838,098)

Net transactions in fund shares	(257,337)	93,586
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Net Assets

Beginning of period	7,230,192	7,136,928
Total increase or decrease	+ (257,728)	93,264
End of period	\$6,972,464	\$7,230,192

Unless stated, all numbers x 1,000.

Unaudited

The fund hereby designates 100% of its dividends for the current report period as tax-exempt interest dividends.

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.

Includes net investment income not yet distributed in the amount of \$6 at the end of current period.

Financial Notes

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.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Shareholders of:

Schwab California Municipal Money Fund

In our opinion, the accompanying statement of assets and liabilities, including the portfolio holdings, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Schwab California Municipal Money Fund (one of the portfolios constituting The Charles Schwab Family of Funds, (hereafter referred to as the “Fund”) at December 31, 2004, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Fund’s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2004 by correspondence with the custodian, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California

February 14, 2005

Fund Trustees

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 fund 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 Schwab Funds (of which there were 53 as of 12/31/04) 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.

Individuals Who Are Interested Trustees and Officers of the Trust		
Name and Birthdate	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
Charles R. Schwab² 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); CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, Charles Schwab Bank, N.A., U.S. Trust, United States Trust Co. of New York, Siebel Systems (software), Xsign, Inc. (electronic payment systems), TrustMark, Inc., 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, Vodaphone 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.

Individuals Who Are Officers of the Trust but Not Trustees

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; <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.; <i>Until 9/04</i> : VP, Charles Schwab & Co., Charles Schwab Investment Management, Inc.; <i>Until 2002</i> : VP of Internal Audit, Charles Schwab & Co.; <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> : Chief Financial Officer, Commerzbank Capital Markets; <i>Until 9/99</i> : Managing Director at the New York Stock Exchange.

Individuals Who Are Independent Trustees

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Mariann Byerwalter 8/13/60	2000 (all trusts).	<i>Since 2/05:</i> Director, Pacific Life Insurance Company; Chair, JDN Corp. Advisory LLC; 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, Laudus Trust, Laudus Variable Insurance Trust. <i>2007:</i> Special Advisor to the President, Stanford University. <i>Until 2001:</i> VP, Business Affairs, CFO, Stanford University.
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).	Director, Aphton Corp. (bio-pharmaceuticals); Non-Executive Chair, Trustee, Soletron Corp. (manufacturing), Mission West Properties (commercial real estate), Stratex Networks (network equipment), Laudus Trust, Laudus Variable Insurance Trust; Public Governor, Member, executive committee, Pacific Stock & Options Exchange. <i>Until 2/04:</i> Co-CEO, Aphton Corp. (bio-pharmaceuticals). <i>Until 1998:</i> Dean, Haas School of Business, University of California, Berkeley.
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 advisors); Trustee, Cooper Industries (electrical products, tools and hardware); Member, 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 debt obligations 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 and may be sold only to "qualified institutional buyers" under Securities Act Rule 144A. 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 web site at www.schwab.com/schwabfunds, the SEC's web site 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 web site 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 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® Funds
 Schwab® Institutional Select® S&P 500 Fund
 Schwab® Institutional Select® Large-Cap Value Index Fund
 Schwab® Institutional Select® Small-Cap Value Index Fund

Asset Allocation Funds

Schwab MarketTrack Portfolios®
 Schwab MarketTrack All Equity Portfolio™
 Schwab MarketTrack Growth Portfolio™
 Schwab MarketTrack Balanced Portfolio™
 Schwab MarketTrack Conservative Portfolio™

Bond Funds

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

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

Annual Report

December 31, 2004

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™

charles SCHWAB

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The president of Schwab Funds® and the funds' managers take a look at the factors that shaped fund performance during the report period.

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Schwab New York Municipal Money Fund™

Sweep Shares: **SWNXX**

Value Advantage Shares™: **SWYXX**

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Schwab New Jersey Municipal Money Fund™

Ticker Symbol: **SWJXX**

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Schwab Pennsylvania Municipal Money Fund™

Ticker Symbol: **SWEXX**

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Schwab Florida Municipal Money Fund™

Ticker Symbol: **SWFXX**

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Schwab Massachusetts Municipal Money Fund™

Ticker Symbol: **SWDXX**

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From the Chairman



Charles Schwab
Chairman

Dear Shareholder,

I understand that selecting a financial services company is an important decision you make as an investor and is one that we take very seriously. In fact, we made recent changes that we believe will both improve the quality of service you receive and give you the best value possible. For example, we reduced the average cost of security trades and we also expanded access to high-quality investment products.

Looking forward, we continue to see tremendous opportunities for investors, and my colleagues and I are committed to helping you maximize them. The changes we made last year at Schwab laid a foundation for more improvements this year. We will continue to expand the array of products and services that you are looking for, including new cash management and credit products from the Schwab Bank and new mutual fund products.

During the period since our semi-annual money fund report, I'm happy to announce that Evelyn Dilsaver has been named CEO and President of Schwab Funds®. Although new to the position, Evelyn is no stranger to Schwab Funds, having been an officer in several other capacities at Schwab. Her broad experience in product creation, coupled with a comprehensive understanding of your financial needs, make her the ideal candidate for her new role.

I speak for Evelyn, as well as the rest of the Schwab Funds group, when I say we want Schwab to be a place where investors can find useful, quality financial products and services to help them succeed. Regardless of the size of their portfolios, Schwab should be the place investors can always trust to watch out for their best interests.

This commitment to our shareholders will not change, as nothing is more important to us than your trust. Thank you for investing with us.

Sincerely,

A handwritten signature in black ink that reads "Charles R. Schwab".

Management's Discussion for the year ended December 31, 2004



Evelyn Dilsaver is President and CEO of Charles Schwab Investment Management, Inc. and is president of each 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,

I am very excited about my new role as President and CEO of Schwab Funds®. My experience at Schwab has given me many opportunities to focus on meeting the needs of our clients. This will continue to be my emphasis, and I reiterate what Chuck Schwab noted in his letter, that our goal is to offer you better value and more relevant choices.

When we discuss Schwab Funds with our clients, we often hear that you want to know that you're getting the best value. We find that shareholders may be unaware that some of the Schwab Funds offer additional share classes that carry lower expenses in exchange for higher initial investments of \$25,000 or more. I encourage you to review your accounts to see if you are eligible to purchase these money-saving shares. If you would like to learn more about these potentially cost-saving shares, our investment consultants are available to assist you.

I'm pleased to announce that we launched a new sweep money fund last summer—Schwab Cash Reserves—which offers eligible investors lower expenses on a sweep fund. My plan is to build on this legacy of value and continue to offer unique investment solutions to help you meet your financial goals.

I also want to point out that over the past year, the Federal Reserve raised short-term interest rates five times, up to 2.25% at year-end, making yields on the Schwab Funds' money funds more attractive than they were earlier in the year. I'm noting this because, no matter what the economic outlook is, most investors' asset-allocation strategies include a cash component, which offers liquidity and capital preservation that can help to lessen the effect of the market's volatility.

I look forward to serving you in my new role. 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 ten 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 ten years in asset management.

The Investment Environment and the Funds

2004 started off positively, continuing the encouraging economic trend that was reported toward the end of 2003. Businesses added to their inventories, factory orders rose and production gained some strength. Retail sales continued to rise and higher commodity prices were holding. Mortgage refinancing activity, while still significant, waned as mortgage rates inched slightly upward. And finally, the last piece of the economic puzzle—job growth—began to exhibit solid gains. In fact, aside from a “soft patch” in early summer, the economy stayed strong throughout 2004.

The firming labor market, as well as steady gains in capital spending, kept the expansion on a self-sustaining path. The caution surrounding the economic outlook and geopolitical environment began to dissipate last spring and firms, unable to continue boosting productivity by restraining hiring, added more than two million new jobs during the year. Moreover, many leading indicators, such as the Institute for Supply Management’s business activity surveys, suggested further improvement, while continuing claims for unemployment benefits remained near cyclical lows. In addition, consumer sentiment rebounded, the labor market continued to sustain consumer spending, and corporate liquidity remained positive.

Strong productivity growth and slack in the economy kept a lid on inflation. The Federal Reserve (Fed) began to take the Fed funds rate higher beginning in June amid signs of solidly expanding output and improved hiring. The rate was raised another four times in 2004, ending the year at a moderate 2.25%. The moves had a limited impact on overall economic growth, due primarily to the record-low level of rates from which the hikes began.

Strengthening global demand for oil, particularly in the Pacific Rim, and supply constraints in the wake of the Florida hurricanes drove crude prices to record highs, above \$50 per barrel in late October. Since then, crude prices backed off to the mid-\$40 range, as supply concerns dissipated and China’s economy continues to attempt to engineer a soft landing. Though some pass-through from high oil and commodity prices earlier in the year may hamper growth and stir inflationary pressures, inflation has remained generally benign.

Though some pass-through from high oil and commodity prices earlier in the year may hamper growth and stir inflationary pressures, inflation has remained generally benign.

As noted above, the Fed began a series of five tightening moves in June, eventually bringing the rate to 2.25% at year end. These actions significantly impacted municipal money market yields. On average, yields on both fixed- and variable-rate muni notes increased by 1.0% from mid-March to year end. As a result, yields on muni money funds increased as well.

Anticipating the Fed tightening, yields on fixed-rate notes maturing from 6-12 months rose approximately 0.60% during the second quarter of the year. Since they offered the best relative value at the time, compared to other variable-rate securities, we increased the funds' position in this asset class, continuing to do so as yields rose. This resulted in an extension of the funds' weighted average maturities (WAM), which averaged 18 days longer when compared to the peer group.

For 2004, municipal note supply declined approximately 17% from 2003. This was a result of municipalities enjoying more robust economies and stronger tax receipts than they did in the previous year. As a result, there was less of a need for them to issue short-term notes. Demand for munis, however, remained steady for the year. This demand, combined with the decrease in new issuance, caused muni yields to rise at a slower pace than yields on short-term taxable securities.

For the 20th consecutive year, New York passed a late budget. The 2005 fiscal year began on April 1, 2004 and the budget was not passed until mid-August when almost half the fiscal year had elapsed. The general fund budget totals \$42.7 billion, generally unchanged from fiscal 2004. Non-recurring items account for almost 5% of resources, a similar level to the previous year, as the State has not made any progress in addressing its structural imbalance. The State closed a \$5.1 billion budget gap for fiscal 2005, but despite revenue growth exceeding projections by about 1.0%, it still faces a \$225 million shortfall for the year. The budget office anticipates finding program savings of that amount by fiscal year-end March 31, but the State also has approximately \$800 million in reserves it can use to cover the shortfall. It currently projects a \$6 billion budget gap for fiscal 2006, which does not include court-ordered increases in education funding for New York City. Additionally, local government leaders are demanding relief from huge state-mandated Medicaid and public employee pension obligations.

New York City's economy has continued to improve and the city revised its fiscal 2005 revenue estimates up slightly in October 2004, with most of the additional revenues earmarked to prepay expenses occurring in fiscal 2006. However, many local governments in northern and western

New York City's economy has continued to improve and the city revised its fiscal 2005 revenue estimates up slightly in October 2004, with most of the additional revenues earmarked to prepay expenses occurring in fiscal 2006.

New York continue to operate under tremendous financial pressure as their manufacturing-dominated economies have not been bolstered with new employment seen in other sectors.

The State began its economic recovery in late 2003. Employment fell 0.6% in 2003, slowly rebounded with 0.3% growth in 2004 and is projected to increase 0.9% in 2005. However, personal income growth was 2.3% in 2003, a strong 5.3% in 2004 and is projected to slow down slightly to 4.8%, in 2005. Due to the diversity of the State economy as well as its revenue raising ability, New York remains a strong investment-grade credit. The State's general obligation credit rating was upgraded to A1 from A2 and a positive outlook was assigned by Moody's in November 2004. The ratings are AA and AA- from Standard & Poor's and Fitch, respectively.

New Jersey's fiscal 2005 (beginning 7/1/04) budget totals \$28.0 billion, a 14% increase over fiscal 2004 spending. The increase in spending is targeted at providing property tax relief, and increasing school-aid and health-care funding. The budget was balanced with substantial tax increases and \$1.9 billion in deficit bonds, the third consecutive year the State has resorted to the bond market to close the budget. As the budget relies on non-recurring items for 10% of its revenues, a level similar to that used in fiscal 2004, the State has not made any progress in addressing the budget's structural imbalance. The State's flexibility was further reduced when, shortly after the budget was passed, the New Jersey Supreme Court ruled that the State could not issue deficit bonds after fiscal 2005. The bulk of the tax increases reflect a projected 20% jump in personal income tax receipts, about half of which is expected to come from a strengthening economy. The balance is to come from a 40% increase in the tax rate for households with annual incomes above \$500,000, about 35,000 individuals. Through November 2004, however, the State had received revenues about 1.9% below projections for the period.

Gov. McGreevey resigned effective November 15, 2004 and former Senate President Richard Codey will be the acting governor for the current term.

New Jersey began its economic recovery in mid-2003, ending that year with a net 0.1% in job losses. The State experienced 1.5% employment growth in 2004 and projects over 2.0% in 2005. Personal income grew a robust 4.6% in 2004 and was expected to continue at 4.4% in 2005. The State's highly trained workforce, diversity of employment sectors and centralized location provide it with excellent growth opportunities. Due to the diversity of the State's economy, as well as its revenue raising ability, New Jersey remains a strong investment-grade

Florida has benefited from its reliance on sales taxes rather than personal income taxes, though it continues to face challenges to educate and build schools for a growing K-12 student population.

credit. New Jersey's ratings were downgraded in July by all three rating agencies: from Aa2 to Aa3 by Moody's, and from AA to AA- by both Standard & Poor's and Fitch, respectively.

After closing a \$2.4 billion gap in its fiscal 2004 general fund budget, Pennsylvania was rewarded with greater than expected revenues from tax increases, due to strong economic growth. This resulted in an operating surplus at year end, despite mid-year projections of an operating deficit.

Governor Ed Rendell signed the fiscal 2005 budget on July 4, 2004. The new budget includes a projected 4.3% increase in general fund appropriations, with the bulk of additional spending going toward Medicaid and education. Although the adopted budget projected a small operating deficit, the Commonwealth's revenues were 2.4% ahead of projections through October 2004, and the Commonwealth may upwardly revise its fiscal 2005 revenue estimates. Hours before the adoption of the fiscal 2005 budget the Commonwealth dramatically expanded legalized gambling to provide a projected \$1 billion in additional annual school district funding, which may eventually result in property tax relief at the local level.

The Commonwealth's above-average credit quality is derived from its conservative financial management, increasing economic diversification and moderate debt level. As of the report date, Pennsylvania's ratings were: Aa2, AA, AA from Moody's, Standard & Poor's and Fitch, respectively.

Florida's economic growth continued through 2004, despite enduring four serious hurricanes in the fall. At the end of June 2004, the State had large cash reserves totaling about \$3.3 billion, which were available for emergency spending while awaiting reimbursement from the Federal Emergency Management Agency (FEMA). Reconstruction activity related to the hurricanes passes through to the State's sales tax collections, and is largely expected to enable the State to recoup its non-reimbursable disaster-recovery costs. Florida has benefited from its reliance on sales taxes rather than personal income taxes, though it continues to face challenges to educate and build schools for a growing K-12 student population. Florida's revenues are running about \$400 million ahead of fiscal 2005 budget projections, led by strength in sales- and stamp-tax collections.

Total nonfarm jobs were up about 2.1% on average each month through November 2004, up from 1.5% annual job growth for 2003. The average unemployment rate through November 2004 was 4.6%, down from 5.1% in 2003. With its substantial reserves and strong

Due to the diversity of the Commonwealth's economy, high personal-wealth levels and associated revenue raising ability, Massachusetts remains a strong investment-grade credit.

economic performance, the State's ratings at the end of the report period were Aa2 from Moody's, AA+ from Standard & Poor's and AA from Fitch. In November 2004, Moody's placed the State's Aa2 rating on its watchlist for a possible upgrade and in January 2005, the rating was raised to Aa1.

Despite Massachusetts' continued reliance on one-time revenue sources to balance the budget, higher tax receipts have brightened the outlook for fiscal 2005, which began 7/1/04. The Commonwealth's fiscal 2005 budget incorporated a 2.7% increase in tax revenue after fiscal 2004 tax revenues exceeded the budget by almost 8%, largely due to gains in personal income tax receipts. However, even with the economic recovery, total tax revenues for fiscal 2005 are still 3% below the levels received in 2001. On a budgetary basis, the Commonwealth anticipates ending fiscal 2005 with a \$1.2 billion general fund balance, or 5% of expenditures, down from \$1.9 billion at 6/30/04. In addition, the Massachusetts School Building Assistance Authority was established in July to provide \$4.1 billion in funding for school building, thus reducing an annual budget drain on the Commonwealth.

Massachusetts' economy continues in its recovery phase and the recent rise in personal tax revenues suggests job growth is vibrant, with the unemployment rate falling from 6.2% in January 2004 to 4.2% in November. Due to the diversity of the Commonwealth's economy, high personal-wealth levels and associated revenue raising ability, Massachusetts remains a strong investment-grade credit. As of the report date, the Commonwealth's credit ratings were Aa2 with a stable outlook from Moody's, AA- from Standard & Poor's and AA- from Fitch.

Performance and Fund Facts as of 12/31/04

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.

	Municipal Money Funds				
	New York	New Jersey	Pennsylvania	Florida	Massachusetts
	Sweep Shares	Value Advantage Shares™			
Seven-Day Yield ¹	1.18%	1.42%	1.16%	1.28%	1.24%
Seven-Day Yield—No Waiver ²	1.03%	1.26%	0.95%	1.06%	0.98%
Seven-Day Effective Yield ¹	1.19%	1.43%	1.16%	1.22%	1.25%
Seven-Day Taxable-Equivalent Effective Yield ^{1, 3}	2.08%	2.50%	1.91%	1.88%	2.03%

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	47 days	38 days	34 days	31 days	49 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	67%	75%	72%	87%	53%
Minimum Initial Investment ⁴					
Sweep Investments™	*	*	*	*	*
Value Advantage Shares	\$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. For the Massachusetts fund, please refer to the Statement of Operations for additional information on expense waivers.

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

³ Taxable-equivalent effective yields assume the following 2004 maximum tax rates: New York 42.90% (federal regular income, New York state and New York city taxes); New Jersey 39.14%, 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 July 1, 2004 and held through December 31, 2004.

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 7/1/04	Ending Account Value (Net of Expenses) at 12/31/04	Expenses Paid During Period ² 7/1/04–12/31/04
Schwab New York Municipal Money Fund™				
<i>Sweep Shares</i>				
Actual Return	0.69%	\$1,000	\$1,003.80	\$3.48
Hypothetical 5% Return	0.69%	\$1,000	\$1,021.67	\$3.51
<i>Value Advantage Shares™</i>				
Actual Return	0.45%	\$1,000	\$1,005.00	\$2.27
Hypothetical 5% Return	0.45%	\$1,000	\$1,022.87	\$2.29
Schwab New Jersey Municipal Money Fund™				
Actual Return	0.65%	\$1,000	\$1,003.80	\$3.27
Hypothetical 5% Return	0.65%	\$1,000	\$1,021.87	\$3.30
Schwab Pennsylvania Municipal Money Fund™				
Actual Return	0.65%	\$1,000	\$1,004.10	\$3.27
Hypothetical 5% Return	0.65%	\$1,000	\$1,021.87	\$3.30
Schwab Florida Municipal Money Fund™				
Actual Return	0.66%	\$1,000	\$1,004.00	\$3.32
Hypothetical 5% Return	0.66%	\$1,000	\$1,021.82	\$3.35
Schwab Massachussets Municipal Money Fund™				
Actual Return	0.60%	\$1,000	\$1,004.10	\$3.02
Hypothetical 5% Return	0.60%	\$1,000	\$1,022.12	\$3.05

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 that fund's or share class' annualized expense ratio, multiplied by the average account value over the period, multiplied by 184 days of the period, and divided by 366 days of the fiscal year.

Schwab New York Municipal Money Fund™

Financial Statements

Financial Highlights

Sweep Shares	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
Income from investment operations:					
Net investment income	0.01	0.00 ¹	0.01	0.02	0.03
Less distributions:					
Dividends from net investment income	(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
Total return (%)	0.56	0.41	0.80	2.06	3.39
Ratios/Supplemental Data (%)					
Ratios to average net assets:					
Net operating expenses	0.69	0.69	0.69	0.69	0.70 ²
Gross operating expenses	0.84	0.84	0.85	0.86	0.88
Net investment income	0.55	0.41	0.80	2.04	3.35
Net assets, end of period (\$ x 1,000,000)	1,073	1,038	944	889	798
Value Advantage Shares	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
Income from investment operations:					
Net investment income	0.01	0.01	0.01	0.02	0.04
Less distributions:					
Dividends from net investment income	(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
Total return (%)	0.80	0.66	1.04	2.30	3.64
Ratios/Supplemental Data (%)					
Ratios to average net assets:					
Net operating expenses	0.45	0.45	0.45	0.45	0.46 ³
Gross operating expenses	0.61	0.61	0.62	0.64	0.68
Net investment income	0.79	0.65	1.04	2.23	3.59
Net assets, end of period (\$ x 1,000,000)	654	690	676	604	419

¹ Per share amount was less than \$0.01.

² The ratio of net operating expenses would have been 0.69% if certain non-routine expenses (proxy fees) had not been included.

³ 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 December 31, 2004

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

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)
99.3%	Municipal Securities	1,715,512	1,715,512
99.3%	Total Investments	1,715,512	1,715,512
0.7%	Other Assets and Liabilities		11,316
100.0%	Total Net Assets		1,726,828

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
-------------------------------	-----------------------------	-----------------------

Municipal Securities 99.3% of net assets**New York 97.6%****Albany IDA**

+■ IDRB (Newkirk Products)		
Series 1995A		
2.02%, 01/07/05	1,000	1,000
+■ Refunding IDRB (United Cerebral Palsy Assn-Capital District)		
1997B		
2.00%, 01/07/05	10,000	10,000

Averill Park Central SD

BAN 2004		
1.80%, 06/22/05	19,551	19,568

Baldwin Union Free SD

2004-05 TAN		
1.58%, 06/29/05	11,700	11,766

Broome Cnty IDA

+■ Civic Facility RB (Methodist Homes For the Aging) 2003		
Series		
2.00%, 01/07/05	5,915	5,915
+■ Civic Facility RB (Elizabeth Church Manor Nursing Home)		
2003 Series		
2.00%, 01/07/05	6,370	6,370

Buffalo Fiscal Stability Auth

BAN Series 2004 A-1		
1.99%, 05/16/05	16,000	16,059

Chautauqua Cnty

+■ Civic Facility RB (Jamestown Center City Dev Corp)		
Series 2000A		
2.02%, 01/07/05	11,610	11,610
+■ IDRB (GrafcO Industries)		
Series 2002		
2.06%, 01/07/05	6,130	6,130

Commack Union Free SD

TAN 2004-2005		
2.00%, 06/30/05	10,000	10,048

Connetquot Central SD

2004-2005 TAN		
1.54%, 06/30/05	11,000	11,078
1.55%, 06/30/05	2,000	2,014
2.08%, 06/30/05	5,000	5,022

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)
Cheektowaga CSD			Longwood Central SD		
BAN Series 2004A			2004-2005 TAN		
1.60%, 06/03/05	17,505	17,606	1.60%, 06/30/05	6,000	6,041
East Meadow Union Free SD			Metropolitan Transportation Auth		
2004-2005 TAN			►■ Dedicated Tax Fund Bonds		
1.57%, 06/29/05	3,000	3,017	Series 1998A		
BAN 2004			2.02%, 01/07/05	9,440	9,440
1.50%, 08/17/05	10,000	10,092	➔►■ Dedicated Tax Fund Bonds		
Hauppauge Union Free SD			Series 2002A		
2004-2005 TAN			1.98%, 01/07/05	10,580	10,580
1.55%, 06/29/05	6,000	6,042	Transportation Revenue BAN		
2.08%, 06/29/05	4,500	4,520	Series CP-1A		
Herkimer Cnty			✚ 1.81%, 02/11/05	15,000	15,000
➔■ Civic Facility RB (Templeton			✚ 1.83%, 03/11/05	25,000	25,000
Foundation) Series 2000			➔►■ Transportation RB Series 2003B		
2.07%, 01/07/05	1,800	1,800	2.02%, 01/07/05	3,500	3,500
Herricks Union Free SD			➔►■ Transportation Refunding RB		
2004-2005 TAN			Series 2002A		
1.57%, 06/29/05	8,000	8,046	2.01%, 01/07/05	22,000	22,000
Islip Union Free SD			✚ Transportation Revenue BAN		
2004-2005 TAN			Sub-series B		
1.65%, 06/29/05	6,750	6,794	1.90%, 04/07/05	15,000	15,000
Levittown Union Free SD			Nassau Health Care Corp		
2004-2005 TAN			➔►■ Bonds Series 2004C-1		
1.58%, 06/29/05	7,000	7,048	1.95%, 01/07/05	5,000	5,000
Lindenhurst Union Free SD			➔►■ Bonds Series 2004C-2		
2004-2005 TAN			1.92%, 01/07/05	5,000	5,000
1.60%, 06/23/05	8,400	8,445	➔►■ Bonds Series 2004C-3		
Livingston Cnty			1.95%, 01/07/05	5,000	5,000
BAN 2004			New York City		
1.60%, 06/16/05	36,027	36,252	➔■ GO Bonds Fiscal 1994 Series E-3		
Long Island Power Auth			2.15%, 01/03/05	3,500	3,500
➔►■ Electric System General			➔■ GO Bonds Fiscal 1994 Series H-4		
RB Series 1998A			2.15%, 01/03/05	4,100	4,100
2.02%, 01/07/05	21,000	21,000	➔►■ GO Bonds Fiscal 1998D		
➔►■ Electric System General			2.03%, 01/07/05	26,000	26,000
RB Series 2001A			➔►■ GO Bonds Fiscal 2000 Series A		
2.02%, 01/07/05	4,365	4,365	2.02%, 01/07/05	3,395	3,395
➔►■ Electric System RB Series			➔►■ GO Bonds Fiscal 2002 Series A		
1998A			2.01%, 01/07/05	9,750	9,750
2.01%, 01/07/05	1,900	1,900	➔►■ GO Bonds Fiscal 2002 Series G		
➔►■ Electric System Subordinated			1.96%, 01/07/05	16,400	16,400
RB 1998 Series 7B			➔■ GO Bonds Fiscal 2003 Series C-2		
1.95%, 01/07/05	1,500	1,500	1.95%, 01/07/05	6,265	6,265
✚ Electric System Subordinated			➔■ GO Bonds Fiscal 2004 Series H-7		
RB 2001 Series 2-B			2.15%, 01/03/05	8,200	8,200
2.15%, 01/03/05	11,375	11,375	➔►■ GO Bonds Fiscal 2004 Series J		
			1.96%, 01/07/05	9,160	9,160

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, Fiscal 2001 Series B 2.01%, 01/07/05 GO Bonds, Fiscal 1994 Series H-3 2.15%, 01/03/05 New York City Health & Hospitals Corp Health System Bonds 1999 Series A 2.01%, 01/07/05 New York City Housing Development Corp M/F Mortgage RB (90 West St) 2004 Series A 1.95%, 01/07/05 M/F Mortgage RB (Atlantic Court Apts) 2003 Series A 1.99%, 01/07/05 M/F Mortgage RB (First Avenue) Series 2002A 2.00%, 01/07/05 M/F Mortgage RB (Upper East) Series 2003A 2.01%, 01/07/05 M/F Rental Housing RB (100 Jane St) Series 1998A 1.99%, 01/07/05 M/F Rental Housing RB (One Columbus Place) Series 1998A 1.99%, 01/07/05 M/F Rental Housing RB (Sierra) Series 2003A 1.99%, 01/07/05 M/F Rental Housing RB (Tribeca Tower) Series 1997A 1.98%, 01/07/05 M/F Rental Housing RB (West End Towers) Series 2004A 2.00%, 01/07/05 New York City IDA Civic Facility RB (2000 Jewish Board of Family & Childrens Services) 1.99%, 01/07/05 Refunding IDRb (Allway Tools) Series 1997 2.05%, 01/07/05	6,920 500 17,620 12,000 19,350 7,445 9,000 6,525 24,000 18,000 2,300 20,000 15,820 1,480	6,920 500 17,620 12,000 19,350 7,445 9,000 6,525 24,000 18,000 2,300 20,000 15,820 1,480	Special RB (NYSE) Fiscal 2004 Series B 1.97%, 01/07/05 New York City Municipal Water Finance Auth Crossover Refunding Bonds 2002 F 2.02%, 01/03/05 TECP Series 5 1.85%, 02/03/05 1.87%, 02/03/05 1.85%, 03/03/05 TECP Series 6 1.88%, 03/03/05 Water & Sewer System RB Fiscal 2005 Series B 2.03%, 01/06/05 1.95%, 06/15/05 Water & Sewer System RB Series 1994G 2.15%, 01/03/05 Water & Sewer System RB Series 1998B 2.01%, 01/07/05 Water & Sewer System RB Series 2001D 2.04%, 01/07/05 Water & Sewer System RB Series 2002G 2.02%, 01/07/05 Water & Sewer System RB Series 2003 C-3 2.15%, 01/03/05 New York City Transitional Finance Auth Future Tax Secured Bonds Fiscal 1999 Series A 2.04%, 01/07/05 Future Tax Secured Bonds Fiscal 2000 Series A 2.01%, 01/07/05 Future Tax Secured Bonds Fiscal 2000 Series C 2.02%, 01/07/05 Future Tax Secured Refunding Bonds Fiscal 2003 Series A 2.02%, 01/03/05	7,000 7,495 72,400 5,300 8,000 29,000 1,855 13,450 2,775 4,735 4,995 10,000 1,100 4,970 15,720 14,545 6,000	7,000 7,495 72,400 5,300 8,000 29,000 1,855 13,513 2,775 4,735 4,995 10,000 1,100 4,970 15,720 14,545 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)
■ Recovery Bonds Fiscal 2003 Series 1E 1.98%, 01/07/05	4,300	4,300	New York State Environmental Facilities Corp.		
■ Recovery Bonds Fiscal 2003 Series 2A 2.17%, 01/03/05	15,000	15,000	● State Clean & Drinking Water Revolving Funds RB Series 2002B 2.01%, 01/07/05	24,225	24,225
New York Energy Research Development Auth			● State Water Pollution Control Revolving Fund RB Series 1994D 2.01%, 01/07/05	661	661
■ Facilities RB Series 2004C-1 1.99%, 01/07/05	6,000	6,000	New York State HFA		
■ Facilities RB Series 2004C-2 1.98%, 01/07/05	5,500	5,500	■ Housing RB (101 West End Ave) Series 1999A 1.99%, 01/07/05	1,600	1,600
■ Facilities RB Series 2004C-3 2.01%, 01/07/05	10,000	10,000	■ Housing RB (150 E44th St) Series 2000A 1.99%, 01/07/05	29,500	29,500
New York Power Auth			■ Housing RB (250 W50th St) Series 1997A 1.98%, 01/07/05	4,800	4,800
▶ Commercial Paper Notes Series 2 1.85%, 03/09/05	8,000	8,000	■ Housing RB (350 W43rd St) Series 2002A 1.99%, 01/07/05	9,000	9,000
■ Tender Notes Series 1985 1.35%, 03/01/05	25,000	25,000	■ Housing RB (70 Battery Place) Series 1997A 1.99%, 01/07/05	22,600	22,600
New York State			■ Housing RB (Avalon Chrystie Place I) Series 2004A 2.03%, 01/07/05	24,900	24,900
● GO Bonds Fiscal 2004 Series F 2.06%, 01/07/05	50,000	50,000	■ Housing RB (Chelsea Arms) Series 1998A 1.97%, 01/07/05	18,000	18,000
New York State Dormitory Auth			■ Housing RB (E84th St) Series 1995A 1.98%, 01/07/05	15,000	15,000
● City University System Consolidated Fifth General Resolution RB Series 2003A 1.15%, 01/07/05	7,295	7,295	■ Housing RB (Normandie Court I) Series 1991A 1.97%, 01/07/05	5,495	5,495
● Insured RB (Mt Sinai School of Medicine) Series 1994A 2.03%, 01/07/05	2,900	2,900	■ Housing RB (Normandie Court II) Series 1999A 1.99%, 01/07/05	19,600	19,600
● State University Educational Facilities RB Series 1993A 2.01%, 01/07/05	9,995	9,995	■ Housing RB (Sea Park East) Series 2004A 1.95%, 01/07/05	18,700	18,700
State University Educational Facilities RB Series 2000B			■ Housing RB (Sea Park West) Series 2004A 1.95%, 01/07/05	7,600	7,600
● 1.99%, 01/07/05	27,030	27,030			
● 2.01%, 01/07/05	12,375	12,375			
New York State Energy Research Development Auth					
● Gas Facilities RB (Brooklyn Union Gas) Series 1996 2.01%, 01/07/05	14,125	14,125			
● Pollution Control Refunding RB (Orange & Rockland Utilities) Series 1994A 1.94%, 01/07/05	1,000	1,000			

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)
➤■ Housing RB (The Helena) Series 2003A 1.98%, 01/07/05	7,800	7,800	Second Lien General Highway & Bridge Trust Fund Bonds Series 2003A 1.90%, 04/01/05	5,000	5,013
➤■ Housing RB (The Helena) Series 2004A 1.98%, 01/07/05	30,000	30,000	New York State Urban Development Corp ➤■● State Personal Income Tax RB Series 2004A-1 2.01%, 01/07/05	19,730	19,730
➤■ Housing RB (Tribeca Landing) Series 1997A 1.97%, 01/07/05	13,000	13,000	Northport-East Northport Union Free SD 2004-2005 TAN 1.55%, 06/30/05	7,775	7,830
➤■ Housing RB (Tribeca Park) Series 1997A 1.98%, 01/07/05	7,000	7,000	Oceanside Union Free SD 2004-2005 TAN 1.60%, 06/23/05	5,000	5,027
➤■ Housing RB (Union Square South) Series 1996A 1.98%, 01/07/05	16,800	16,800	Oneida Cnty IDA ➤■ Civic Facility RB (Mohawk Valley Community College Dormitory Corp) Series 2004A 1.98%, 01/07/05	8,470	8,470
➤■ Housing RB (Worth St) Series 2001A 1.97%, 01/07/05	11,200	11,200	Pittsford Central SD GO BAN 2004B 1.50%, 06/29/05 1.52%, 06/29/05	12,500 8,107	12,591 8,164
➤■ Service Contract Refunding RB Series 2003E 1.93%, 01/07/05	7,000	7,000	Plainview-Old Bethpage Central SD 2004-2005 TAN 1.52%, 06/30/05 2.08%, 06/30/05	2,000 5,000	2,012 5,016
New York State Local Assistance Corp ➤■ RB Series 1995D 1.95%, 01/07/05	6,320	6,320	Port Auth of New York & New Jersey ➤■● Consolidated Bonds 127th Series 2.04%, 01/07/05	3,000	3,000
➤■● Series 1993-C Refunding RB 2.01%, 01/07/05	9,900	9,900	● Consolidated Bonds 135th Series 2.04%, 01/07/05	20,000	20,000
➤■● Series 1997B Refunding RB 2.01%, 01/07/05	20,965	20,965	Special Project Bonds Series 6 JFK International Air Terminal ➤■● 2.07%, 01/07/05 ➤■● 2.02%, 01/07/05	1,480 1,100	1,480 1,100
New York State Mortgage Agency ➤■● Homeowner Mortgage RB Series 65 2.04%, 01/07/05	4,640	4,640	Port Washington Union Free SD 2004-2005 TAN 1.57%, 06/23/05	12,500	12,569
Homeowner Mortgage RB Series 87 ➤■● 1.15%, 01/07/05 ➤■● 2.03%, 01/07/05	4,135 6,635	4,135 6,635			
➤■● Homeowner Mortgage RB, Series 77A 1.20%, 02/03/05	24,795	24,795			
New York State Thruway Auth ➤■● General Refunding RB Series E 2.01%, 01/07/05	6,995	6,995			
Local Highway & Bridge Service Contract Bonds Series 2001 1.66%, 04/01/05	2,000	2,015			

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)
Sachem Central SD			Yonkers IDA		
2004-2005 TAN			+■ Civic Facility RB (Consumers Union) Series 1989		
1.52%, 06/23/05	6,000	6,034	2.00%, 01/07/05	1,200	1,200
Schenectady IDA			+■ Civic Facility RB (Consumers Union) Series 1991		
+■ IDRB (Fortitech Holding Corp.) Series 1995A			2.00%, 01/07/05	700	700
2.07%, 01/07/05	800	800	+■ Civic Facility RB (Consumers Union) Series 1994		
Smithtown Central SD			2.00%, 01/07/05	1,660	1,660
2004-2005 TAN					
2.05%, 06/29/05	25,000	25,114			
South Huntington Union Free SD					1,685,545
2004-2005 TAN			Puerto Rico 1.7%		
1.50%, 06/30/05	5,000	5,036	Government Development Bank of Puerto Rico		
Three Village Central SD			TECP Series 1997		
2004-2005 TAN			1.88%, 02/17/05	13,662	13,662
1.59%, 06/30/05	4,000	4,023	1.88%, 04/07/05	4,000	4,000
2.04%, 06/30/05	15,000	15,050			
Tompkins Cnty IDA			Puerto Rico		
+■ Civic Facility RB (Ithaca College) Series 2004			+■ Public Improvement & Refunding Bonds Series 2000		
1.97%, 01/07/05	7,500	7,500	1.99%, 01/07/05	600	600
Triborough Bridge & Tunnel Auth			Puerto Rico Electric Power Auth		
+■ General Purpose RB Series 2001A			+■ Power RB Series II		
2.01%, 01/07/05	20,000	20,000	2.00%, 01/03/05	805	805
+■ General Refunding RB Series 2002B			Puerto Rico Housing Finance Corp		
2.04%, 01/07/05	14,000	14,000	+■ Homeownership Mortgage GNMA-guaranteed RB Series 1998A		
+■ General Refunding RB Series 2002C			1.10%, 04/01/05	9,900	9,900
1.95%, 01/07/05	4,600	4,600	Puerto Rico Public Buildings Auth		
+■ Special Obligation 1991 Resolution Refunding Bonds, Series 2000A			+■ Refunding RB Series L		
1.95%, 01/07/05	8,275	8,275	2.00%, 01/07/05	1,000	1,000
Westchester Cnty IDA					29,967
+■ IDRB (Levister Redevelopment Co Project) Series 2001B					
1.98%, 01/07/05	8,000	8,000			
William Floyd Union Free SD					
TAN 2004-2005					
1.64%, 06/27/05	25,000	25,162			
1.68%, 06/27/05	1,900	1,912			

End of investments.

Statement of

Assets and Liabilities

As of December 31, 2004. All numbers x 1,000 except NAV.

Unless stated, all numbers x 1,000.

Assets

Investments, at value	\$1,715,512
Cash	391
Receivables:	
Fund shares sold	5,200
Interest	7,422
Prepaid expenses	+ 29
Total assets	1,728,554

The amortized cost for the fund's securities was \$1,715,512. During the reporting period, the fund had \$934,855 in transactions with other Schwab Funds.

Liabilities

Payables:	
Fund shares redeemed	1,475
Dividends to shareholders	121
Investment adviser and administrator fees	21
Transfer agent and shareholder service fees	34
Trustees' fees	5
Accrued expenses	+ 70
Total liabilities	1,726

Net Assets

Total assets	1,728,554
Total liabilities	- 1,726
Net assets	\$1,726,828

Net Assets by Source

Capital received from investors	1,727,116
Net realized capital losses	(288)

Net Asset Value (NAV) by Share Class

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Sweep Shares	\$1,073,337		1,073,591		\$1.00
Value Advantage Shares	\$653,491		653,588		\$1.00

Federal Tax Data**Cost basis of portfolio** \$1,715,544**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, 2004 through December 31, 2004. All numbers x 1,000.

Investment Income

Interest	\$21,467
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Net Realized Gains and Losses

Net realized losses on investments sold	(276)
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Expenses

Investment adviser and administrator fees	6,360
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Transfer agent and shareholder service fees:	
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Sweep Shares	4,753
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Value Advantage Shares	1,485
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Trustees' fees	28
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Custodian and portfolio accounting fees	169
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Professional fees	35
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Registration fees	38
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Shareholder reports	44
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Other expenses	+	25
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Total expenses	12,937
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Expense reduction	-	2,611
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Net expenses	10,326
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Increase in Net Assets from Operations

Total investment income	21,467
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Net expenses	-	10,326
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Net investment income	11,141
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Net realized losses	+	(276)
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Increase in net assets from operations	\$10,865
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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:

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

Shareholder Services:

% of Average	
Share Class	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 \$2,543 from the investment adviser (CSIM) and \$68 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 30, 2005, as follows:

% of Average	
Share Class	Daily Net Assets
Sweep Shares	0.69
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.

Operations

	1/1/04–12/31/04	1/1/03–12/31/03
Net investment income	\$11,141	\$8,864
Net realized gains and losses	+ (276)	105
Increase in net assets from operations	10,865	8,969

Distributions Paid

Dividends from net investment income		
Sweep Shares	5,821	4,159
Value Advantage Shares	+ 5,320	4,705
Total dividends from net investment income	11,141	8,864

Transactions in Fund Shares**Shares Sold**

Sweep Shares	4,091,385	3,340,823
Value Advantage Shares	+ 724,557	728,144
Total shares sold	4,815,942	4,068,967

Shares Reinvested

Sweep Shares	5,721	4,096
Value Advantage Shares	+ 4,941	4,416
Total shares reinvested	10,662	8,512

Shares Redeemed

Sweep Shares	(4,061,536)	(3,250,610)
Value Advantage Shares	+ (765,643)	(719,030)
Total shares redeemed	(4,827,179)	(3,969,640)

Net transactions in fund shares

	(575)	107,839
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Net Assets

Beginning of period	1,727,679	1,619,735
Total increase or decrease	+ (851)	107,944
End of period	\$1,726,828	\$1,727,679

Unless stated, all numbers x 1,000.

Unaudited

The fund hereby designates 100% of its dividends for the current report period as tax-exempt interest dividends.

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.

Schwab New Jersey Municipal Money Fund™

Financial Statements

Financial Highlights

	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
Income from investment operations:					
Net investment income	0.01	0.00 ¹	0.01	0.02	0.03
Less distributions:					
Dividends from net investment income	(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
Total return (%)	0.57	0.43	0.84	2.13	3.38
Ratios/Supplemental Data (%)					
Ratios to average net assets:					
Net operating expenses	0.65	0.65	0.66 ²	0.65	0.66 ³
Gross operating expenses	0.86	0.86	0.89	0.90	0.93
Net investment income	0.57	0.43	0.83	2.08	3.35
Net assets, end of period (\$ x 1,000,000)	448	463	425	382	321

¹ Per share amount was less than \$0.01.

² The ratio of net operating expenses would have been 0.65% if certain non-routine expenses (taxes) had not been included.

³ 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 December 31, 2004

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

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)
98.1% Municipal Securities	439,025	439,025
98.1% Total Investments	439,025	439,025
1.9% Other Assets and Liabilities		8,562
100.0% Total Net Assets		447,587

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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Municipal Securities 98.1% of net assets**New Jersey 94.1%****Burlington Cnty**

BAN Series 2004A		
1.20%, 02/04/05	10,144	10,144

Delaware River Port Auth

RB Series 1999		
+▸■• 2.03%, 01/07/05	4,495	4,495
+▸■• 2.03%, 01/07/05	5,200	5,200

Englewood

General Improvement & Special Assessment BANs		
1.63%, 07/08/05	7,000	7,049

Essex Cnty Improvement Auth

+▸■• Project Consolidation RB Series 2004		
2.01%, 01/07/05	5,895	5,895

Ft Lee

BAN		
1.55%, 07/29/05	5,250	5,286

Garden State Preservation Trust

+▸■• Open Space & Farmland Preservation Bonds Series 2003A		
1.20%, 02/10/05	5,000	5,000

New Jersey

TRAN Series Fiscal 2005A		
1.95%, 06/24/05	5,000	5,024
▸■• 1.25%, 04/23/05	10,000	10,000
1.50%, 06/24/05	15,000	15,106
▸■• 2.05%, 01/07/05	15,000	15,000

New Jersey Economic Development Auth

+▸■ Economic Development RB (ENCAP Golf Holdings) Series 2004		
2.00%, 01/07/05	16,300	16,300
+▸■ Economic Development RB (Omni Baking Co) Series 2001		
2.00%, 01/07/05	4,200	4,200

Issuer Rate, Maturity Date	Face Amount (\$ × 1,000)	Value (\$ × 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ × 1,000)	Value (\$ × 1,000)
➦■ Economic Development RB (Stone Brothers Secaucus) Series 2001 2.04%, 01/07/05	1,755	1,755	➦■ Thermal Energy Facilities RB (Marina Energy Llc - 2001 Project) Series A 1.97%, 01/07/05	1,375	1,375
Exempt Facility RB (Chambers Co-Generation)			➦■ Thermal Energy Facilities RB (Thermal Energy Limited Partnership I) Series 1997 2.00%, 01/07/05	8,600	8,600
➦ 2.08%, 01/14/05	5,000	5,000			
➦ 2.26%, 01/14/05	1,000	1,000			
➦ 1.92%, 02/11/05	6,100	6,100			
➦ Exempt Facility RB (Keystone) Series 1992 1.68%, 01/11/05	5,000	5,000			
➦■ Motor Vehicle Surcharges RB Series 2004A 2.01%, 01/07/05	6,080	6,080			
➦■ Natural Gas Facilities Refunding RB (Nui Corp.) Series 1997A 2.02%, 01/07/05	1,525	1,525			
➦■ RB (Baptist Home Society of New Jersey) Series 2003 2.23%, 01/07/05	3,520	3,520			
➦■ RB (G&W Laboratories) Series 2003 2.05%, 01/07/05	5,505	5,505			
➦■ RB (Hamilton Industrial Development) Series 1998 2.05%, 01/07/05	5,665	5,665			
➦■ RB (Meridian Assisted Living at Shrewsbury) Series 2004 2.02%, 01/07/05	5,250	5,250			
➦■ RB (St. James Preparatory School & St. James Social Service Corp.) Series 1998 2.00%, 01/07/05	4,450	4,450			
➦■ Refunding RB (Station Plaza Park & Ride) Series 2003 2.05%, 01/07/05	3,290	3,290			
➦■ School Facilities Construction Bonds Series 2003F 1.99%, 01/07/05	2,500	2,500			
➦■ Special Facility RB (Port Newark Container Terminal) Series 2003 2.00%, 01/07/05	14,300	14,300			

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)
S/F Housing RB Series 2004F			Special Project Bonds Series 6		
1.05%, 04/01/05	10,000	10,000	JFK International Air Terminal		
2.00%, 04/01/05	3,350	3,342	▶▶■ 2.07%, 01/07/05	800	800
▶ S/F Housing RB Series 2004K			▶▶■ 2.02%, 01/07/05	4,895	4,895
2.05%, 01/07/05	10,000	10,000	▶ TECP Series A		
New Jersey Sports & Exposition Auth			1.79%, 03/04/05	7,900	7,900
▶▶■ State Contract Bonds			1.85%, 03/08/05	12,370	12,370
Series 1992C			▶ TECP Series B		
1.95%, 01/07/05	5,200	5,200	1.70%, 02/10/05	13,060	13,060
New Jersey Transportation Trust Fund Auth			1.74%, 02/11/05	5,020	5,020
▶■ Transportation System RB			Trenton Parking Auth		
Series 1998A			▶▶■ Parking RB Series 2000		
2.03%, 01/07/05	11,495	11,495	2.00%, 01/07/05	4,320	4,320
▶▶■ Transportation System RB			University of Medicine & Dentistry		
Series 2003C			▶▶■ RB Series 2002B		
2.02%, 01/07/05	5,495	5,495	1.99%, 01/07/05	9,450	9,450
New Jersey Turnpike Auth			Woodbridge Township		
▶▶■ RB Series C			General & Sewer Utility BAN		
2.02%, 01/07/05	8,090	8,090	1.65%, 07/08/05	3,654	3,679
▶▶■ Turnpike RB Series 1991C			1.67%, 07/08/05	4,346	4,375
1.71%, 01/07/05	3,595	3,595			420,960
Turnpike RB Series 2000A			Puerto Rico 4.0%		
1.15%, 01/01/05	2,750	2,750	Government Development Bank of Puerto Rico		
▶▶■ 1.45%, 01/07/05	11,200	11,200	TECP Series 1997		
▶▶■ 2.02%, 01/07/05	2,900	2,900	1.47%, 01/07/05	7,948	7,948
▶▶■ 2.03%, 01/07/05	8,665	8,665	1.70%, 01/07/05	565	565
Port Auth of New York & New Jersey			1.63%, 01/10/05	1,193	1,193
▶▶■ Consolidated Bonds 119th			1.80%, 03/10/05	3,224	3,224
Series 2nd Installment			1.85%, 03/11/05	2,250	2,250
2.04%, 01/07/05	370	370	Puerto Rico HFC		
▶▶■ Consolidated Bonds 127th			▶▶■ Homeownership Mortgage RB		
Series			Series 2000A		
2.04%, 01/07/05	8,480	8,480	2.03%, 01/07/05	2,885	2,885
Consolidated Bonds 137th					18,065
Series					
1.58%, 07/15/05	2,805	2,856			
▶▶■ Consolidated Bonds 138th					
Series					
2.04%, 01/07/05	10,000	10,000			
▶■ Consolidated Bonds 85th					
Series					
1.20%, 04/07/05	6,795	6,795			
			End of investments.		

Statement of

Assets and Liabilities

As of December 31, 2004. All numbers x 1,000 except NAV.

Assets

Investments, at value	\$439,025
Cash	826
Receivables:	
Investments sold	5,803
Interest	1,959
Prepaid expenses	+ 30
Total assets	447,643

Liabilities

Payables:	
Dividends to shareholders	10
Investment adviser and administrator fees	6
Transfer agent and shareholder service fees	11
Trustees' fees	4
Accrued expenses	+ 25
Total liabilities	56

Net Assets

Total assets	447,643
Total liabilities	- 56
Net assets	\$447,587

Net Assets by Source

Capital received from investors	447,612
Net investment income not yet distributed	21
Net realized capital losses	(46)

Net Asset Value (NAV)

Net Assets	÷	Shares Outstanding	=	NAV
\$447,587		447,337		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost for the fund's securities was \$439,025. During the reporting period, the fund had \$677,030 in transactions with other Schwab Funds.

Federal Tax Data

Cost basis of portfolio \$439,005

As of December 31, 2004:

Unused capital losses:

Expires 12/31 of: Loss amount:
2012 \$46

Reclassifications:

Net investment income
 not yet distributed (\$10)
Reclassified as:
Net realized capital losses \$8
Capital received from
 investors \$2

Statement of

Operations

For January 1, 2004 through December 31, 2004. All numbers x 1,000.

Investment Income

Interest	\$5,836
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Net Realized Gains and Losses

Net realized losses on investments sold	(54)
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Expenses

Investment adviser and administrator fees	1,820
Transfer agent and shareholder service fees	2,155
Trustees' fees	25
Custodian and portfolio accounting fees	41
Professional fees	26
Registration fees	20
Shareholder reports	11
Other expenses	+
	10
Total expenses	4,108
Expense reduction	-
	995
Net expenses	3,113

Increase in Net Assets from Operations

Total investment income	5,836
Net expenses	-
	3,113
Net investment income	2,723
Net realized losses	+
	(54)
Increase in net assets from operations	\$2,669

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 30, 2005, 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.

Operations

	1/1/04–12/31/04	1/1/03–12/31/03
Net investment income	\$2,723	\$2,016
Net realized gains or losses	+ (54)	15
Increase in net assets from operations	2,669	2,031

Distributions Paid

Dividends from net investment income	2,694	2,016
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Transactions in Fund Shares

Shares sold	1,561,315	1,245,576
Shares reinvested	2,651	1,988
Shares redeemed	+ (1,579,474)	(1,209,262)
Net transactions in fund shares	(15,508)	38,302

Net Assets

Beginning of period	463,120	424,803
Total increase or decrease	+ (15,533)	38,317
End of period	\$447,587	\$463,120

Unless stated, all numbers x 1,000.

Unaudited

The fund hereby designates 100% of its dividends for the current report period as tax-exempt interest dividends.

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 \$21 at the end of current period.

Schwab Pennsylvania Municipal Money Fund™

Financial Statements

Financial Highlights

	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
Income from investment operations:					
Net investment income	0.01	0.00 ¹	0.01	0.02	0.04
Less distributions:					
Dividends from net investment income	(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
Total return (%)	0.62	0.49	0.87	2.20	3.57
Ratios/Supplemental Data (%)					
Ratios to average net assets:					
Net operating expenses	0.65	0.65	0.65	0.65	0.66 ²
Gross operating expenses	0.86	0.87	0.89	0.92	0.93
Net investment income	0.62	0.48	0.87	2.14	3.52
Net assets, end of period (\$ x 1,000,000)	346	328	301	292	225

¹ Per share amount was less than \$0.01.

² 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 December 31, 2004

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

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)
99.4%	Municipal Securities	343,558	343,558
99.4%	Total Investments	343,558	343,558
0.6%	Other Assets and Liabilities		2,022
100.0%	Net Assets		345,580

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
-------------------------------	-----------------------------	-----------------------

Municipal Securities 99.4% of net assets**Pennsylvania 98.8%****Allegheny Cnty Hospital Development Auth**

✚■ RB (UPMC Senior Communities)		
Series 2003		
2.00%, 01/07/05	9,750	9,750

Allegheny Cnty IDB

✚▷■ Pollution Control Refunding RB (Duquesne Light Co)		
Series 1999B		
2.06%, 01/07/05	14,495	14,495

Allegheny Cnty Port Auth

✚ Grant Anticipation Notes		
Series 2004		
1.63%, 06/30/05	5,100	5,134

Blair Cnty IDA

✚■ First Mortgage RB (Village At Penn State), Series 2002C		
1.94%, 01/07/05	1,000	1,000

Cambria Cnty IDA

✚■ Resource Recovery RB (Cambria Cogen Co)		
Series 1998A-2		
2.24%, 01/07/05	17,675	17,675

Chester Cnty Health & Education Facilities Auth

✚■ RB (Simpson Meadows)		
Series 2000		
2.02%, 01/07/05	3,775	3,775

Chester IDA

✚■ RB (Archdiocese of Philadelphia) Series 2001		
2.10%, 01/03/05	900	900

Clarion Cnty IDA

✚■ Energy Development RB (Piney Creek) Series 1990		
2.01%, 01/07/05	2,500	2,500

Crawford Central SD

✚ GO Bonds Series 1995		
1.44%, 02/15/05	1,765	1,777

Issuer Rate, Maturity Date	Face Amount (\$ × 1,000)	Value (\$ × 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ × 1,000)	Value (\$ × 1,000)
Delaware Cnty IDA			Pollution Control Refunding RB (Peco Energy Co) Series 1994A		
+■ Hospital RB (Crozer-Chester Medical Ctr) Series 2002 1.99%, 01/07/05	3,200	3,200	+ 1.80%, 01/13/05	3,400	3,400
+■ RB (YMCA of Philadelphia) Series 1999 2.09%, 01/07/05	2,335	2,335	+ 1.77%, 03/07/05	2,000	2,000
Delaware Valley Regional Finance Auth			Montgomery Cnty Redevelopment Auth		
+▶■ Local Government RB Series 1998A 2.05%, 01/07/05	4,555	4,555	+■ M/F Housing Refunding RB (Glenmore Associates) Series 1995A 2.01%, 01/07/05	3,000	3,000
Erie City Water Auth			Northhampton Cnty		
+ Water RB Series 2004 2.07%, 12/01/05	2,320	2,339	+▶■ County Agreement RB Series 2001 2.04%, 01/07/05	3,000	3,000
Erie SD			+■ RB (Binney & Smith) Series 1997A 2.04%, 01/07/05	3,250	3,250
+▶■ GO Bonds Series 2001A 2.04%, 01/07/05	16,800	16,800	+■ RB (Binney & Smith) Series 1997B 2.04%, 01/07/05	810	810
Harrisburg Auth			Norwin SD		
+▶■ Water Refunding RB Series 2002B 2.04%, 01/07/05	3,000	3,000	+▶■ GO Bonds Series 2001A 2.04%, 01/07/05	8,710	8,710
+▶■ Water Refunding RB Series 2003A 2.04%, 01/07/05	3,500	3,500	Pennsylvania		
Lancaster Cnty Hospital Auth			+▶■ GO Bonds First Series 1995 2.04%, 01/07/05	11,870	11,870
+■ Health Center RB (Brethren Village) Series 2000 2.04%, 01/07/05	5,200	5,200	+▶■ GO Bonds First Series 2003 2.01%, 01/07/05	14,470	14,470
Luzerne Cnty IDA			Pennsylvania Convention Center Auth		
+■ RB (Methodist Homes) Series 2003 2.04%, 01/07/05	5,000	5,000	+▶■ RB Series 1989A 2.01%, 01/07/05	2,745	2,745
Montgomery Cnty Higher Education & Health Auth			Pennsylvania Economic Development Financing Auth		
+■ RB (Madlyn & Leonard Abramson Center For Jewish Life) Series 2001 2.03%, 01/07/05	5,500	5,500	+■ Exempt Facilities RB (Amtrak) Series 2001B 2.03%, 01/07/05	3,800	3,800
Montgomery Cnty IDA			■ Exempt Facilities RB (Merck & Co) Series 2000 2.11%, 01/07/05	5,000	5,000
+■ Environmental Facilities RB (Lonza Inc) Series 2000 2.08%, 01/07/05	7,000	7,000	■ Exempt Facilities RB (Merck & Co) Series 2001 2.11%, 01/07/05	12,300	12,300

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)
Pennsylvania Energy Development Auth			Philadelphia Gas Works		
➤■ Energy Development RB (B&W Ebensburg) Series 1986 2.01%, 01/07/05	13,515	13,515	✚ Gas Works Revenue Notes TECP Series D 2.15%, 01/04/05	5,000	5,000
Pennsylvania HFA			✚ Gas Works RB 1st Series A Bonds 1.70%, 07/01/05	5,000	5,087
▶■ Residential Development Refunding RB Series 2002A 2.10%, 01/07/05	6,000	6,000	Philadelphia IDA		
➤■ S/F Mortgage RB Drawdown Series 2003 2.06%, 01/07/05	5,110	5,110	➤▶ Airport RB Series 1998A 1.35%, 01/13/05	5,000	5,000
▶■ S/F Mortgage RB Series 1999-66A 2.04%, 01/07/05	6,015	6,015	Philadelphia Municipal Auth		
▶■ S/F Mortgage RB Series 1999A 1.35%, 01/13/05	10,785	10,785	✚ Lease Refunding RB Series 2003A 1.20%, 05/15/05	2,000	2,020
▶■ S/F Mortgage RB Series 2002-74B 2.04%, 01/07/05	5,600	5,600	Philadelphia SD		
▶■ S/F Mortgage RB Series 2004-86C 1.99%, 01/07/05	5,000	5,000	✚ GO Refunding Series 1999B 2.05%, 10/01/05	9,000	9,196
▶■ S/F RB Series 1998-64 2.08%, 01/07/05	15,000	15,000	Scranton Redevelopment Auth		
Pennsylvania Higher Education Assistance Agency			✚■ Guaranteed Lease RB Series 2004 2.04%, 01/07/05	9,295	9,295
➤▶ Student Loan RB Series 1997A 2.05%, 01/07/05	3,250	3,250	Temple University		
➤▶ Student Loan RB Series 2000A 2.05%, 01/07/05	6,975	6,975	University Funding Obligations Series 2004 1.27%, 05/02/05	200	201
➤▶ Student Loan RB Series 2001A 2.05%, 01/07/05	4,600	4,600	1.70%, 05/02/05	8,000	8,014
Univ of Pennsylvania Health Services RB Series 1996A 1.24%, 01/01/05	3,500	3,500	University of Pittsburgh		
Pennsylvania Turnpike Commission			Pitt Asset Notes Series 2004 1.57%, 10/14/05	10,000	10,110
➤▶ Turnpike RB Series 2004A 2.01%, 01/07/05	12,495	12,495	Puerto Rico 0.6%		
			Puerto Rico Hwy & Transp Auth		
			➤▶ Grant Anticipation RB 2.00%, 01/07/05	2,000	2,000
			<hr/>		
			End of investments.		
					341,558

Statement of

Assets and Liabilities

As of December 31, 2004. All numbers x 1,000 except NAV.

Assets

Investments, at value	\$343,558
Cash	413
Interest receivable	1,595
Prepaid expenses	+ 68
Total assets	345,634

Liabilities

Payables:	
Dividends to shareholders	15
Investment adviser and administrator fees	3
Transfer agent and shareholder service fees	8
Trustees' fees	5
Accrued expenses	+ 23
Total liabilities	54

Net Assets

Total assets	345,634
Total liabilities	- 54
Net assets	\$345,580

Net Assets by Source

Capital received from investors	345,592
Net investment income not yet distributed	2
Net realized capital losses	(14)

Net Asset Value (NAV)

Net Assets	÷	Shares Outstanding	=	NAV
\$345,580		345,576		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost for the fund's securities was \$343,558. During the reporting period, the fund had \$750,555 in transactions with other Schwab Funds.

Federal Tax Data**Cost basis of portfolio** \$343,558**As of December 31, 2004:****Undistributed earnings:**

Tax-exempt income \$2

Unused capital losses:Expires 12/31 of: Loss amount:
2012 \$14**Reclassifications:**

Capital received from investors \$3

Reclassified as:
Net investment income not yet distributed (\$3)

Statement of

Operations

For January 1, 2004 through December 31, 2004. All numbers x 1,000.

Investment Income

Interest	\$4,415
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Net Realized Gains and Losses

Net realized losses on investments sold	(14)
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Expenses

Investment adviser and administrator fees	1,320
Transfer agent and shareholder service fees	1,563
Trustees' fees	24
Custodian and portfolio accounting fees	33
Professional fees	25
Registration fees	19
Shareholder reports	10
Other expenses	+
	7
Total expenses	3,001
Expense reduction	-
	743
Net expenses	2,258

Increase in Net Assets from Operations

Total investment income	4,415
Net expenses	-
	2,258
Net investment income	2,157
Net realized losses	+
	(14)
Increase in net assets from operations	\$2,143

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 30, 2005, 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.

Operations

	1/1/04–12/31/04	1/1/03–12/31/03
Net investment income	\$2,157	\$1,557
Net realized gains and losses	+ (14)	42
Increase in net assets from operations	2,143	1,599

Distributions Paid

Dividends from net investment income	2,155	1,569
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Transactions in Fund Shares

Shares sold	1,416,322	1,014,686
Shares reinvested	2,109	1,546
Shares redeemed	+ (1,400,551)	(989,751)
Net transactions in fund shares	17,880	26,481

Net Assets

Beginning of period	327,712	301,201
Total increase	+ 17,868	26,511
End of period	\$345,580	\$327,712

Unless stated, all numbers x 1,000.

For the prior year, the fund elected not to distribute realized capital gains and accordingly paid federal and state taxes on such gains in the amount of \$12.

Unaudited

The fund hereby designates 100% of its dividends for the current report period as tax-exempt interest dividends.

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 \$2 at the end of current period.

Schwab Florida Municipal Money Fund™

Financial Statements

Financial Highlights

	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
Income from investment operations:					
Net investment income	0.01	0.00 ¹	0.01	0.02	0.04
Less distributions:					
Dividends from net investment income	(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
Total return (%)	0.60	0.46	0.96	2.32	3.62
Ratios/Supplemental Data (%)					
Ratios to average net assets:					
Net operating expenses	0.66	0.64	0.59	0.59	0.60 ²
Gross operating expenses	0.85	0.85	0.87	0.87	0.89
Net investment income	0.59	0.47	0.95	2.30	3.56
Net assets, end of period (\$ x 1,000,000)	1,905	1,804	1,785	1,518	1,435

¹ Per share amount was less than \$0.01.

² 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 December 31, 2004

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

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)
98.0%	Municipal Securities	1,866,017	1,866,017
98.0%	Total Investments	1,866,017	1,866,017
2.0%	Other Assets and Liabilities		38,612
100.0%	Total Net Assets		1,904,629

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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Municipal Securities 98.0% of net assets**California 0.7%****Access Loans For Learning Student Loan Corp**

+■ Student Loan Program RB Senior Series II-a-7 1.80%, 06/01/05	13,400	13,400
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Colorado 0.2%**Colorado Dept of Transportation**

+▷■ Transportation Refunding RAN Series 2004B 1.55%, 04/07/05	4,745	4,745
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Florida 92.2%**Alachua Cnty Health Facilities Auth**

+▷■ Health Facilities RB (Shands Hospital) Series 1992R 2.02%, 01/07/05	25,490	25,490
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Alachua Cnty School Board

+▷■ COP Series 2004 2.04%, 01/07/05	9,045	9,045
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Brevard Cnty

+ Limited Ad Valorem Tax Refunding Bonds Series 1992 1.14%, 03/01/05	1,000	1,008
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Brevard Cnty Educational Facilities Auth

+■ RB (Florida Institute of Technology) Series B 2.00%, 01/07/05	9,700	9,700
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Brevard Cnty Health Facilities Auth

+■ RB (Wuesthoff Health Systems) Series 2004 2.00%, 01/07/05	14,200	14,200
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Brevard Cnty HFA

+■ M/F Housing Refunding RB (Shore View Apts) Series 1995 2.00%, 01/07/05	1,900	1,900
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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)
Broward Cnty					
+ Airport System RB Series L 1.84%, 10/01/05	3,665	3,696	+ S/F Mortgage RB Series 1999B 2.07%, 01/07/05	2,025	2,025
+ Subordinate Port Facilities Refunding RB (Port Everglades) Series 1998 2.03%, 01/07/05	9,025	9,025	Cape Coral		
Broward Cnty Educational Facilities Auth			CP Notes		
+ Educational Facilities RB (Nova Southeastern Univ.) Series 2000A 2.00%, 01/07/05	10,900	10,900	+ 1.48%, 04/04/05	6,000	6,000
Broward Cnty HFA			+ 2.00%, 06/02/05	10,600	10,600
+ M/F Housing RB (Pembroke Village Apts) Series 2004 2.02%, 01/07/05	7,000	7,000	Charlotte Cnty		
+ M/F Housing RB (Pier Club Village Apts) Series 2004 2.02%, 01/07/05	13,800	13,800	+ Refunding RB Series 2003A 1.99%, 01/07/05	37,000	37,000
+ M/F Housing RB (Southern Pointe) Series 1997 2.00%, 01/07/05	7,750	7,750	+ Refunding RB Series 2003B 2.00%, 01/07/05	9,650	9,650
+ M/F Housing Refunding RB (Fisherman's Landing) Series 1999 2.00%, 01/07/05	1,070	1,070	Charlotte Cnty HFA		
+ M/F Housing RB (Landings of Inverrary Apts) Series 1985 1.99%, 01/07/05	7,500	7,500	+ M/F Housing RB (Murdock Circle Apts) Series 2000 2.05%, 01/07/05	7,000	7,000
+ M/F Housing Refunding RB (Island Club Apts) Series 2001A 1.99%, 01/07/05	3,000	3,000	Collier Cnty Health Facilities Auth		
+ M/F Housing Refunding RB (Reflections Apts) Series 1999 2.00%, 01/07/05	10,000	10,000	+ RB (Cleveland Clinic Health System) Series 2003C-2 1.78%, 03/07/05	1,500	1,500
+ M/F Housing Refunding RB (Water's Edge) Series 1997 2.00%, 01/07/05	400	400	Collier Cnty HFA		
+ M/F Housing Variable Rate Demand RB (Sanctuary Apts) Series 1985 1.99%, 01/07/05	9,000	9,000	+ M/F Housing RB (Brittany Bay Apts) Series 2001A 1.99%, 01/07/05	3,350	3,350
			Dade Cnty		
			+ Water & Sewer System RB Series 1994 1.86%, 01/07/05	48,480	48,480
			Dade Cnty IDA		
			+ IDRB (Michael-Ann Russell Jewish Community Ctr) Series 1997 2.00%, 01/07/05	4,385	4,385
			+ IDRB (South Florida Stadium Corp) Series 1985C 1.98%, 01/07/05	1,050	1,050
			Davie		
			+ RB (United Jewish Community of Broward Cnty) Series 2003 2.00%, 01/07/05	6,000	6,000
			Escambia HFA		
			+ S/F RB Series 1997A 2.14%, 01/07/05	2,110	2,110

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 RB Series 2001A			■ Housing RB (Caribbean Key Apts) Series 1996F		
■ 2.07%, 01/07/05	2,245	2,245	2.02%, 01/07/05	3,400	3,400
■ 2.11%, 01/07/05	1,835	1,835	■ Housing RB (Heron Park) Series 1996U		
■ S/F RB Series 2002A-1			1.99%, 01/07/05	3,685	3,685
1.23%, 03/31/05	3,220	3,220	■ Housing RB (Tiffany Club Apts) Series 1996P		
Eustis			2.02%, 01/07/05	7,150	7,150
■ RB Installment 1997A			■ M/F Guaranteed Mortgage RB (Oaks At Regency) Series 1983K		
2.00%, 01/07/05	3,475	3,475	2.00%, 01/07/05	6,925	6,925
Flagler Cnty SD			■ M/F Housing RB (Buena Vista Place) Series 1985 MM		
TAN Series 2004			1.89%, 01/07/05	10,000	10,000
1.78%, 06/15/05	9,900	9,954	■ M/F Housing RB (Cameron Cove Apts) Series 1985 XX		
Florida			2.00%, 01/07/05	7,100	7,100
■ Dept of Environmental Protection Preservation 2000 RB Series 1997B			■ M/F Housing Refunding (South Pointe) Series 1998J		
2.03%, 01/07/05	23,010	23,010	2.00%, 01/07/05	5,500	5,500
Florida Dept of Environmental Protection			■ M/F Housing Refunding RB (Reflections Apts) Series 2001 K-A		
■ Florida Forever Refunding RB Series 2003B			2.00%, 01/07/05	12,500	12,500
1.82%, 07/01/05	14,315	14,610	■ M/F Mortgage RB (Mill Creek Apts) Series 2004K		
Florida Development Finance Corp			2.05%, 01/07/05	8,000	8,000
■ IDRB (Central Farms) Series 1999 A4			■ M/F Mortgage RB (Pinnacle Pointe Apts) Series 2003N		
2.11%, 01/07/05	750	750	1.91%, 01/07/05	7,915	7,915
■ IDRB (Schmitt Family Partnership) Series 1999 A2			■ M/F Mortgage RB (Wellesley Apts) Series 2003O		
2.11%, 01/07/05	1,875	1,875	1.91%, 01/07/05	7,940	7,940
■ IDRB (Sunshine State Christian Homes) Series 1999 A3			■ M/F Mortgage RB (Wexford Apts) Series 2003P		
2.05%, 01/07/05	1,180	1,180	1.91%, 01/07/05	8,035	8,035
■ IDRB (Vutec Corp) Series 1999 A1			■ M/F Mortgage Refunding RB (Victoria Park Apts) Series 2002 J-1		
2.11%, 01/07/05	1,600	1,600	2.00%, 01/07/05	10,370	10,370
■ IDRB Enterprise Bond Program (Pioneer-Ram) Series 1998 A3			■ RB (Heritage Pointe Apts) Series 1999 I-1		
2.11%, 01/07/05	980	980	2.02%, 01/07/05	9,500	9,500
Florida HFA			■ RB (Timberline Apts) Series 1999P		
■ Homeowner Mortgage RB Series 2000 4			1.98%, 01/07/05	6,135	6,135
2.11%, 01/07/05	3,820	3,820			
■ Housing RB (Ashley Lake Park II) Series 1989J					
1.99%, 01/07/05	19,535	19,535			

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)
Florida Higher Educational Facilities Financing Auth			+■ IDRB (Lifesouth Community Blood Centers), Series 1999		
+■ RB (St. Thomas Univ.) Series 2003			2.00%, 01/07/05	5,450	5,450
2.22%, 01/03/05	100	100	Greater Orlando Aviation Auth		
Florida Local Government Finance Comm			+►■ Airport Facilities RB		
Pooled TECP Series 1994A			Series 2002E	110,290	110,290
+ 1.83%, 01/04/05	10,745	10,745	+ Airport Facilities Subordinated		
+ 2.00%, 01/04/05	750	750	TECP Series A	15,240	15,240
+ 1.70%, 01/06/05	3,555	3,555	1.90%, 03/03/05		
+ 1.72%, 01/07/05	26,905	26,905	+ Airport Facilities Subordinated		
+ 1.90%, 02/02/05	3,860	3,860	TECP Series B	12,650	12,650
+ 1.82%, 03/03/05	4,000	4,000	1.87%, 02/03/05		
+ 1.83%, 03/08/05	16,375	16,375	Airport Facility RB (Flightsafety Int'l) Series 2003A		
Florida Ports Financing Comm			+■ 2.06%, 01/07/05	3,900	3,900
+ RB (Transportation Trust Fund)			+■ 2.06%, 01/07/05	5,000	5,000
Series 1996			Gulf Breeze		
1.59%, 06/01/05	4,575	4,657	+►■ Local Government Loan		
Florida State Board of Education			Program RB Series 1985B	22,620	22,620
+►■ Public Education Capital Outlay			1.99%, 01/07/05		
Bonds Series 1998A	11,000	11,000	+►■ Local Government Loan		
1.08%, 01/07/05			Program RB Series 1985C	6,735	6,735
►■ Public Education Capital Outlay			1.99%, 01/07/05		
Bonds Series 1998E	12,280	12,280	+►■ Local Government Loan		
2.02%, 01/07/05			Program RB Series 1985E	7,140	7,140
+►■ Public Education Capital Outlay			1.99%, 01/07/05		
Bonds Series 1999C	17,855	17,855	Hillsborough Cnty		
2.03%, 01/07/05			Capital Improvement Program		
►■ Public Education Capital Outlay			TECP Series A		
Bonds Series 2001I	4,715	4,715	+ 1.48%, 01/04/05	19,335	19,335
2.02%, 01/07/05			+ 1.35%, 03/30/05	1,535	1,535
+►■ Public Education Capital Outlay			Capital Improvement TECP		
Bonds Series 2003C	7,500	7,500	Series B		
2.03%, 01/07/05			+ 1.90%, 02/02/05	2,700	2,700
►■ Public Education Capital Outlay			+ 1.90%, 02/03/05	7,700	7,700
Refunding Bonds,			+ Solid Waste & Resource		
Series 2001B	14,100	14,100	Recovery Refunding RB		
2.02%, 01/07/05			Series 2004	3,230	3,260
Fort Pierce Utilities Auth			1.57%, 09/01/05		
+►■ Utilities Refunding RB			Hillsborough Cnty Aviation Auth		
Series 2003	6,325	6,325	+ Airport Facilities Subordinated		
2.02%, 01/07/05			TECP Series B	17,600	17,600
Gainesville			1.85%, 02/03/05		
+■ IDRB (Exactech) Series 1997			+ 1.92%, 03/03/05	14,400	14,400
2.06%, 01/07/05	2,400	2,400			

Issuer Rate, Maturity Date	Face Amount (\$ × 1,000)	Value (\$ × 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ × 1,000)	Value (\$ × 1,000)
+►■ Tampa International Airport RB Series 2003A 2.08%, 01/07/05	5,495	5,495	►■ Energy System RB Series 2001A 1.88%, 01/07/05	30,600	30,600
Hillsborough Cnty IDA +■ Educational Facilities RB (Berkeley Preparatory School) Series 1999 2.00%, 01/07/05	4,545	4,545	►■ Energy System Refunding RB Series 2003 1.82%, 01/07/05	24,360	24,360
+►■ IDR B (University Community Hospital) Series 1994 2.02%, 01/07/05	32,000	32,000	Lee Cnty +►■ Airport RB Series 2000A 2.08%, 01/07/05	4,958	4,958
+■ RB (Independent Day School) Series 2000 2.05%, 01/07/05	1,900	1,900	+■ Educational Facilities RB (Canterbury School) Series 1999 2.00%, 01/07/05	6,000	6,000
+■ RB (Tampa Metropolitan Area YMCA) Series 2000 2.05%, 01/07/05	7,600	7,600	Lee Cnty HFA +■ M/F Housing RB (Crossings At Cape Coral Apts) Series 1999A 1.98%, 01/07/05	6,160	6,160
Jacksonville Economic Development Comm +■ RB (Bolles School Project) Series 1999A 1.74%, 01/07/05	2,940	2,940	+■ M/F Housing RB (University Club Apts) Series 2002A 2.02%, 01/07/05	7,500	7,500
+■ Refunding RB (YMCA of Florida First Coast) Series 2003 2.00%, 01/07/05	4,900	4,900	Manatee Cnty HFA +■ M/F Housing RB (Centre Court Apts) Series 2000 2.03%, 01/07/05	3,760	3,760
Jacksonville Electric Auth ►■ Electric System RB Series Three 2000A 2.06%, 01/07/05	9,925	9,925	+■ M/F Housing RB (La Mirada Gardens) Series 2002A 2.07%, 01/07/05	4,000	4,000
+►■ Water & Sewer System Subordinated RB Series 2003B 1.86%, 01/07/05	40,000	40,000	+■ M/F Housing RB (Sabal Palm Harbor Apts) Series 2000A 1.97%, 01/07/05	3,070	3,070
Jacksonville Port Auth +►■ Port Facility RB Series 1996 2.11%, 01/07/05	10,100	10,100	+■ M/F Housing RB (Sabal Palm Harbor Apts) Series 2000B 1.97%, 01/07/05	3,755	3,755
Lake Shore Hospital Auth +■ Health Facility RB (Lake Shore Hospital) Series 1991 2.00%, 01/07/05	3,100	3,100	+■ M/F Mortgage Refunding RB (Hampton Court) Series 1989A 1.74%, 01/07/05	3,500	3,500
Lakeland +■ Educational Facilities RB (Florida Southern College) Series 1999 2.00%, 01/07/05	26,775	26,775	Marion Cnty IDA +■ M/F Housing Refunding RB (Chambrel at Pinecastle) Series 2002 2.00%, 01/07/05	7,741	7,741

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)
Miami Health Facilities Auth.			Ocean Highway & Port Auth		
+■ Health Facilities RB (Miami Jewish Home & Hospital For the Aged) Series 1996 2.00%, 01/07/05	7,100	7,100	+■ RB Series 1990 2.03%, 01/07/05	9,800	9,800
Miami-Dade Cnty			Okeechobee Cnty		
Aviation TECP (Miami International Airport) Series A			+■ Exempt Facility RB (Okeechobee Landfill) Series 1999 1.79%, 01/07/05	15,000	15,000
+ 1.83%, 01/05/05	4,520	4,520	Orange Cnty		
+ 1.70%, 01/06/05	13,551	13,551	+ Sales Tax RB Series 2002A 1.14%, 01/01/05	4,100	4,100
+ 1.87%, 01/20/05	3,026	3,026	Orange Cnty Health Facilities Auth		
Miami-Dade Cnty Housing Finance Auth			+■ Hospital RB (Orlando Regional Healthcare System) Series 2004 2.22%, 01/07/05	2,000	2,000
+■ M/F Mortgage RB Series 2003-3 2.04%, 01/07/05	9,150	9,150	Orange Cnty Health Finance Auth		
Miami-Dade Cnty IDA			+■ RB (Adventist Health System/Sunbelt) Series 1992 2.00%, 01/07/05	3,000	3,000
+■ IDR (Airbus Service Co) Series 1998A 1.84%, 01/07/05	8,550	8,550	Refunding Program RB (Pooled Hospital Loan) Series 1985		
+■ IDR (Airis Miami) Series 1999A 1.98%, 01/07/05	14,100	14,100	+ 2.02%, 01/04/05	9,500	9,500
+■ IDR (Arctic Partners) Series 1999 2.11%, 01/07/05	2,280	2,280	+ 1.80%, 01/18/05	19,900	19,900
+■ IDR (Fine Art Lamps) Series 1998 2.06%, 01/07/05	1,600	1,600	+ 1.89%, 01/24/05	16,100	16,100
+■ IDR (Tarmac America) Series 2004 2.05%, 01/07/05	3,200	3,200	Orange Cnty HFA		
+■ RB (Belen Jesuit Preparatory School) Series 1999 2.00%, 01/07/05	6,665	6,665	+■ Housing Refunding RB (Highland Pointe Apts) Series 1998J 1.05%, 01/07/05	7,455	7,455
+■ RB (Gulliver Schools) Series 2000 2.05%, 01/07/05	3,800	3,800	+■ M/F Guaranteed Mortgage Refunding RB (Sundown Associates II) Series 1989A 1.60%, 01/07/05	4,600	4,600
Miami-Dade Cnty SD			+■ M/F Housing RB (Glenn On Millenia Blvd) Series 2001C 1.99%, 01/07/05	3,355	3,355
TAN Series 2004			+■ M/F Housing RB (Palm Key Apts) Series 1997C 2.00%, 01/07/05	5,000	5,000
1.48%, 06/28/05	20,000	20,123	+■ M/F Housing RB (West Pointe Villas Apts) Series 2000F 2.03%, 01/07/05	5,750	5,750
1.78%, 06/28/05	10,400	10,448			
Nassau Cnty					
+■ Pollution Control Private Activity RB (Rayonair) Series 1999 1.98%, 01/07/05	7,665	7,665			

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)
■ M/F Housing RB (Windsor Pines) Series 2000E 1.97%, 01/07/05	3,200	3,200	■ Economic Development Refunding & Improvement RB (YMCA) Series 2003 1.74%, 01/07/05	13,700	13,700
■ M/F Housing Refunding RB (Andover Place Apts) Series 1998F 2.04%, 01/07/05	7,770	7,770	■ IDBR (South Florida Blood Banks) Series 2002 2.00%, 01/07/05	8,075	8,075
■ M/F Housing Refunding RB (Heather Glen Apts) Series 2001E 1.95%, 01/07/05	11,900	11,900	■ IDRB (Palm Beach Day School) Series 1999 2.00%, 01/07/05	7,000	7,000
■ M/F Housing Refunding RB (Smokewood/Sun Key Apts) Series 1992A 2.00%, 01/07/05	19,950	19,950	■ RB (Benjamin Private School) Series 2003 2.00%, 01/07/05	4,500	4,500
Orange Cnty IDA			■ RB (Comprehensive Alcoholism Rehabilitation Programs) Series 2000 1.74%, 01/07/05	5,100	5,100
■ Educational Facilities RB (UCF Hospitality School Student Housing Fndn) Series 2004 2.00%, 01/07/05	9,000	9,000	■ RB (Norton Gallery & School of Art) Series 1995 2.00%, 01/07/05	2,500	2,500
■ IDRB (Central Florida Kidney Centers) Series 2000 2.00%, 01/07/05	5,000	5,000	■ RB (Zoological Society of the Palm Beaches) Series 2001 2.05%, 01/07/05	5,500	5,500
■ IDRB (Central Florida YMCA) Series 2002A 2.05%, 01/07/05	4,400	4,400	Palm Beach Cnty Educational Facilities Auth		
■ IDRB (Goodwill Industries of Central Florida) Series 1999 2.00%, 01/07/05	6,000	6,000	■ Educational Facilities RB (Lynn Univ.) Series 2001 2.00%, 01/07/05	3,300	3,300
■ RB (Center For Drug Free Living) Series 1999 1.74%, 01/07/05	9,095	9,095	Palm Beach Cnty Health Facilities Auth		
Orange Cnty SD			■ Refunding Program RB (Pooled Hospital Loan) Series 1985 1.85%, 01/11/05	7,300	7,300
TAN Series 2004 1.78%, 09/19/05	30,000	30,258	Palm Beach Cnty HFA		
Orlando Utilities Comm			■ M/F Housing RB (Azalea Place Apts) Series 1999A 1.98%, 01/07/05	3,000	3,000
■ Water & Electric RB Series 2002B 1.88%, 01/07/05	4,300	4,300	■ M/F Housing Refunding RB (Emerald Bay Club Apts) Series 2004 2.02%, 01/07/05	6,500	6,500
Orlando-Orange Cnty Expressway Auth			■ M/F Housing Refunding RB (Spinnaker Landing Apts) Series 1998 2.03%, 01/07/05	2,845	2,845
■ Refunding RB Series 2003C-2 1.93%, 01/07/05	4,500	4,500			
Palm Beach Cnty					
■ Airport RB (Galaxy Aviation) Series 2000A 2.06%, 01/07/05	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)
Pasco Cnty SD			Southeast Volusia Hospital District		
+■ COP Series 1996 1.99%, 01/07/05	47,100	47,100	+■ RB (Bert Fish Medical Center) Series 1995 2.06%, 01/07/05	11,050	11,050
Pinellas Cnty Health Facilities Auth			St Petersburg		
+■ Hospital Facilities Refunding & RB (Bayfront Hospital) Series 2004 2.22%, 01/03/05	2,200	2,200	+■ Capital Improvement RB (Airport & Golf Course) Series 1997B 2.00%, 01/07/05	1,830	1,830
Pinellas Cnty HFA			+■ Capital Improvement RB (Airport) Series 1997C 2.06%, 01/07/05	335	335
■ S/F Housing RB Series 1999 B-1 2.07%, 01/07/05	2,180	2,180	Sumter Cnty IDA		
Pinellas Cnty IDA			+■ IDRB (Robbins Mfg Co) Series 1997 1.84%, 01/07/05	1,300	1,300
+■ IDRB (H & S Swansons Tool Co) Series 2001 2.06%, 01/07/05	3,565	3,565	Sunshine State Governmental Financing Comm		
+■ IDRB (Restorative Care of America) Series 2001 2.16%, 01/07/05	1,690	1,690	+■ CP Revenue Notes (Miami-Dade Cnty Program) Series G 1.73%, 01/04/05	4,539	4,539
Polk Cnty			Tallahassee-Leon Cnty Civic Center Auth		
+■ Utility System RB Series 2004A 2.02%, 01/07/05	3,495	3,495	+■ Capital Improvement RB Series 1998A 2.00%, 01/07/05	14,690	14,690
Polk Cnty IDA			Tampa		
+■ IDRB (Lifepath Hospice & Palliative Care) Series 2004 2.00%, 01/07/05	6,600	6,600	+■ Educational Facilities RB (Pepin Academy of Tampa) Series 2002 2.04%, 01/07/05	3,875	3,875
+■ IDRB (Pavermodule) Series 1998 2.06%, 01/07/05	3,010	3,010	+■ Health Care Facilities RB (Lifelink Foundation) Series 1997 2.00%, 01/07/05	4,800	4,800
Port St Lucie			+■ Occupational License Tax Refunding Bonds Series 2002C 1.95%, 01/07/05	9,550	9,550
+■ Utility System Refunding RB Series 2004A 2.02%, 01/07/05	5,000	5,000	+■ RB (Tampa Preparatory School) Series 2000 1.88%, 01/07/05	6,500	6,500
Sarasota Cnty			Tampa Bay Water Auth		
+■ RB (Sarasota Family YMCA) Series 1999 1.74%, 01/07/05	2,470	2,470	+■ Utility System Refunding & Improvement RB Series 2001A 2.07%, 01/07/05	5,200	5,200
Seminole Cnty IDA					
+■ IDRB (Amrhein Family Limited Partnership) Series 2001 2.06%, 01/07/05	4,275	4,275			
Seminole Cnty SD					
TAN Series 2004 2.01%, 08/24/05	24,250	24,399			

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)
University of South Florida Research Foundation			Ralph C. Mahar Regional SD BAN		
+■ RB (Interdisciplinary Research Building) Series 2004A 1.91%, 01/07/05	18,155	18,155	1.69%, 07/14/05	9,700	9,766
					25,768
Volusia Cnty Educational Facilities Auth			Michigan 0.0%		
+■ Educational Facilities RB (Bethune-Cookman College) Series 2001 2.00%, 01/07/05	10,560	10,560	Wayne Cnty		
			+■ Airport RB (Detroit Metropolitan Wayne Cnty Airport) Series 2002A 2.01%, 01/07/05	450	450
West Orange Healthcare District			Oregon 0.0%		
+■ RB Series 1999B 1.95%, 01/07/05	2,900	2,900	Portland		
		1,756,538	TAN (Fire & Police Disability & Retirement Fund) Series 2004 1.60%, 06/29/05	60	61
Hawaii 0.3%			Pennsylvania 0.3%		
Hawaii			Allegheny Cnty Port Auth		
+ Airports System Refunding RB Series 2001 1.68%, 07/01/05	6,000	6,112	+ Grant Anticipation Notes Series 2004 1.63%, 06/30/05	5,000	5,033
Illinois 0.5%			Puerto Rico 0.2%		
Chicago			Puerto Rico Public Buildings Auth		
+■ O'Hare International Airport General Airport Third Lien RB Series 2003 B-2 1.35%, 01/07/05	8,595	8,595	+■ Refunding RB Series L 2.00%, 01/07/05	3,045	3,045
Indiana 0.2%			South Carolina 0.3%		
Indiana HFA			South Carolina Assn of Gov'tal Organizations		
■ S/F Mortgage RB Series 2002B 2.11%, 01/07/05	4,755	4,755	COP Series 2004 1.53%, 04/15/05	5,000	5,017
Kentucky 0.6%			Texas 0.5%		
Kentucky Housing Corp			Dallas Fort Worth International Airport		
■ Housing RB Series 1998B 1.62%, 07/21/05	11,995	11,995	+■ Joint Improvement & Refunding RB Series 2001A 1.35%, 01/07/05	7,495	7,495
Massachusetts 1.4%			+■ Joint RB Series 2003A 2.08%, 01/07/05	3,000	3,000
Arlington					10,495
School BAN 1.53%, 07/21/05	8,000	8,064			
Everett					
BAN 1.82%, 09/09/05	7,875	7,938			

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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Washington 0.3%

Clark Cnty Public Utility Dist

+ Electric System Refunding RB Series 2002 1.15%, 01/01/05	5,000	5,000
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Wisconsin 0.3%

New Berlin SD

Note Anticipation Notes 1.95%, 04/15/05	5,000	5,008
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End of investments.

Statement of

Assets and Liabilities

As of December 31, 2004. All numbers x 1,000 except NAV.

Assets

Investments, at value	\$1,866,017
Cash	650
Receivables:	
Interest	5,783
Investments sold	32,303
Prepaid expenses	+ 48
Total assets	1,904,801

Liabilities

Payables:	
Dividends to shareholders	55
Investment adviser and administrator fees	23
Transfer agent and shareholder service fees	53
Trustees' fees	4
Accrued expenses	+ 37
Total liabilities	172

Net Assets

Total assets	1,904,801
Total liabilities	- 172
Net assets	\$1,904,629

Net Assets by Source

Capital received from investors	1,904,705
Net investment income not yet distributed	12
Net realized capital losses	(88)

Net Asset Value (NAV)

Net Assets	+	Shares Outstanding	=	NAV
\$1,904,629		1,904,617		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost for the fund's securities was \$1,866,017. During the reporting period, the fund had \$2,569,470 in transactions with other Schwab Funds.

Federal Tax Data**Cost basis of portfolio** \$1,866,025**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, 2004 through December 31, 2004. All numbers x 1,000.

Investment IncomeInterest **\$14,878****Net Realized Gains and Losses**Net realized losses on investments sold **(88)****Expenses**

Investment adviser and administrator fees 4,455

Transfer agent and shareholder service fees 5,342

Trustees' fees 26

Custodian and portfolio accounting fees 96

Professional fees 29

Registration fees 49

Shareholder reports 24

Other expenses + 18

Total expenses 10,039

Expense reduction - 2,204

Net expenses 7,835**Increase in Net Assets from Operations****Total investment income 14,878****Net expenses - 7,835****Net investment income 7,043****Net realized losses + (88)****Increase in net assets from operations \$6,955**

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 30, 2005, to 0.66% of average daily net assets. These limits 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.

Operations

	1/1/04–12/31/04	1/1/03–12/31/03
Net investment income	\$7,043	\$5,103
Net realized gains and losses	+ (88)	299
Increase in net assets from operations	6,955	5,402

Distributions Paid

Dividends from net investment income	7,031	5,161
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Transactions in Fund Shares

Shares sold	4,541,419	4,082,999
Shares reinvested	6,847	5,010
Shares redeemed	+ (4,447,636)	(4,069,070)
Net transactions in fund shares	100,630	18,939

Net Assets

Beginning of period	1,804,075	1,784,895
Total increase	+ 100,554	19,180
End of period	\$1,904,629	\$1,804,075

Unless stated, all numbers x 1,000.

For the prior year, the fund elected not to distribute realized capital gains and accordingly paid federal and state taxes on such gains in the amount of \$58.

Unaudited

The fund hereby designates 100% of its dividends for the current report period as tax-exempt interest dividends.

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 period.

Schwab Massachusetts Municipal Money Fund™

Financial Statements

Financial Highlights

	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
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 (%)	0.64	0.30 ³
Ratios/Supplemental Data (%)		
Ratios to average net assets:		
Net operating expenses	0.60	0.51 ^{4,5}
Gross operating expenses	0.86	0.86 ⁴
Net investment income	0.63	0.48 ⁴
Net assets, end of period (\$ x 1,000,000)	386	363

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 December 31, 2004

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
- ◆ All or a portion of this security is held as collateral for delay-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)
100.5%	Municipal Securities	387,478	387,478
100.5%	Total Investments	387,478	387,478
(0.5)%	Other Assets and Liabilities		(1,762)
100.0%	Net Assets		385,716

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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Municipal Securities 100.5% of net assets**Massachusetts 97.6%****Amherst**

BAN		
1.78%, 07/08/05	4,000	4,025

Arlington

School BAN		
1.53%, 07/21/05	2,745	2,767

Bedford

BAN		
1.14%, 02/18/05	3,000	3,007

▲ **Billerica**

BAN		
2.03%, 07/07/05	3,824	3,842

Cohasset

BAN		
1.57%, 08/12/05	5,000	5,037

Concord

Unlimited Tax School BAN		
1.63%, 09/29/05	2,000	2,020

Dighton-Rehoboth Regional SD

BAN		
2.05%, 06/03/05	2,500	2,510
BAN Series R-1		
1.64%, 06/03/05	2,000	2,011

Easton

BAN		
1.60%, 06/10/05	2,000	2,010

Everett

BAN		
1.82%, 09/09/05	2,000	2,016

Foxborough

BAN		
1.63%, 06/16/05	2,500	2,513

Haverhill

✚ BAN		
1.20%, 04/01/05	2,000	2,005

Hudson

BAN		
1.27%, 05/13/05	3,000	3,019

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)
Lawrence			Massachusetts Bay		
School BAN			Transportation Auth		
2.28%, 12/22/05	2,000	2,018	■• Sr Sales Tax Bonds 2004C		
			1.98%, 01/07/05	5,000	5,000
Lynnfield			Massachusetts Development		
BAN			Finance Agency		
1.30%, 03/01/05	11,313	11,321	■• Education RB (Dexter School)		
Marion			Series 2000		
BAN			1.97%, 01/07/05	2,720	2,720
1.68%, 07/15/05	2,324	2,340	■• M/F Housing RB (Salem		
Marlborough			Heights Apts) Series 2003A		
BAN			2.00%, 01/07/05	1,800	1,800
1.60%, 06/16/05	2,000	2,013	■• M/F Housing RB (Archstone		
Masconomet Regional SD			Reading Apts) Series 2004A		
BAN			2.06%, 01/07/05	8,000	8,000
1.12%, 02/10/05	2,320	2,322	■• M/F Housing RB (Midway		
Massachusetts			Studios) Series 2003A		
■• GO Bonds Consolidated Loan			2.07%, 01/07/05	5,000	5,000
Series 1998C			■• M/F Housing Refunding RB		
2.03%, 01/07/05	3,485	3,485	(Kensington at Chelmsford)		
■• GO Bonds Consolidated Loan			Series 2002		
Series 2000C			2.03%, 01/07/05	16,750	16,750
2.00%, 01/07/05	13,000	13,000	■• RB (Assumption College)		
■• GO Bonds Consolidated Loan			Series 2002A		
Series 2004A			1.97%, 01/07/05	7,800	7,800
2.02%, 01/07/05	4,995	4,995	■• RB (Boston University)		
■• GO Refunding Bonds			Series R-3		
Series 1998A			2.00%, 01/07/05	8,200	8,200
1.95%, 01/07/05	1,200	1,200	■• RB (Judge Rotenberg Center)		
■• GO Refunding Bonds			Series 2003		
Series 2001B			1.97%, 01/07/05	1,785	1,785
2.03%, 01/07/05	7,750	7,750	■• RB (Sophia Snow Home)		
■• GO Refunding Bonds			Series 2004A		
Series 2001C			1.98%, 01/07/05	260	260
2.03%, 01/07/05	19,000	19,000	■• RB (Sophia Snow Home)		
▶TECP Series D			Series 2004B		
2.00%, 01/12/05	5,000	5,000	1.98%, 01/07/05	350	350
1.90%, 01/25/05	5,000	5,000	■• RB (Wentworth Institute of		
▶TECP Series E			Technology) Series 2000		
1.83%, 01/11/05	2,500	2,500	1.97%, 01/07/05	2,515	2,515
▶TECP Series H			■• RB (Fessenden School)		
1.80%, 01/12/05	3,000	3,000	Series 2001		
Massachusetts Bay Transit Auth			2.02%, 01/07/05	3,000	3,000
■• General Transportation System			■• RB (Gordon College)		
Bonds Series 1999A			Series 2002		
2.00%, 01/07/05	1,000	1,000	1.97%, 01/07/05	4,920	4,920

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 (Third Sector New England) Series 2004A 2.01%, 01/07/05	6,300	6,300	Massachusetts IFA RB (New England College of Optometry) Series 1997 2.00%, 01/07/05	6,505	6,505
RB (WGBH Educational Foundation) 2002A 2.01%, 01/07/05	3,000	3,000	RB (Williston Northampton School) Series B 2.00%, 01/07/05	3,100	3,100
RB (Worcester Academy) Series 2000 2.00%, 01/07/05	7,500	7,500	Massachusetts Port Auth TECP Series 2003A		
RB (YMCA of Greater Boston) Series 2004A 2.01%, 01/07/05	8,000	8,000	+ 1.65%, 01/07/05	2,000	2,000
RB (You Inc) Series 2002 1.98%, 01/07/05	4,825	4,825	+ 1.85%, 02/04/05	1,000	1,000
RB (Dean College), Series 1999 1.98%, 01/07/05	8,945	8,945	+ TECP Series 2003B 1.88%, 02/04/05	2,000	2,000
Massachusetts Health & Educational Facilities Auth			+ TECP Series 2003B 1.88%, 02/04/05	2,200	2,200
RB (Baystate Medical Ctr) Series D 2.02%, 01/07/05	25,000	25,000	Massachusetts Turnpike Auth		
RB (Boston Home) Series 2002B 1.97%, 01/07/05	2,500	2,500	Western Turnpike RB Series 1997A 2.03%, 01/07/05	9,250	9,250
RB (Capital Assets Program) Series 1985D 2.10%, 01/03/05	500	500	Massachusetts Water Pollution Abatement Trust		
RB (MIT) Series K 2.03%, 01/07/05	8,800	8,800	Pool Program Bonds Series 5 2.00%, 01/07/05	5,000	5,000
RB (Williams College) Series I 1.05%, 04/01/05	3,000	3,000	Water Pollution Abatement RB Subordinate Series 1999A 2.05%, 01/07/05	15,000	15,000
RB (Winchester Hospital) Series D 2.03%, 01/07/05	6,000	6,000	Medway BAN Unlimited Tax 1.76%, 10/07/05	2,000	2,019
Massachusetts HFA			Mendon-Upton Regional SD BAN 2004 1.24%, 04/28/05	3,000	3,017
Housing Bonds Series 2003F 1.95%, 01/07/05	200	200	Nashoba Regional SD BAN 2.20%, 09/02/05	2,000	2,017
M/F Housing Refunding RB Series 1995A 2.00%, 01/07/05	3,780	3,780	Nashoba Valley Technical High SD BAN 1.48%, 08/12/05	3,000	3,027
S/F Housing Notes Series S 2.10%, 01/07/05	8,975	8,975	Needham BAN 2.00%, 06/15/05	2,000	2,009

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)
North Andover			Puerto Rico 2.9%		
BAN			Government Development Bank		
1.76%, 10/07/05	2,000	2,019	of Puerto Rico		
Northborough-Southborough			TECP Series 1997		
Regional SD			1.47%, 01/07/05	10,000	10,000
BAN			1.85%, 03/11/05	1,000	1,000
1.84%, 10/27/05	2,000	2,019			11,000
Ralph C. Mahar Regional SD					
BAN					
1.69%, 07/14/05	2,000	2,014			
Silver Lake Regional SD					
GO BAN			End of investments.		
1.61%, 08/26/05	5,000	5,045			
Somerville					
GO BAN					
1.44%, 08/19/05	3,000	3,024			
Springfield					
GO BAN					
1.75%, 06/17/05	2,500	2,514			
Tewksbury					
BAN					
1.11%, 02/18/05	2,500	2,503			
Wayland					
BAN					
2.00%, 09/15/05	2,000	2,017			
Weymouth					
BAN					
1.46%, 03/10/05	3,000	3,008			
Williamstown					
Unlimited Tax BAN					
1.37%, 05/05/05	3,000	3,016			
Woburn					
BAN					
1.19%, 04/08/05	3,000	3,004			
		376,478			

Statement of
Assets and Liabilities

As of December 31, 2004. All numbers x 1,000 except NAV.

Assets

Investments, at value	\$387,478
Cash	43
Interest receivable	2,081
Prepaid expenses	+ 5
Total assets	389,607

Liabilities

Payables:	
Dividends to shareholders	7
Investments bought	3,843
Investment adviser and administrator fees	3
Transfer agent and shareholder service fees	10
Trustees' fees	1
Accrued expenses	+ 27
Total liabilities	3,891

Net Assets

Total assets	389,607
Total liabilities	- 3,891
Net assets	\$385,716

Net Assets by Source

Capital received from investors	385,801
Net realized capital losses	(85)

Net Asset Value (NAV)

Net Assets	÷	Shares Outstanding	=	NAV
\$385,716		385,801		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost for the fund's securities was \$387,478. During the reporting period, the fund had \$813,295 in transactions with other Schwab Funds.

Federal Tax Data

Cost basis of portfolio	\$387,478
As of December 31, 2004:	
Unused capital losses:	
Expires 12/31 of:	Loss amount:
2011	\$2
2012	+ 83
	\$85

Reclassifications:

Net realized capital gains	\$6
Reclassified as:	
Net investment income not yet distributed	(\$6)

Statement of

Operations

For January 1, 2004 through December 31, 2004. All numbers x 1,000.

Investment IncomeInterest **\$4,588****Net Realized Gains and Losses**Net realized losses on investments sold **(89)****Expenses**

Investment adviser and administrator fees 1,414

Transfer agent and shareholder service fees 1,675

Trustees' fees 25

Custodian and portfolio accounting fees 32

Professional fees 24

Registration fees 13

Shareholder reports 9

Other expenses + 7

Total expenses 3,199

Expense reduction - 976

Net expenses 2,223**Increase in Net Assets from Operations****Total investment income 4,588****Net expenses - 2,223****Net investment income 2,365****Net realized losses + (89)****Increase in net assets from operations \$2,276**

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 consisted of two components. A reduction of \$966, which reduced the fund's annualized operating expense ratio (OER) by 0.26%, was made by the investment adviser (CSIM) to reflect a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the OER of this fund through April 30, 2005, to 0.60% of average daily net assets. This limit excludes interest, taxes and certain non-routine expenses. Also, CSIM voluntarily waived an additional \$10 of the fund's expenses, which reduced the fund's annualized OER by an additional 0.00%. The combination of these two waivers resulted in a net annualized OER for the period of 0.60%.

Statements of

Changes in Net Assets

For the current and prior report periods. All numbers x 1,000.

Operations

	1/1/04–12/31/04	5/16/03*–12/31/03
Net investment income	\$2,365	\$1,063
Net realized losses	(89)	(2)
Increase in net assets from operations	2,276	1,061

Distributions Paid

Dividends from net investment income	2,359	1,063
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Transactions in Fund Shares

Shares sold	1,294,316	1,001,230
Shares reinvested	2,326	1,047
Shares redeemed	+ (1,273,373)	(639,745)
Net transactions in fund shares	23,269	362,532

Net Assets

Beginning of period	362,530	—
Total increase	+ 23,186	362,530
End of period	\$385,716	\$362,530

Unless stated, all numbers x 1,000.

Unaudited

The fund hereby designates 100% of its dividends for the current report period as tax-exempt interest dividends.

Because all transactions in this section took place at \$1.00 a 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.

* Commencement of operations.

Financial Notes

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.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Shareholders of:

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

In our opinion, the accompanying statements of assets and liabilities, including the portfolio holdings, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Schwab New York Municipal Money Fund, Schwab New Jersey Municipal Money Fund, Schwab Pennsylvania Municipal Money Fund, Schwab Florida Municipal Money Fund, and Schwab Massachusetts Municipal Money Fund (five of the funds constituting The Charles Schwab Family of Funds, hereafter referred to as the “Funds”) at December 31, 2004, the results of each of their operations for the year then ended, and the changes in each of their net assets and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Funds’ management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2004 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California

February 14, 2005

Fund Trustees

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 Schwab Funds (of which there were 53 as of 12/31/04) 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.

Individuals Who Are Interested Trustees and Officers of the Trust		
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); CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, Charles Schwab Bank, N.A., U.S. Trust, United States Trust Co. of New York, Siebel Systems (software), Xsign, Inc. (electronic payment systems), TrustMark, Inc., 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, Vodaphone 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.

Individuals Who Are Officers of the Trust but Not Trustees

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; <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.; <i>Until 9/04</i> : VP, Charles Schwab & Co., Charles Schwab Investment Management, Inc.; <i>Until 2002</i> : VP of Internal Audit, Charles Schwab & Co.; <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> : Chief Financial Officer, Commerzbank Capital Markets; <i>Until 9/99</i> : Managing Director at the New York Stock Exchange.

Individuals Who Are Independent Trustees

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Mariann Byerwalter 8/13/60	2000 (all trusts).	<i>Since 2/05:</i> Director, Pacific Life Insurance Company; Chair, JDN Corp. Advisory LLC; 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, Laudus Trust, Laudus Variable Insurance Trust. <i>2007:</i> Special Advisor to the President, Stanford University. <i>Until 2001:</i> VP, Business Affairs, CFO, Stanford University.
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).	Director, Aphton Corp. (bio-pharmaceuticals); Non-Executive Chair, Trustee, Soletron Corp. (manufacturing), Mission West Properties (commercial real estate), Stratex Networks (network equipment), Laudus Trust, Laudus Variable Insurance Trust; Public Governor, Member, executive committee, Pacific Stock & Options Exchange. <i>Until 2/04:</i> Co-CEO, Aphton Corp. (bio-pharmaceuticals). <i>Until 1998:</i> Dean, Haas School of Business, University of California, Berkeley.
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 advisors); Trustee, Cooper Industries (electrical products, tools and hardware); Member, 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 debt obligations 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 and may be sold only to "qualified institutional buyers" under Securities Act Rule 144A. 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 web site at www.schwab.com/schwabfunds, the SEC's web site 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 web site 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 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® Funds
 Schwab® Institutional Select® S&P 500 Fund
 Schwab® Institutional Select® Large-Cap Value Index Fund
 Schwab® Institutional Select® Small-Cap Value Index Fund

Asset Allocation Funds

Schwab MarketTrack Portfolios®
 Schwab MarketTrack All Equity Portfolio™
 Schwab MarketTrack Growth Portfolio™
 Schwab MarketTrack Balanced Portfolio™
 Schwab MarketTrack Conservative Portfolio™

Bond Funds

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

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™

Annual Report

December 31, 2004

In This Report

Schwab Money Market Fund™

Ticker Symbol: **SWMXX**

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The president of Schwab Funds® and the fund's managers take a look at the factors that shaped fund performance during the report period.	
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From the Chairman



Charles Schwab
Chairman

Dear Shareholder,

I understand that selecting a financial services company is an important decision you make as an investor and is one that we take very seriously. In fact, we made recent changes that we believe will both improve the quality of service you receive and give you the best value possible. For example, we reduced the average cost of security trades and we also expanded access to high-quality investment products.

Looking forward, we continue to see tremendous opportunities for investors, and my colleagues and I are committed to helping you maximize them. The changes we made last year at Schwab laid a foundation for more improvements this year. We will continue to expand the array of products and services that you are looking for, including new cash management and credit products from the Schwab Bank and new mutual fund products.

During the period since our semi-annual money fund report, I'm happy to announce that Evelyn Dilsaver has been named CEO and President of Schwab Funds®. Although new to the position, Evelyn is no stranger to Schwab Funds, having been an officer in several other capacities at Schwab. Her broad experience in product creation, coupled with a comprehensive understanding of your financial needs, make her the ideal candidate for her new role.

I speak for Evelyn, as well as the rest of the Schwab Funds group, when I say we want Schwab to be a place where investors can find useful, quality financial products and services to help them succeed. Regardless of the size of their portfolios, Schwab should be the place investors can always trust to watch out for their best interests.

This commitment to our shareholders will not change, as nothing is more important to us than your trust. Thank you for investing with us.

Sincerely,

A handwritten signature in black ink that reads "Charles R. Schwab". The signature is fluid and cursive, with the first name "Charles" being more prominent.

Management's Discussion for the year ended December 31, 2004



Evelyn Dilsaver is President and CEO of Charles Schwab Investment Management, Inc. and is president of each 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,

I am very excited about my new role as President and CEO of Schwab Funds®. My experience at Schwab has given me many opportunities to focus on meeting the needs of our clients. This will continue to be my emphasis, and I reiterate what Chuck Schwab noted in his letter, that our goal is to offer you better value and more relevant choices.

When we discuss Schwab Funds with our clients, we often hear that you want to know that you're getting the best value. We find that shareholders may be unaware that some of the Schwab Funds offer additional share classes that carry lower expenses in exchange for higher initial investments of \$25,000 or more. I encourage you to review your accounts to see if you are eligible to purchase these money-saving shares. If you would like to learn more about these potentially cost-saving shares, our investment consultants are available to assist you.

I'm pleased to announce that we launched a new sweep money fund last summer—Schwab Cash Reserves—which offers eligible investors lower expenses on a sweep fund. My plan is to build on this legacy of value and continue to offer unique investment solutions to help you meet your financial goals.

I also want to point out that over the past year, the Federal Reserve raised short-term interest rates five times, up to 2.25% at year-end, making yields on the Schwab Funds' money funds more attractive than they were earlier in the year. I'm noting this because, no matter what the economic outlook is, most investors' asset-allocation strategies include a cash component, which offers liquidity and capital preservation that can help to lessen the effect of the market's volatility.

I look forward to serving you in my new role. Thank you for investing in Schwab Funds.

Sincerely,

A handwritten signature in dark ink that reads "Evelyn Dilsaver". The signature is fluid and cursive.

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

2004 started off positively, continuing the encouraging economic trend that was reported toward the end of 2003. Businesses added to their inventories, factory orders rose and production gained some strength. Retail sales continued to rise and higher commodity prices were holding. Mortgage refinancing activity, while still significant, waned as mortgage rates inched slightly upward. And finally, the last piece of the economic puzzle—job growth—began to exhibit solid gains. In fact, aside from a “soft patch” in early summer, the economy stayed strong throughout 2004.

The firming labor market, as well as steady gains in capital spending, kept the expansion on a self-sustaining path. The caution surrounding the economic outlook and geopolitical environment began to dissipate last spring and firms, unable to continue boosting productivity by restraining hiring, added more than two million new jobs during the year. Moreover, many leading indicators, such as the Institute for Supply Management’s business activity surveys, suggested further improvement, while continuing claims for unemployment benefits remained near cyclical lows. In addition, consumer sentiment rebounded, the labor market continued to sustain consumer spending, and corporate liquidity remained positive.

Strong productivity growth and slack in the economy kept a lid on inflation. The Federal Reserve (Fed) began to take the Fed funds rate higher beginning in June amid signs of solidly expanding output and improved hiring. The rate was raised another four times in 2004, ending the year at a moderate 2.25%. The moves had a limited impact on overall economic growth, due primarily to the record-low level of rates from which the hikes began.

Strengthening global demand for oil, particularly in the Pacific Rim, and supply constraints in the wake of the Florida hurricanes drove crude prices to record highs, above \$50 per barrel in late October. Since then, crude prices backed off to the mid-\$40 range, as supply concerns dissipated and China’s economy continues to attempt to engineer a soft landing. Though some pass-through from high oil and commodity prices earlier in the year may hamper growth and stir inflationary pressures, inflation has remained generally benign.

Though some pass-through from high oil and commodity prices earlier in the year may hamper growth and stir inflationary pressures, inflation has remained generally benign.

In this type of economic environment, we factored in what the Fed had done and what it was likely to do throughout the year. When the strong employment numbers came in April, adding to the positive news described above, it appeared that short-term interest rates would slowly head higher. And they did, starting in June, causing the money market curve to steepen.

The Schwab Money Market Fund™ increased its position in variable-rate securities as the economy showed signs of strength and the Fed began to raise interest rates. Investing in variable-rate securities in a rising interest rate environment is beneficial because this type of security resets its interest rate frequently, providing the opportunity to capture a rise in market rates in a timely manner. We also reduced the fund's weighted average maturity (WAM) from approximately 60 to 45 days, lowering the fund's exposure to rising rates. This is a similar strategy to that used by 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 12/31/04

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 Yield ¹	1.50%
Seven-Day Yield–No Waiver ²	1.46%
Seven-Day Effective Yield ¹	1.51%

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	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 July 1, 2004 and held through December 31, 2004.

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 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 7/1/04	Ending Account Value (Net of Expenses) at 12/31/04	Expenses Paid During Period ² 7/1/04–12/31/04
Schwab Money Market Fund™				
Actual Return	0.75%	\$1,000	\$1,004.90	\$3.78
Hypothetical 5% Return	0.75%	\$1,000	\$1,021.37	\$3.81

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 the fund's annualized expense ratio, multiplied by the average account value over the period, multiplied by 184 days of the period, and divided by 366 days of the fiscal year.

Financial Statements

Financial Highlights

	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
Income from investment operations:					
Net investment income	0.01	0.01	0.01	0.04	0.06
Less distributions:					
Dividends from net investment income	(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
Total return (%)	0.68	0.50	1.23	3.73	5.84
Ratios/Supplemental Data (%)					
Ratios to average net assets:					
Net operating expenses	0.75	0.75	0.75	0.75	0.76 ¹
Gross operating expenses	0.78	0.78	0.78	0.79	0.81
Net investment income	0.67	0.50	1.22	3.63	5.70
Net assets, end of period (\$ x 1,000,000)	44,023	49,079	51,063	49,116	41,823

¹ 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 December 31, 2004

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
- Restricted and/or illiquid 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)
71.8%	Fixed-Rate Obligations	31,603,058	31,603,058
1.4%	U.S. Government Securities	630,275	630,275
18.2%	Variable-Rate Obligations	7,987,292	7,987,292
8.5%	Other Investments	3,752,825	3,752,825
99.9%	Total Investments	43,973,450	43,973,450
0.1%	Other Assets and Liabilities		49,398
100.0%	Total Net Assets		44,022,848

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
-------------------------------	-----------------------------	-----------------------

Fixed-Rate Obligations 71.8% of net assets**Commercial Paper & Other Corporate Obligations** 45.5%

AB Spintab		
2.33%, 02/25/05	80,000	79,716
Alliance & Leicester, PLC, Section 4(2) / 144A		
2.12%, 02/22/05	28,000	27,914
2.11%, 03/01/05	60,000	59,794
✦ Allied Irish Banks North America		
2.26%, 01/06/05	20,000	19,994
◆✦ Alpine Securitization Corp., Section 4(2) / 144A		
2.01%, 01/06/05	187,000	186,948
◆ Amstel Funding Corp., Section 4(2) / 144A		
2.30%, 02/22/05	40,000	39,868
✦ ANZ (Delaware), Inc.		
2.38%, 02/14/05	10,000	9,971
✦ ANZ National (Int'l) Ltd.		
2.31%, 01/14/05	55,000	54,954
◆✦ Aquinas Funding, L.L.C., Section 4(2) / 144A		
1.97%, 02/24/05	46,000	45,865
2.08%, 03/21/05	10,000	9,955
2.42%, 04/05/05	11,000	10,931
2.18%, 04/14/05	46,000	45,716
2.51%, 05/17/05	29,000	28,728
◆✦ ASAP Funding Ltd., Section 4(2) / 144A		
2.04%, 01/05/05	53,000	52,988
2.05%, 01/05/05	98,000	97,978
2.05%, 01/06/05	24,000	23,993
2.04%, 01/07/05	50,000	49,983
2.05%, 01/13/05	52,416	52,380
2.26%, 02/01/05	19,500	19,462
2.40%, 03/02/05	13,000	12,948
◆ Atlantis One Funding Corp., Section 4(2) / 144A		
1.99%, 01/03/05	98,000	97,989
1.97%, 01/04/05	150,000	149,975
1.96%, 01/05/05	161,518	161,483
2.03%, 01/20/05	90,000	89,904
2.29%, 02/22/05	142,929	142,458
2.28%, 02/23/05	380,000	378,730
2.20%, 04/08/05	40,000	39,765
Bank of America Corp.		
2.06%, 01/26/05	314,000	313,553
2.06%, 01/28/05	227,500	227,150

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)
2.27%, 02/17/05	418,000	416,767	♦♦ Concord Minutemen Capital Co., Section 3c7 / 144A		
2.28%, 02/25/05	200,000	199,306	2.01%, 01/10/05	75,536	75,498
2.43%, 03/02/05	168,000	167,322	2.02%, 01/11/05	134,525	134,450
Bank of Ireland, Section 4(2) / 144A			2.06%, 01/24/05	50,275	50,209
2.36%, 01/07/05	121,320	121,272	2.28%, 02/10/05	70,383	70,205
2.38%, 03/09/05	50,000	49,780	2.29%, 02/18/05	89,500	89,228
♦ Barclays U.S. Funding Corp.			2.51%, 05/10/05	98,000	97,129
2.26%, 02/22/05	300,000	299,025	♦♦ Crown Point Capital Co., L.L.C., Section 4(2) / 144A		
Bear Stearns Companies, Inc.			2.02%, 01/07/05	15,000	14,995
1.98%, 01/10/05	100,000	99,951	2.01%, 01/11/05	31,000	30,983
2.02%, 01/19/05	100,000	99,899	2.02%, 01/12/05	30,000	29,982
♦♦ Beta Finance, Inc., Section 3c7 / 144A			2.03%, 01/18/05	109,500	109,396
2.01%, 01/11/05	53,000	52,971	2.04%, 01/18/05	76,222	76,149
2.02%, 01/18/05	80,000	79,924	2.04%, 01/19/05	40,000	39,959
2.06%, 01/25/05	113,500	113,345	2.26%, 02/07/05	36,285	36,201
2.07%, 01/28/05	28,000	27,957	2.28%, 02/16/05	124,145	123,785
2.27%, 02/18/05	33,000	32,901	2.29%, 04/20/05	68,500	68,029
2.17%, 04/13/05	55,000	54,665	2.48%, 04/20/05	32,000	31,763
♦ Calyon North America, Inc.			♦ Dakota CP Notes of Citibank Credit Card Issuance		
2.26%, 01/07/05	95,000	94,964	Trust, Section 4(2) / 144A		
♦ CBA (Delaware) Finance, Inc.			2.27%, 01/03/05	152,750	152,731
2.33%, 02/17/05	14,650	14,606	2.00%, 01/05/05	56,000	55,988
2.28%, 02/22/05	50,000	49,836	2.02%, 01/05/05	26,000	25,994
♦ CC (USA), Inc., Section 3c7 / 144A			1.99%, 01/06/05	120,000	119,967
2.30%, 01/14/05	14,000	13,988	2.30%, 01/12/05	227,000	226,841
2.02%, 01/18/05	104,000	103,902	2.32%, 01/13/05	60,000	59,954
2.07%, 01/27/05	150,000	149,777	2.30%, 01/14/05	157,000	156,870
2.27%, 02/16/05	50,000	49,856	2.31%, 01/14/05	60,000	59,950
2.29%, 02/22/05	10,000	9,967	2.04%, 01/19/05	108,000	107,890
2.41%, 03/15/05	60,000	59,709	2.36%, 02/04/05	145,000	144,678
♦♦ Chariot Funding, L.L.C., Section 4(2) / 144A			♦ Danske Corp.		
2.27%, 01/05/05	23,614	23,608	2.38%, 02/23/05	200,000	199,302
2.28%, 01/07/05	51,118	51,099	2.38%, 02/25/05	180,000	179,348
2.28%, 01/12/05	15,000	14,990	DePfa Bank PLC, Section 4(2) / 144A		
Citicorp			2.07%, 01/26/05	80,000	79,886
2.29%, 01/12/05	57,000	56,960	♦ Deutsche Bank Financial, L.L.C.		
2.37%, 01/28/05	200,000	199,646	2.06%, 03/03/05	167,000	166,423
2.37%, 01/31/05	25,000	24,951	DnB NOR Bank ASA		
Citigroup Global Markets Holdings, Inc.			2.36%, 02/08/05	141,000	140,650
2.31%, 01/10/05	25,000	24,986	♦ Dorada Finance, Inc., Section 3c7 / 144A		
2.31%, 01/13/05	25,000	24,981	2.31%, 02/11/05	22,825	22,765
2.31%, 01/14/05	50,000	49,958	2.31%, 02/15/05	20,000	19,943
2.07%, 01/24/05	4,000	3,995	♦♦ Eiffel Funding, L.L.C., Section 4(2) / 144A		
2.31%, 01/24/05	300,000	299,559	2.03%, 01/18/05	88,000	87,916
2.36%, 03/02/05	54,000	53,788	2.04%, 01/19/05	50,000	49,949
			2.04%, 01/20/05	25,000	24,973
			2.04%, 01/21/05	48,000	47,946
			2.39%, 02/11/05	9,000	8,976

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)
2.28%, 02/16/05	22,000	21,936	◆◆ Greyhawk Funding, L.L.C., Section 4(2) / 144A		
2.26%, 02/17/05	44,000	43,871	2.01%, 01/05/05	100,000	99,978
2.50%, 03/28/05	15,000	14,911	2.30%, 01/10/05	25,000	24,986
2.51%, 03/28/05	23,000	22,863	2.26%, 02/16/05	45,000	44,871
◆◆ Fairway Finance Co., L.L.C., Section 4(2) / 144A			2.26%, 04/26/05	7,000	6,950
2.32%, 01/06/05	17,044	17,039	HSBC U.S.A., Inc.		
2.31%, 01/07/05	25,046	25,036	2.12%, 03/31/05	50,000	49,740
2.07%, 01/21/05	21,383	21,359	2.29%, 05/06/05	55,000	54,568
2.17%, 04/07/05	11,000	10,937	◆ ING (U.S.) Funding, L.L.C.		
ForeningsSparbanken AB (Swedbank)			1.96%, 01/04/05	48,000	47,992
2.34%, 02/23/05	100,000	99,657	2.05%, 01/24/05	28,000	27,964
2.34%, 02/28/05	200,000	199,249	2.34%, 02/08/05	124,793	124,486
◆ Galaxy Funding, Inc., Section 4(2) / 144A			2.45%, 03/10/05	75,000	74,654
1.99%, 01/03/05	60,000	59,993	Irish Life & Permanent, PLC, Section 4(2) / 144A		
2.03%, 01/10/05	85,000	84,957	2.29%, 05/02/05	55,000	54,582
2.03%, 01/11/05	25,000	24,986	2.48%, 05/17/05	100,000	99,074
2.01%, 01/12/05	80,000	79,951	2.48%, 05/18/05	20,000	19,814
2.05%, 01/14/05	22,000	21,984	◆ IXIS Commercial Paper Corp., Section 4(2) / 144A		
2.04%, 01/18/05	10,000	9,990	2.38%, 03/07/05	110,000	109,531
2.04%, 01/19/05	20,000	19,980	◆◆ Jupiter Securitization Corp., Section 4(2) / 144A		
2.04%, 01/21/05	50,000	49,944	2.26%, 01/11/05	50,000	49,969
2.06%, 01/24/05	45,000	44,941	2.29%, 01/11/05	45,000	44,972
2.41%, 03/14/05	45,000	44,785	2.29%, 01/12/05	153,479	153,372
General Electric Capital Corp.			◆ K2 (USA), L.L.C., Section 3c7 / 144A		
2.00%, 01/06/05	301,000	300,917	2.01%, 01/10/05	30,900	30,885
2.04%, 01/19/05	100,000	99,899	2.02%, 01/12/05	38,000	37,977
2.02%, 01/20/05	456,000	455,516	2.02%, 01/14/05	60,118	60,075
2.04%, 01/21/05	300,000	299,662	2.03%, 01/18/05	12,400	12,388
2.04%, 01/24/05	200,000	199,741	2.03%, 01/20/05	21,600	21,577
2.28%, 02/18/05	28,000	27,915	2.06%, 01/24/05	50,900	50,833
General Electric Capital Services			2.07%, 01/31/05	17,000	16,971
2.06%, 01/26/05	390,000	389,445	2.29%, 02/15/05	13,400	13,362
2.34%, 02/08/05	45,000	44,889	2.29%, 02/18/05	15,200	15,154
2.37%, 03/07/05	143,000	142,391	2.29%, 02/22/05	26,400	26,313
◆ Giro Funding U.S. Corp., Section 4(2) / 144A			2.30%, 02/22/05	60,000	59,802
2.28%, 01/03/05	27,000	26,997	2.38%, 02/28/05	12,000	11,954
2.32%, 01/07/05	100,000	99,961	2.71%, 05/31/05	4,800	4,746
2.02%, 01/13/05	176,000	175,882	◆ KBC Financial Products International, Ltd., Section 4(2) / 144A		
2.08%, 01/14/05	79,000	78,941	2.37%, 03/02/05	9,750	9,712
2.07%, 01/25/05	20,436	20,408	2.16%, 04/01/05	50,000	49,733
◆◆ Grampian Funding, L.L.C., Section 4(2) / 144A			2.60%, 06/06/05	123,000	121,630
2.04%, 01/21/05	157,000	156,823	◆◆ Kitty Hawk Funding Corp., Section 4(2) / 144A		
2.04%, 02/02/05	24,000	23,957	2.04%, 01/19/05	72,256	72,183
2.42%, 03/16/05	80,000	79,605			
2.20%, 04/19/05	113,000	112,263			

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)
◆◆ Lexington Parker Capital Co., L.L.C., Section 4(2) / 144A			◆◆ Preferred Receivables Funding Corp., Section 4(2) / 144A		
2.30%, 01/14/05	15,000	14,988	2.29%, 01/13/05	28,000	27,979
2.07%, 01/25/05	50,000	49,931	◆ Santander Central Hispano Finance (Delaware), Inc.		
2.26%, 02/08/05	80,859	80,667	2.01%, 01/12/05	184,250	184,137
2.26%, 02/15/05	33,827	33,732	2.02%, 01/14/05	25,000	24,982
1.95%, 03/01/05	317,000	315,997	2.12%, 04/05/05	88,000	87,517
2.07%, 03/01/05	45,000	44,849	◆◆ Scaldis Capital Ltd., Section 4(2) / 144A		
2.25%, 03/01/05	1,500	1,495	2.30%, 01/07/05	250,000	249,905
2.39%, 03/07/05	70,000	69,700	2.01%, 01/12/05	57,748	57,713
2.48%, 05/13/05	62,000	61,443	2.04%, 01/14/05	11,461	11,453
◆◆ Links Finance, L.L.C., Section 3c7 / 144A			2.02%, 01/18/05	110,259	110,154
2.26%, 02/15/05	1,000	997	2.07%, 01/25/05	70,000	69,904
2.39%, 03/01/05	24,000	23,906	Skandinaviska Enskilda Banken AB		
◆ Mane Funding Corp., Section 4(2) / 144A			1.97%, 01/04/05	100,000	99,984
2.31%, 01/10/05	95,000	94,945	2.28%, 01/06/05	24,000	23,992
2.39%, 02/16/05	21,101	21,037	◆◆ Sigma Finance, Inc., Section 3c7 / 144A		
2.40%, 03/07/05	27,000	26,883	2.26%, 02/03/05	52,100	51,993
◆◆ Mont Blanc Capital Corp., Section 4(2) / 144A			2.26%, 02/14/05	100,000	99,725
2.02%, 01/13/05	50,000	49,967	2.27%, 02/17/05	71,000	70,791
2.04%, 01/20/05	30,000	29,968	2.41%, 02/25/05	42,685	42,528
2.38%, 02/14/05	20,000	19,942	2.44%, 03/02/05	12,996	12,943
Morgan Stanley			2.12%, 03/22/05	58,000	57,729
2.35%, 01/27/05	85,000	84,856	2.69%, 06/15/05	45,000	44,453
2.38%, 02/15/05	514,000	512,477	◆ Stadshypotek Delaware, Inc., Section 4(2) / 144A		
◆ Newcastle Certificates Program, Section 4(2) / 144A			2.33%, 01/28/05	37,600	37,535
2.00%, 01/04/05	23,000	22,996	2.36%, 02/08/05	170,000	169,578
2.02%, 01/07/05	18,000	17,994	◆ Svenska Handelsbanken, Inc.		
2.02%, 01/11/05	75,000	74,958	2.36%, 02/09/05	8,000	7,980
2.32%, 01/12/05	10,000	9,993	◆◆ Thunder Bay Funding, L.L.C., Section 4(2) / 144A		
2.02%, 01/14/05	52,000	51,962	2.04%, 01/20/05	35,188	35,150
2.39%, 02/07/05	8,200	8,180	2.07%, 01/24/05	80,381	80,275
2.28%, 02/17/05	100,000	99,704	2.26%, 02/22/05	70,476	70,248
◆◆ Nieuw Amsterdam Receivables Corp., Section 4(2) / 144A			2.44%, 03/03/05	20,207	20,124
1.99%, 01/03/05	32,000	31,996	2.21%, 04/11/05	40,497	40,251
2.30%, 01/07/05	11,000	10,996	◆◆ Ticonderoga Funding, L.L.C., Section 4(2) / 144A		
2.01%, 01/10/05	42,127	42,106	2.39%, 02/14/05	344,000	342,999
2.31%, 01/10/05	19,108	19,097	2.42%, 02/25/05	47,000	46,827
2.08%, 01/25/05	55,000	54,924	◆◆ Triple-A One Funding Corp., Section 4(2) / 144A		
2.53%, 03/31/05	27,197	27,028	2.31%, 01/06/05	10,000	9,997
◆ Park Granada, L.L.C., Section 4(2) / 144A			2.30%, 01/10/05	20,000	19,989
2.04%, 01/18/05	50,000	49,952	2.04%, 01/18/05	7,760	7,753
2.04%, 01/19/05	175,000	174,823	◆◆ Tulip Funding Corp., Section 4(2) / 144A		
2.04%, 01/21/05	50,000	49,944	1.98%, 01/04/05	222,000	221,964
2.06%, 01/21/05	40,000	39,954			
2.39%, 01/27/05	100,000	99,828			

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)
+ Westpac Capital Corp.			Calyon		
2.40%, 03/07/05	100,000	99,569	2.35%, 03/04/05	432,000	432,000
2.44%, 03/09/05	57,300	57,041	Canadian Imperial Bank of Commerce		
+ Westpac Trust Securities NZ			2.37%, 02/17/05	70,000	70,000
2.32%, 02/23/05	80,000	79,729	Citibank, N.A.		
2.41%, 03/08/05	99,000	98,564	2.31%, 02/24/05	120,000	120,000
2.40%, 03/09/05	115,000	114,488	2.40%, 03/07/05	28,000	28,000
♦ White Pine Finance, L.L.C., Section 3c7 / 144A			Credit Suisse First Boston		
2.02%, 02/07/05	13,000	12,973	2.21%, 01/25/05	134,000	134,000
1.92%, 02/22/05	30,306	30,223	2.35%, 02/04/05	193,000	193,000
2.18%, 04/11/05	35,000	34,790	2.40%, 02/25/05	15,000	15,000
2.21%, 04/27/05	40,301	40,017	Danske Bank A/S		
2.62%, 05/04/05	14,522	14,393	1.95%, 01/05/05	111,000	111,000
2.54%, 05/23/05	28,000	27,723	2.00%, 01/18/05	149,000	149,000
2.60%, 05/25/05	29,879	29,572	Deutsche Bank, AG		
2.60%, 06/02/05	40,736	40,294	1.60%, 05/20/05	200,000	200,000
2.61%, 06/06/05	19,256	19,041	Dexia Bank Belgium		
2.73%, 06/06/05	13,000	12,848	2.03%, 01/21/05	130,000	130,000
♦♦ Windmill Funding Corp., Section 4(2) / 144A			2.05%, 01/25/05	160,000	160,000
2.28%, 01/10/05	45,000	44,974	1.50%, 05/04/05	120,000	119,994
♦♦ Yorktown Capital, L.L.C., Section 4(2) / 144A			First Tennessee Bank, N.A.		
2.25%, 01/05/05	73,000	72,982	2.43%, 03/02/05	83,000	83,000
2.39%, 02/14/05	12,560	12,523	Fortis Bank		
		19,999,095	2.33%, 01/25/05	93,000	93,000
Certificates of Deposit 23.3%			+ HBOS Treasury Services, PLC		
American Express Bank FSB			2.36%, 03/07/05	89,000	89,000
2.36%, 01/28/05	46,000	46,000	2.73%, 06/29/05	195,000	195,000
American Express Centurion Bank			HSH Nordbank, AG		
2.25%, 01/04/05	100,000	100,000	1.51%, 04/18/05	16,000	16,000
Banco Bilbao Vizcaya Argentaria S.A.			1.61%, 05/20/05	99,000	98,993
2.26%, 01/11/05	395,000	395,000	Landesbank Baden-Wuerttemberg		
2.02%, 03/02/05	35,000	35,000	2.10%, 03/07/05	50,000	50,000
2.37%, 03/10/05	11,000	11,000	Landesbank Hessen-Thuringen Girozentrale		
Bank of The West			2.37%, 03/07/05	250,000	250,000
2.27%, 01/07/05	23,000	23,000	Lloyds TSB Bank, PLC		
Bayerische Landesbank Girozentrale			2.04%, 03/01/05	55,000	55,000
1.50%, 05/06/05	250,000	249,987	2.02%, 03/04/05	30,000	30,000
1.71%, 05/23/05	68,000	67,996	Nationwide Building Society		
BNP Paribas			2.38%, 03/08/05	166,000	166,000
2.28%, 02/24/05	440,000	440,000	2.39%, 03/09/05	100,000	100,000
2.30%, 02/25/05	180,000	180,000	Norddeutsche Landesbank Girozentrale		
2.43%, 03/08/05	335,000	335,000	1.51%, 05/13/05	150,000	149,989
2.44%, 03/11/05	95,000	95,000	1.63%, 05/16/05	33,000	32,998
2.71%, 06/29/05	72,000	72,000	1.60%, 05/20/05	33,000	33,000

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Nordea Bank Finland, PLC		
2.21%, 01/25/05	60,000	60,000
2.30%, 02/28/05	270,000	270,000
2.33%, 02/28/05	55,000	55,000
2.36%, 03/08/05	155,000	155,000
2.37%, 03/10/05	257,000	257,000
Rabobank Nederland		
2.32%, 02/02/05	99,000	99,000
Royal Bank of Scotland, PLC		
2.38%, 02/23/05	26,100	26,059
1.75%, 05/27/05	246,000	245,985
2.17%, 07/01/05	145,000	144,982
Skandinaviska Enskilda Banken AB		
2.06%, 01/25/05	55,000	55,000
2.32%, 02/02/05	60,000	60,000
Toronto Dominion Bank		
2.32%, 02/02/05	137,000	137,000
2.40%, 03/09/05	138,000	138,000
2.30%, 05/12/05	15,000	15,000
U.S. Bank, N.A.		
2.25%, 01/13/05	360,000	360,000
2.36%, 03/11/05	140,000	140,000
UBS, AG		
2.37%, 02/18/05	360,000	360,000
1.40%, 04/04/05	100,000	99,996
1.86%, 06/07/05	150,000	149,987
Unicredito Italiano SpA		
2.00%, 02/28/05	67,000	67,000
2.40%, 02/28/05	125,000	125,000
2.37%, 03/08/05	168,000	168,000
2.40%, 03/09/05	200,000	200,000
2.70%, 06/24/05	280,000	280,000
Washington Mutual Bank, FA		
1.99%, 01/10/05	150,000	150,000
2.01%, 01/19/05	92,000	92,000
2.02%, 01/20/05	115,000	115,000
Wells Fargo Bank, N.A.		
2.05%, 01/27/05	265,000	265,000
2.36%, 01/27/05	125,000	125,000
2.05%, 01/31/05	316,000	316,000
2.36%, 01/31/05	180,000	179,999
WestLB AG		
2.29%, 01/10/05	12,000	11,998
		10,276,963

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Bank Notes 2.0%		
Bank of America, N.A.		
2.42%, 03/02/05	40,000	40,000
2.42%, 03/03/05	587,000	587,000
Standard Federal Bank, N.A.		
2.38%, 02/11/05	187,000	187,000
2.38%, 02/23/05	60,000	60,000
		874,000

Promissory Notes 1.0%

• The Goldman Sachs Group, Inc.		
1.94%, 02/18/05	198,000	198,000
2.01%, 02/24/05	145,000	145,000
2.80%, 06/30/05	110,000	110,000
		453,000

U.S. Government Securities 1.4% of net assets

Fannie Mae		
1.43%, 02/09/05	295,000	295,000
1.35%, 04/28/05	70,000	70,000
1.50%, 05/09/05	125,000	125,000
1.61%, 05/13/05	100,000	100,000
Federal Home Loan Bank		
1.60%, 03/01/05	40,275	40,275
		630,275

Variable-Rate Obligations 18.2% of net assets

✦ ABAG Financial Authority for Nonprofit Corps., California		
RB (Public Pole Institute) Series 2002B		
2.50%, 01/07/05	17,830	17,830
✦ Abbey National Treasury Services, PLC		
2.35%, 01/26/05	20,000	19,997
✦ Albuquerque, New Mexico Airport		
RB Series 2000B		
2.56%, 01/07/05	16,200	16,200
Bank of New York Co., Inc., 144A		
2.44%, 01/27/05	75,000	75,000
Barclays Bank, PLC		
2.32%, 01/18/05	585,000	584,891

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)
2.34%, 01/25/05	50,000	49,994	Landesbank Baden-Wuerttemberg		
2.35%, 01/31/05	320,000	319,914	2.35%, 01/24/05	50,000	49,986
Bayerische Landesbank Girozentrale			2.36%, 01/24/05	50,000	49,996
2.37%, 01/31/05	50,000	50,000	2.22%, 02/11/05	75,000	75,000
BNP Paribas			2.37%, 03/04/05	110,000	109,996
2.33%, 01/24/05	400,000	399,913	2.43%, 03/15/05	50,000	49,999
+ Brooks County, Georgia Development Authority			◆+ Lexington Parker Capital Co.		
RB (Langboard, Inc. Project)			2.31%, 01/10/05	35,000	34,997
2.42%, 01/07/05	9,500	9,500	◆ Liberty Lighthouse U.S. Capital Co. L.L.C. 4(2) / 144A		
Canadian Imperial Bank of Commerce			2.27%, 01/03/05	100,000	99,983
2.45%, 01/18/05	100,000	100,000	2.39%, 01/24/05	50,000	50,000
+ CFM International, Inc., 144A			2.38%, 01/26/05	75,000	74,990
2.42%, 01/07/05	21,015	21,015	2.38%, 01/27/05	20,000	19,997
Chase Manhattan Bank (USA)			◆+ Links Finance, L.L.C., Section 3c7 / 144A		
2.34%, 01/11/05	150,000	150,000	2.24%, 01/03/05	100,000	100,000
+ Cook County, Illinois			2.38%, 01/14/05	27,000	27,000
General Obligation Bond,			2.35%, 01/18/05	22,000	21,995
Series 2004D			2.36%, 01/20/05	100,000	99,991
2.44%, 01/07/05	30,000	30,000	2.37%, 01/25/05	80,000	79,991
◆ Dorada Finance, Inc., Section 3c7 / 144A			2.40%, 01/26/05	25,000	25,001
2.38%, 01/18/05	47,000	46,999	+ Loanstar Assets Partners II, L.P.		
2.47%, 03/10/05	99,000	99,012	2.52%, 01/07/05	45,000	45,000
Fannie Mae			+ Lowndes Corp., Georgia, 144A		
1.88%, 01/03/05	195,000	194,904	Taxable Demand Bond Series 1997		
2.30%, 01/31/05	280,000	279,912	2.44%, 01/07/05	3,800	3,800
Federal Home Loan Bank			+ Merlot Trust Section 4(2) / 144A		
2.23%, 01/05/05	250,000	249,905	Series 2000B		
• GE Life & Annuity			2.57%, 01/07/05	32,630	32,630
2.38%, 01/03/05	150,000	150,000	Series 2001A67		
2.22%, 02/01/05	50,000	50,000	2.57%, 01/07/05	35,065	35,065
General Electric Capital Corp.			Series 2001A7		
2.46%, 01/10/05	175,000	175,000	2.57%, 01/07/05	15,470	15,470
2.51%, 01/18/05	75,000	75,000	Merrill Lynch & Co, Inc., Section 4(2) / 144A		
2.62%, 03/15/05	40,000	40,015	2.23%, 01/03/05	100,000	100,000
• The Goldman Sachs Group, Inc., 144A			• Metropolitan Life Insurance Co., 144A		
2.41%, 01/10/05	225,000	225,000	2.33%, 01/30/05	50,000	50,000
HSH Nordbank, AG			2.24%, 02/01/05	100,000	100,000
2.22%, 01/03/05	90,000	89,997	• Monumental Life Insurance Co.		
2.30%, 01/10/05	80,000	79,983	2.38%, 01/03/05	100,000	100,000
2.35%, 01/31/05	100,000	99,995	+ New Jersey Economic Development Authority		
• J.P. Morgan Securities, Inc.			Adjustable Rate Lease Revenue		
2.41%, 01/03/05	200,000	200,000	Taxable Bonds (Barnes & Noble,		
			Inc. Distribution & Freight		
			Consolidation Center Project)		
			Series 1995A		
			2.39%, 01/07/05	13,310	13,310

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)
Adjustable Rate Lease Revenue Taxable Bonds (Barnes & Noble, Inc. Distribution & Freight Consolidation Center Project) Series 1995B 2.39%, 01/07/05	10,000	10,000	UBS, AG 2.43%, 01/18/05	720,000	719,886
Adjustable Rate Lease Revenue Taxable Bonds (Camden Center Project) Series 2002A 2.39%, 01/07/05	21,480	21,480	Wells Fargo & Co. 2.57%, 03/24/05	150,000	150,035
Adjustable Rate Lease Revenue Taxable Bonds (Camden Center Project) Series 2002B 2.39%, 01/07/05	20,000	20,000	Wells Fargo & Co., 144A 2.31%, 01/03/05	75,000	75,000
Norddeutsche Landesbank Girozentrale 2.32%, 01/12/05	80,000	79,985	2.37%, 01/18/05	165,000	165,003
Royal Bank of Canada 2.25%, 01/04/05	150,000	149,992	WestLB, AG 2.36%, 01/20/05	50,000	49,994
Royal Bank of Canada, 144A 2.38%, 01/10/05	60,000	60,000			7,987,292
Royal Bank of Scotland, PLC 2.33%, 01/14/05	200,000	199,973			
+ Santa Rosa, California Pension Obligation Revenue Taxable Bonds Series 2003A 2.50%, 01/07/05	10,000	10,000	Security	Maturity Amount (\$ x 1,000)	
+ SE Christian Church, Jefferson County, Kentucky Series 2003 2.46%, 01/07/05	10,000	10,000	Other Investments 8.5% of net assets		
♦♦ Sigma Finance, Inc., Section 3c7 / 144A 2.35%, 01/18/05	150,000	149,977	Repurchase Agreements 8.5%		
2.36%, 01/18/05	119,000	118,994	Bank of America Securities L.L.C.		
2.39%, 01/18/05	65,000	65,006	Tri-Party Repurchase Agreement		
2.36%, 01/20/05	50,000	49,995	Collateralized by U.S. Government		
2.37%, 01/25/05	145,000	144,993	Securities with a value of \$1,020,000		
2.37%, 01/25/05	109,000	108,973	2.28%, issued 12/31/04,		
2.37%, 01/31/05	72,000	71,987	due 01/03/05		
+ Sisters of Mercy of the Americas Regional Community of Omaha, Nebraska Series 2001	11,860	11,860	1,000,190		
Societe Generale 2.34%, 01/18/05	80,000	79,986	Credit Suisse First Boston L.L.C.		
• Travelers Insurance Co., 144A 2.47%, 01/29/05	100,000	100,000	Tri-Party Repurchase Agreement		
			Collateralized by U.S. Government		
			Securities with a value of \$23,285		
			2.30%, issued 12/31/04,		
			due 01/03/05		
			22,829		
			Goldman Sachs & Co.		
			Tri-Party Repurchase Agreement		
			Collateralized by U.S. Government		
			Securities with a value of \$102,000		
			2.38%, issued 12/29/04,		
			due 01/05/05		
			50,023		
			2.38%, issued 12/29/04,		
			due 01/06/05		
			50,026		
			J.P. Morgan Chase & Co.		
			Tri-Party Repurchase Agreement		
			Collateralized by U.S. Government		
			Securities with a value of \$255,003		
			2.28%, issued 12/31/04,		
			due 01/03/05		
			250,048		
			250,000		

Portfolio Holdings continued

Security	Maturity Amount (\$ x 1,000)	Value (\$ x 1,000)
Morgan Stanley & Co. Inc.		
Tri-Party Repurchase Agreement		
Collateralized by U.S. Government		
Securities with a value of \$1,259,713		
2.28%, issued 12/31/04, due 01/03/05	1,230,234	1,230,000
UBS Financial Services, Inc.		
Tri-Party Repurchase Agreement		
Collateralized by U.S. Government		
Securities with a value of \$1,173,005		
2.28%, issued 12/31/04, due 01/03/05	1,000,190	1,000,000
2.29%, issued 12/07/04, due 01/07/05	150,296	150,000
		3,752,825

End of investments.

Issuer Rate, Acquisition Date, Maturity Date	Face Amount (\$ x 1,000)	Cost/ Value (\$ x 1,000)
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**At December 31, 2004, portfolio holdings included
restricted and/or illiquid securities as follows:**

The Goldman Sachs Group, Inc., 144A		
2.41%, 07/07/04, 01/10/05	225,000	225,000
The Goldman Sachs Group, Inc.		
1.94%, 08/18/04, 02/18/05	198,000	198,000
2.01%, 08/30/04, 02/24/05	145,000	145,000
2.80%, 12/30/04, 06/30/05	110,000	110,000
		453,000
GE Life & Annuity		
2.22%, 02/02/04, 02/01/05	50,000	50,000
2.38%, 05/03/04, 01/03/05	150,000	150,000
		200,000
J.P. Morgan Securities, Inc.		
2.41%, 12/20/04, 01/03/05	200,000	200,000
Metropolitan Life Insurance Co., 144A		
2.24%, 02/03/03, 02/01/05	100,000	100,000
2.33%, 12/28/00, 01/30/05	50,000	50,000
		150,000
Monumental Life Insurance Co., 144A		
2.38%, 06/10/93, 01/03/05	100,000	100,000
Travelers Insurance Co., 144A		
2.47%, 10/29/04, 01/29/05	100,000	100,000

Statement of

Assets and Liabilities

As of December 31, 2004. All numbers x 1,000 except NAV.

Assets

Investments, at value	\$43,973,450
Cash	102
Interest receivable	54,973
Prepaid expenses	+ 682
Total assets	44,029,207

Liabilities

Payables:	
Dividends to shareholders	1,724
Investment adviser and administrator fees	1,620
Transfer agent and shareholder service fees	1,079
Trustees' fees	18
Accrued expenses	+ 1,918
Total liabilities	6,359

Net Assets

Total assets	44,029,207
Total liabilities	- 6,359
Net assets	\$44,022,848

Net Assets by Source

Capital received from investors	44,022,897
Net realized capital losses	(49)

Net Asset Value (NAV)

Net Assets	÷	Shares Outstanding	=	NAV
\$44,022,848		44,023,456		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost of the fund's securities was \$43,973,450. Includes restricted and/or illiquid securities worth \$1,428,000, or 3.24% 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 \$14,826,400 or 33.68% of the fund's total net assets.

Federal Tax Data**Cost basis of portfolio** \$43,973,450**As of December 31, 2004:****Unused capital losses:**

Expires 12/31 of:	Loss amount:
2007	\$49

Statement of

Operations

For January 1, 2004 through December 31, 2004. All numbers x 1,000.

Investment Income

Interest	\$670,270
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Expenses

Investment adviser and administrator fees	146,682
Transfer agent and shareholder service fees	212,304
Trustees' fees	189
Custodian and portfolio accounting fees	4,019
Professional fees	199
Registration fees	706
Shareholder reports	3,392
Other expenses	+
	632
Total expenses	368,123
Expense reduction	-
	14,284
Net expenses	353,839

Increase in Net Assets from Operations

Total investment income	670,270
Net expenses	-
	353,839
Net investment income	316,431
Increase in net assets from operations	\$316,431

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 30, 2005 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.

Operations

	1/1/04–12/31/04	1/1/03–12/31/03
Net investment income	\$316,431	\$257,243
Increase in net assets from operations	316,431	257,243

Distributions Paid

Dividends from net investment income	316,431	257,243
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Transactions in Fund Shares

Shares sold	131,897,898	132,562,456
Shares reinvested	310,836	253,763
Shares redeemed	+ (137,265,143)	(134,800,345)
Net transactions in fund shares	(5,056,409)	(1,984,126)

Net Assets

Beginning of period	49,079,257	51,063,383
Total decrease	+ (5,056,409)	(1,984,126)
End of period	\$44,022,848	\$49,079,257

Unless stated, all numbers x 1,000.

The tax-basis components of distributions are:

Current year

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

Prior year

Ordinary income	\$257,243
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

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.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Shareholders of:

Schwab Money Market Fund

In our opinion, the accompanying statement of assets and liabilities, including the portfolio holdings, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Schwab Money Market Fund (one of the portfolios constituting The Charles Schwab Family of Funds, hereafter referred to as the “Fund”) at December 31, 2004, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Fund’s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2004 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California

February 14, 2005

Fund Trustees

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 fund 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 Schwab Funds (of which there were 53 as of 12/31/04) 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.

Individuals Who Are Interested Trustees and Officers of the Trust		
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); CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, Charles Schwab Bank, N.A., U.S. Trust, United States Trust Co. of New York, Siebel Systems (software), Xsign, Inc. (electronic payment systems), TrustMark, Inc., 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, Vodaphone 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.

Individuals Who Are Officers of the Trust but Not Trustees

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; <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.; <i>Until 9/04</i> : VP, Charles Schwab & Co., Charles Schwab Investment Management, Inc.; <i>Until 2002</i> : VP of Internal Audit, Charles Schwab & Co.; <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> : Chief Financial Officer, Commerzbank Capital Markets; <i>Until 9/99</i> : Managing Director at the New York Stock Exchange.

Individuals Who Are Independent Trustees

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Mariann Byerwalter 8/13/60	2000 (all trusts).	<i>Since 2/05:</i> Director, Pacific Life Insurance Company; Chair, JDN Corp. Advisory LLC; 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, Laudus Trust, Laudus Variable Insurance Trust. <i>2007:</i> Special Advisor to the President, Stanford University. <i>Until 2001:</i> VP, Business Affairs, CFO, Stanford University.
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).	Director, Aphton Corp. (bio-pharmaceuticals); Non-Executive Chair, Trustee, Soletron Corp. (manufacturing), Mission West Properties (commercial real estate), Stratex Networks (network equipment), Laudus Trust, Laudus Variable Insurance Trust; Public Governor, Member, executive committee, Pacific Stock & Options Exchange. <i>Until 2/04:</i> Co-CEO, Aphton Corp. (bio-pharmaceuticals). <i>Until 1998:</i> Dean, Haas School of Business, University of California, Berkeley.
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 advisors); Trustee, Cooper Industries (electrical products, tools and hardware); Member, 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 debt obligations 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 and may be sold only to "qualified institutional buyers" under Securities Act Rule 144A. 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 web site at www.schwab.com/schwabfunds, the SEC's web site 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 web site 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 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® Funds
 Schwab® Institutional Select® S&P 500 Fund
 Schwab® Institutional Select® Large-Cap Value Index Fund
 Schwab® Institutional Select® Small-Cap Value Index Fund

Asset Allocation Funds

Schwab MarketTrack Portfolios®
 Schwab MarketTrack All Equity Portfolio™
 Schwab MarketTrack Growth Portfolio™
 Schwab MarketTrack Balanced Portfolio™
 Schwab MarketTrack Conservative Portfolio™

Bond Funds

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

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

Annual Report

December 31, 2004

In This Report

Schwab Cash Reserves

Ticker Symbol: **SWSXX**

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The president of Schwab Funds® and the fund's managers take a look at the factors that shaped fund performance during the report period.	
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From the Chairman



Charles Schwab
Chairman

Dear Shareholder,

I understand that selecting a financial services company is an important decision you make as an investor and is one that we take very seriously. In fact, we made recent changes that we believe will both improve the quality of service you receive and give you the best value possible. For example, we reduced the average cost of security trades and we also expanded access to high-quality investment products.

Looking forward, we continue to see tremendous opportunities for investors, and my colleagues and I are committed to helping you maximize them. The changes we made last year at Schwab laid a foundation for more improvements this year. We will continue to expand the array of products and services that you are looking for, including new cash management and credit products from the Schwab Bank and new mutual fund products.

In other positive news, I'm happy to announce that Evelyn Dilsaver has been named CEO and President of Schwab Funds®. Although new to the position, Evelyn is no stranger to Schwab Funds, having been an officer in several other capacities at Schwab. Her broad experience in product creation, coupled with a comprehensive understanding of your financial needs, make her the ideal candidate for her new role.

I speak for Evelyn, as well as the rest of the Schwab Funds group, when I say we want Schwab to be a place where investors can find useful, quality financial products and services to help them succeed. Regardless of the size of their portfolios, Schwab should be the place investors can always trust to watch out for their best interests.

This commitment to our shareholders will not change, as nothing is more important to us than your trust. Thank you for investing with us.

Sincerely,

A handwritten signature in dark ink that reads "Charles R. Schwab".

Management's Discussion

for the year ended December 31, 2004



Evelyn Dilsaver is President and CEO of Charles Schwab Investment Management, Inc. and is president of each 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,

I am very excited about my new role as President and CEO of Schwab Funds®. My experience at Schwab has given me many opportunities to focus on meeting the needs of our clients. This will continue to be my emphasis, and I reiterate what Chuck Schwab noted in his letter, that our goal is to offer you better value and more relevant choices.

One of our more recent decisions was to create this new money fund, Schwab Cash Reserves. In fact, I am proud to bring you the first annual report for the Fund, which offers eligible investors lower expenses on a sweep fund. My plan is to build on this legacy of value and continue to offer unique investment solutions to help you meet your financial goals.

When we discuss Schwab Funds with our clients, we often hear that you want to know that you're getting the best value. We find that shareholders may be unaware that some of the Schwab Funds offer additional share classes that carry lower expenses in exchange for higher initial investments of \$25,000 or more. I encourage you to review your accounts to see if you are eligible to purchase these money-saving shares. If you would like to learn more about these potentially cost-saving shares, our investment consultants are available to assist you.

I also want to point out that over the past year, the Federal Reserve raised short-term interest rates five times, up to 2.25% at year-end, making yields on the Schwab Funds' money funds more attractive than they were earlier in the year. I'm noting this because, no matter what the economic outlook is, most investors' asset-allocation strategies include a cash component, which offers liquidity and capital preservation that can help to lessen the effect of the market's volatility.

I look forward to serving you in my new role. Thank you for investing in Schwab Funds.

Sincerely,

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



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

2004 started off positively, continuing the encouraging economic trend that was reported toward the end of 2003. Businesses added to their inventories, factory orders rose and production gained some strength. Retail sales continued to rise and higher commodity prices were holding. Mortgage refinancing activity, while still significant, waned as mortgage rates inched slightly upward. And finally, the last piece of the economic puzzle—job growth—began to exhibit solid gains. In fact, aside from a “soft patch” in early summer, the economy stayed strong throughout 2004.

The firming labor market, as well as steady gains in capital spending, kept the expansion on a self-sustaining path. The caution surrounding the economic outlook and geopolitical environment began to dissipate last spring and firms, unable to continue boosting productivity by restraining hiring, added more than two million new jobs during the year. Moreover, many leading indicators, such as the Institute for Supply Management’s business activity surveys, suggested further improvement, while continuing claims for unemployment benefits remained near cyclical lows. In addition, consumer sentiment rebounded, the labor market continued to sustain consumer spending, and corporate liquidity remained positive.

Strong productivity growth and slack in the economy kept a lid on inflation. The Federal Reserve (Fed) began to take the Fed funds rate higher beginning in June amid signs of solidly expanding output and improved hiring. The rate was raised another four times in 2004, ending the year at a moderate 2.25%. The moves had a limited impact on overall economic growth, due primarily to the record-low level of rates from which the hikes began.

Strengthening global demand for oil, particularly in the Pacific Rim, and supply constraints in the wake of the Florida hurricanes drove crude prices to record highs, above \$50 per barrel in late October. Since then, crude prices backed off to the mid-\$40 range, as supply concerns dissipated and China’s economy continues to attempt to engineer a soft landing. Though some pass-through from high oil and commodity prices earlier in the year may hamper growth and stir inflationary pressures, inflation has remained generally benign.

Though some pass-through from high oil and commodity prices earlier in the year may hamper growth and stir inflationary pressures, inflation has remained generally benign.

Schwab Cash Reserves was launched on August 12, 2004. At that time, interest rates already had begun to rise and were expected to continue rising throughout the year. Over the course of the report period we purchased variable-rate securities and ended the year with 10% of the portfolio invested in these types of securities. Investing in variable-rate securities in a rising interest rate environment is beneficial because this type of security resets its interest rate frequently, providing the opportunity to capture a rise in market rates. We maintained the fund's weighted average maturity (WAM) at approximately 38 days.

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 12/31/04

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 Yield ¹	1.60%
Seven-Day Yield–No Waiver ²	1.28%
Seven-Day Effective Yield ¹	1.62%

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	37 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 from the fund's commencement of operation at August 12, 2004 and held through December 31, 2004.

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 (Annualized)	Beginning Account Value at 8/12/04	Ending Account Value (Net of Expenses) at 12/31/04	Expenses Paid During Period ¹ 8/12/04–12/31/04
Schwab Cash Reserves				
Actual Return	0.69%	\$1,000	\$1,004.60	\$2.68
Hypothetical 5% Return	0.69%	\$1,000	\$1,016.72	\$2.70

¹ Expenses for the fund are equal to the fund's annualized expense ratio, multiplied by the average account value over the period, multiplied by 142 days of the period (from 8/12/04, commencement of operations through 12/31/04), and divided by 366 days of the fiscal year.

Financial Statements

Financial Highlights

08/12/04 ¹ – 12/31/04	
Per-Share Data (\$)	
Net asset value at beginning of period	1.00
Income from investment operations:	
Net investment income	0.00 ²
Less distributions:	
Dividends from net investment income	(0.00) ²
Net asset value at end of period	1.00
Total return (%)	0.46 ³
Ratios/Supplemental Data (%)	
Ratios to average net assets:	
Net operating expenses	0.69 ⁴
Gross operating expenses	1.05 ⁴
Net investment income	1.24 ⁴
Net assets, end of period (\$ x 1,000,000)	140

¹ Commencement of operations.

² Per share amount was less than \$0.01.

³ Not annualized.

⁴ Annualized.

Portfolio Holdings as of December 31, 2004

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 a 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
- Restricted and/or illiquid 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)
74.7%	Fixed-Rate Obligations	104,951	104,951
10.0%	Variable-Rate Obligations	13,997	13,997
15.2%	Other Investments	21,407	21,407
99.9%	Total Investments	140,355	140,355
0.1%	Other Assets and Liabilities		132
100.0%	Net Assets		140,487

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
-------------------------------	-----------------------------	-----------------------

Fixed-Rate Obligations 74.7% of net assets**Commercial Paper & Other Corporate Obligations** 41.5%

◆+ Amsterdam Funding Corp., Section 4(2) / 144A		
2.38%, 02/14/05	2,000	1,994
+ ANZ National (Int'l) Ltd.		
2.31%, 01/14/05	1,000	999
◆+ ASAP Funding Ltd., Section 4(2) / 144A		
2.40%, 03/02/05	1,000	996
◆ Atlantis One Funding Corp., Section 4(2) / 144A		
2.29%, 02/22/05	3,000	2,990
Bank of America Corp.		
2.06%, 01/26/05	1,000	999
2.06%, 01/28/05	3,000	2,995
2.43%, 03/02/05	1,000	996
Bank of Ireland, Section 4(2) / 144A		
2.38%, 03/09/05	1,000	996
+ Barclays U.S. Funding Corp.		
2.26%, 02/22/05	2,000	1,993
+ CBA (Delaware) Finance, Inc.		
2.39%, 02/17/05	1,000	997
Citicorp		
2.29%, 01/12/05	2,000	1,999
◆+ Clipper Receivables Corp., Section 4(2) / 144A		
2.43%, 02/23/05	1,000	996
◆+ Concord Minutemen Capital Co., Section 3c7 / 144A		
2.06%, 01/21/05	1,000	999
◆ Dakota CP Notes of Citibank Credit Card Issuance Trust, Section 4(2) / 144A		
2.27%, 01/03/05	3,000	3,000
2.31%, 01/14/05	1,000	999
+ Danske Corp.		
2.38%, 02/23/05	2,000	1,993
DnB NOR Bank ASA		
2.36%, 02/08/05	2,000	1,995
◆+ Fairway Finance Co., L.L.C., Section 4(2) / 144A		
2.03%, 01/20/05	1,000	999
General Electric Capital Corp.		
2.00%, 01/06/05	2,000	1,999
2.03%, 01/21/05	1,000	999
2.28%, 02/18/05	2,000	1,994

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
◆ Giro Funding U.S. Corp., Section 4(2) / 144A 2.26%, 02/14/05	1,466	1,462
◆+ Greyhawk Funding, L.L.C., Section 4(2) / 144A 2.26%, 02/16/05	1,000	997
+ HBOS Treasury Services, PLC 2.28%, 02/14/05	1,300	1,296
+ ING (U.S.) Funding, L.L.C. 2.45%, 03/10/05	2,000	1,991
+ IXIS Commercial Paper Corp., Section 4(2) / 144A 2.06%, 03/03/05	1,000	997
◆+ Jupiter Securitization Corp., Section 4(2) / 144A 2.29%, 01/12/05	1,000	999
◆ K2 (USA), L.L.C., Section 3c7 / 144A 2.01%, 01/10/05 2.03%, 01/18/05	1,000 1,000	1,000 999
+ KBC Financial Products International, Ltd., Section 4(2) / 144A 2.16%, 04/01/05	1,000	995
◆+ Kitty Hawk Funding Corp., Section 4(2) / 144A 2.04%, 01/19/05	1,000	999
◆+ Lexington Parker Capital Co., L.L.C., Section 4(2) / 144A 2.17%, 04/06/05	2,000	1,989
◆+ Preferred Receivables Funding Corp., Section 4(2) / 144A 2.28%, 01/11/05 2.29%, 01/13/05	1,000 1,000	999 999
◆+ Scaldis Capital Ltd., Section 4(2) / 144A 2.26%, 02/14/05 2.42%, 03/15/05	1,134 1,000	1,131 995
◆+ Sigma Finance, Inc., Section 3c7 / 144A 2.12%, 03/22/05	1,000	995
◆+ Thunder Bay Funding, L.L.C., Section 4(2) / 144A 2.06%, 02/08/05	1,000	998
◆+ Ticonderoga Funding, L.L.C., Section 4(2) / 144A 2.42%, 02/25/05	2,000	1,993
+ Westpac Capital Corp. 2.40%, 03/07/05	1,000	996
◆+ Windmill Funding Corp., Section 4(2) / 144A 2.28%, 01/10/05	1,500	1,499
		58,256

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Certificates of Deposit 31.1%		
American Express Centurion Bank 2.25%, 01/04/05	1,000	1,000
Banco Bilbao Vizcaya Argentaria S.A. 2.02%, 03/02/05 2.37%, 03/10/05	2,000 1,000	2,000 1,000
BNP Paribas 2.30%, 02/25/05 2.44%, 03/11/05 2.71%, 06/29/05	1,000 2,000 1,000	1,000 2,000 1,000
Canadian Imperial Bank of Commerce 2.38%, 02/22/05	2,000	2,000
Citibank, N.A. 2.40%, 03/07/05	1,000	1,000
Credit Suisse First Boston 2.40%, 02/25/05	1,000	1,000
Danske Bank A/S 2.00%, 01/18/05	2,000	2,000
Dexia Bank Belgium 2.03%, 01/21/05	1,000	1,000
Landesbank Baden-Wurttemberg 2.56%, 05/17/05	2,200	2,195
Landesbank Hessen-Thuringen Girozentrale 2.37%, 03/07/05	1,000	1,000
Nationwide Building Society 2.38%, 03/08/05	5,000	5,000
Nordea Bank Finland, PLC 2.21%, 01/25/05	1,000	1,000
Rabobank Nederland 2.32%, 02/02/05	1,000	1,000
Toronto Dominion Bank 2.24%, 01/26/05 2.32%, 02/02/05	5,000 1,000	5,000 1,000
U.S. Bank, N.A. 2.36%, 03/11/05	1,000	1,000
Unicredito Italiano SpA 2.02%, 01/19/05 2.40%, 02/28/05	1,000 3,500	1,000 3,500
Wells Fargo Bank, N.A. 2.36%, 01/31/05	2,000	2,000
Wilmington Trust Co. 2.02%, 01/18/05	5,000	5,000
		43,695

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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Bank Notes 1.4%

Bank of America, N.A. 2.42%, 03/03/05	2,000	2,000
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Promissory Notes 0.7%

• The Goldman Sachs Group, Inc. 1.94%, 02/18/05	1,000	1,000
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Variable-Rate Obligations 10.0% of net assets

HSH Nordbank, AG 2.30%, 01/10/05	3,000	2,999
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Royal Bank of Scotland, PLC 2.34%, 01/31/05	2,000	1,999
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◆ Sigma Finance, Inc., Section 3c7 / 144A 2.35%, 01/18/05	2,000	1,999
2.37%, 01/25/05	1,000	1,000

Societe Generale 2.34%, 01/18/05	2,000	2,000
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◆ Tenderfoot Seasonal Housing, L.L.C. Series B 2.47%, 01/07/05	3,000	3,000
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WestLB, AG 2.36%, 01/20/05	1,000	1,000
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13,997

Security	Maturity Amount (\$ x 1,000)
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Other Investments 15.2% of net assets**Repurchase Agreements 15.2%**

Credit Suisse First Boston L.L.C. Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$21,839 2.30%, issued 12/31/04 due 01/03/05	21,411	21,407
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End of investments.

Issuer Rate, Acquisition Date, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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At December 31, 2004, portfolio holdings included restricted and/or illiquid securities as follows:

The Goldman Sachs Group, Inc. 1.94%, 08/18/04, 02/18/05	1,000	1,000
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Statement of

Assets and Liabilities

As of December 31, 2004. All numbers x 1,000 except NAV.

Assets

Investments, at value	\$118,948
Repurchase agreements, at value	21,407
Interest receivable	151
Prepaid expenses	+ 62
Total assets	140,568

Liabilities

Payables:	
Dividends to shareholders	5
Investment adviser and administrator fees	6
Transfer agent and shareholder service fees	3
Trustees' fees	1
Accrued expenses	+ 66
Total liabilities	81

Net Assets

Total assets	140,568
Total liabilities	- 81
Net assets	\$140,487

Net Assets by Source

Capital received from investors	140,487
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Net Asset Value (NAV)

Net Assets	÷	Shares Outstanding	=	NAV
\$140,487		140,487		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost of the fund's securities was \$140,355. Includes restricted and/or illiquid securities worth \$1,000, or 0.71% 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 \$37,014 or 26.35% of the fund's total net assets.

Federal Tax Data

Cost basis of portfolio	\$140,355
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Statement of

Operations

From August 12, 2004 (commencement of operations) through December 31, 2004.
All numbers x 1,000.

Investment Income

Interest	\$812
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Expenses

Investment adviser and administrator fees	160	
Transfer agent and shareholder service fees	190	
Trustees' fees	8	
Custodian and portfolio accounting fees	7	
Professional fees	11	
Registration fees	4	
Shareholder reports	60	
Other expenses	+	1
Total expenses	441	
Expense reduction	-	150
Net expenses		291

Increase in Net Assets from Operations

Total investment income	812
Net expenses	-
	291
Net investment income	521
Increase in net assets from operations	\$521

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.

A reduction of \$148 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 0.69% of average daily net assets. This limit excludes interest, taxes and certain non-routine expenses.

Statement of

Changes in Net Assets

For the current report period only. Because the fund commenced operations on August 12, 2004, it has no prior report period. All numbers x 1,000.

Operations

	08/12/04–12/31/04
Net investment income	\$521
Increase in net assets from operations	521

Distributions Paid

Dividends from net investment income	521
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Transactions in Fund Shares

Shares sold	384,505
Shares reinvested	510
Shares redeemed	+ (244,528)
Net transactions in fund shares	140,487

Net Assets

Beginning of period	—
Total increase	+ 140,487
End of period	\$140,487

Unless stated, all numbers x 1,000.

The tax-basis components of distributions 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

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.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Shareholders of:

Schwab Cash Reserves

In our opinion, the accompanying statement of assets and liabilities, including the portfolio holdings, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Schwab Cash Reserves (one of the portfolios constituting The Charles Schwab Family of Funds, hereafter referred to as the “Fund”) at December 31, 2004 and the results of its operations, the changes in its net assets and the financial highlights for the period August 12, 2004 (commencement of operations) through December 31, 2004, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Fund’s management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit, which included confirmation of securities at December 31, 2004 by correspondence with the custodian and brokers, provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California

February 14, 2005

Fund Trustees

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 fund 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 Schwab Funds (of which there were 53 as of 12/31/04) 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.

Individuals Who Are Interested Trustees and Officers of the Trust		
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); CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, Charles Schwab Bank, N.A., U.S. Trust, United States Trust Co. of New York, Siebel Systems (software), Xsign, Inc. (electronic payment systems), TrustMark, Inc., 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, Vodaphone 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.

Individuals Who Are Officers of the Trust but Not Trustees

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; <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.; <i>Until 9/04</i> : VP, Charles Schwab & Co., Charles Schwab Investment Management, Inc.; <i>Until 2002</i> : VP of Internal Audit, Charles Schwab & Co.; <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> : Chief Financial Officer, Commerzbank Capital Markets; <i>Until 9/99</i> : Managing Director at the New York Stock Exchange.

Individuals Who Are Independent Trustees

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Mariann Byerwalter 8/13/60	2000 (all trusts).	<i>Since 2/05:</i> Director, Pacific Life Insurance Company; Chair, JDN Corp. Advisory LLC; 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, Laudus Trust, Laudus Variable Insurance Trust. <i>2007:</i> Special Advisor to the President, Stanford University. <i>Until 2001:</i> VP, Business Affairs, CFO, Stanford University.
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).	Director, Aphton Corp. (bio-pharmaceuticals); Non-Executive Chair, Trustee, Soletron Corp. (manufacturing), Mission West Properties (commercial real estate), Stratex Networks (network equipment), Laudus Trust, Laudus Variable Insurance Trust; Public Governor, Member, executive committee, Pacific Stock & Options Exchange. <i>Until 2/04:</i> Co-CEO, Aphton Corp. (bio-pharmaceuticals). <i>Until 1998:</i> Dean, Haas School of Business, University of California, Berkeley.
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 advisors); Trustee, Cooper Industries (electrical products, tools and hardware); Member, 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 debt obligations 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 and may be sold only to "qualified institutional buyers" under Securities Act Rule 144A. 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 web site at www.schwab.com/schwabfunds, the SEC's web site 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 web site 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 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® Funds
 Schwab® Institutional Select® S&P 500 Fund
 Schwab® Institutional Select® Large-Cap Value Index Fund
 Schwab® Institutional Select® Small-Cap Value Index Fund

Asset Allocation Funds

Schwab MarketTrack Portfolios®
 Schwab MarketTrack All Equity Portfolio™
 Schwab MarketTrack Growth Portfolio™
 Schwab MarketTrack Balanced Portfolio™
 Schwab MarketTrack Conservative Portfolio™

Bond Funds

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

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

Annual Report

December 31, 2004

In This Report

Schwab Advisor Cash Reserves™

Sweep Shares: **SWQXX**

Premier Sweep Shares: **SWZXX**

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The president of Schwab Funds® and the fund's managers take a look at the factors that shaped fund performance during the report period.	
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From the Chairman



Charles Schwab
Chairman

Dear Shareholder,

I understand that selecting a financial services company is an important decision you make as an investor and is one that we take very seriously. In fact, we made recent changes that we believe will both improve the quality of service you receive and give you the best value possible. For example, we reduced the average cost of security trades and we also expanded access to high-quality investment products.

Looking forward, we continue to see tremendous opportunities for investors, and my colleagues and I are committed to helping you maximize them. The changes we made last year at Schwab laid a foundation for more improvements this year. We will continue to expand the array of products and services that you are looking for, including new cash management and credit products from the Schwab Bank and new mutual fund products.

In other positive news, I'm happy to announce that Evelyn Dilsaver has been named CEO and President of Schwab Funds®. Although new to the position, Evelyn is no stranger to Schwab Funds, having been an officer in several other capacities at Schwab. Her broad experience in product creation, coupled with a comprehensive understanding of your financial needs, make her the ideal candidate for her new role.

I speak for Evelyn, as well as the rest of the Schwab Funds group, when I say we want Schwab to be a place where investors can find useful, quality financial products and services to help them succeed. Regardless of the size of their portfolios, Schwab should be the place investors can always trust to watch out for their best interests.

This commitment to our shareholders will not change, as nothing is more important to us than your trust. Thank you for investing with us.

Sincerely,

A handwritten signature in dark ink that reads "Charles R. Schwab". The signature is fluid and cursive, with the first name "Charles" being the most prominent.

Management's Discussion for the year ended December 31, 2004



Evelyn Dilsaver is President and CEO of Charles Schwab Investment Management, Inc. and is president of each 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,

I am very excited about my new role as President and CEO of Schwab Funds®. My experience at Schwab has given me many opportunities to focus on meeting the needs of our clients. This will continue to be my emphasis, and I reiterate what Chuck Schwab noted in his letter, that our goal is to offer you better value and more relevant choices.

One of our more recent decisions was to create this new money fund, Schwab Advisor Cash Reserves. In fact, I am proud to bring you the first annual report for the Fund, which offers eligible investors lower expenses on a sweep fund. My plan is to build on this legacy of value and continue to offer unique investment solutions to help you meet your financial goals.

When we discuss Schwab Funds with our clients, we often hear that you want to know that you're getting the best value. We find that shareholders may be unaware that some of the Schwab Funds offer additional share classes that carry lower expenses in exchange for higher initial investments of \$25,000 or more. I encourage you to review your accounts to see if you are eligible to purchase these money-saving shares. If you would like to learn more about these potentially cost-saving shares, please contact your investment advisor to assist you.

I also want to point out that over the past year, the Federal Reserve raised short-term interest rates five times, up to 2.25% at year-end, making yields on the Schwab Funds' money funds more attractive than they were earlier in the year. I'm noting this because, no matter what the economic outlook is, most investors' asset-allocation strategies include a cash component, which offers liquidity and capital preservation that can help to lessen the effect of the market's volatility.

I look forward to serving you in my new role. Thank you for investing in Schwab Funds.

Sincerely,

A handwritten signature in dark ink that reads "Evelyn Dilsaver". The signature is fluid and cursive, with a small dot above the 'i' in Dilsaver.



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

2004 started off positively, continuing the encouraging economic trend that was reported toward the end of 2003. Businesses added to their inventories, factory orders rose and production gained some strength. Retail sales continued to rise and higher commodity prices were holding. Mortgage refinancing activity, while still significant, waned as mortgage rates inched slightly upward. And finally, the last piece of the economic puzzle—job growth—began to exhibit solid gains. In fact, aside from a “soft patch” in early summer, the economy stayed strong throughout 2004.

The firming labor market, as well as steady gains in capital spending, kept the expansion on a self-sustaining path. The caution surrounding the economic outlook and geopolitical environment began to dissipate last spring and firms, unable to continue boosting productivity by restraining hiring, added more than two million new jobs during the year. Moreover, many leading indicators, such as the Institute for Supply Management’s business activity surveys, suggested further improvement, while continuing claims for unemployment benefits remained near cyclical lows. In addition, consumer sentiment rebounded, the labor market continued to sustain consumer spending, and corporate liquidity remained positive.

Strong productivity growth and slack in the economy kept a lid on inflation. The Federal Reserve (Fed) began to take the Fed funds rate higher beginning in June amid signs of solidly expanding output and improved hiring. The rate was raised another four times in 2004, ending the year at a moderate 2.25%. The moves had a limited impact on overall economic growth, due primarily to the record-low level of rates from which the hikes began.

Strengthening global demand for oil, particularly in the Pacific Rim, and supply constraints in the wake of the Florida hurricanes drove crude prices to record highs, above \$50 per barrel in late October. Since then, crude prices backed off to the mid-\$40 range, as supply concerns dissipated and China’s economy continues to attempt to engineer a soft landing. Though some pass-through from high oil and commodity prices earlier in the year may hamper growth and stir inflationary pressures, inflation has remained generally benign.

Though some pass-through from high oil and commodity prices earlier in the year may hamper growth and stir inflationary pressures, inflation has remained generally benign.

Schwab Advisor Cash Reserves was launched on August 19, 2004. At that time, interest rates already had been raised twice since June and were expected to continue to rise through the year. During the reporting period we purchased variable rate securities and ended the year with approximately 6% of the portfolio invested in these types of securities. Investing in variable-rate securities in a rising interest rate environment is beneficial because this type of security resets its interest rate frequently, providing the opportunity to capture a rise in market rates. We maintained the fund's weighted average maturity (WAM) at approximately 40 days.

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 12/31/04

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.

	Sweep Shares	Premier Sweep Shares
Seven-Day Yield ¹	1.60%	1.70%
Seven-Day Yield–No Waiver ²	1.45%	1.45%
Seven-Day Effective Yield ¹	1.61%	1.71%

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	35 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 from the fund's commencement of operation at August 19, 2004 and held through December 31, 2004.

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 (Annualized)	Beginning Account Value at 8/19/04	Ending Account Value (Net of Expenses) at 12/31/04	Expenses Paid During Period ¹ 8/19/04–12/31/04
Schwab Advisor Cash Reserves™				
<i>Sweep Shares</i>				
Actual Return	0.69%	\$1,000	\$1,004.50	\$2.55
Hypothetical 5% Return	0.69%	\$1,000	\$1,015.90	\$2.57
<i>Premier Sweep Shares</i>				
Actual Return	0.59%	\$1,000	\$1,004.80	\$2.18
Hypothetical 5% Return	0.59%	\$1,000	\$1,016.27	\$2.19

¹ Expenses for each share class are equal to that share class' annualized expense ratio, multiplied by the average account value over the period, multiplied by 135 days of the period (from 8/19/04, commencement of operations through 12/31/04), and divided by 366 days of the fiscal year.

Financial Statements

Financial Highlights

Sweep Shares		8/19/04 ¹ – 12/31/04
Per-Share Data (\$)		
Net asset value at beginning of period		1.00
Income from investment operations:		
Net investment income		0.00 ²
Less distributions:		
Dividends from net investment income		(0.00) ²
Net asset value at end of period		1.00
Total return (%)		0.45 ³
Ratios/Supplemental Data (%)		
Ratios to average net assets:		
Net operating expenses		0.69 ⁴
Gross operating expenses		0.85 ⁴
Net investment income		1.30 ⁴
Net assets, end of period (\$ x 1,000,000)		1,271
Premier Sweep Shares		8/19/04 ¹ – 12/31/04
Per-Share Data (\$)		
Net asset value at beginning of period		1.00
Income from investment operations:		
Net investment income		0.00 ²
Less distributions:		
Dividends from net investment income		(0.00) ²
Net asset value at end of period		1.00
Total return (%)		0.48 ³
Ratios/Supplemental Data (%)		
Ratios to average net assets:		
Net operating expenses		0.59 ⁴
Gross operating expenses		0.85 ⁴
Net investment income		1.41 ⁴
Net assets, end of period (\$ x 1,000,000)		2,344

¹ Commencement of operations.

² Per share amount was less than \$0.01.

³ Not annualized.

⁴ Annualized.

Portfolio Holdings as of December 31, 2004

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
- Restricted and/or illiquid 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)
68.3% Fixed-Rate Obligations	2,470,580	2,470,580
5.8% Variable-Rate Obligations	209,840	209,840
25.8% Other Investments	932,161	932,161
99.9% Total Investments	3,612,581	3,612,581
0.1% Other Assets and Liabilities		2,280
100.0% Net Assets		3,614,861

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
-------------------------------	-----------------------------	-----------------------

Fixed-Rate Obligations 68.3% of net assets**Commercial Paper & Other Corporate Obligations** 46.8%

AB Spintab		
2.33%, 02/24/05	3,000	2,990
Alliance & Leicester, PLC, Section 4(2) / 144A		
2.38%, 03/10/05	11,000	10,951
✦ Allied Irish Banks North America		
2.26%, 01/06/05	1,000	1,000
◆✦ Alpine Securitization Corp., Section 4(2) / 144A		
2.01%, 01/06/05	4,000	3,999
◆ Amstel Funding Corp., Section 4(2) / 144A		
2.25%, 02/17/05	4,450	4,437
2.26%, 02/22/05	10,204	10,171
◆✦ Amsterdam Funding Corp., Section 4(2) / 144A		
2.38%, 02/14/05	20,000	19,942
✦ ANZ (Delaware), Inc.		
2.38%, 02/14/05	6,650	6,631
✦ ANZ National (Int'l) Ltd.		
2.31%, 01/14/05	4,000	3,997
◆✦ Aquinas Funding, L.L.C., Section 4(2) / 144A		
2.01%, 01/12/05	2,000	1,999
1.97%, 02/24/05	4,000	3,988
2.08%, 03/21/05	5,000	4,977
2.42%, 04/05/05	2,000	1,987
2.18%, 04/14/05	1,000	994
◆✦ ASAP Funding Ltd., Section 4(2) / 144A		
2.05%, 01/05/05	2,000	2,000
2.08%, 01/12/05	8,000	7,995
2.26%, 01/24/05	3,000	2,996
2.39%, 01/27/05	2,000	1,997
2.26%, 02/01/05	1,500	1,497
2.27%, 02/03/05	5,000	4,990
2.40%, 03/02/05	5,000	4,980
◆✦ Atlantic Asset Securitization Corp., Section 4(2) / 144A		
2.35%, 01/13/05	4,000	3,997
2.37%, 02/07/05	11,963	11,934
◆ Atlantis One Funding Corp., Section 4(2) / 144A		
1.98%, 01/03/05	2,000	2,000
1.97%, 01/04/05	6,000	5,999
2.03%, 01/20/05	10,000	9,989
2.04%, 01/21/05	3,000	2,997
2.29%, 02/22/05	4,000	3,987

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)
2.28%, 02/23/05	36,628	36,506	2.03%, 01/18/05	1,530	1,529
2.58%, 06/01/05	15,000	14,840	2.06%, 01/18/05	1,000	999
Bank of America Corp.			2.26%, 02/07/05	4,000	3,991
2.01%, 01/13/05	30,000	29,980	2.28%, 02/16/05	7,000	6,980
2.01%, 01/19/05	30,000	29,970	2.39%, 02/16/05	4,650	4,636
2.06%, 01/28/05	13,000	12,980	2.29%, 04/20/05	1,500	1,490
2.05%, 02/04/05	10,000	9,981	♦ Dakota CP Notes of Citibank Credit Card Issuance		
2.27%, 02/17/05	11,000	10,968	Trust, Section 4(2) / 144A		
2.28%, 02/25/05	1,000	997	2.27%, 01/03/05	15,000	14,998
2.43%, 03/02/05	15,000	14,939	2.02%, 01/05/05	1,000	1,000
Bank of Ireland, Section 4(2) / 144A			1.99%, 01/06/05	11,000	10,997
2.37%, 03/09/05	4,000	3,982	2.30%, 01/12/05	10,000	9,993
Bear Stearns Companies, Inc.			2.32%, 01/13/05	10,000	9,992
1.98%, 01/10/05	9,000	8,996	2.31%, 01/14/05	4,500	4,496
2.02%, 01/19/05	3,000	2,997	2.04%, 01/19/05	2,000	1,998
♦♦ Beta Finance, Inc., Section 3c7 / 144A			2.03%, 01/20/05	31,000	30,967
1.97%, 01/05/05	5,000	4,999	2.36%, 02/04/05	5,000	4,989
1.99%, 01/05/05	13,000	12,997	DePfa Bank PLC, Section 4(2) / 144A		
2.01%, 01/11/05	1,000	999	2.07%, 01/26/05	5,000	4,993
2.07%, 01/28/05	1,500	1,498	♦ Deutsche Bank Financial, L.L.C.		
2.27%, 02/18/05	3,300	3,290	2.06%, 03/03/05	20,000	19,931
2.17%, 04/13/05	1,500	1,491	♦ Dexia Delaware L.L.C.		
♦ CBA (Delaware) Finance, Inc.			2.38%, 02/14/05	10,000	9,971
2.28%, 02/22/05	9,000	8,970	DnB NOR Bank ASA		
♦ CC (USA), Inc., Section 3c7 / 144A			2.25%, 02/14/05	4,500	4,488
2.07%, 01/27/05	2,000	1,997	♦ Dorada Finance, Inc., Section 3c7 / 144A		
2.27%, 02/16/05	10,000	9,971	2.06%, 01/25/05	20,000	19,973
2.38%, 03/01/05	4,500	4,482	2.29%, 02/15/05	3,000	2,991
2.09%, 03/24/05	7,000	6,967	♦♦ Eiffel Funding, L.L.C., Section 4(2) / 144A		
2.17%, 04/13/05	4,000	3,976	2.02%, 01/18/05	5,000	4,995
Citicorp			2.04%, 01/21/05	1,000	999
2.37%, 01/31/05	11,000	10,978	2.06%, 01/25/05	1,000	999
2.41%, 03/14/05	53,000	52,747	2.39%, 02/11/05	4,450	4,438
Citigroup Global Markets Holdings, Inc.			2.28%, 02/16/05	1,000	997
2.07%, 01/24/05	27,000	26,964	2.26%, 02/17/05	3,000	2,991
♦♦ Concord Minutemen Capital Co., Section 3c7 / 144A			2.51%, 03/28/05	1,000	994
2.30%, 01/06/05	5,000	4,998	♦♦ Fairway Finance Co., L.L.C., Section 4(2) / 144A		
2.00%, 01/10/05	5,000	4,997	2.32%, 01/06/05	8,000	7,997
2.01%, 01/10/05	15,000	14,992	2.17%, 04/07/05	4,771	4,744
2.06%, 01/21/05	5,000	4,994	2.51%, 05/13/05	9,000	8,918
2.29%, 02/18/05	2,000	1,994	♦♦ Falcon Asset Securitization Corp., Section 4(2) / 144A		
2.51%, 05/10/05	3,234	3,205	2.36%, 01/24/05	3,666	3,660
♦♦ Crown Point Capital Co., L.L.C., Section 4(2) / 144A			ForeningsSparbanken AB (Swedbank)		
2.01%, 01/11/05	2,000	1,999	2.34%, 02/23/05	5,000	4,983
2.02%, 01/12/05	2,000	1,999			

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)
♦ Galaxy Funding, Inc., Section 4(2) / 144A			♦ KBC Financial Products International, Ltd., Section 4(2) / 144A		
2.05%, 01/14/05	3,000	2,998	2.16%, 04/01/05	4,000	3,979
2.29%, 02/22/05	18,500	18,439	♦♦ Kitty Hawk Funding Corp., Section 4(2) / 144A		
2.38%, 03/01/05	20,000	19,922	2.38%, 02/10/05	14,141	14,104
General Electric Capital Corp.			♦♦ Lexington Parker Capital Co., L.L.C., Section 4(2) / 144A		
2.00%, 01/06/05	20,000	19,994	2.00%, 01/05/05	8,000	7,998
2.00%, 01/07/05	35,000	34,988	2.03%, 01/18/05	2,000	1,998
2.02%, 01/20/05	11,000	10,988	2.05%, 01/18/05	1,000	999
2.03%, 01/21/05	9,500	9,489	2.07%, 01/25/05	2,000	1,997
2.25%, 02/15/05	15,000	14,958	2.26%, 02/15/05	1,000	997
2.28%, 02/18/05	7,000	6,979	1.95%, 03/01/05	3,000	2,990
General Electric Capital Services			2.07%, 03/01/05	18,000	17,939
2.06%, 01/26/05	25,000	24,964	2.25%, 03/01/05	1,000	996
2.37%, 03/07/05	16,000	15,932	2.38%, 03/07/05	2,000	1,991
♦ Giro Funding U.S. Corp., Section 4(2) / 144A			2.17%, 04/06/05	3,000	2,983
2.27%, 01/03/05	20,000	19,997	2.60%, 06/01/05	4,840	4,788
2.02%, 01/13/05	3,693	3,691	♦♦ Links Finance, L.L.C., Section 3c7 / 144A		
2.26%, 02/14/05	10,000	9,972	2.26%, 02/15/05	4,000	3,989
♦♦ Grampian Funding, L.L.C., Section 4(2) / 144A			♦ Mane Funding Corp., Section 4(2) / 144A		
1.97%, 01/03/05	17,000	16,998	2.40%, 03/07/05	23,000	22,901
2.29%, 02/22/05	15,000	14,951	♦♦ Mont Blanc Capital Corp., Section 4(2) / 144A		
2.35%, 03/02/05	3,000	2,988	2.38%, 02/14/05	1,915	1,909
2.42%, 03/16/05	8,000	7,961	Morgan Stanley		
2.20%, 04/19/05	7,000	6,954	2.35%, 01/27/05	45,000	44,924
♦♦ Greyhawk Funding, L.L.C., Section 4(2) / 144A			2.38%, 02/15/05	5,000	4,985
2.26%, 02/16/05	2,000	1,994	♦ Newcastle Certificates Program, Section 4(2) / 144A		
2.26%, 04/26/05	3,000	2,979	2.04%, 01/21/05	5,000	4,994
♦ ING (U.S.) Funding, L.L.C.			♦♦ Nieuw Amsterdam Receivables Corp., Section 4(2) / 144A		
2.05%, 01/24/05	10,000	9,987	1.99%, 01/03/05	2,000	2,000
2.34%, 02/07/05	9,000	8,978	2.03%, 01/18/05	1,000	999
2.45%, 03/10/05	10,000	9,954	1.95%, 03/02/05	2,000	1,994
Irish Life & Permanent, PLC, Section 4(2) / 144A			♦ Nordea North America, Inc.		
2.48%, 05/18/05	3,000	2,972	2.36%, 02/01/05	2,900	2,894
♦ IXIS Commercial Paper Corp., Section 4(2) / 144A			♦ Park Granada, L.L.C., Section 4(2) / 144A		
2.06%, 03/03/05	15,000	14,948	2.04%, 01/19/05	10,000	9,990
2.38%, 03/07/05	5,000	4,979	2.06%, 01/20/05	1,000	999
♦♦ Jupiter Securitization Corp., Section 4(2) / 144A			2.04%, 01/21/05	5,000	4,994
2.26%, 01/11/05	35,000	34,978	2.40%, 02/01/05	19,000	18,961
2.29%, 01/12/05	25,000	24,983	♦♦ Preferred Receivables Funding Corp., Section 4(2) / 144A		
♦ K2 (USA), L.L.C., Section 3c7 / 144A			2.28%, 01/11/05	5,000	4,997
2.02%, 01/14/05	25,000	24,982	2.30%, 01/11/05	10,000	9,994
2.03%, 01/18/05	1,000	999	2.29%, 01/13/05	10,000	9,992
2.07%, 01/31/05	1,500	1,497			
2.29%, 02/15/05	4,000	3,989			

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)
+ Santander Central Hispano Finance (Delaware), Inc.			+ Westpac Trust Securities NZ		
2.01%, 01/12/05	2,000	1,999	2.32%, 02/23/05	11,000	10,963
2.12%, 04/05/05	16,000	15,912	2.41%, 03/08/05	2,000	1,991
◆◆ Scaldis Capital Ltd., Section 4(2) / 144A			2.40%, 03/09/05	10,000	9,955
2.02%, 01/10/05	1,020	1,019	◆ White Pine Finance, L.L.C., Section 3c7 / 144A		
2.01%, 01/12/05	6,000	5,996	2.02%, 02/07/05	2,000	1,996
2.02%, 01/18/05	3,000	2,997	2.18%, 04/11/05	2,835	2,818
2.23%, 01/26/05	7,406	7,395	◆◆ Windmill Funding Corp., Section 4(2) / 144A		
2.35%, 02/18/05	3,000	2,991	2.02%, 01/05/05	10,000	9,998
2.14%, 03/23/05	2,000	1,990	2.28%, 01/10/05	6,000	5,997
2.17%, 03/30/05	1,127	1,121	◆◆ Yorktown Capital, L.L.C., Section 4(2) / 144A		
2.25%, 04/18/05	11,639	11,562	2.25%, 01/05/05	6,517	6,515
2.27%, 04/26/05	4,371	4,340	2.02%, 01/18/05	17,000	16,984
2.51%, 05/16/05	14,000	13,870	2.39%, 02/16/05	6,844	6,823
◆◆ Sigma Finance, Inc., Section 3c7 / 144A					
2.02%, 01/14/05	8,000	7,994			1,691,880
2.04%, 01/14/05	5,500	5,496	Certificates of Deposit 20.2%		
2.26%, 02/03/05	4,000	3,992	American Express Bank FSB		
2.27%, 02/17/05	1,000	997	2.36%, 01/28/05	4,000	4,000
2.44%, 03/01/05	6,500	6,474	American Express Centurion Bank		
2.12%, 03/22/05	4,000	3,981	2.25%, 01/04/05	4,000	4,000
2.50%, 03/22/05	1,180	1,173	Banco Bilbao Vizcaya Argentaria S.A.		
2.52%, 03/24/05	15,000	14,915	2.26%, 01/11/05	3,000	3,000
2.69%, 06/15/05	5,000	4,939	2.02%, 03/02/05	25,000	25,000
Skandinaviska Enskilda Banken AB			2.37%, 03/10/05	23,000	23,000
1.97%, 01/04/05	4,000	3,999	Bank of The West		
2.28%, 01/06/05	1,000	1,000	2.27%, 01/07/05	17,000	17,000
+ Stadshypotek Delaware, Inc., Section 4(2) / 144A			BNP Paribas		
2.33%, 01/28/05	30,000	29,948	2.30%, 02/25/05	55,000	55,000
+ Svenska Handelsbanken, Inc.			2.43%, 03/08/05	20,000	20,000
2.36%, 02/09/05	2,000	1,995	2.43%, 03/09/05	26,000	26,000
◆◆ Ticonderoga Funding, L.L.C., Section 4(2) / 144A			2.44%, 03/11/05	9,000	9,000
2.36%, 02/01/05	20,000	19,960	Calyon		
2.39%, 02/10/05	15,140	15,100	2.35%, 03/04/05	30,000	30,000
2.39%, 02/11/05	15,700	15,657	Canadian Imperial Bank of Commerce		
2.39%, 02/16/05	5,022	5,007	2.38%, 02/18/05	3,428	3,423
◆◆ Triple-A One Funding Corp., Section 4(2) / 144A			Citibank, N.A.		
2.31%, 01/06/05	3,000	2,999	2.31%, 02/24/05	36,000	36,000
2.29%, 01/07/05	5,415	5,413	2.40%, 03/07/05	22,000	22,000
2.30%, 01/10/05	7,502	7,498	Credit Suisse First Boston		
2.04%, 01/18/05	5,000	4,995	2.21%, 01/25/05	26,000	26,000
◆◆ Tulip Funding Corp., Section 4(2) / 144A			2.35%, 02/04/05	12,000	12,000
1.98%, 01/04/05	10,439	10,438	2.40%, 02/25/05	2,000	2,000
+ Westpac Capital Corp.			Danske Bank A/S		
2.39%, 02/18/05	3,900	3,888	2.00%, 01/18/05	15,000	15,000
2.44%, 03/09/05	10,000	9,955			

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 Bank Belgium			Wells Fargo Bank, N.A.		
2.03%, 01/21/05	23,000	23,000	2.05%, 01/31/05	13,000	13,000
2.05%, 01/25/05	1,000	1,000	2.36%, 01/31/05	30,000	30,000
First Tennessee Bank, N.A.					730,700
2.43%, 03/02/05	5,000	5,000	Promissory Notes 0.8%		
Fortis Bank			• The Goldman Sachs Group, Inc.		
2.33%, 01/24/05	18,000	18,000	2.00%, 02/17/05	4,000	4,000
2.33%, 01/25/05	2,000	2,000	2.01%, 02/24/05	10,000	10,000
2.33%, 01/26/05	15,000	15,000	2.80%, 06/30/05	15,000	15,000
+ HBOS Treasury Services, PLC					29,000
2.73%, 06/29/05	5,000	5,000	Bank Notes 0.5%		
Landesbank Baden-Wurtemberg			Bank of America, N.A.		
2.21%, 05/17/05	16,300	16,285	2.42%, 03/03/05	15,000	15,000
Landesbank Hessen-Thuringen Girozentrale			Standard Federal Bank, N.A.		
2.37%, 03/07/05	5,000	5,000	2.38%, 02/11/05	4,000	4,000
Lloyds TSB Bank, PLC					19,000
2.04%, 03/01/05	3,000	3,000			
2.02%, 03/04/05	20,000	20,000			
Nationwide Building Society					
2.38%, 03/08/05	20,000	20,000			
2.39%, 03/09/05	4,000	4,000			
Nordea Bank Finland, PLC					
2.30%, 02/28/05	30,000	30,000			
2.37%, 03/10/05	11,000	11,000			
Rabobank Nederland					
2.32%, 02/02/05	20,000	20,000			
Royal Bank of Scotland, PLC					
2.38%, 02/23/05	5,000	4,992			
Toronto Dominion Bank					
2.32%, 02/02/05	5,000	5,000			
2.40%, 03/09/05	3,000	3,000			
2.30%, 05/12/05	20,000	20,000			
U.S. Bank, N.A.					
2.25%, 01/13/05	1,000	1,000			
2.36%, 03/11/05	35,000	35,000			
UBS, AG					
2.37%, 02/18/05	15,000	15,000			
Unicredito Italiano SpA					
2.02%, 01/19/05	10,000	10,000			
2.00%, 02/28/05	23,000	23,000			
2.37%, 03/08/05	15,000	15,000			
2.70%, 06/24/05	20,000	20,000			
Washington Mutual Bank, FA					
1.99%, 01/10/05	5,000	5,000			

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)
◆◆ Sigma Finance, Inc., Section 3c7 / 144A			At December 31, 2004, portfolio holdings included restricted and/or illiquid securities as follows:		
2.35%, 01/18/05	23,000	22,995	The Goldman Sachs Group, Inc.		
2.36%, 01/18/05	13,000	12,998	2.00%, 08/31/04, 02/17/05	4,000	4,000
2.37%, 01/25/05	6,000	5,999	2.01%, 08/30/04, 02/24/05	10,000	10,000
Societe Generale			2.80%, 12/30/04, 06/30/05	15,000	15,000
2.34%, 01/18/05	10,000	9,998			
+ Tenderfoot Seasonal Housing, L.L.C.					29,000
Series B					
2.47%, 01/07/05	2,885	2,885			
WestLB, AG					
2.36%, 01/20/05	5,000	5,000			
		209,840			

Security Maturity Amount
(\$ x 1,000)

Other Investments 25.8% of net assets

Repurchase Agreements 25.8%

Bear Stearns & Co. Inc.

Tri-Party Repurchase Agreement
Collateralized by U.S. Government
Securities with a value of \$810,901
2.28%, issued 12/31/04,
due 01/03/05 795,151 795,000

Credit Suisse First Boston

Tri-Party Repurchase Agreement
Collateralized by U.S. Government
Securities with a value of \$88,906
2.30%, issued 12/31/04,
due 01/03/05 61,173 61,161
2.31%, issued 12/17/04,
due 01/04/05 26,030 26,000

UBS Financial Services, Inc.

Tri-Party Repurchase Agreement
Collateralized by U.S. Government
Securities with a value of \$51,000
2.28%, issued 12/31/04,
due 01/03/05 50,010 50,000

932,161

End of investments.

Statement of

Assets and Liabilities

As of December 31, 2004. All numbers x 1,000 except NAV.

Assets

Investments, at value	\$2,680,420
Repurchase agreements, at value	932,161
Receivables:	
Interest	2,319
Prepaid expenses	+ 606
Total assets	3,615,506

Liabilities

Payables:	
Dividends to shareholders	247
Investment adviser and administrator fees	42
Transfer agent and shareholder service fees	78
Trustees' fees	22
Accrued expenses	+ 256
Total liabilities	645

Net Assets

Total assets	3,615,506
Total liabilities	- 645
Net assets	\$3,614,861

Net Assets by Source

Capital received from investors	3,614,861
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Net Asset Value (NAV) by Share Class

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Sweep Shares	\$1,271,058		1,271,058		\$1.00
Premier Sweep Shares	\$2,343,803		2,343,803		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost of the fund's securities was \$3,612,581. Includes restricted and/or illiquid securities worth \$29,000, or 0.80% 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 \$1,197,738 or 33.13% of the fund's total net assets.

Federal Tax Data

Cost basis of portfolio	\$3,612,581
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Statement of

Operations

From August 19, 2004 (commencement of operations) through December 31, 2004.
All numbers x 1,000.

Investment Income

Interest	\$18,201
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Expenses

Investment adviser and administrator fees	3,296	
Transfer agent and shareholder service fees:		
Sweep Shares	1,566	
Premier Sweep Shares	2,537	
Trustees' fees	30	
Custodian and portfolio accounting fees	84	
Professional fees	15	
Registration fees	13	
Shareholder reports	227	
Other expenses	+	1
Total expenses	7,769	
Expense reduction	-	2,042
Net expenses	5,727	

Increase in Net Assets from Operations

Total investment income	18,201
Net expenses	-
Net investment income	12,474
Increase in net assets from operations	\$12,474

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 \$1,440 from the investment adviser (CSIM) and \$566 from 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	0.69
Premier Sweep Shares	0.59

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

Statement of

Changes in Net Assets

For the current report period only. Because the fund commenced operations on August 19, 2004, it has no prior report period. All numbers x 1,000.

Operations

	08/19/04–12/31/04
Net investment income	\$12,474
Increase in net assets from operations	12,474

Distributions Paid

Dividends from net investment income	
Sweep Shares	4,518
Premier Sweep Shares	+ 7,956
Total dividends from net investment income	12,474

Transactions in Fund Shares

Shares Sold	
Sweep Shares	3,294,040
Premier Sweep Shares	+ 6,173,729
Total shares sold	9,467,769

Shares Reinvested

Sweep Shares	4,349
Premier Sweep Shares	+ 7,749
Total shares reinvested	12,098

Shares Redeemed

Sweep Shares	(2,027,331)
Premier Sweep Shares	+ (3,837,675)
Total shares redeemed	(5,865,006)

Net transactions in fund shares	3,614,861
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Net Assets

Beginning of period	—
Total increase	+ 3,614,861
End of period	\$3,614,861

Unless stated, all numbers x 1,000.

The tax-basis components of distributions are:

Current year

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

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.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Shareholders of:

Schwab Advisor Cash Reserves

In our opinion, the accompanying statement of assets and liabilities, including the portfolio holdings, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Schwab Advisor Cash Reserves (one of the portfolios constituting The Charles Schwab Family of Funds, hereafter referred to as the “Fund”) at December 31, 2004 and the results of its operations, the changes in its net assets and the financial highlights for the period August 19, 2004 (commencement of operations) through December 31, 2004, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Fund’s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit, which included confirmation of securities at December 31, 2004 by correspondence with the custodian and brokers, provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California

February 14, 2005

Fund Trustees

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 fund 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 Schwab Funds (of which there were 53 as of 12/31/04) 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.

Individuals Who Are Interested Trustees and Officers of the Trust		
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); CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, Charles Schwab Bank, N.A., U.S. Trust, United States Trust Co. of New York, Siebel Systems (software), Xsign, Inc. (electronic payment systems), TrustMark, Inc., 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, Vodaphone 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.

Individuals Who Are Officers of the Trust but Not Trustees

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; <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.; <i>Until 9/04</i> : VP, Charles Schwab & Co., Charles Schwab Investment Management, Inc.; <i>Until 2002</i> : VP of Internal Audit, Charles Schwab & Co.; <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> : Chief Financial Officer, Commerzbank Capital Markets; <i>Until 9/99</i> : Managing Director at the New York Stock Exchange.

Individuals Who Are Independent Trustees

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Mariann Byerwalter 8/13/60	2000 (all trusts).	<i>Since 2/05:</i> Director, Pacific Life Insurance Company; Chair, JDN Corp. Advisory LLC; 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, Laudus Trust, Laudus Variable Insurance Trust. <i>2007:</i> Special Advisor to the President, Stanford University. <i>Until 2001:</i> VP, Business Affairs, CFO, Stanford University.
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).	Director, Aphton Corp. (bio-pharmaceuticals); Non-Executive Chair, Trustee, Soletron Corp. (manufacturing), Mission West Properties (commercial real estate), Stratex Networks (network equipment), Laudus Trust, Laudus Variable Insurance Trust; Public Governor, Member, executive committee, Pacific Stock & Options Exchange. <i>Until 2/04:</i> Co-CEO, Aphton Corp. (bio-pharmaceuticals). <i>Until 1998:</i> Dean, Haas School of Business, University of California, Berkeley.
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 advisors); Trustee, Cooper Industries (electrical products, tools and hardware); Member, 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 debt obligations 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 and may be sold only to "qualified institutional buyers" under Securities Act Rule 144A. 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 web site at www.schwab.com/schwabfunds, the SEC's web site 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 web site 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 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® Funds
 Schwab® Institutional Select® S&P 500 Fund
 Schwab® Institutional Select® Large-Cap Value Index Fund
 Schwab® Institutional Select® Small-Cap Value Index Fund

Asset Allocation Funds

Schwab MarketTrack Portfolios®
 Schwab MarketTrack All Equity Portfolio™
 Schwab MarketTrack Growth Portfolio™
 Schwab MarketTrack Balanced Portfolio™
 Schwab MarketTrack Conservative Portfolio™

Bond Funds

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

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

This report is not authorized for distribution to prospective investors unless preceded or accompanied by a current prospectus.

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Schwab Retirement Advantage Money Fund[™] Schwab Retirement Money Fund[®]

Annual Report

December 31, 2004

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The president of Schwab Funds® and the funds' managers take a look at the factors that shaped fund performance during the report period.

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Schwab Retirement Advantage Money Fund™

Ticker Symbol: **SWIXX**

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Schwab Retirement Money Fund®

Ticker Symbol: **SWRXX**

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From the Chairman



Charles Schwab
Chairman

Dear Shareholder,

I understand that selecting a financial services company is an important decision you make as an investor and is one that we take very seriously. In fact, we made recent changes that we believe will both improve the quality of service you receive and give you the best value possible. For example, we reduced the average cost of security trades and we also expanded access to high-quality investment products.

Looking forward, we continue to see tremendous opportunities for investors, and my colleagues and I are committed to helping you maximize them. The changes we made last year at Schwab laid a foundation for more improvements this year. We will continue to expand the array of products and services that you are looking for, including new cash management and credit products from the Schwab Bank and new mutual fund products.

During the period since our semi-annual money fund report, I'm happy to announce that Evelyn Dilsaver has been named CEO and President of Schwab Funds®. Although new to the position, Evelyn is no stranger to Schwab Funds, having been an officer in several other capacities at Schwab. Her broad experience in product creation, coupled with a comprehensive understanding of your financial needs, make her the ideal candidate for her new role.

I speak for Evelyn, as well as the rest of the Schwab Funds group, when I say we want Schwab to be a place where investors can find useful, quality financial products and services to help them succeed. Regardless of the size of their portfolios, Schwab should be the place investors can always trust to watch out for their best interests.

This commitment to our shareholders will not change, as nothing is more important to us than your trust. Thank you for investing with us.

Sincerely,

A handwritten signature in black ink that reads "Charles R. Schwab".

Management's Discussion for the year ended December 31, 2004



Evelyn Dilsaver is President and CEO of Charles Schwab Investment Management, Inc. and is president of each 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,

I am very excited about my new role as President and CEO of Schwab Funds®. My experience at Schwab has given me many opportunities to focus on meeting the needs of our clients. This will continue to be my emphasis, and I reiterate what Chuck Schwab noted in his letter, that our goal is to offer you better value and more relevant choices.

When we discuss Schwab Funds with our clients, we often hear that you want to know that you're getting the best value. We find that shareholders may be unaware that some of the Schwab Funds offer additional share classes that carry lower expenses in exchange for higher initial investments of \$25,000 or more. I encourage you to review your accounts to see if you are eligible to purchase these money-saving shares. If you would like to learn more about these potentially cost-saving shares, our investment consultants are available to assist you.

I'm pleased to announce that we launched a new sweep money fund last summer—Schwab Cash Reserves—which offers eligible investors lower expenses on a sweep fund. My plan is to build on this legacy of value and continue to offer unique investment solutions to help you meet your financial goals.

I also want to point out that over the past year, the Federal Reserve raised short-term interest rates five times, up to 2.25% at year-end, making yields on the Schwab Funds' money funds more attractive than they were earlier in the year. I'm noting this because, no matter what the economic outlook is, most investors' asset-allocation strategies include a cash component, which offers liquidity and capital preservation that can help to lessen the effect of the market's volatility.

I look forward to serving you in my new role. 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 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 Funds

2004 started off positively, continuing the encouraging economic trend that was reported toward the end of 2003. Businesses added to their inventories, factory orders rose and production gained some strength. Retail sales continued to rise and higher commodity prices were holding. Mortgage refinancing activity, while still significant, waned as mortgage rates inched slightly upward. And finally, the last piece of the economic puzzle—job growth—began to exhibit solid gains. In fact, aside from a “soft patch” in early summer, the economy stayed strong throughout 2004.

The firming labor market, as well as steady gains in capital spending, kept the expansion on a self-sustaining path. The caution surrounding the economic outlook and geopolitical environment began to dissipate last spring and firms, unable to continue boosting productivity by restraining hiring, added more than two million new jobs during the year. Moreover, many leading indicators, such as the Institute for Supply Management’s business activity surveys, suggested further improvement, while continuing claims for unemployment benefits remained near cyclical lows. In addition, consumer sentiment rebounded, the labor market continued to sustain consumer spending, and corporate liquidity remained positive.

Strong productivity growth and slack in the economy kept a lid on inflation. The Federal Reserve (Fed) began to take the Fed funds rate higher beginning in June amid signs of solidly expanding output and improved hiring. The rate was raised another four times in 2004, ending the year at a moderate 2.25%. The moves had a limited impact on overall economic growth, due primarily to the record-low level of rates from which the hikes began.

Strengthening global demand for oil, particularly in the Pacific Rim, and supply constraints in the wake of the Florida hurricanes drove crude prices to record highs, above \$50 per barrel in late October. Since then, crude prices backed off to the mid-\$40 range, as supply concerns dissipated and China’s economy continues to attempt to engineer a soft landing. Though some pass-through from high oil and commodity prices earlier in the year may hamper growth and stir inflationary pressures, inflation has remained generally benign.

Though some pass-through from high oil and commodity prices earlier in the year may hamper growth and stir inflationary pressures, inflation has remained generally benign.

In this type of economic environment, we factored in what the Fed had done and what it was likely to do throughout the year. When the strong employment numbers came in April, adding to the positive news described above, it appeared that short-term interest rates would slowly head higher. And they did, starting in June, causing the money market curve to steepen.

Given the positive news described above, and the strong employment numbers reported in April, it appeared that short-term interest rates would begin to head higher. And they did, as expectations for a Fed rate hike in June caused the money market curve to steepen.

With rates rising, and expected to continue to do so over the course of the year, we increased the funds' position in variable-rate securities. The interest rates on these types of securities reset frequently, which allowed us the opportunity to capture a rise in market rates. We also reduced the funds' weighted average maturities (WAM) from approximately 60 days to 45 days, positioning the funds to benefit from rising rates. This is a similar strategy to that used by our peers, as shortening the WAM enabled money funds to money 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 12/31/04

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
Seven-Day Yield	1.74% ¹	1.58%
Seven-Day Yield—No Waiver	1.61% ²	n/a
Seven-Day Effective Yield	1.76% ¹	1.60%

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	37 days	40 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 July 1, 2004 and held through December 31, 2004.

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 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 7/1/04	Ending Account Value (Net of Expenses) at 12/31/04	Expenses Paid During Period ² 7/1/04–12/31/04
Schwab Retirement Advantage Money Fund™				
Actual Return	0.49%	\$1,000	\$1,006.30	\$2.47
Hypothetical 5% Return	0.49%	\$1,000	\$1,022.67	\$2.49
Schwab Retirement Money Fund®				
Actual Return	0.66%	\$1,000	\$1,005.40	\$3.33
Hypothetical 5% Return	0.66%	\$1,000	\$1,021.82	\$3.35

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 that funds' annualized expense ratio, multiplied by the average account value over the period, multiplied by 184 days of the period, and divided by 366 days of the fiscal year.

Schwab Retirement Advantage Money Fund™

Financial Statements

Financial Highlights

	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
Income from investment operations:					
Net investment income	0.01	0.01	0.01	0.04	0.06
Less distributions:					
Dividends from net investment income	(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
Total return (%)	0.95	0.74	1.48	3.96	6.12
Ratios/Supplemental Data (%)					
Ratios to average net assets:					
Net operating expenses	0.49	0.50	0.50	0.50	0.51 ¹
Gross operating expenses	0.63	0.63	0.63	0.66	0.69
Net investment income	0.94	0.75	1.46	3.83	5.96
Net assets, end of period (\$ x 1,000,000)	680	766	907	797	647

¹ 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 December 31, 2004

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
- Restricted and/or illiquid 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)
73.1% Fixed-Rate Obligations	497,101	497,101
1.8% U.S. Government Securities	12,000	12,000
17.9% Variable-Rate Obligations	121,953	121,953
8.1% Other Investments	54,980	54,980
100.9% Total Investments	686,034	686,034
(0.9)% Other Assets and Liabilities		(5,866)
100.0% Total Net Assets		680,168

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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Fixed-Rate Obligations 73.1% of net assets**Commercial Paper & Other Corporate Obligations** 52.6%

AB Spintab		
2.33%, 02/25/05	5,000	4,982
◆ Alpine Securitization Corp., Section 4(2) / 144A		
2.01%, 01/06/05	5,000	4,999
◆ Amstel Funding Corp., Section 4(2) / 144A		
2.33%, 02/22/05	4,500	4,485
◆ Amsterdam Funding Corp., Section 4(2) / 144A		
2.38%, 02/14/05	7,359	7,338
✦ ANZ National (Int'l) Ltd.		
2.31%, 01/14/05	5,000	4,996
◆ Aquinas Funding, L.L.C., Section 4(2) / 144A		
2.01%, 01/12/05	2,000	1,999
◆ ASAP Funding Ltd., Section 4(2) / 144A		
2.27%, 02/03/05	1,000	998
2.40%, 03/02/05	4,000	3,984
◆ Atlantic Asset Securitization Corp., Section 4(2) / 144A		
2.36%, 01/05/05	2,403	2,402
◆ Atlantis One Funding Corp., Section 4(2) / 144A		
1.97%, 01/04/05	7,000	6,999
2.03%, 01/19/05	3,000	2,997
2.28%, 02/23/05	3,000	2,990
2.20%, 04/08/05	2,000	1,988
Bank of America Corp.		
2.01%, 01/13/05	3,000	2,998
2.27%, 02/17/05	12,000	11,965
2.43%, 03/02/05	6,000	5,976
Bank of Ireland, Section 4(2) / 144A		
2.38%, 03/09/05	4,000	3,982
✦ Barclays U.S. Funding Corp.		
2.26%, 02/22/05	1,000	997
Bear Stearns Companies, Inc.		
1.98%, 01/10/05	3,000	2,999
2.01%, 01/18/05	5,000	4,995
◆ Beta Finance, Inc., Section 3c7 / 144A		
1.97%, 01/05/05	1,000	1,000
2.07%, 01/28/05	1,500	1,498
2.27%, 02/18/05	3,000	2,991

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)
+ CBA (Delaware) Finance, Inc.			◆ Giro Funding U.S. Corp., Section 4(2) / 144A		
2.28%, 02/22/05	1,500	1,495	2.27%, 01/03/05	2,000	2,000
2.36%, 02/22/05	3,000	2,990	2.02%, 01/13/05	2,000	1,999
◆ CC (USA), Inc., Section 3c7 / 144A			2.04%, 01/18/05	4,609	4,605
2.09%, 03/24/05	3,500	3,483	◆+ Grampian Funding, L.L.C., Section 4(2) / 144A		
2.17%, 04/13/05	1,000	994	1.97%, 01/03/05	2,000	2,000
Citicorp			2.04%, 01/21/05	1,000	999
2.33%, 02/23/05	2,000	1,993	2.29%, 02/22/05	4,000	3,987
2.41%, 03/14/05	6,000	5,971	2.42%, 03/16/05	3,000	2,985
Citigroup Global Markets Holdings, Inc.			◆+ Greyhawk Funding, L.L.C., Section 4(2) / 144A		
2.07%, 01/24/05	10,000	9,987	2.26%, 02/16/05	2,000	1,994
2.31%, 01/24/05	3,000	2,996	2.50%, 04/18/05	1,625	1,613
◆+ Concord Minutemen Capital Co., Section 3c7 / 144A			HSBC U.S.A., Inc.		
2.06%, 01/21/05	2,000	1,998	2.29%, 05/06/05	3,000	2,976
2.29%, 02/18/05	6,500	6,480	+ ING (U.S.) Funding, L.L.C.		
◆+ Crown Point Capital Co., L.L.C., Section 4(2) / 144A			2.05%, 01/24/05	1,000	999
2.48%, 04/20/05	1,000	993	Irish Life & Permanent, PLC, Section 4(2) / 144A		
◆ Dakota CP Notes of Citibank Credit Card Issuance			2.29%, 05/02/05	1,500	1,489
Trust, Section 4(2) / 144A			+ IXIS Commercial Paper Corp., Section 4(2) / 144A		
1.99%, 01/06/05	11,000	10,997	2.06%, 03/03/05	2,000	1,993
2.02%, 01/06/05	3,000	2,999	◆+ Jupiter Securitization Corp., Section 4(2) / 144A		
2.32%, 01/13/05	2,000	1,998	2.29%, 01/12/05	2,105	2,104
2.31%, 01/14/05	1,000	999	◆ K2 (USA), L.L.C., Section 3c7 / 144A		
DnB NOR Bank ASA			2.01%, 01/10/05	7,000	6,997
2.24%, 01/27/05	1,000	998	+ KBC Financial Products International, Ltd.,		
2.36%, 02/08/05	4,000	3,990	Section 4(2) 144A		
◆ Dorada Finance, Inc., Section 3c7 / 144A			2.16%, 04/01/05	5,000	4,973
2.29%, 02/15/05	5,000	4,986	◆+ Kitty Hawk Funding Corp., Section 4(2) / 144A		
◆+ Eiffel Funding, L.L.C., Section 4(2) / 144A			2.04%, 01/19/05	5,000	4,995
2.02%, 01/18/05	4,000	3,996	◆+ Lexington Parker Capital Co., L.L.C.,		
2.26%, 02/17/05	1,000	997	Section 4(2) / 144A		
◆+ Fairway Finance Co., L.L.C., Section 4(2) / 144A			2.07%, 01/25/05	6,000	5,992
2.03%, 01/20/05	4,000	3,996	2.26%, 02/08/05	3,000	2,993
◆+ Falcon Asset Securitization Corp., Section 4(2) / 144A			2.25%, 03/01/05	1,000	996
2.28%, 01/12/05	11,000	10,992	◆ Mane Funding Corp., Section 4(2) / 144A		
2.33%, 01/14/05	1,895	1,893	2.22%, 01/18/05	3,377	3,373
ForeningsSparbanken AB (Swedbank)			2.23%, 01/20/05	1,000	999
2.34%, 02/23/05	4,000	3,986	Morgan Stanley		
◆ Galaxy Funding, Inc., Section 4(2) / 144A			2.35%, 01/27/05	3,000	2,995
2.04%, 01/21/05	1,000	999	2.38%, 02/15/05	6,000	5,982
General Electric Capital Corp.			◆ Newcastle Certificates Program, Section 4(2) / 144A		
2.00%, 01/07/05	23,000	22,992	2.00%, 01/04/05	2,000	2,000
2.28%, 02/18/05	3,000	2,991	2.02%, 01/07/05	2,000	1,999
			2.28%, 02/17/05	1,500	1,496

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)
◆+ Nieuw Amsterdam Receivables Corp., Section 4(2) / 144A			Banco Bilbao Vizcaya Argentaria S.A.		
2.01%, 01/10/05	2,000	1,999	2.02%, 03/02/05	2,000	2,000
2.03%, 01/18/05	1,077	1,076	2.37%, 03/10/05	8,000	8,000
◆+ Preferred Receivables Funding Corp., Section 4(2) / 144A			Bayerische Landesbank Girozentrale		
2.32%, 01/12/05	6,000	5,996	1.71%, 05/23/05	1,000	1,000
2.29%, 01/13/05	6,000	5,995	BNP Paribas		
+ Santander Central Hispano Finance (Delaware), Inc.			2.30%, 02/25/05	6,000	6,000
2.12%, 04/05/05	5,000	4,973	2.44%, 03/11/05	1,000	1,000
◆+ Scaldis Capital Ltd., Section 4(2) / 144A			1.50%, 05/06/05	1,000	1,000
2.02%, 01/18/05	1,000	999	Calyon		
2.07%, 01/25/05	3,011	3,007	2.35%, 03/04/05	3,000	3,000
2.33%, 02/22/05	1,763	1,757	Citibank, N.A.		
2.14%, 03/23/05	5,978	5,949	2.31%, 02/24/05	3,000	3,000
◆+ Sigma Finance, Inc., Section 3c7 / 144A			2.40%, 03/07/05	5,000	5,000
2.12%, 03/22/05	1,000	995	Credit Suisse First Boston		
+ Stadshypotek Delaware, Inc., Section 4(2) / 144A			2.21%, 01/25/05	3,000	3,000
2.36%, 02/08/05	5,000	4,988	Danske Bank A/S		
◆+ Ticonderoga Funding, L.L.C., Section 4(2) / 144A			1.95%, 01/05/05	7,000	7,000
2.39%, 02/14/05	3,000	2,991	2.00%, 01/18/05	3,000	3,000
2.42%, 02/25/05	4,489	4,472	Deutsche Bank, AG		
◆+ Triple-A One Funding Corp., Section 4(2) / 144A			1.60%, 05/20/05	3,000	3,000
2.31%, 01/06/05	2,101	2,100	Dexia Bank Belgium		
+ UBS Finance (Delaware) Inc.			2.03%, 01/21/05	3,000	3,000
2.39%, 02/22/05	1,672	1,666	1.50%, 05/04/05	3,000	3,000
+ Westpac Capital Corp.			HSH Nordbank, AG		
2.40%, 03/07/05	3,000	2,987	2.12%, 06/15/05	3,000	3,000
+ Westpac Trust Securities NZ Ltd.			Landesbank Hessen-Thuringen Girozentrale		
2.32%, 02/23/05	4,000	3,986	2.37%, 03/07/05	4,000	4,000
◆ White Pine Finance, L.L.C., Section 3c7 / 144A			Nationwide Building Society		
2.02%, 02/07/05	4,000	3,992	2.38%, 03/08/05	5,000	5,000
◆+ Windmill Funding Corp., Section 4(2) / 144A			Norddeutsche Landesbank Girozentrale		
2.02%, 01/05/05	2,000	2,000	1.50%, 05/06/05	1,000	1,000
2.41%, 02/23/05	1,908	1,901	1.51%, 05/13/05	1,000	1,000
◆+ Yorktown Capital, L.L.C., Section 4(2) / 144A			1.60%, 05/20/05	2,000	2,000
2.02%, 01/14/05	1,000	999	Nordea Bank Finland, PLC		
2.02%, 01/18/05	6,000	5,994	2.21%, 01/25/05	2,000	2,000
		358,102	Royal Bank of Scotland, PLC		
			1.75%, 05/27/05	3,000	3,000
			2.17%, 07/01/05	3,000	2,999
Certificates of Deposit 19.0%			Skandinaviska Enskilda Banken AB		
American Express Centurion Bank			2.06%, 01/25/05	4,500	4,500
2.25%, 01/04/05	4,500	4,500			

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Toronto Dominion Bank		
2.40%, 03/09/05	5,000	5,000
2.30%, 05/12/05	1,000	1,000
U.S. Bank, N.A.		
2.25%, 01/13/05	2,000	2,000
2.36%, 03/11/05	2,000	2,000
Unicredito Italiano SpA		
2.02%, 01/19/05	2,000	2,000
2.40%, 02/28/05	6,000	6,000
2.37%, 03/08/05	5,000	5,000
Washington Mutual Bank, FA		
2.01%, 01/19/05	5,000	5,000
Wells Fargo Bank, N.A.		
2.05%, 01/31/05	2,000	2,000
2.36%, 01/31/05	9,000	9,000
Wilmington Trust Co.		
2.26%, 02/08/05	5,000	5,000
		128,999

Promissory Notes 0.9%

• The Goldman Sachs Group, Inc.		
1.94%, 02/18/05	6,000	6,000

Bank Notes 0.6%

Standard Federal Bank, N.A.		
2.38%, 02/11/05	4,000	4,000

U.S. Government Securities 1.8% of net assets**Coupon Notes 1.8%**

Fannie Mae		
1.43%, 02/09/05	3,000	3,000
1.35%, 04/28/05	3,000	3,000
1.50%, 05/09/05	3,000	3,000
1.61%, 05/13/05	3,000	3,000
		12,000

Variable-Rate Obligations 17.9% of net assets

Barclays Bank, PLC		
2.32%, 01/18/05	5,000	4,999
2.35%, 01/31/05	14,000	13,996

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Bayerische Landesbank Girozentrale		
2.37%, 01/31/05	4,000	4,000
+ BMC Special Care Facilities Financing Authority of the City of Montgomery, Alabama		
Taxable RB (Montgomery Baptist Outreach Services Corp. Project) Series 1997A		
2.47%, 01/07/05	7,800	7,800
Taxable RB (Montgomery Baptist Outreach Services Corp. Project) Series 1997B		
2.47%, 01/07/05	2,005	2,005
BNP Paribas		
2.33%, 01/24/05	7,000	6,998
+ City of New Britain, Connecticut		
GO Series 2000C		
2.47%, 01/07/05	4,200	4,200
Fannie Mae		
1.88%, 01/03/05	3,000	2,999
2.30%, 01/31/05	10,000	9,997
Federal Home Loan Bank		
2.23%, 01/05/05	2,000	1,999
HSH Nordbank, AG		
2.30%, 01/10/05	3,000	2,999
Landesbank Baden-Wuerttemberg		
2.37%, 03/04/05	3,000	3,000
+ Loanstar Assets Partners II, L.P.		
2.52%, 01/07/05	5,000	5,000
+ Martinez, California		
M/F Housing Revenue Refunding Bond (Muirwood Garden Apartments) Series 2003A-T		
2.40%, 01/07/05	2,800	2,800
Merrill Lynch & Co, Inc., Section 4(2) / 144A		
2.23%, 01/03/05	5,000	5,000
+ New York City IDA		
Taxable Industrial Revenue Refunding Bond (Allway Tools, Inc. Project) Series 1997		
2.52%, 01/07/05	165	165
+ Palm Springs, California		
COP (Downtown Parking Project) Series 2002A		
2.52%, 01/07/05	8,000	8,000
Royal Bank of Canada		
2.25%, 01/04/05	5,000	5,000
Royal Bank of Scotland, PLC		
2.34%, 01/31/05	5,000	4,999

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
◆+ Sigma Finance, Inc., Section 3c7 / 144A		
2.35%, 01/18/05	4,000	4,000
2.36%, 01/20/05	5,000	5,000
2.37%, 01/25/05	3,000	3,000
2.37%, 01/31/05	4,000	3,999
UBS, AG		
2.43%, 01/18/05	5,000	4,999
WestLB, AG		
2.36%, 01/20/05	5,000	4,999
		121,953

Security	Maturity Amount (\$ x 1,000)
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Other Investments 8.1% of net assets

Repurchase Agreements 8.1%**Credit Suisse First Boston L.L.C**

Tri-Party Repurchase Agreement

Collateralized by U.S. Government

Securities with a value of \$56,082,

2.30% issued 12/31/04

due 01/03/05

54,990

54,980

End of investments.

Issuer Rate, Acquisition Date, Maturity Date	Face Amount (\$ x 1,000)	Cost/ Value (\$ x 1,000)
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**At 12/31/04, portfolio holdings included
restricted and/or illiquid securities as follows:**

The Goldman Sachs Group, Inc.

1.94%, 08/18/04, 02/18/05

6,000

6,000

Statement of

Assets and Liabilities

As of December 31, 2004. All numbers x 1,000 except NAV.

Assets

Investments, at value	\$686,034
Receivables:	
Fund shares sold	5,936
Interest	752
Prepaid expenses	+ 35
Total assets	692,757

Liabilities

Payables:	
Fund shares redeemed	12,497
Dividends to shareholders	28
Investment adviser and administrator fees	9
Transfer agent and shareholder service fees	8
Trustees' fees	5
Accrued expenses	+ 42
Total liabilities	12,589

Net Assets

Total assets	692,757
Total liabilities	– 12,589
Net assets	\$680,168

Net Assets by Source

Capital received from investors	680,168
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Net Asset Value (NAV)

Net Assets	÷	Shares Outstanding	=	NAV
\$680,168		680,226		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost of the fund's securities was \$686,034. Includes restricted and/or illiquid securities worth \$6,000, or 0.88% 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 \$252,240 or 37.08% of the fund's total net assets.

Federal Tax Data

Cost basis of portfolio	\$686,034
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As of December 31, 2004:

Reclassifications:	
Net realized capital gains	\$1
Reclassified as:	
Capital received from investors	(\$1)

Statement of

Operations

For January 1, 2004 through December 31 2004. All numbers x 1,000.

Investment Income

Interest	\$10,325
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Expenses

Investment adviser and administrator fees	2,732	
Transfer agent and shareholder service fees	1,582	
Trustees' fees	27	
Custodian and portfolio accounting fees	85	
Professional fees	27	
Registration fees	46	
Shareholder reports	1	
Other expenses	+	15
Total expenses	4,515	
Expense reduction	-	968
Net expenses		3,547

Increase in Net Assets from Operations

Total investment income	10,325
Net expenses	-
	3,547
Net investment income	6,778
Increase in net assets from operations	\$6,778

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 operating expenses of this fund through April 30, 2005, to 0.49% of average daily net assets. Prior to April 29, 2004, this limit was 0.50%. 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.

Operations

	1/1/04–12/31/04	1/1/03–12/31/03
Net investment income	\$6,778	\$6,574
Increase in net assets from operations	6,778	6,574

Distributions Paid

Dividends from net investment income	6,778	6,574
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Transactions in Fund Shares

Shares sold	527,193	638,868
Shares reinvested	6,620	6,495
Shares redeemed	+ (619,675)	(786,194)
Net transactions in fund shares	(85,862)	(140,831)

Net Assets

Beginning of period	766,030	906,861
Total decrease	+ (85,862)	(140,831)
End of period	\$680,168	\$766,030

Unless stated, all numbers x 1,000.

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

Current period

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

Prior period

Ordinary income	\$6,574
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

	1/1/04– 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
Income from investment operations:					
Net investment income	0.01	0.01	0.01	0.04	0.06
Less distributions:					
Dividends from net investment income	(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
Total return (%)	0.77	0.58	1.30	3.75	5.90
Ratios/Supplemental Data (%)					
Ratios to average net assets:					
Net operating expenses	0.66	0.66	0.68	0.70	0.72 ¹
Gross operating expenses	0.66	0.66	0.68	0.70	0.72
Net investment income	0.76	0.58	1.28	3.61	5.77
Net assets, end of period (\$ x 1,000,000)	492	578	566	515	399

¹ 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 December 31, 2004

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
- Restricted and/or illiquid 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)
72.3% Fixed-Rate Obligations	355,937	355,937
1.6% U.S. Government Securities	8,000	8,000
19.3% Variable-Rate Obligations	94,938	94,938
8.7% Other Investments	42,662	42,662
101.9% Total Investments	501,537	501,537
(1.9)% Other Assets and Liabilities		(9,192)
100.0% Total Net Assets		492,345

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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Fixed-Rate Obligations 72.3% of net assets**Commercial Paper & Other Corporate Obligations** 51.6%

AB Spintab		
2.31%, 01/11/05	1,375	1,374
2.33%, 02/25/05	1,000	996
Alliance & Leicester, PLC, Section 4(2) / 144A		
2.02%, 01/18/05	3,000	2,997
✦ ANZ (Delaware), Inc.		
2.26%, 02/14/05	1,000	997
✦ ANZ National (Int'l) Ltd.		
2.31%, 01/14/05	5,000	4,996
◆✦ Aquinas Funding, L.L.C., Section 4(2) / 144A		
2.01%, 01/12/05	1,000	999
2.18%, 04/14/05	1,000	994
◆✦ ASAP Funding Ltd., Section 4(2) / 144A		
2.04%, 01/07/05	3,000	2,999
2.27%, 02/03/05	1,000	998
◆ Atlantis One Funding Corp., Section 4(2) / 144A		
2.29%, 02/22/05	1,000	997
2.49%, 03/04/05	1,300	1,294
2.20%, 04/08/05	3,000	2,982
Bank of America Corp.		
2.01%, 01/13/05	2,000	1,999
2.06%, 01/28/05	1,500	1,498
2.28%, 02/25/05	4,000	3,986
Bank of Ireland, Section 4(2) / 144A		
2.38%, 03/09/05	4,000	3,982
✦ Barclays U.S. Funding Corp.		
2.26%, 02/22/05	3,000	2,990
Bear Stearns Companies, Inc.		
2.01%, 01/18/05	2,000	1,998
2.02%, 01/19/05	4,000	3,996
◆✦ Beta Finance, Inc., Section 3c7 / 144A		
1.97%, 01/05/05	1,000	1,000
2.07%, 01/28/05	1,000	998
✦ CBA (Delaware) Finance, Inc.		
2.36%, 02/22/05	4,000	3,986
◆ CC (USA), Inc., Section 3c7 / 144A		
2.29%, 02/22/05	2,000	1,993
2.09%, 03/24/05	1,000	995
2.17%, 04/13/05	1,000	994

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)
◆+ Chariot Funding, L.L.C., Section 4(2) / 144A			◆ Giro Funding U.S. Corp., Section 4(2) / 144A		
2.41%, 01/20/05	4,000	3,995	2.02%, 01/13/05	1,000	999
Citicorp			2.08%, 01/14/05	1,000	999
2.37%, 01/31/05	2,000	1,996	2.26%, 02/14/05	3,000	2,992
Citigroup Global Markets Holdings, Inc.			◆+ Grampian Funding, L.L.C., Section 4(2) / 144A		
2.31%, 01/14/05	3,000	2,998	1.97%, 01/03/05	2,000	2,000
2.31%, 01/24/05	4,000	3,994	2.29%, 02/22/05	2,000	1,993
◆+ Concord Minutemen Capital Co., Section 3c7 / 144A			2.35%, 03/02/05	1,000	996
2.00%, 01/10/05	4,000	3,998	◆+ Greyhawk Funding, L.L.C., Section 4(2) / 144A		
2.06%, 01/21/05	2,000	1,998	2.26%, 02/16/05	5,000	4,986
2.29%, 02/18/05	1,000	997	HSBC U.S.A., Inc.		
◆+ Crown Point Capital Co., L.L.C., Section 4(2) / 144A			2.29%, 05/06/05	2,000	1,984
2.04%, 01/18/05	1,000	999	◆+ ING (U.S.) Funding, L.L.C.		
2.48%, 04/20/05	2,000	1,985	2.05%, 01/24/05	1,000	999
◆ Dakota CP Notes of Citibank Credit Card Issuance			2.45%, 03/10/05	5,000	4,977
Trust, Section 4(2) / 144A			Irish Life & Permanent, PLC, Section 4(2) / 144A		
2.02%, 01/06/05	8,000	7,998	2.29%, 05/02/05	2,000	1,985
2.32%, 01/13/05	2,000	1,998	◆+ IXIS Commercial Paper Corp., Section 4(2) / 144A		
2.31%, 01/14/05	2,500	2,498	2.06%, 03/03/05	2,000	1,993
◆ Deutsche Bank Financial, L.L.C.			◆+ Jupiter Securitization Corp., Section 4(2) / 144A		
2.06%, 03/03/05	3,000	2,990	2.26%, 01/11/05	5,000	4,997
DnB NOR Bank ASA			2.29%, 01/12/05	3,000	2,998
2.24%, 01/27/05	1,000	998	◆ K2 (USA), L.L.C., Section 3c7 / 144A		
2.25%, 02/14/05	1,500	1,496	2.02%, 01/12/05	4,000	3,998
2.64%, 06/09/05	1,500	1,483	2.02%, 01/14/05	1,000	999
◆ Dorada Finance, Inc., Section 3c7 / 144A			◆+ KBC Financial Products International, Ltd.,		
2.06%, 01/25/05	3,000	2,996	Section 4(2) / 144A		
◆+ Eiffel Funding, L.L.C., Section 4(2) / 144A			2.60%, 06/06/05	2,000	1,978
2.02%, 01/18/05	1,000	999	◆+ Kitty Hawk Funding Corp., Section 4(2) / 144A		
2.26%, 02/17/05	2,000	1,994	2.04%, 01/19/05	5,000	4,995
◆+ Falcon Asset Securitization Corp., Section 4(2) / 144A			◆+ Lexington Parker Capital Co., L.L.C.,		
2.28%, 01/12/05	5,000	4,997	Section 4(2) / 144A		
ForeningsSparbanken AB (Swedbank)			2.26%, 02/08/05	2,000	1,995
2.34%, 02/23/05	3,000	2,990	1.95%, 03/01/05	3,000	2,991
◆ Galaxy Funding, Inc., Section 4(2) / 144A			◆ Mane Funding Corp., Section 4(2) / 144A		
2.01%, 01/12/05	1,000	999	2.39%, 02/16/05	3,000	2,991
2.04%, 01/21/05	3,000	2,997	Morgan Stanley		
2.07%, 01/27/05	1,000	999	2.35%, 01/27/05	3,000	2,995
General Electric Capital Corp.			2.38%, 02/15/05	4,000	3,988
2.00%, 01/07/05	4,000	3,999	◆ Newcastle Certificates Program, Section 4(2) / 144A		
2.04%, 01/19/05	3,000	2,997	2.28%, 02/17/05	3,500	3,490
2.03%, 01/21/05	5,000	4,994	2.34%, 02/22/05	1,000	997
2.28%, 02/18/05	5,500	5,483			

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)
◆◆ Nieuw Amsterdam Receivables Corp., Section 4(2) / 144A 2.53%, 03/31/05	3,000	2,981	Bayerische Landesbank Girozentrale 1.71%, 05/23/05	1,000	1,000
◆ Nordea North America, Inc. 2.07%, 01/31/05	1,150	1,148	BNP Paribas 2.43%, 03/08/05	3,000	3,000
◆◆ Preferred Receivables Funding Corp., Section 4(2) / 144A 2.32%, 01/12/05	4,000	3,997	2.44%, 03/11/05	6,000	6,000
2.29%, 01/13/05	3,126	3,124	1.50%, 05/06/05	2,000	2,000
◆ Santander Central Hispano Finance (Delaware), Inc. 2.12%, 04/05/05	3,000	2,984	Calyon 2.35%, 03/04/05	6,000	6,000
◆◆ Scaldis Capital Ltd., Section 4(2) / 144A 2.17%, 03/30/05	5,000	4,974	Citibank, N.A. 2.40%, 03/07/05	5,000	5,000
◆◆ Sigma Finance, Inc., Section 3c7 / 144A 2.12%, 03/22/05	3,000	2,986	Credit Suisse First Boston 2.21%, 01/25/05	5,000	5,000
Skandinaviska Enskilda Banken AB 1.97%, 01/04/05	1,000	1,000	Danske Bank A/S 1.95%, 01/05/05	2,000	2,000
◆◆ Thunder Bay Funding, L.L.C., Section 4(2) / 144A 2.04%, 01/20/05	1,000	999	2.00%, 01/18/05	1,000	1,000
◆◆ Ticonderoga Funding, L.L.C., Section 4(2) / 144A 2.39%, 02/14/05	3,000	2,991	Deutsche Bank, AG 1.60%, 05/20/05	2,000	2,000
2.42%, 02/25/05	6,000	5,978	Dexia Bank Belgium 2.03%, 01/21/05	4,000	4,000
◆◆ Triple-A One Funding Corp., Section 4(2) / 144A 2.04%, 01/18/05	3,000	2,997	1.50%, 05/04/05	1,000	1,000
◆ UBS Finance (Delaware) Inc. 2.39%, 02/22/05	2,100	2,093	◆ HBOS Treasury Services, PLC 2.73%, 06/29/05	2,000	2,000
◆ Westpac Capital Corp. 2.40%, 03/07/05	5,000	4,978	HSH Nordbank, AG 2.12%, 06/15/05	2,000	2,000
◆ White Pine Finance, L.L.C., Section 3c7 / 144A 2.02%, 02/07/05	3,000	2,994	Landesbank Hessen-Thuringen Girozentrale 2.37%, 03/07/05	5,000	5,000
◆◆ Windmill Funding Corp., Section 4(2) / 144A 2.02%, 01/05/05	1,000	1,000	Lloyds TSB Bank, PLC 2.02%, 03/04/05	2,000	2,000
2.28%, 01/10/05	5,500	5,497	Norddeutsche Landesbank Girozentrale 1.51%, 05/13/05	1,000	1,000
◆◆ Yorktown Capital, L.L.C., Section 4(2) / 144A 2.25%, 01/05/05	3,000	2,999	1.60%, 05/20/05	2,000	2,000
		253,938	Nordea Bank Finland, PLC 2.33%, 02/28/05	2,000	2,000
			Royal Bank of Scotland, PLC 1.75%, 05/27/05	2,000	2,000
			2.17%, 07/01/05	2,000	1,999
			Skandinaviska Enskilda Banken AB 2.06%, 01/25/05	2,000	2,000
Certificates of Deposit 19.1%			Toronto Dominion Bank 2.30%, 05/12/05	2,000	2,000
American Express Centurion Bank 2.25%, 01/04/05	4,000	4,000	U.S. Bank, N.A. 2.36%, 03/11/05	2,000	2,000
Banco Bilbao Vizcaya Argentaria S.A. 2.37%, 03/10/05	1,000	1,000			

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Unicredit Italiano SpA		
2.02%, 01/19/05	2,000	2,000
2.40%, 02/28/05	3,000	3,000
2.37%, 03/08/05	4,000	4,000
Washington Mutual Bank, FA		
2.01%, 01/19/05	4,000	4,000
Wells Fargo Bank, N.A.		
2.05%, 01/31/05	4,000	4,000
2.36%, 01/31/05	3,000	3,000
Wilmington Trust Co.		
2.26%, 02/08/05	5,000	5,000
		93,999

Promissory Notes 0.8%

• The Goldman Sachs Group, Inc.		
1.94%, 02/18/05	4,000	4,000

Bank Notes 0.8%

Standard Federal Bank, N.A.		
2.38%, 02/11/05	4,000	4,000

U.S. Government Securities 1.6% of net assets**Coupon Notes 1.6%**

Fannie Mae		
1.43%, 02/09/05	2,000	2,000
1.35%, 04/28/05	2,000	2,000
1.50%, 05/09/05	2,000	2,000
1.61%, 05/13/05	2,000	2,000
		8,000

Variable-Rate Obligations 19.3% of net assets

Barclays Bank, PLC		
2.32%, 01/18/05	5,000	4,999
2.35%, 01/31/05	6,000	5,998
Bayerische Landesbank Girozentrale		
2.37%, 01/31/05	6,000	6,000
BNP Paribas		
2.33%, 01/24/05	5,000	4,999

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
+ California Pollution Control Financing Authority		
Solid Waste Disposable RB (Burr Properties Project) Series 1998B		
2.67%, 01/07/05	1,760	1,760
+ Columbus, Georgia Development Authority		
Taxable RB (Jay Leasing, Inc. Project) Series 1997		
2.47%, 01/07/05	1,840	1,840
◆ Dorada Finance, Inc., Section 3c7 / 144A		
2.38%, 01/18/05	3,000	3,000
+ Eagle County, Colorado Taxable Housing Facilities		
RB (BC Housing, L.L.C. Project) Series 1997B		
2.42%, 01/07/05	1,500	1,500
Fannie Mae		
1.88%, 01/03/05	2,000	1,999
2.30%, 01/31/05	10,000	9,997
Federal Home Loan Bank		
2.23%, 01/05/05	3,000	2,999
HSH Nordbank, AG		
2.30%, 01/10/05	2,000	2,000
+ LP Pinewoods SPV		
2.42%, 01/07/05	15,000	15,000
Merrill Lynch & Co, Inc., Section 4(2) / 144A		
2.23%, 01/03/05	5,000	5,000
Royal Bank of Canada		
2.25%, 01/04/05	2,000	2,000
Royal Bank of Scotland, PLC		
2.33%, 01/14/05	5,000	4,999
◆+ Sigma Finance, Inc., Section 3c7 / 144A		
2.35%, 01/18/05	3,000	3,000
2.36%, 01/20/05	5,000	4,999
2.37%, 01/25/05	2,000	2,000
+ Trap Rock Industries, Inc.		
RB Series 1997		
2.44%, 01/07/05	1,040	1,040
UBS, AG		
2.43%, 01/18/05	5,000	4,999
+ Village of Sturtevant, Wisconsin		
IDRB (Andis Co. Project) Series 1996B		
2.55%, 01/07/05	810	810
WestLB, AG		
2.36%, 01/20/05	4,000	4,000
		94,938

Security	Maturity Amount (\$ x 1,000)	Value (\$ x 1,000)
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Other Investments 8.7% of net assets

Repurchase Agreements 8.7%

Credit Suisse First Boston LLC.		
Tri-Party Repurchase Agreement		
Collateralized by U.S. Government		
Securities with a value of \$43,516		
2.30% issued on 12/31/04		
due 01/03/05	42,671	42,662

End of investments.

Issuer	Face Amount	Cost/ Value
Rate, Acquisition Date, Maturity Date	(\$ x 1,000)	(\$ x 1,000)

At 12/31/04, portfolio holdings included
restricted and/or illiquid securities as follows:

The Goldman Sachs Group, Inc.		
1.94%, 08/18/04, 02/18/05	4,000	4,000

Statement of

Assets and Liabilities

As of December 31, 2004. All numbers x 1,000 except NAV.

Assets

Investments, at value	\$501,537
Receivables:	
Fund shares sold	352
Interest	559
Prepaid expenses	+ 60
Total assets	502,508

Liabilities

Payables:	
Fund shares redeemed	10,096
Dividends to shareholders	13
Investment adviser and administrator fees	10
Transfer agent and shareholder service fees	7
Trustees' fees	3
Accrued expenses	+ 34
Total liabilities	10,163

Net Assets

Total assets	502,508
Total liabilities	– 10,163
Net assets	\$492,345

Net Assets by Source

Capital received from investors	492,345
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Net Asset Value (NAV)

Net Assets	÷	Shares Outstanding	=	NAV
\$492,345		492,403		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost of the fund's securities was \$501,537. Includes restricted and/or illiquid securities worth \$4,000, or 0.81% 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 \$179,557 or 36.47% of the fund's total net assets.

Federal Tax Data

Cost basis of portfolio	\$501,537
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As of December 31, 2004:

Reclassifications:	
Net realized capital gains	\$1
Reclassified as:	
Capital received from investors	(\$1)

Statement of

Operations

For January 1, 2004 through December 31, 2004. All numbers x 1,000.

Investment Income

Interest	\$7,786
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Expenses

Investment adviser and administrator fees	2,084
Transfer agent and shareholder service fees	1,371
Trustees' fees	25
Custodian and portfolio accounting fees	70
Professional fees	26
Registration fees	31
Shareholder reports	13
Other expenses	+ 11

Total expenses	3,631
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Increase in Net Assets from Operations

Total investment income	7,786
Total expenses	- 3,631
Net investment income	4,155
Increase in net assets from operations	\$4,155

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.

Operations

	1/1/04–12/31/04	1/1/03–12/31/03
Net investment income	\$4,155	\$3,439
Increase in net assets from operations	4,155	3,439

Distributions Paid

Dividends from net investment income	4,155	3,439
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Transactions in Fund Shares

Shares sold	321,230	449,661
Shares reinvested	4,104	3,396
Shares redeemed	+ (410,657)	(441,321)
Net transactions in fund shares	(85,323)	11,736

Net Assets

Beginning of period	577,668	565,932
Total increase or decrease	+ (85,323)	11,736
End of period	\$492,345	\$577,668

Unless stated, all numbers x 1,000.

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

Current period

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

Prior period

Ordinary income	\$3,439
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

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.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Shareholders of:

Schwab Retirement Advantage Money Fund and
Schwab Retirement Money Fund

In our opinion, the accompanying statements of assets and liabilities, including the portfolio holdings, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Schwab Retirement Advantage Money Fund and Schwab Retirement Money Fund (two of the funds constituting The Charles Schwab Family of Funds, hereafter referred to as the “Funds”) at December 31, 2004, the results of each of their operations for the year then ended, the changes in each of their net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Funds’ management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2004 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California
February 14, 2005

Fund Trustees

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 Schwab Funds (of which there were 53 as of 12/31/04) 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.

Individuals Who Are Interested Trustees and Officers of the Trust		
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); CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, Charles Schwab Bank, N.A., U.S. Trust, United States Trust Co. of New York, Siebel Systems (software), Xsign, Inc. (electronic payment systems), TrustMark, Inc., 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, Vodaphone 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.

Individuals Who Are Officers of the Trust but Not Trustees

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; <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.; <i>Until 9/04</i> : VP, Charles Schwab & Co., Charles Schwab Investment Management, Inc.; <i>Until 2002</i> : VP of Internal Audit, Charles Schwab & Co.; <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> : Chief Financial Officer, Commerzbank Capital Markets; <i>Until 9/99</i> : Managing Director at the New York Stock Exchange.

Individuals Who Are Independent Trustees

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Mariann Byerwalter 8/13/60	2000 (all trusts).	<i>Since 2/05:</i> Director, Pacific Life Insurance Company; Chair, JDN Corp. Advisory LLC; 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, Laudus Trust, Laudus Variable Insurance Trust. <i>2007:</i> Special Advisor to the President, Stanford University. <i>Until 2001:</i> VP, Business Affairs, CFO, Stanford University.
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).	Director, Aphton Corp. (bio-pharmaceuticals); Non-Executive Chair, Trustee, Soletron Corp. (manufacturing), Mission West Properties (commercial real estate), Stratex Networks (network equipment), Laudus Trust, Laudus Variable Insurance Trust; Public Governor, Member, executive committee, Pacific Stock & Options Exchange. <i>Until 2/04:</i> Co-CEO, Aphton Corp. (bio-pharmaceuticals). <i>Until 1998:</i> Dean, Haas School of Business, University of California, Berkeley.
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 advisors); Trustee, Cooper Industries (electrical products, tools and hardware); Member, 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 debt obligations 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 and may be sold only to "qualified institutional buyers" under Securities Act Rule 144A. 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 web site at www.schwab.com/schwabfunds, the SEC's web site 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 web site 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 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® Funds
 Schwab® Institutional Select® S&P 500 Fund
 Schwab® Institutional Select® Large-Cap Value Index Fund
 Schwab® Institutional Select® Small-Cap Value Index Fund

Asset Allocation Funds

Schwab MarketTrack Portfolios®
 Schwab MarketTrack All Equity Portfolio™
 Schwab MarketTrack Growth Portfolio™
 Schwab MarketTrack Balanced Portfolio™
 Schwab MarketTrack Conservative Portfolio™

Bond Funds

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

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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