

Schwab Retirement Advantage Money Fund<sup>™</sup>

Schwab Investor Money Fund<sup>™</sup>

*(formerly Schwab Retirement Money Fund®)*

**Annual Report**

December 31, 2005

*charles* SCHWAB

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# From the Chairman



Charles Schwab  
Chairman

Dear Shareholder,

I founded Schwab over thirty years ago to be a home for serious investors. That mission continues to guide us today as we constantly innovate on behalf of our clients. By continuing to provide the highest quality products and services—at a great price—we remain true to our heritage.

I take particular pride in the Schwab Funds. Founded over 15 years ago, they have grown to include more than 50 funds with over \$140 billion in assets as of this report date. With a variety of investment strategies, Schwab Funds provide a range of innovative investment choices that can serve as a foundation for your asset allocation plan.

Schwab Funds is managed by Charles Schwab Investment Management, Inc., which currently ranks as one of the largest investment managers in the country. Our portfolio managers share a passion for market analysis and use some of the most sophisticated financial models available. I am proud of their depth of experience, which reflects an average tenure of more than 15 years in the investment industry. Furthermore, I am impressed with the commitment that our managers bring to the stewardship of the funds, for you, their shareholders.

We strive every day to warrant the trust you have placed in us; that will never change. 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 letters of the first and last names being capitalized and prominent.

*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.*

# Management's Discussion for the year ended December 31, 2005



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

Dear Shareholder,

I'm pleased to bring you the annual report for your Schwab money fund for the year ended December 31, 2005. Although the period was marked by volatility, our money funds provided competitive yields as well as safety and stability.

I would like to take this opportunity to remind you that Schwab Funds offers a range of position-traded money funds that are available with a variety of minimums and investment strategies to meet your needs. These funds and share classes are available beginning with a minimum initial investment of \$25,000 (\$15,000 for IRA and custodial accounts) and include both taxable and, for clients who are tax sensitive, tax-free investment strategies. To make these products even more convenient, we've recently reduced the subsequent investment minimum requirement from \$5,000 to \$500 on several of our Value Advantage Investments.

We continue to develop and manage Schwab Funds to help you achieve your goals and to provide an uncomplicated way to build a well-diversified portfolio. During the report period covered by this book, Schwab Funds launched seven new funds across varying investment styles and strategies.

In closing, I speak for all of Schwab Funds when I say we want Schwab to be the place where investors can find useful, quality financial products and services to help them succeed.

Thank you for investing in Schwab Funds.

Sincerely,

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

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



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

## The Investment Environment and the Fund

Despite having witnessed a turbulent year in the news, the markets remained in a steady growth mode and ended the one-year report period with positive results. Oil prices hit highs never seen before and the Federal Reserve continued to raise short-term interest rates to curb inflationary pressures, raising the rates eight consecutive times in the one-year report period and bringing the benchmark rate up to 4.25%. The moves had a limited impact on overall economic growth, due primarily to the low level of rates from which the increases began.

Regardless of the concerns of high energy prices, which remained a significant headwind for economic performance throughout the period, corporate earnings remained strong throughout the year. Additionally, with the unemployment rate hovering around 5% and GDP growth around 3.5%, job and income growth remained positive and investors remained optimistic. Productivity gains and more restrictive monetary policy kept a lid on core inflation. The productivity gains, coupled with foreign investors buying large amounts of U.S. government securities, helped to contain increases in long-term interest rates. These conditions caused the dollar to rally, which took pressure off the price of imported goods.

The big news for the past two quarters was the impact of Hurricanes Katrina and Rita. The devastation caused by these storms was particularly heavy with respect to the energy infrastructures in the South. Oil prices rose sharply in the aftermath of the hurricanes, with crude oil peaking above \$71 per barrel in early September, although softening oil demand and quick action by the federal government to release Strategic Petroleum Reserves led to a subsequent decline off that peak. During the fourth quarter, oil had dropped to as low as \$58 a barrel, but then rebounded back to \$64 as of the end of the period. While the full economic effect of the hurricanes remains unknown, the damage appears to be limited to the regions in the hurricanes' path and to the energy infrastructures in those areas.

Another significant event that happened during the report period was the appointment of Ben Bernanke to succeed Alan Greenspan as Chairman of the Federal Reserve Board. Although he had not yet been confirmed

into office as of the end of the report period, Bernanke's experience on the Federal Open Market Committee and his expertise in monetary economics has eased the concerns of the markets and caused investors to expect a smooth transition.

**As noted above, the Fed continued in its tightening cycle throughout the year, raising short-term interest rates 0.25% at each of its eight meetings.** At the end of the one-year report period, the benchmark rate was up to 4.25%. Over the course of 2005, as the Fed continued raising its benchmark rate, the yield curve continued to flatten and briefly inverted towards the end of the December. Nonetheless, higher Fed Funds rates succeeded in moving money fund yields higher, making them a more attractive investment vehicle.

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

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

Performance and Fund Facts as of 12/31/05

Seven-Day Yields

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

	Retirement Advantage Money Fund	Investor Money Fund
Ticker Symbol	SWIXX	SWRXX
Seven-Day Yield	3.83% <sup>1</sup>	3.64%
Seven-Day Yield–No Waiver	3.67% <sup>2</sup>	n/a
Seven-Day Effective Yield	3.90% <sup>1</sup>	3.71%

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](http://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	Investor Money Fund
Weighted Average Maturity	46 days	48 days
Credit Quality of Holdings % of portfolio	100% Tier 1	100% Tier 1
Minimum Initial Investment <sup>3</sup>	\$25,000	\$1 Retirement Plan Participants \$2,500 Other Investors

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.

<sup>1</sup> Fund expenses have been partially absorbed by CSIM and Schwab.  
<sup>2</sup> Yield if fund expenses had not been partially absorbed by CSIM and Schwab.  
<sup>3</sup> Please see prospectus for further detail and eligibility requirements.

# Fund Expenses (unaudited)

## 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, 2005 and held through December 31, 2005.

**Actual Return** lines in the table below provide information about actual account values and actual expenses. You may use this information, together with the amount you invested, to estimate the expenses that you paid over the period. To do so, simply divide your account value by \$1,000 (for example, an \$8,600 account value ÷ \$1,000 = 8.6), then multiply the result by the number given for your fund 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 <sup>1</sup> (Annualized)	Beginning Account Value at 7/1/05	Ending Account Value (Net of Expenses) at 12/31/05	Expenses Paid During Period <sup>2</sup> 7/1/05–12/31/05
<b>Schwab Retirement Advantage Money Fund™</b>				
Actual Return	0.49%	\$1,000	\$1,016.70	\$2.49
Hypothetical 5% Return	0.49%	\$1,000	\$1,022.74	\$2.50
<b>Schwab Investor Money Fund™</b>				
Actual Return	0.68%	\$1,000	\$1,015.70	\$3.45
Hypothetical 5% Return	0.68%	\$1,000	\$1,021.78	\$3.47

<sup>1</sup> Based on the most recent six-month expense ratio; may differ from the expense ratio provided in Financial Highlights.  
<sup>2</sup> Expenses for each fund are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 184 days of the period, and divided by 365 days of the fiscal year.



# Schwab Retirement Advantage Money Fund™

## Financial Statements

### Financial Highlights

	1/1/05– 12/31/05	1/1/04– 12/31/04	1/1/03– 12/31/03	1/1/02– 12/31/02	1/1/01– 12/31/01
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	1.00	1.00	1.00	1.00	1.00
Income from investment operations:					
Net investment income	0.03	0.01	0.01	0.01	0.04
Less distributions:					
Dividends from net investment income	(0.03)	(0.01)	(0.01)	(0.01)	(0.04)
Net asset value at end of period	1.00	1.00	1.00	1.00	1.00
Total return (%)	2.81	0.95	0.74	1.48	3.96
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.49	0.49	0.50	0.50	0.50
Gross operating expenses	0.63	0.63	0.63	0.63	0.66
Net investment income	2.75	0.94	0.75	1.46	3.83
Net assets, end of period (\$ x 1,000,000)	571	680	766	907	797

**Portfolio Holdings** as of December 31, 2005

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](http://www.schwab.com/schwabfunds).

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

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

For fixed-rate obligations, the rate shown is the effective yield at the time of purchase, except U.S. Treasury notes, for which the rate shown is the interest rate (the rate established when the obligation was issued). For variable-rate obligations, the rate shown is the rate as of the report date. For variable-rate obligations with scheduled maturities greater than 397 days, the maturity shown is the later of the next interest rate change date or demand date. For variable-rate obligations with scheduled maturities less than 397 days, the maturity shown is the earlier of the next interest rate change date or demand date.

<b>Holdings by Category</b>	<b>Cost</b> (\$x1,000)	<b>Value</b> (\$x1,000)
<b>67.1% Fixed-Rate Obligations</b>	<b>382,833</b>	<b>382,833</b>
<b>17.2% Variable-Rate Obligations</b>	<b>98,405</b>	<b>98,405</b>
<b>14.1% Other Investments</b>	<b>80,547</b>	<b>80,547</b>
<b>98.4% Total Investments</b>	<b>561,785</b>	<b>561,785</b>
<b>1.6% Other Assets and Liabilities</b>		<b>9,275</b>
<b>100.0% Net Assets</b>		<b>571,060</b>

<b>Issuer</b> <b>Rate, Maturity Date</b>	<b>Face Amount</b> (\$ x 1,000)	<b>Value</b> (\$ x 1,000)
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**Fixed-Rate Obligations** 67.1% of net assets**Commercial Paper & Other Corporate Obligations** 47.6%**Alliance & Leicester, PLC, Section 4(2) / 144A**

4.32%, 02/21/06	3,000	2,982
3.95%, 03/14/06	1,500	1,488

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

4.35%, 02/22/06	1,739	1,728
4.35%, 02/23/06	1,000	994
4.37%, 02/28/06	1,000	993

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

4.29%, 01/09/06	6,000	5,994
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**+ ANZ (Delaware), Inc.**

4.30%, 04/17/06	2,000	1,975
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**+ ANZ National Bank (Int'l) Ltd.**

4.01%, 02/23/06	5,000	4,971
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**◆+ Aquinas Funding, L.L.C., Section 4(2) / 144A**

4.28%, 04/10/06	2,000	1,977
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**◆+ ASAP Funding Ltd., Section 4(2) / 144A**

4.31%, 02/02/06	1,000	996
4.46%, 03/07/06	1,000	992

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

4.18%, 01/04/06	1,000	1,000
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**◆ Atlantis One Funding Corp., Section 4(2) / 144A**

4.23%, 01/17/06	9,000	8,983
4.12%, 01/19/06	5,000	4,990

**Bank of America Corp.**

4.42%, 02/28/06	4,000	3,972
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**+ Barclays U.S. Funding Corp.**

4.35%, 02/24/06	1,000	994
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**◆+ Barton Capital Corp., Section 4(2) / 144A**

4.29%, 01/09/06	2,000	1,998
4.12%, 01/17/06	2,104	2,100

**Bear Stearns Companies, Inc.**

4.13%, 01/19/06	4,000	3,992
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**◆+ Beta Finance, Inc., Section 3c7 / 144A**

4.15%, 01/24/06	1,500	1,496
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**◆+ Blue Spice, L.L.C., Section 4(2) / 144A**

4.13%, 03/28/06	2,500	2,476
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**◆ CC (USA), Inc., Section 3c7 / 144A**

4.12%, 01/20/06	3,000	2,994
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Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
♦♦ Chariot Funding, L.L.C., Section 4(2) / 144A			4.37%, 07/06/06	9,000	8,803
4.28%, 01/06/06	1,500	1,499	4.62%, 08/03/06	2,000	1,947
+ Citigroup Funding, Inc.			<b>General Electric Capital Services</b>		
4.27%, 01/12/06	5,000	4,994	4.51%, 05/15/06	2,000	1,967
4.30%, 01/12/06	7,000	6,991	4.65%, 08/02/06	3,000	2,920
4.44%, 03/17/06	1,000	991	4.66%, 08/11/06	1,000	972
♦♦ Concord Minutemen Capital Co., Series A Section 3c7 / 144A			4.73%, 09/15/06	2,000	1,935
3.79%, 01/06/06	5,000	4,997	+ HBOS Treasury Services, PLC		
♦♦ Crown Point Capital Co., L.L.C. Section 3c7 / 144A			4.43%, 03/14/06	5,000	4,956
3.82%, 01/18/06	1,000	998	+ ING (U.S.) Funding, L.L.C.		
4.33%, 04/19/06	1,000	987	4.00%, 02/17/06	2,200	2,189
♦ Dakota CP Notes of Citibank Credit Card Issuance Trust, Section 4 (2) / 144A			<b>Irish Life &amp; Permanent, PLC, Section 4(2) / 144A</b>		
4.18%, 01/03/06	1,000	1,000	4.46%, 03/21/06	2,000	1,981
4.05%, 01/04/06	2,000	1,999	+ IXIS Commercial Paper Corp., Section 4(2) / 144A		
4.10%, 01/11/06	1,000	999	4.26%, 02/16/06	1,000	995
4.11%, 01/11/06	2,500	2,497	4.33%, 02/24/06	3,000	2,981
+ Dexia Delaware L.L.C.			♦♦ Jupiter Securitization Corp., Section 4(2) / 144A		
4.29%, 01/30/06	1,900	1,893	4.24%, 01/19/06	9,000	8,981
<b>DnB NOR Bank ASA</b>			♦ K2 (USA), L.L.C., Section 3c7 / 144A		
4.57%, 06/01/06	3,000	2,944	4.29%, 02/13/06	5,000	4,975
+ Dresdner U.S. Finance, Inc.			+ KBC Financial Products International, Ltd., Section 4(2) / 144A		
4.31%, 01/09/06	1,000	999	4.34%, 02/22/06	3,000	2,981
♦♦ Eiffel Funding, L.L.C., Section 4(2) / 144A			♦ Mane Funding Corp., Section 4(2) / 144A		
4.49%, 03/28/06	1,000	989	4.14%, 01/19/06	7,000	6,986
♦♦ Falcon Asset Securitization Corp., Section 4(2) / 144A			♦♦ Mont Blanc Capital Corp., Section 4(2) / 144A		
4.12%, 01/17/06	5,000	4,991	4.24%, 01/19/06	3,000	2,994
4.24%, 01/18/06	3,000	2,994	♦♦ Nieuw Amsterdam Receivables Corp., Section 4(2) / 144A		
♦ Five Finance Inc., Section 3c7 / 144A			4.11%, 01/13/06	1,000	999
4.04%, 01/03/06	1,000	1,000	4.12%, 01/13/06	1,149	1,147
4.11%, 01/17/06	1,000	998	4.35%, 02/22/06	1,000	994
<b>ForeningsSparbanken AB (Swedbank)</b>			♦♦ Park Avenue Receivables Corp. L.L.C., Section 4(2) / 144A		
4.29%, 04/19/06	1,000	987	4.16%, 01/06/06	7,000	6,996
4.54%, 05/30/06	5,000	4,908	♦ Park Granada, L.L.C., Section 4(2) / 144A		
♦ Galaxy Funding, Inc., Section 4(2) / 144A			4.40%, 03/02/06	2,000	1,985
4.09%, 01/13/06	3,000	2,996	♦♦ Picaros Funding, L.L.C., Section 4(2) / 144A		
<b>General Electric Capital Corp.</b>			3.97%, 02/17/06	1,000	995
3.95%, 03/21/06	7,000	6,941	♦♦ Preferred Receivables Funding Corp. Section 4(2) / 144A		
3.95%, 03/22/06	6,000	5,948	3.97%, 02/10/06	2,000	1,991
4.30%, 04/17/06	1,000	988			
4.52%, 05/23/06	1,000	983			

## 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)
<b>+ San Paolo IMI U.S. Financial Co.</b>			<b>Banca Intesa</b>		
4.03%, 01/05/06	4,000	3,998	4.22%, 01/24/06	6,000	6,000
<b>+ Santander Central Hispano Finance (Delaware), Inc.</b>			<b>Bank of Tokyo-Mitsubishi, Ltd.</b>		
4.00%, 02/24/06	4,000	3,976	4.43%, 03/07/06	2,000	2,000
<b>♦♦ Scaldis Capital Ltd., Section 4(2) / 144A</b>			<b>Barclays Bank PLC</b>		
4.12%, 01/17/06	2,000	1,996	4.18%, 01/04/06	9,000	9,000
4.14%, 01/20/06	3,000	2,994	4.16%, 01/05/06	3,000	3,000
4.37%, 02/27/06	4,000	3,973	<b>BNP Paribas</b>		
4.40%, 03/02/06	3,000	2,978	4.60%, 06/20/06	6,000	6,000
<b>♦♦ Sigma Finance, Inc., Section 3c7 / 144A</b>			<b>Canadian Imperial Bank of Commerce</b>		
4.09%, 01/12/06	2,110	2,107	4.03%, 03/27/06	7,000	7,000
4.34%, 02/21/06	1,000	994	<b>Credit Suisse</b>		
4.47%, 05/08/06	8,000	7,877	4.25%, 01/03/06	3,000	3,000
<b>Skandinaviska Enskilda Banken AB</b>			<b>DePfa Bank, PLC</b>		
4.29%, 02/03/06	2,600	2,590	4.12%, 01/19/06	5,000	5,000
4.03%, 03/02/06	3,000	2,980	<b>Deutsche Bank, AG</b>		
<b>+ Societe Generale North America, Inc.</b>			4.62%, 10/26/06	5,000	5,000
4.30%, 02/06/06	1,300	1,294	<b>Dresdner Bank AG</b>		
4.17%, 03/28/06	3,000	2,971	4.30%, 01/10/06	3,000	3,000
<b>Svenska Handelsbanken, Inc.</b>			<b>+ HBOS Treasury Services, PLC</b>		
4.60%, 06/15/06	4,670	4,574	4.30%, 04/19/06	3,000	3,000
<b>♦♦ Thunder Bay Funding, L.L.C., Section 4(2) / 144A</b>			<b>ING Bank N.V.</b>		
4.24%, 01/05/06	1,000	1,000	4.46%, 05/08/06	3,000	3,000
4.14%, 01/20/06	1,000	998	<b>Landesbank Baden-Wurttemberg</b>		
<b>♦♦ Ticonderoga Funding, LLC., Section 4(2) / 144A</b>			4.58%, 06/12/06	2,000	2,000
4.24%, 01/05/06	6,000	5,997	<b>Landesbank Hessen-Thuringen Girozentrale</b>		
<b>+ UBS Finance (Delaware), Inc.</b>			4.53%, 05/30/06	1,000	1,000
3.88%, 01/12/06	1,025	1,024	<b>Mizuho Corp. Bank, Ltd.</b>		
<b>Westpac Banking Corp., Section 4(2) / 144A</b>			4.28%, 02/10/06	4,000	4,000
4.63%, 06/13/06	7,000	6,856	<b>Nordea Bank Finland, PLC</b>		
<b>♦ Whistlejacket Capital, L.L.C. Section 3c7 / 144A</b>			4.46%, 05/08/06	1,000	1,000
4.15%, 02/03/06	2,600	2,590	<b>Royal Bank of Scotland, PLC</b>		
<b>♦ White Pine Finance, L.L.C., Section 3c7 / 144A</b>			4.29%, 02/01/06	7,000	7,000
4.10%, 01/06/06	2,612	2,611	4.41%, 05/05/06	1,000	1,000
4.30%, 04/18/06	1,000	987	<b>Toronto Dominion Bank</b>		
<b>♦♦ Yorktown Capital, L.L.C., Section 4(2) / 144A</b>			4.64%, 06/28/06	4,000	4,000
4.29%, 01/09/06	2,204	2,202	<b>U.S. Bank, N.A.</b>		
		<b>271,833</b>	4.15%, 01/25/06	4,000	4,000
			<b>UBS, AG</b>		
<b>Certificates of Deposit 19.5%</b>			3.97%, 02/01/06	3,000	3,000
<b>Australia &amp; New Zealand Banking Group Ltd.</b>			<b>Unicredito Italiano SpA</b>		
4.24%, 04/07/06	4,000	4,000	3.78%, 01/17/06	9,000	9,000

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Washington Mutual Bank, FA</b>		
4.30%, 01/17/06	4,000	4,000
<b>Wells Fargo Bank, N.A.</b>		
4.29%, 01/10/06	12,000	12,000
		<b>111,000</b>

**Variable-Rate Obligations** 17.2% of net assets

<b>Barclays Bank, PLC</b>		
4.23%, 01/03/06	1,000	1,000
<b>+ BMC Special Care Facilities Financing Authority of the City of Montgomery, Alabama</b>		
Taxable RB (Montgomery Baptist Outreach Services Corp. Project) Series 1997A		
4.39%, 01/07/06	7,810	7,810
Taxable RB (Montgomery Baptist Outreach Services Corp. Project) Series 1997B		
4.39%, 01/07/06	1,895	1,895
<b>BNP Paribas</b>		
4.25%, 01/04/06	8,000	7,998
4.30%, 01/10/06	5,000	4,999
<b>♦ CC (USA), Inc., Section 3c7 / 144A</b>		
4.34%, 01/23/06	5,286	5,286
<b>+ City of New Britain, Connecticut</b>		
GO Series 2000C		
4.39%, 01/07/06	3,500	3,500
<b>Credit Suisse</b>		
4.32%, 01/11/06	5,000	5,000
<b>♦ Dorada Finance, Inc., Section 3c7 / 144A</b>		
4.32%, 01/17/06	3,000	3,000
<b>♦ Five Finance Inc., Section 3c7 / 144A</b>		
4.33%, 01/17/06	1,000	1,000
<b>♦ Liberty Lighthouse U.S. Capital Co. L.L.C., Section 4(2) / 144A</b>		
4.34%, 01/30/06	3,000	3,000
<b>♦♦ Links Finance, L.L.C., Section 3c7 / 144A</b>		
4.35%, 01/17/06	6,000	6,000
<b>+ Loanstar Assets Partners II, L.P.</b>		
4.46%, 01/07/06	5,000	5,000

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>+ Martinez, California</b>		
M/F Housing Revenue Refunding Bond (Muirwood Garden Apartments) Series 2003A-T		
4.40%, 01/07/06	2,800	2,800
<b>+ New York City IDA</b>		
Taxable Industrial Revenue Refunding Bond (Allway Tools, Inc. Project) Series 1997		
4.44%, 01/07/06	155	155
<b>Norddeutsche Landesbank Girozentrale</b>		
4.32%, 01/17/06	4,000	4,000
<b>Nordea Bank Finland, PLC</b>		
4.30%, 01/17/06	10,000	9,999
<b>+ Palm Springs, California</b>		
COP (Downtown Parking Project) Series 2002A		
4.38%, 01/07/06	8,000	8,000
<b>Royal Bank of Scotland, PLC</b>		
4.26%, 01/03/06	3,000	3,000
<b>♦ Sigma Finance, Inc., Section 3c7 / 144A</b>		
4.33%, 01/17/06	3,000	3,000
4.30%, 11/06/06	1,000	1,000
<b>• The Goldman Sachs Group, Inc.</b>		
4.40%, 01/13/06	4,000	4,000
<b>♦♦ Wachovia Asset Securitization, Inc., / 144A</b>		
Series 2004-HMIA Class A		
4.37%, 01/25/06	1,963	1,963
<b>♦ Whistlejacket Capital, L.L.C., Section 3c7 / 144A</b>		
4.33%, 01/20/06	2,000	2,000
<b>♦ White Pine Finance, L.L.C., Section 3c7 / 144A</b>		
4.32%, 01/12/06	3,000	3,000
		<b>98,405</b>

**Security** **Maturity Amount**  
(\$ x 1,000)

**Other Investments** 14.1% of net assets

**Repurchase Agreements** 14.1%

**Credit Suisse First Boston**

Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$1,580		
4.26%, issued 12/30/05, due 01/03/06	1,547	1,547

**Portfolio Holdings** continued

<b>Security</b>	<b>Maturity Amount</b> (\$ x 1,000)	<b>Value</b> (\$ x 1,000)
<b>Morgan Stanley &amp; Co. Inc.</b>		
Tri-Party Repurchase Agreement		
Collateralized by U.S. Government		
Securities with a value of \$80,926		
4.28%, issued 01/03/06,		
due 01/03/06		
	79,038	79,000
		<b>80,547</b>

**End of investments.**

<b>Issuer</b>	<b>Face Amount</b>	<b>Cost/ Value</b>
<b>Rate, Acquisition Date, Maturity Date</b>	(\$ x 1,000)	(\$ x 1,000)

**At December 31, 2005 portfolio holdings included illiquid and/or restricted securities as follows:**

<b>Blue Spice, L.L.C. Section 4(2) / 144A</b>		
4.13%, 09/27/05, 03/28/06	2,500	<b>2,476</b>
<b>The Goldman Sachs Group, Inc.</b>		
4.40%, 07/18/05, 01/13/06	4,000	<b>4,000</b>

## Statement of

**Assets and Liabilities**

As of December 31, 2005. All numbers x 1,000 except NAV.

**Assets**

Investments, at value	\$481,238
Repurchase agreements at value	80,547
Receivables:	
Fund shares sold	8,978
Interest	1,020
Prepaid expenses	+ 18
<b>Total assets</b>	<b>571,801</b>

**Liabilities**

Payables:	
Fund shares redeemed	606
Dividends to shareholders	67
Investment adviser and administrator fees	10
Transfer agent and shareholder service fees	10
Trustees' fees	8
Accrued expenses	+ 40
<b>Total liabilities</b>	<b>741</b>

**Net Assets**

<b>Total assets</b>	571,801
<b>Total liabilities</b>	- 741
<b>Net assets</b>	<b>\$571,060</b>

**Net Assets by Source**

Capital received from investors	\$571,060
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**Net Asset Value (NAV)**

<b>Net Assets</b>	<b>÷</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$571,060		571,118		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost of the fund's securities was \$561,785. Includes restricted and/or illiquid securities worth \$6,476 or 1.1% of the fund's total net assets. Also, includes other restricted but deemed liquid securities comprised of 144A, section 4(2) and 3c7 securities, worth \$196,515 or 34.4% of the fund's total net assets.

**Federal Tax Data****Cost basis of portfolio** \$561,785

## Statement of

**Operations**

For January 1, 2005 through December 31, 2005. All numbers x 1,000.

**Investment Income**

Interest	<b>\$20,777</b>
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**Expenses**

Investment adviser and administrator fees	2,437	
Transfer agent and shareholder service fees	1,411	
Trustees' fees	25	
Custodian and portfolio accounting fees	72	
Professional fees	28	
Registration fees	55	
Other expenses	+	10
Total expenses	4,038	
Expense reduction	-	896
<b>Net expenses</b>		<b>3,142</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	20,777
<b>Net expenses</b>	- 3,142
<b>Net investment income</b>	17,635
<b>Increase in net assets from operations</b>	<b>\$17,635</b>

Unless stated, all numbers x 1,000.

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

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

For the fund's independent trustees only.

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



Statements of

**Changes in Net Assets**

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

**Operations**

	1/1/05–12/31/05	1/1/04–12/31/04
Net investment income	\$17,635	\$6,778
<b>Increase in net assets from operations</b>	<b>17,635</b>	<b>6,778</b>

**Distributions Paid**

Dividends from net investment income	<b>17,635</b>	<b>6,778</b>
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**Transactions in Fund Shares**

Shares sold	328,145	527,193
Shares reinvested	17,297	6,620
Shares redeemed	+ (454,550)	(619,675)
<b>Net transactions in fund shares</b>	<b>(109,108)</b>	<b>(85,862)</b>

**Net Assets**

Beginning of period	680,168	766,030
Total decrease	+ (109,108)	(85,862)
<b>End of period</b>	<b>\$571,060</b>	<b>\$680,168</b>

Unless stated, all numbers x 1,000.

The tax-basis components of distributions are:

**Current year**

Ordinary income	\$17,635
Long-term capital gains	\$–

**Prior year**

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

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

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

# Schwab Investor Money Fund<sup>®</sup>

## Financial Statements

### Financial Highlights

	1/1/05– 12/31/05	1/1/04– 12/31/04	1/1/03– 12/31/03	1/1/02– 12/31/02	1/1/01– 12/31/01
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	1.00	1.00	1.00	1.00	1.00
Income from investment operations:					
Net investment income	0.03	0.01	0.01	0.01	0.04
Less distributions:					
Dividends from net investment income	(0.03)	(0.01)	(0.01)	(0.01)	(0.04)
Net asset value at end of period	1.00	1.00	1.00	1.00	1.00
Total return (%)	2.63	0.77	0.58	1.30	3.75
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.67	0.66	0.66	0.68	0.70
Gross operating expenses	0.67	0.66	0.66	0.68	0.70
Net investment income	2.61	0.76	0.58	1.28	3.61
Net assets, end of period (\$ x 1,000,000)	521	492	578	566	515

**Portfolio Holdings** as of December 31, 2005

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](http://www.schwab.com/schwabfunds).

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

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

For fixed-rate obligations, the rate shown is the effective yield at the time of purchase, except U.S. Treasury notes, for which the rate shown is the interest rate (the rate established when the obligation was issued). For variable-rate obligations, the rate shown is the rate as of the report date. For variable-rate obligations with scheduled maturities greater than 397 days, the maturity shown is the later of the next interest rate change date or demand date. For variable-rate obligations with scheduled maturities less than 397 days, the maturity shown is the earlier of the next interest rate change date or demand date.

<b>Holdings by Category</b>	<b>Cost</b> (\$x1,000)	<b>Value</b> (\$x1,000)
<b>70.7% Fixed-Rate Obligations</b>	<b>367,964</b>	<b>367,964</b>
<b>14.4% Variable-Rate Obligations</b>	<b>74,686</b>	<b>74,686</b>
<b>14.9% Other Investments</b>	<b>77,464</b>	<b>77,464</b>
<b>100.0% Total Investments</b>	<b>520,114</b>	<b>520,114</b>
<b>0.0% Other Assets and Liabilities</b>		<b>933</b>
<b>100.0% Net Assets</b>		<b>521,047</b>

<b>Issuer</b> <b>Rate, Maturity Date</b>	<b>Face Amount</b> (\$ x 1,000)	<b>Value</b> (\$ x 1,000)
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**Fixed-Rate Obligations** 70.7% of net assets**Commercial Paper & Other Corporate Obligations** 52.2%**Alliance & Leicester, PLC, Section 4(2) / 144A**

3.95%, 03/14/06	1,500	1,488
4.49%, 05/10/06	1,000	984

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

4.35%, 02/22/06	5,000	4,969
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**◆+ Amsterdam Funding Corp., Section 4(2) / 144A**

4.24%, 01/04/06	2,000	1,999
4.29%, 01/09/06	6,000	5,994

**+ ANZ (Delaware), Inc.**

4.30%, 04/17/06	3,000	2,963
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**+ ANZ National Bank (Int'l) Ltd.**

4.01%, 02/23/06	4,000	3,977
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**◆+ Aquinas Funding, L.L.C., Section 4(2) / 144A**

4.26%, 04/11/06	1,000	988
4.66%, 06/23/06	1,000	978

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

4.20%, 01/06/06	1,000	999
4.46%, 03/07/06	3,000	2,976

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

4.30%, 01/06/06	3,000	2,998
4.21%, 01/10/06	2,000	1,998

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

3.88%, 01/18/06	1,000	998
4.01%, 03/01/06	7,000	6,955
4.64%, 06/28/06	5,000	4,888

**Bank of America Corp.**

4.42%, 02/27/06	7,000	6,951
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**Bank of Ireland, Section 4(2) / 144A**

4.25%, 01/27/06	1,000	997
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**Bear Stearns Companies, Inc.**

4.13%, 01/19/06	3,000	2,994
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**◆+ Beta Finance, Inc., Section 3c7 / 144A**

4.31%, 02/17/06	2,000	1,989
4.00%, 03/01/06	1,000	994

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

4.18%, 01/03/06	2,000	2,000
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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)
<b>+ CBA (Delaware) Finance, Inc.</b>			<b>General Electric Capital Corp.</b>		
4.27%, 02/15/06	4,000	3,979	3.99%, 03/02/06	2,000	1,987
4.32%, 02/21/06	1,000	994	4.29%, 04/03/06	7,293	7,215
<b>♦ CC (USA), Inc., Section 3c7 / 144A</b>			4.40%, 04/06/06	4,000	3,954
4.12%, 01/20/06	4,000	3,991	4.30%, 04/17/06	2,000	1,975
<b>♦♦ Chariot Funding, L.L.C., Section 4(2) / 144A</b>			4.46%, 05/03/06	1,000	985
4.20%, 01/13/06	1,283	1,281	4.46%, 05/11/06	2,000	1,969
4.25%, 01/25/06	1,000	997	4.37%, 07/06/06	3,000	2,934
<b>+ Citigroup Funding, Inc.</b>			<b>General Electric Capital Services</b>		
4.33%, 01/24/06	5,000	4,986	4.51%, 05/15/06	3,000	2,951
4.41%, 02/21/06	1,000	994	4.69%, 09/01/06	3,000	2,908
4.44%, 03/13/06	1,000	991	4.70%, 09/12/06	3,000	2,904
4.45%, 03/16/06	10,000	9,910	<b>♦♦ Grampian Funding, L.L.C., Section 4(2) / 144A</b>		
4.44%, 03/17/06	1,000	991	4.46%, 03/22/06	3,000	2,971
<b>♦♦ Concord Minutemen Capital Co., Series A Section 3c7 / 144A</b>			4.29%, 04/11/06	1,000	988
3.75%, 01/06/06	3,000	2,999	<b>Irish Life &amp; Permanent, PLC, Section 4(2) / 144A</b>		
4.25%, 04/07/06	1,000	989	4.12%, 01/18/06	1,000	998
<b>♦♦ Crown Point Capital Co., L.L.C., Section 3c7 / 144A</b>			4.22%, 01/31/06	1,000	997
3.82%, 01/18/06	4,938	4,929	<b>+ IXIS Commercial Paper Corp., Section 4(2) / 144A</b>		
<b>♦ Dakota CP Notes of Citibank Credit Card Issuance Trust, Section 4 (2) / 144A</b>			4.60%, 06/16/06	2,500	2,448
4.12%, 01/18/06	3,000	2,994	<b>♦♦ Jupiter Securitization Corp., Section 4(2) / 144A</b>		
4.49%, 03/28/06	6,000	5,936	4.19%, 01/11/06	8,000	7,991
<b>+ Dexia Delaware L.L.C.</b>			<b>♦ K2 (USA), L.L.C., Section 3c7 / 144A</b>		
4.43%, 03/14/06	2,000	1,983	4.35%, 02/17/06	4,000	3,978
<b>DnB Nor Bank ASA</b>			4.13%, 03/27/06	1,000	990
4.33%, 02/08/06	5,200	5,176	<b>+ KBC Financial Products International, Ltd., Section 4(2) / 144A</b>		
<b>♦ Dorada Finance, Inc., Section 3c7 / 144A</b>			4.34%, 02/22/06	2,500	2,485
4.12%, 01/20/06	2,000	1,996	<b>♦♦ Links Finance, L.L.C., Section 3c7 / 144A</b>		
<b>+ Dresdner U.S. Finance, Inc.</b>			4.37%, 02/27/06	1,000	993
4.42%, 02/21/06	1,000	994	<b>♦ Mane Funding Corp., Section 4(2) / 144A</b>		
<b>♦♦ Eiffel Funding, L.L.C., Section 4(2) / 144A</b>			4.14%, 01/19/06	5,000	4,990
4.49%, 03/28/06	2,000	1,979	4.32%, 02/17/06	2,000	1,989
<b>♦♦ Fairway Finance Co., L.L.C., Section 4(2) / 144A</b>			<b>♦♦ Mont Blanc Capital Corp., Section 4(2) / 144A</b>		
4.23%, 01/03/06	3,000	2,999	4.21%, 01/13/06	2,000	1,997
4.35%, 02/21/06	1,850	1,839	4.24%, 01/19/06	1,145	1,143
<b>♦ Five Finance Inc., Section 3c7 / 144A</b>			<b>Morgan Stanley</b>		
4.11%, 01/17/06	1,000	998	4.29%, 04/12/06	3,000	2,965
4.31%, 04/19/06	1,000	987	4.32%, 04/17/06	1,000	988
<b>Foreningssparbanken (Swedbank)</b>			<b>♦♦ Nieuw Amsterdam Receivables Corp., Section 4(2) / 144A</b>		
4.29%, 02/03/06	1,000	996	3.79%, 01/12/06	583	582
4.29%, 04/19/06	1,000	987	4.45%, 03/13/06	2,000	1,983
4.54%, 05/30/06	2,000	1,963			

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>+ Nordea North America, Inc.</b>		
4.16%, 03/31/06	1,500	1,485
<b>Northern Rock PLC</b>		
4.41%, 03/07/06	2,000	1,984
<b>◆◆ Old Line Funding, L.L.C., Section 4(2) / 144A</b>		
4.28%, 01/03/06	1,979	1,979
4.24%, 01/04/06	3,000	2,999
<b>◆◆ Park Avenue Receivables Corp. L.L.C., Section 4(2) / 144A</b>		
4.16%, 01/06/06	1,393	1,392
4.23%, 01/19/06	4,500	4,491
<b>◆ Park Granada, L.L.C., Section 4(2) / 144A</b>		
4.29%, 01/09/06	2,000	1,998
4.30%, 02/07/06	1,000	996
<b>◆◆ Picaros Funding, L.L.C., Section 4(2) 144A</b>		
4.54%, 05/22/06	2,000	1,965
<b>◆◆ Preferred Receivables Funding Corp. Section 4(2) / 144A</b>		
3.97%, 02/10/06	2,000	1,991
<b>+ San Paolo IMI U.S. Financial Co.</b>		
4.03%, 01/05/06	2,000	1,999
<b>+ Santander Central Hispano Finance (Delaware), Inc.</b>		
4.00%, 02/24/06	3,000	2,982
<b>◆◆ Scaldis Capital Ltd., Section 4(2) / 144A</b>		
4.14%, 01/20/06	5,000	4,989
4.26%, 01/25/06	1,000	997
4.37%, 02/27/06	4,000	3,973
4.46%, 03/15/06	1,000	991
<b>◆◆ Sheffield Receivables Corp., Section 4(2) 144A</b>		
4.19%, 01/09/06	1,000	999
<b>◆◆ Sigma Finance, Inc., Section 3c7 / 144A</b>		
4.17%, 01/05/06	5,000	4,998
3.88%, 01/12/06	1,000	999
4.22%, 02/03/06	1,000	996
4.45%, 03/30/06	1,440	1,425
4.47%, 05/08/06	1,000	985
<b>Skandinaviska Enskilda Banken AB</b>		
4.17%, 01/05/06	1,700	1,699
<b>+ Societe Generale North America, Inc.</b>		
4.15%, 03/28/06	2,000	1,981
<b>◆◆ Thunder Bay Funding, L.L.C., Section 4(2) / 144A</b>		
4.24%, 01/05/06	4,110	4,108

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>+ Westpac Banking Corp., Section 4(2) / 144A</b>		
4.38%, 03/02/06	5,000	4,964
4.62%, 06/16/06	2,000	1,958
<b>◆ Whistlejacket Capital, L.L.C. Section 3c7 / 144A</b>		
4.15%, 02/03/06	1,000	996
<b>◆ White Pine Finance, L.L.C., Section 3c7 / 144A</b>		
4.28%, 04/10/06	3,500	3,460
<b>◆◆ Windmill Funding Corp., Section 4(2) / 144A</b>		
4.32%, 02/02/06	2,000	1,992
		<b>271,964</b>

#### Certificates of Deposit 17.9%

<b>American Express Bank FSB</b>		
4.44%, 03/14/06	1,000	1,000
<b>Australia &amp; New Zealand Banking Group Ltd.</b>		
4.24%, 04/07/06	2,000	2,000
<b>Bank of Tokyo-Mitsubishi, Ltd.</b>		
4.44%, 03/09/06	4,000	4,000
<b>Barclays Bank PLC</b>		
4.18%, 01/04/06	5,000	5,000
4.20%, 01/11/06	1,000	1,000
<b>BNP Paribas</b>		
4.03%, 03/27/06	5,000	5,000
<b>Credit Agricole S.A.</b>		
4.63%, 06/22/06	2,000	2,000
<b>Credit Suisse</b>		
4.25%, 01/26/06	1,000	1,000
<b>DePfa Bank, PLC</b>		
4.12%, 01/19/06	4,000	4,000
<b>Deutsche Bank, AG</b>		
4.62%, 10/26/06	3,000	3,000
<b>Dresdner Bank AG</b>		
4.25%, 01/26/06	3,000	3,000
<b>Fortis Bank</b>		
4.18%, 04/03/06	2,000	2,000
<b>+ HBOS Treasury Services, PLC</b>		
4.38%, 03/10/06	3,000	3,000
4.30%, 04/19/06	2,000	2,000
<b>Mizuho Corp. Bank, Ltd.</b>		
4.28%, 02/10/06	4,000	4,000
<b>Nordea Bank Finland, PLC</b>		
4.49%, 05/15/06	4,000	4,000

## 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)
<b>Royal Bank of Canada</b> 4.01%, 02/28/06	2,000	2,000	<b>+ Columbus, Georgia Development Authority</b> Taxable RB (Jay Leasing, Inc. Project) Series 1997 4.41%, 01/07/06	1,735	1,735
<b>San Paolo IMI SpA</b> 4.36%, 03/01/06	7,000	7,000	<b>Credit Suisse</b> 4.32%, 01/11/06	7,000	7,000
<b>Suntrust Bank, Inc.</b> 4.20%, 02/03/06	1,000	1,000	<b>+ Eagle County, Colorado Taxable Housing Facilities</b> RB (BC Housing, L.L.C. Project) Series 1997B 4.39%, 01/07/06	1,500	1,500
<b>Toronto Dominion Bank</b> 4.46%, 03/27/06	7,000	7,000	<b>◆+ Lexington Parker Capital Co., L.L.C., Section 4(2) / 144A</b> 4.24%, 01/03/06	2,000	2,000
<b>UBS, AG</b> 3.97%, 02/01/06	5,000	5,000	4.34%, 01/09/06	4,000	4,000
<b>Unicredito Italiano SpA</b> 3.78%, 01/17/06	6,000	6,000	<b>◆ Liberty Lighthouse U.S. Capital Co. L.L.C., Section 4(2) / 144A</b> 4.29%, 01/09/06	1,000	1,000
4.29%, 04/18/06	1,000	1,000	4.34%, 01/30/06	2,000	2,000
<b>Washington Mutual Bank, FA</b> 4.30%, 01/17/06	4,000	4,000	<b>+ LP Pinewoods SPV</b> 4.40%, 01/07/06	15,000	15,000
<b>Wells Fargo Bank, N.A.</b> 4.29%, 01/10/06	9,000	9,000	<b>Norddeutsche Landesbank Girozentrale</b> 4.32%, 01/17/06	2,000	2,000
<b>Wilmington Trust Company</b> 4.24%, 04/05/06	5,000	5,000	<b>Nordea Bank Finland, PLC</b> 4.34%, 01/17/06	3,000	3,000
		<b>93,000</b>	<b>Royal Bank of Scotland, PLC</b> 4.32%, 01/27/06	3,000	2,999
<b>Bank Notes 0.6%</b>			4.33%, 01/30/06	6,000	5,999
<b>Bank of America, N.A.</b> 4.19%, 01/11/06	3,000	<b>3,000</b>	<b>◆+ Sigma Finance, Inc., Section 3c7 / 144A</b> 4.33%, 01/17/06	3,000	3,000
			<b>• The Goldman Sachs Group, Inc.</b> 4.40%, 01/13/06	3,000	3,000
<b>Variable-Rate Obligations 14.4% of net assets</b>			<b>+ Village of Sturtevant, Wisconsin</b> IDRB (Andis Co. Project) Series 1996B 4.47%, 01/07/06	695	695
<b>Barclays Bank, PLC</b> 4.30%, 01/10/06	3,000	2,999	<b>◆ Whistlejacket Capital, L.L.C., Section 3c7 / 144A</b> 4.33%, 01/17/06	1,000	1,000
4.31%, 01/23/06	1,000	1,000	4.33%, 01/20/06	1,000	1,000
<b>BNP Paribas</b> 4.30%, 01/10/06	5,000	4,999	<b>◆ White Pine Finance, L.L.C., Section 3c7 / 144A</b> 4.32%, 01/12/06	2,000	2,000
4.31%, 01/17/06	1,000	1,000			<b>74,686</b>
<b>+ California Pollution Control Financing Authority</b> Solid Waste Disposable RB (Burr Properties Project) Series 1998B 4.38%, 01/07/06	1,760	1,760			
<b>◆ CC (USA), Inc., Section 3c7 / 144A</b> 4.34%, 01/23/06	4,000	4,000			

Security	Maturity Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Acquisition Date, Maturity Date	Face Amount (\$ x 1,000)	Cost/ Value (\$ x 1,000)
<b>Other Investments</b> 14.9% of net assets			<b>At 12/31/05, portfolio holdings included illiquid and/or restricted securities as follows:</b>		
<b>Repurchase Agreements 14.9%</b>			<b>Blue Spice, L.L.C. Section 4(2) / 144A</b>		
<b>Credit Suisse First Boston</b>			4.18%, 11/03/05, 01/03/06	2,000	<b>2,000</b>
Tri-Party Repurchase Agreement			<b>The Goldman Sachs Group, Inc.</b>		
Collateralized by U.S. Government			4.40%, 07/18/05, 01/13/06	3,000	<b>3,000</b>
Securities with a value of \$1,496					
4.26%, issued 12/30/05,					
due 01/03/06	1,465	1,464			
<b>Morgan Stanley &amp; Co. Inc.</b>					
Tri-Party Repurchase Agreement					
Collateralized by U.S. Government					
Securities with a value of \$65,578					
4.28%, issued 12/30/05,					
due 01/03/06	64,030	64,000			
<b>UBS Financial Services, Inc.</b>					
Tri-Party Repurchase Agreement					
Collateralized by U.S. Government					
Securities with a value of \$12,243					
4.35%, issued 12/37/05,					
due 01/03/06	5,004	5,000			
4.24%, issued 10/11/05,					
due 01/06/06	6,061	6,000			
4.29%, issued 12/12/05,					
due 01/06/06	1,003	1,000			
		<b>77,464</b>			

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**End of investments.**

## Statement of

**Assets and Liabilities**

As of December 31, 2005. All numbers x 1,000 except NAV.

**Assets**

Investments, at value	\$442,650
Repurchase agreements at value	77,464
Receivables:	
Fund shares sold	2,398
Interest	926
Prepaid expenses	+ 15
<b>Total assets</b>	<b>523,453</b>

**Liabilities**

Payables:	
Fund shares redeemed	2,290
Dividends to shareholders	25
Investment adviser and administrator fees	16
Transfer agent and shareholder service fees	11
Trustees' fees	7
Accrued expenses	+ 57
<b>Total liabilities</b>	<b>2,406</b>

**Net Assets**

<b>Total assets</b>	523,453
<b>Total liabilities</b>	- 2,406
<b>Net assets</b>	<b>\$521,047</b>

**Net Assets by Source**

Capital received from investors	\$521,047
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**Net Asset Value (NAV)**

<b>Net Assets</b>	<b>+</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$521,047		521,105		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost of the fund's securities was \$520,114. Includes restricted and/or illiquid securities worth \$5,000, or 1.0% 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 \$192,270 or 36.9% of the fund's total net assets.

**Federal Tax Data****Cost basis of portfolio** \$520,114



## Statement of

**Operations**

For January 1, 2005 through December 31, 2005. All numbers x 1,000.

**Investment Income**

Interest	<b>\$16,687</b>
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**Expenses**

Investment adviser and administrator fees	1,931
Transfer agent and shareholder service fees	1,270
Trustees' fees	26
Custodian and portfolio accounting fees	60
Professional fees	28
Registration fees	79
Shareholder reports	24
Other expenses	+ 11

<b>Total expenses</b>	<b>3,429</b>
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**Increase in Net Assets from Operations**

<b>Total investment income</b>	16,687
<b>Total expenses</b>	- 3,429
<b>Net investment income</b>	13,258
<b>Increase in net assets from operations</b>	<b>\$13,258</b>

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**

	1/1/05–12/31/05	1/1/04–12/31/04
Net investment income	\$13,258	\$4,155
<b>Increase in net assets from operations</b>	<b>13,258</b>	<b>4,155</b>

**Distributions Paid**

Dividends from net investment income	<b>13,258</b>	<b>4,155</b>
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**Transactions in Fund Shares**

Shares sold	335,633	321,230
Shares reinvested	13,137	4,104
Shares redeemed	+ (320,068)	(410,657)
<b>Net transactions in fund shares</b>	<b>28,702</b>	<b>(85,323)</b>

**Net Assets**

Beginning of period	492,345	577,668
Total increase or decrease	+ 28,702	(85,323)
<b>End of period</b>	<b>\$521,047</b>	<b>\$492,345</b>

Unless stated, all numbers x 1,000.

The tax-basis components of distributions are:

**Current year**

Ordinary income	\$13,258
Long-term capital gains	\$–

**Prior year**

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

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

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

# Financial Notes

## 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 Investor Money Fund  
 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 using the effective interest rate method. 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

Schwab Investor 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 Investor Money Fund (two of the portfolios constituting The Charles Schwab Family of Funds, hereafter referred to as the “Funds”) at December 31, 2005, 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 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, 2005 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

### **PricewaterhouseCoopers LLP**

San Francisco, California

February 14, 2006

# Investment Advisory Agreement Approval

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

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

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

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

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

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

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

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

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



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

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

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

**Subsequent Continuation, August 2005.** At the August 31, 2005 meeting of the Board, the trustees, including a majority of the Independent Trustees, approved the continuation of the Agreement through June 30, 2006. This approval extended the interim approval of the Agreement by the Board, which had taken place on May 24, 2005 and is discussed above. In connection with the approval of the Agreement, the Board considered additional information provided by CSIM in response to the Board's requests at the May 24, 2005 meeting, as well as reconsidered the information provided and factors considered at prior meetings including. The Board concluded that the information provided at the meeting supported continuation of the Agreement. In the course of their deliberations, the trustees did not identify any particular information or factor that was all-important or controlling. Based on the trustees' deliberation and their evaluation of the information described above, the Board, including all of the Independent Trustees, unanimously approved the continuation of the Agreement and concluded that the compensation under the Agreement is fair and reasonable in light of such services and expenses and such other matters as the trustees have considered to be relevant in the exercise of their reasonable judgment.

# Trustees and Officers

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

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

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

Independent Trustees		
Name and Year of Birth	Trustee Since	Main Occupations and Other Directorships and Affiliations
Mariann Byerwalter 1960	2000 (all trusts).	Chairman, JDN Corp. Advisory LLC (real estate). <i>Until 2001:</i> Special Advisor to the President, Stanford University. <i>From 1996-2001:</i> Vice President of Business Affairs, Chief Financial Officer, Stanford University. Ms. Byerwalter is on the Boards of Stanford University, America First Cos. (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, Pacific Life Insurance Company (insurance), Laudus Trust and Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex. <sup>2</sup>

<sup>1</sup> 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.

<sup>2</sup> This includes 10 series of the Laudus Trust and the sole series of the Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex.

## Independent Trustees continued

Name and Year of Birth	Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Donald F. Dorward</b> 1931	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chief Executive Officer, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999</i> : Executive Vice President, Managing Director, Grey Advertising. <i>Until 1996</i> : President, Chief Executive Officer, Allen & Dorward Advertising.
<b>William A. Hasler</b> 1941	2000 (all trusts).	Dean Emeritus of the Haas School of Business, University of California, Berkeley. <i>Until 2/04</i> , Co-Chief Executive Officer, Aphton Corporation (bio-pharmaceuticals). <i>Prior to 8/98</i> , Dean of the Haas School of Business, University of California, Berkeley (higher education). Mr. Hasler is on the Boards of Aphton Corporation (bio-pharmaceuticals), Mission West Properties (commercial real estate), Stratex Networks (network equipment), TOUSA (home building), Genitope Corp. (bio-pharmaceuticals), Laudus Trust and Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex. <sup>3</sup> Non-Executive Chairman, Solectron Corporation (manufacturing).
<b>Robert G. Holmes</b> 1931	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer, Director, Semloh Financial, Inc. (international financial services and investment advisory firm).
<b>Gerald B. Smith</b> 1950	2000 (all trusts).	<i>Since 1990</i> , Chairman and Chief Executive Officer and founder of Smith Graham & Co. (investment advisors). Mr. Smith is on the Board of Cooper Industries (electrical products, tools and hardware); Chairman, Texas Southern University Foundation; Executive Committee and Board Member, MD Anderson Cancer Center; Chairman of the audit committee of Northern Border Partners, M.L.P. (energy).
<b>Donald R. Stephens</b> 1938	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chairman, Chief Executive Officer, North American Trust (real estate investment trust).
<b>Michael W. Wilsey</b> 1943	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer, Wilsey Bennett, Inc. (real estate investment and management, and other investments).

<sup>3</sup> This includes 10 series of the Laudus Trust and the sole series of the Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex.

## Interested Trustees

Name and Year of Birth	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Charles R. Schwab</b> <sup>4</sup> 1937	Chairman, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer and Director, The Charles Schwab Corporation, Charles Schwab & Co., Inc.; Chairman and Director, Charles Schwab Investment Management, Inc., Charles Schwab Bank, N.A.; Chairman and Chief Executive Officer, Schwab (SIS) Holdings Inc. I, Schwab International Holdings, Inc.; Chief Executive Officer and Director, Schwab Holdings, Inc.; Director, U.S. Trust Company, N.A., U.S. Trust Corporation, United States Trust Company of New York. <i>Until 5/03</i> , Co-Chief Executive Officer, The Charles Schwab Corporation. Trustee, Charles and Helen Schwab Foundation; Chairman, All Kinds of Minds Institute (education), Trustee, Stanford University; Chairman and Director, Charles Schwab Foundation; Chairman of the Finance Committee, San Francisco Museum of Modern Art.
<b>Randall W. Merk</b> <sup>4</sup> 1954	Trustee, 2005 (all trusts).	Executive Vice President and President, Asset Management Products & Services, Charles Schwab & Co., Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From 9/02 to 7/04</i> , President and Chief Executive Officer, Charles Schwab Investment Management, Inc. and Executive Vice President, Charles Schwab & Co., Inc. <i>Prior to 9/02</i> , President and Chief Investment Officer, American Century Investment Management; Director, American Century Companies, Inc. <i>Until 6/01</i> , Chief Investment Officer, Fixed Income, American Century Companies, Inc.

## Officers of the Trust

Name and Year of Birth	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
<b>Evelyn Dilsaver</b> 1955	President, Chief Executive Officer (all trusts).	Executive Vice President, President, Director, Charles Schwab Investment Management, Inc. Vice President, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 7/04</i> : Senior Vice President, Asset Management Products & Services Enterprise. <i>Until 6/03</i> : Executive Vice President, Chief Financial Officer, Chief Administrative Officer, U.S. Trust.
<b>Stephen B. Ward</b> 1955	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co.

<sup>4</sup> In addition to their positions with the investment adviser and the distributor, Messrs. Schwab and Merk also own stock of the Charles Schwab Corporation.

## Officers of the Trust continued

Name and Year of Birth	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
<b>Kimon Daifotis</b> 1959	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President and Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Until 6/04</i> : Vice President and Senior Portfolio Manager, Charles Schwab Investment Management, Inc.
<b>Jeffrey Mortimer</b> 1963	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc.; Vice President, Chief Investment Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 5/04</i> : Vice President and Senior Portfolio Manager, Charles Schwab Investment Management, Inc.
<b>Randall Fillmore</b> 1960	Chief Compliance Officer (all trusts).	Senior Vice President, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Chief Compliance Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 9/03</i> : Vice President, Charles Schwab & Co., Inc. and Charles Schwab Investment Management, Inc. <i>Until 2002</i> : Vice President, Internal Audit, Charles Schwab & Co., Inc.
<b>Koji E. Felton</b> 1961	Secretary (all trusts).	Senior Vice President, Chief Counsel and Corporate Secretary, Charles Schwab Investment Management, Inc.; Senior Vice President and Deputy General Counsel, Charles Schwab & Co., Inc. <i>Prior to 6/98</i> , Branch Chief in Enforcement at U.S. Securities and Exchange Commission in San Francisco.
<b>George Pereira</b> 1964	Treasurer, Principal Financial Officer (all trusts).	Senior Vice President and Chief Financial Officer, Charles Schwab Investment Management, Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From 12/99 to 11/04</i> , Senior Vice President, Financial Reporting, Charles Schwab & Co., Inc.

# Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Portfolio terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Notes



## Notes

## Notes

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

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

### Methods for Placing Orders

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

#### Internet<sup>1</sup>

[www.schwab.com](http://www.schwab.com)

#### Schwab by Phone™<sup>2</sup>

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

#### TeleBroker®

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

#### Mail

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

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

### Proxy Voting Policies, Procedures and Results

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

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

## The Schwab Funds Family®

### Stock Funds

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

### Asset Allocation Funds

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

### Bond Funds

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

### Schwab Money Funds

Schwab offers an array of money market funds that seek high current income consistent with safety and liquidity.<sup>3</sup> 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®.

<sup>1</sup> Shares of Sweep Investments™ may not be purchased directly over the Internet.

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

<sup>3</sup> 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, 2005

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# From the Chairman



Charles Schwab  
Chairman

Dear Shareholder,

I founded Schwab over thirty years ago to be a home for serious investors. That mission continues to guide us today as we constantly innovate on behalf of our clients. By continuing to provide the highest quality products and services—at a great price—we remain true to our heritage.

I take particular pride in the Schwab Funds. Founded over 15 years ago, they have grown to include more than 50 funds with over \$140 billion in assets as of this report date. With a variety of investment strategies, Schwab Funds provide a range of innovative investment choices that can serve as a foundation for your asset allocation plan.

Schwab Funds is managed by Charles Schwab Investment Management, Inc., which currently ranks as one of the largest investment managers in the country. Our portfolio managers share a passion for market analysis and use some of the most sophisticated financial models available. I am proud of their depth of experience, which reflects an average tenure of more than 15 years in the investment industry. Furthermore, I am impressed with the commitment that our managers bring to the stewardship of the funds, for you, their shareholders.

We strive every day to warrant the trust you have placed in us; that will never change. 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 letters of the first and last names being capitalized and prominent.

*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.*

# Management's Discussion for the year ended December 31, 2005



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

Dear Shareholder,

I'm pleased to bring you the annual report for your Schwab money fund for the year ended December 31, 2005. Although the period was marked by volatility, our money funds provided competitive yields as well as safety and stability.

I would like to take this opportunity to remind you that Schwab Funds offers a range of position-traded money funds that are available with a variety of minimums and investment strategies to meet your needs. These funds and share classes are available beginning with a minimum initial investment of \$25,000 (\$15,000 for IRA and custodial accounts) and include both taxable and, for clients who are tax sensitive, tax-free investment strategies. To make these products even more convenient, we've recently reduced the subsequent investment minimum requirement from \$5,000 to \$500 on several of our Value Advantage Investments.

We continue to develop and manage Schwab Funds to help you achieve your goals and to provide an uncomplicated way to build a well-diversified portfolio. During the report period covered by this book, Schwab Funds launched seven new funds across varying investment styles and strategies.

In closing, I speak for all of Schwab Funds when I say we want Schwab to be the place where investors can find useful, quality financial products and services to help them succeed.

Thank you for investing in Schwab Funds.

Sincerely,

A handwritten signature in black ink that reads "Evelyn Dilsaver". The signature is fluid and cursive, with a small dot above the 'i' in Dilsaver.

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





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



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

## The Investment Environment and the Fund

Despite having witnessed a turbulent year in the news, the markets remained in a steady growth mode and ended the one-year report period with positive results. Oil prices hit highs never seen before and the Federal Reserve continued to raise short-term interest rates to curb inflationary pressures, raising the rates eight consecutive times in the one-year report period and bringing the benchmark rate up to 4.25%. The moves had a limited impact on overall economic growth, due primarily to the low level of rates from which the increases began.

Regardless of the concerns of high energy prices, which remained a significant headwind for economic performance throughout the period, corporate earnings remained strong throughout the year. Additionally, with the unemployment rate hovering around 5% and GDP growth around 3.5%, job and income growth remained positive and investors remained optimistic. Productivity gains and more restrictive monetary policy kept a lid on core inflation. The productivity gains, coupled with foreign investors buying large amounts of U.S. government securities, helped to contain increases in long-term interest rates. These conditions caused the dollar to rally, which took pressure off the price of imported goods.

The big news for the past two quarters was the impact of Hurricanes Katrina and Rita. The devastation caused by these storms was particularly heavy with respect to the energy infrastructures in the South. Oil prices rose sharply in the aftermath of the hurricanes, with crude oil peaking above \$71 per barrel in early September, although softening oil demand and quick action by the federal government to release Strategic Petroleum Reserves led to a subsequent decline off that peak. During the fourth quarter, oil had dropped to as low as \$58 a barrel, but then rebounded back to \$64 as of the end of the period. While the full economic effect of the hurricanes remains unknown, the damage appears to be limited to the regions in the hurricanes' path and to the energy infrastructures in those areas.

Another significant event that happened during the report period was the appointment of Ben Bernanke to succeed Alan Greenspan as Chairman of the Federal Reserve Board. Although he had not yet been confirmed

into office as of the end of the report period, Bernanke's experience on the Federal Open Market Committee and his expertise in monetary economics has eased the concerns of the markets and caused investors to expect a smooth transition.

**As noted above, the Fed continued in its tightening cycle throughout the year, raising short-term interest rates 0.25% at each of its eight meetings.** At the end of the one-year report period, the benchmark rate was up to 4.25%. Over the course of the 2005, as the Fed continued raising its benchmark rate, the yield curve continued to flatten and briefly inverted towards the end of the December. Nonetheless, higher Fed Funds rates succeeded in moving money fund yields higher, making them a more attractive investment vehicle.

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

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

Performance and Fund Facts

as of 12/31/05

Ticker Symbol: SWMXX

Seven-Day Yields

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

Seven-Day Yield <sup>1</sup>	3.58%
Seven-Day Yield–No Waiver <sup>2</sup>	3.54%
Seven-Day Effective Yield <sup>1</sup>	3.65%

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](http://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	47 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.

<sup>1</sup> Fund expenses have been partially absorbed by CSIM and Schwab.

<sup>2</sup> Yield if fund expenses had not been partially absorbed by CSIM and Schwab.

# Fund Expenses (unaudited)

## 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, 2005 and held through December 31, 2005.

**Actual Return** lines in the table below provide information about actual account values and actual expenses. You may use this information, together with the amount you invested, to estimate the expenses that you paid over the period. To do so, simply divide your account value by \$1,000 (for example, an \$8,600 account value ÷ \$1,000 = 8.6), then multiply the result by the number given for your fund 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 <sup>1</sup> (Annualized)	Beginning Account Value at 7/1/05	Ending Account Value (Net of Expenses) at 12/31/05	Expenses Paid During Period <sup>2</sup> 7/1/05–12/31/05
<b>Schwab Money Market Fund™</b>				
Actual Return	0.74%	\$1,000	\$1,015.40	\$3.76
Hypothetical 5% Return	0.74%	\$1,000	\$1,021.48	\$3.77

<sup>1</sup> Based on the most recent six-month expense ratio; may differ from the expense ratio provided in Financial Highlights.  
<sup>2</sup> Expenses for the fund are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 184 days of the period, and divided by 365 days of the fiscal year.

# Financial Statements

## Financial Highlights

	1/1/05– 12/31/05–	1/1/04– 12/31/04	1/1/03– 12/31/03	1/1/02– 12/31/02	1/1/01– 12/31/01
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	1.00	1.00	1.00	1.00	1.00
Income from investment operations:					
Net investment income	0.03	0.01	0.01	0.01	0.04
Less distributions:					
Dividends from net investment income	(0.03)	(0.01)	(0.01)	(0.01)	(0.04)
Net asset value at end of period	1.00	1.00	1.00	1.00	1.00
Total return (%)	2.56	0.68	0.50	1.23	3.73
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.74	0.75	0.75	0.75	0.75
Gross operating expenses	0.78	0.78	0.78	0.78	0.79
Net investment income	2.52	0.67	0.50	1.22	3.63
Net assets, end of period (\$ x 1,000,000)	42,552	44,023	49,079	51,063	49,116

**Portfolio Holdings** as of December 31, 2005

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](http://www.schwab.com/schwabfunds).

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

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

For fixed-rate obligations, the rate shown is the effective yield at the time of purchase, except U.S. Treasury notes, for which the rate shown is the interest rate (the rate established when the obligation was issued). For variable-rate obligations, the rate shown is the rate as of the report date. For variable-rate obligations with scheduled maturities greater than 397 days, the maturity shown is the later of the next interest rate change date or demand date. For variable-rate obligations with scheduled maturities less than 397 days, the maturity shown is the earlier of the next interest rate change date or demand date.

Holdings by Category	Cost (\$x1,000)	Value (\$x1,000)
<b>68.4% Fixed-Rate Obligations</b>	29,096,667	29,096,667
<b>17.7% Variable-Rate Obligations</b>	7,538,254	7,538,254
<b>13.7% Other Investments</b>	5,833,801	5,833,801
<b>99.8% Total Investments</b>	<b>42,468,722</b>	<b>42,468,722</b>
<b>0.2% Other Assets and Liabilities</b>		83,688
<b>100.0% Net Assets</b>		<b>42,552,410</b>

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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**Fixed-Rate Obligations** 68.4% of net assets**Commercial Paper & Other Corporate Obligations** 42.2%**AB Spintab**

4.12%, 01/18/06	25,000	24,952
4.40%, 03/03/06	10,000	9,926
4.39%, 03/06/06	80,000	79,383

**Alliance & Leicester, PLC, Section 4(2) / 144A**

4.12%, 01/20/06	35,000	34,925
4.14%, 02/06/06	66,500	66,229
3.95%, 03/14/06	95,000	94,265
4.43%, 04/07/06	69,500	68,694

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

4.07%, 01/09/06	100,000	99,911
4.35%, 02/22/06	48,000	47,702
4.48%, 03/22/06	63,000	62,380

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

4.27%, 01/04/06	50,000	49,982
4.29%, 01/09/06	20,980	20,960

**✦ ANZ (Delaware), Inc.**

4.30%, 04/17/06	49,000	48,393
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**◆ ANZ National Bank (Int'l) Ltd.**

4.01%, 02/23/06	19,000	18,890
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**◆✦ Aquinas Funding, L.L.C., Section 4(2) / 144A**

4.04%, 02/27/06	18,000	17,887
4.47%, 05/12/06	10,000	9,841
4.61%, 06/13/06	47,000	46,040
4.65%, 06/16/06	50,000	48,951
4.63%, 06/19/06	20,000	19,576
4.64%, 06/19/06	23,000	22,510
4.65%, 06/22/06	43,000	42,067
4.66%, 06/23/06	24,000	23,475

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

4.04%, 01/04/06	15,000	14,995
4.30%, 02/02/06	63,000	62,761
4.30%, 02/03/06	90,000	89,649
4.42%, 03/03/06	5,000	4,963
4.46%, 03/07/06	110,000	109,124
4.47%, 03/08/06	35,158	34,873

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

3.88%, 01/18/06	240,000	239,566
4.12%, 01/19/06	77,929	77,770
3.95%, 01/23/06	80,000	79,810

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
4.16%, 01/26/06	30,000	29,914	3.85%, 01/13/06	8,500	8,489
4.00%, 03/01/06	51,000	50,672	3.87%, 01/13/06	17,000	16,978
4.01%, 03/01/06	24,026	23,871	3.89%, 01/13/06	10,000	9,987
4.03%, 03/22/06	139,000	137,780	4.12%, 01/17/06	44,632	44,551
4.03%, 03/23/06	150,000	148,667	4.12%, 01/20/06	22,000	21,953
4.13%, 03/28/06	13,000	12,874	3.98%, 02/21/06	25,000	24,862
4.51%, 05/15/06	43,000	42,293	4.01%, 03/01/06	22,875	22,728
4.52%, 05/17/06	188,000	184,861	4.30%, 04/20/06	100,000	98,725
4.63%, 06/19/06	20,000	19,576	4.34%, 04/24/06	112,000	110,509
4.63%, 06/22/06	22,000	21,525			
<b>Bank of America Corp.</b>			<b>◆◆ Chariot Funding, L.L.C., Section 4(2) / 144A</b>		
4.25%, 02/10/06	54,000	53,748	4.28%, 01/06/06	33,500	33,480
4.42%, 02/27/06	29,000	28,799	4.23%, 01/09/06	94,808	94,720
4.42%, 02/28/06	110,000	109,224	4.20%, 01/13/06	39,000	38,946
<b>Bank of Ireland, Section 4(2) / 144A</b>			4.11%, 01/17/06	34,002	33,940
4.12%, 01/19/06	100,000	99,796	<b>◆ Citigroup Funding, Inc.</b>		
4.19%, 03/13/06	62,000	61,496	4.29%, 01/09/06	54,000	53,949
4.33%, 03/13/06	111,000	110,065	4.27%, 01/12/06	48,000	47,938
4.57%, 05/23/06	10,000	9,823	4.30%, 01/12/06	100,000	99,869
<b>◆ Barclays U.S. Funding Corp.</b>			4.14%, 01/23/06	50,000	49,875
4.28%, 02/10/06	30,000	29,859	4.33%, 01/23/06	125,000	124,671
4.35%, 02/24/06	2,150	2,136	4.33%, 01/24/06	120,000	119,670
<b>◆◆ Barton Capital Corp., Section 4(2) / 144A</b>			4.41%, 02/21/06	188,000	186,833
4.30%, 01/12/06	17,000	16,978	4.41%, 02/23/06	100,000	99,355
4.16%, 01/26/06	50,000	49,857	4.37%, 02/27/06	150,000	148,974
<b>Bear Stearns Companies, Inc.</b>			4.44%, 03/13/06	55,000	54,524
4.04%, 01/04/06	139,000	138,954	4.45%, 03/16/06	80,000	79,276
4.04%, 01/06/06	110,000	109,939	4.46%, 03/17/06	246,000	243,740
4.12%, 01/18/06	40,000	39,923	4.66%, 06/22/06	50,000	48,913
4.31%, 04/21/06	3,000	2,961	4.65%, 06/26/06	138,000	134,937
<b>◆◆ Beta Finance, Inc., Section 3c7 / 144A</b>			<b>◆◆ Clipper Receivables Co., LLC Section 4(2) / 144A</b>		
3.85%, 01/13/06	80,000	79,899	4.34%, 01/23/06	53,269	53,128
4.28%, 02/09/06	40,000	39,817	<b>◆◆ Concord Minutemen Capital Co., Series A Section 3c7 / 144A</b>		
4.31%, 02/17/06	46,000	45,744	3.79%, 01/06/06	30,000	29,984
4.33%, 02/21/06	74,500	74,048	4.07%, 01/09/06	20,000	19,982
4.37%, 02/28/06	15,000	14,896	4.11%, 01/10/06	183,000	182,814
<b>◆◆ Blue Spice, L.L.C., Section 4(2) / 144A</b>			4.08%, 01/13/06	27,000	26,964
4.08%, 01/12/06	54,500	54,433	4.00%, 02/15/06	90,000	89,559
4.45%, 03/17/06	40,000	39,633	<b>◆◆ Crown Point Capital Co., L.L.C., Section 3c7 / 144A</b>		
4.13%, 03/28/06	51,000	50,507	3.82%, 01/18/06	146,000	145,741
<b>◆ CBA (Delaware) Finance, Inc.</b>			3.97%, 03/15/06	80,000	79,369
4.27%, 02/15/06	8,823	8,776	4.33%, 04/19/06	105,000	103,664
4.35%, 03/15/06	19,000	18,835	<b>◆ Dakota CP Notes of Citibank Credit Card Issuance Trust, Section 4 (2) / 144A</b>		
<b>◆ CC (USA), Inc., Section 3c7 / 144A</b>			4.18%, 01/03/06	84,000	83,981
4.07%, 01/11/06	19,000	18,979	4.00%, 01/04/06	66,807	66,785

## 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)
4.01%, 01/05/06	34,000	33,985	<b>General Electric Capital Corp.</b>		
4.11%, 01/10/06	85,000	84,914	4.04%, 01/04/06	430,000	429,857
4.10%, 01/11/06	28,000	27,968	4.05%, 01/06/06	263,000	262,854
4.11%, 01/11/06	33,000	32,963	3.99%, 03/01/06	280,000	278,206
4.30%, 01/12/06	108,000	107,859	3.99%, 03/02/06	48,000	47,687
4.12%, 01/18/06	122,000	121,765	3.95%, 03/21/06	310,000	307,367
4.13%, 01/19/06	59,000	58,879	4.40%, 04/06/06	119,000	117,643
4.15%, 01/20/06	21,000	20,954	4.46%, 05/03/06	105,000	103,449
<b>DePfa Bank PLC, Section 4(2) / 144A</b>			<b>General Electric Capital Services</b>		
4.62%, 06/14/06	33,600	32,908	4.04%, 01/05/06	120,000	119,947
<b>♦ Dexia Delaware L.L.C.</b>			4.06%, 01/05/06	292,000	291,870
4.43%, 03/14/06	100,000	99,124	4.19%, 03/10/06	359,000	356,206
<b>DnB NOR Bank ASA</b>			<b>♦♦ Grampian Funding, L.L.C., Section 4(2) / 144A</b>		
3.96%, 01/30/06	34,000	33,893	4.01%, 01/04/06	49,000	48,984
4.37%, 03/02/06	77,000	76,446	4.12%, 01/20/06	32,000	31,931
4.57%, 06/01/06	38,000	37,288	4.17%, 01/26/06	25,000	24,928
<b>♦ Dorada Finance, Inc., Section 3c7 / 144A</b>			4.46%, 03/22/06	100,000	99,020
4.12%, 01/20/06	36,000	35,922	<b>♦ HBOS Treasury Services, PLC</b>		
4.33%, 02/16/06	76,500	76,082	4.33%, 02/22/06	28,375	28,199
4.35%, 02/24/06	29,000	28,813	4.34%, 02/22/06	87,000	86,461
4.37%, 02/28/06	65,000	64,548	4.33%, 02/24/06	100,000	99,357
<b>♦ Dresdner U.S. Finance, Inc.</b>			4.37%, 03/03/06	150,000	148,902
4.31%, 01/09/06	81,500	81,422	<b>♦ ING (U.S.) Funding, L.L.C.</b>		
<b>♦♦ Eiffel Funding, L.L.C., Section 4(2) / 144A</b>			4.60%, 06/12/06	101,000	98,959
4.18%, 01/09/06	47,000	46,957	<b>Irish Life &amp; Permanent, PLC, Section 4(2) / 144A</b>		
4.49%, 03/28/06	69,000	68,268	4.05%, 01/06/06	58,000	57,968
<b>♦♦ Fairway Finance Co., L.L.C., Section 4(2) / 144A</b>			4.32%, 02/16/06	45,000	44,754
4.17%, 01/24/06	86,170	85,943	4.45%, 03/14/06	80,000	79,296
3.97%, 03/13/06	6,101	6,054	<b>♦ IXIS Commercial Paper Corp., Section 4(2) / 144A</b>		
4.64%, 06/21/06	12,911	12,633	4.14%, 01/26/06	150,000	149,574
<b>♦ Five Finance Inc., Section 3c7 / 144A</b>			4.26%, 02/16/06	59,000	58,683
4.04%, 01/05/06	10,000	9,996	4.33%, 02/24/06	89,000	88,429
4.11%, 01/17/06	21,000	20,962	4.60%, 06/16/06	7,500	7,345
4.16%, 01/25/06	30,000	29,918	<b>♦♦ Jupiter Securitization Corp., Section 4(2) / 144A</b>		
4.18%, 01/27/06	39,000	38,884	4.17%, 01/25/06	26,164	26,092
4.21%, 01/30/06	23,000	22,923	4.60%, 06/12/06	67,652	66,282
4.21%, 01/31/06	13,000	12,955	<b>♦ K2 (USA), L.L.C., Section 3c7 / 144A</b>		
4.39%, 02/28/06	20,000	19,860	4.06%, 01/09/06	57,900	57,848
4.34%, 04/24/06	23,000	22,694	4.07%, 01/09/06	34,500	34,469
<b>ForeningsSparbanken AB (Swedbank)</b>			4.12%, 01/17/06	10,000	9,982
4.54%, 05/30/06	71,000	69,697	4.29%, 02/13/06	46,000	45,767
4.54%, 05/31/06	238,000	233,602	4.31%, 02/17/06	26,900	26,750
<b>♦ Galaxy Funding, Inc., Section 4(2) / 144A</b>			4.37%, 02/23/06	20,500	20,369
4.12%, 01/19/06	25,000	24,949	4.37%, 02/28/06	3,000	2,979
			4.39%, 03/02/06	40,000	39,711



Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
3.95%, 03/13/06	82,000	81,374	4.06%, 03/23/06	15,000	14,866
4.45%, 03/13/06	10,000	9,913	4.65%, 06/19/06	10,000	9,786
4.13%, 03/27/06	50,000	49,522			
4.33%, 04/20/06	40,000	39,486	<b>✦ Nordea North America, Inc.</b>		
<b>✦ KBC Financial Products International, Ltd., Section 4(2) / 144A</b>			4.22%, 01/13/06	6,000	5,992
4.16%, 01/24/06	100,000	99,737	4.36%, 02/28/06	250,000	248,263
<b>✦✦ Kitty Hawk Funding Corp., Section 4(2) / 144A</b>			4.42%, 02/28/06	8,900	8,837
4.30%, 01/13/06	20,000	19,971	4.39%, 04/03/06	67,000	66,262
<b>✦✦ Lexington Parker Capital Co., L.L.C., Section 4(2) / 144A</b>			<b>Northern Rock PLC</b>		
4.40%, 01/03/06	20,000	19,995	4.41%, 03/07/06	43,000	42,661
4.17%, 01/05/06	40,000	39,982	<b>✦✦ Park Avenue Receivables Corp. L.L.C., Section 4(2) / 144A</b>		
3.79%, 01/13/06	15,000	14,981	4.16%, 01/06/06	36,000	35,979
4.11%, 01/13/06	40,929	40,873	<b>✦ Park Granada, L.L.C., Section 4(2) / 144A</b>		
3.82%, 01/18/06	129,431	129,202	4.29%, 01/09/06	16,000	15,985
4.33%, 02/13/06	70,000	69,642	4.16%, 01/18/06	17,000	16,967
4.35%, 02/21/06	11,117	11,049	4.21%, 01/26/06	9,000	8,974
4.35%, 02/22/06	12,998	12,917	4.30%, 02/07/06	42,000	41,816
3.97%, 03/14/06	70,000	69,455	4.40%, 03/02/06	127,603	126,678
<b>✦✦ Links Finance, L.L.C., Section 3c7 / 144A</b>			<b>✦✦ Picaros Funding, L.L.C., Section 4(2) / 144A</b>		
4.20%, 01/27/06	50,000	49,850	4.00%, 02/17/06	68,000	67,652
4.37%, 02/27/06	20,000	19,863	4.35%, 02/22/06	43,000	42,733
4.37%, 02/28/06	43,000	42,701	4.18%, 03/30/06	127,958	126,679
<b>✦ Mane Funding Corp., Section 4(2) / 144A</b>			<b>✦✦ Preferred Receivables Funding Corp. Section 4(2) / 144A</b>		
4.20%, 01/23/06	50,000	49,873	3.97%, 02/10/06	71,701	71,391
4.32%, 02/17/06	24,636	24,499	4.60%, 06/12/06	17,398	17,046
4.35%, 02/23/06	18,034	17,920	<b>✦ San Paolo IMI U.S. Financial Co.</b>		
4.35%, 02/24/06	14,453	14,360	4.03%, 01/05/06	290,000	289,871
4.46%, 03/20/06	62,000	61,408	<b>✦ Santander Central Hispano Finance (Delaware), Inc.</b>		
<b>✦✦ Mont Blanc Capital Corp., Section 4(2) / 144A</b>			4.00%, 02/24/06	210,000	208,765
4.21%, 01/13/06	164,465	164,236	3.96%, 03/15/06	108,000	107,149
4.24%, 01/19/06	25,000	24,947	<b>✦✦ Scaldis Capital Ltd., Section 4(2) / 144A</b>		
4.35%, 02/23/06	59,000	58,626	4.13%, 01/17/06	167,827	167,522
<b>Nationwide Building Society U.S.</b>			4.17%, 01/25/06	72,322	72,123
4.16%, 01/20/06	35,000	34,924	4.46%, 03/15/06	12,470	12,358
<b>✦✦ Nieuw Amsterdam Receivables Corp., Section 4(2) / 144A</b>			4.46%, 03/20/06	26,647	26,392
4.04%, 01/03/06	6,838	6,836	4.46%, 03/21/06	48,854	48,381
4.28%, 01/06/06	58,000	57,966	<b>✦✦ Sigma Finance, Inc., Section 3c7 / 144A</b>		
4.16%, 01/19/06	30,000	29,938	4.18%, 01/10/06	50,000	49,948
4.16%, 01/23/06	101,395	101,140	4.07%, 01/12/06	43,000	42,947
3.97%, 02/08/06	10,464	10,421	4.12%, 01/19/06	100,000	99,796
4.35%, 02/24/06	19,474	19,348	4.22%, 02/03/06	18,000	17,931
4.04%, 02/27/06	15,000	14,906	4.27%, 02/09/06	50,000	49,771
4.40%, 03/02/06	7,000	6,949	4.27%, 02/10/06	135,000	134,367
			4.34%, 02/21/06	72,000	71,562

## 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)
4.02%, 02/22/06	73,000	72,583	4.43%, 03/17/06	59,655	59,111
4.37%, 02/27/06	102,000	101,302	4.30%, 04/18/06	9,000	8,887
4.39%, 03/01/06	15,000	14,893	4.52%, 05/09/06	8,251	8,121
4.41%, 03/03/06	10,000	9,926	4.60%, 06/09/06	10,245	10,041
4.13%, 03/27/06	18,000	17,828	◆+ Windmill Funding Corp., Section 4(2) / 144A		
4.47%, 05/08/06	118,000	116,179	4.29%, 01/09/06	10,000	9,991
<b>Skandinaviska Enskilda Banken AB</b>			4.30%, 01/13/06	100,000	99,857
4.22%, 01/24/06	200,000	199,465			<b>17,967,667</b>
4.03%, 03/02/06	110,000	109,275			
◆+ Societe Generale North America, Inc.					
4.17%, 03/28/06	26,000	25,746	<b>Certificates of Deposit 24.4%</b>		
<b>The Goldman Sachs Group, Inc.</b>			<b>Alliance &amp; Leicester, PLC</b>		
4.36%, 01/03/06	112,000	111,973	3.86%, 01/30/06	50,000	50,000
◆+ Thunder Bay Funding, L.L.C., Section 4(2) / 144A			4.63%, 06/22/06	25,000	25,000
4.14%, 01/20/06	38,000	37,918	<b>American Express Bank FSB</b>		
4.16%, 01/23/06	40,000	39,899	4.46%, 03/22/06	125,000	125,000
4.47%, 03/20/06	10,000	9,904	<b>Australia &amp; New Zealand Banking Group Ltd.</b>		
◆+ Ticonderoga Funding, LLC., Section 4(2) / 144A			4.47%, 03/31/06	144,000	144,000
4.37%, 01/27/06	33,000	32,896	<b>Banca Intesa</b>		
◆+ Tulip Funding Corp., Section 4(2) / 144A			4.22%, 01/24/06	220,000	220,000
4.30%, 01/03/06	28,790	28,783	<b>Banco Bilbao Vizcaya Argentaria S.A.</b>		
4.45%, 04/27/06	82,966	81,799	4.46%, 03/21/06	100,000	99,998
◆+ UBS Finance (Delaware), Inc.			4.50%, 04/19/06	142,000	142,000
4.33%, 02/22/06	1,675	1,665	<b>Bank of The West</b>		
◆+ Westpac Banking Corp., Section 4(2) / 144A			4.16%, 01/03/06	210,000	210,000
4.38%, 03/02/06	175,000	173,737	<b>Bank of Tokyo-Mitsubishi, Ltd.</b>		
4.61%, 06/13/06	5,000	4,898	4.43%, 03/07/06	166,000	166,000
◆+ Westpac Trust Securities NZ Ltd., Section 4(2) / 144A			<b>Barclays Bank PLC</b>		
4.28%, 02/09/06	134,000	133,386	4.20%, 01/11/06	190,000	190,000
4.36%, 02/28/06	70,000	69,514	4.21%, 01/18/06	72,000	72,000
4.45%, 04/21/06	77,000	75,972	4.36%, 02/28/06	26,000	26,000
◆ Whistlejacket Capital, L.L.C., Section 4(2) / 144A			<b>BNP Paribas</b>		
4.08%, 01/11/06	16,998	16,979	3.95%, 01/25/06	89,000	89,000
4.37%, 02/27/06	28,334	28,140	4.30%, 02/17/06	35,000	35,000
4.40%, 03/09/06	7,087	7,030	4.30%, 04/21/06	199,000	199,000
4.43%, 03/10/06	37,000	36,694	4.51%, 05/25/06	80,000	80,000
4.46%, 03/15/06	16,451	16,304	4.60%, 06/14/06	140,000	140,000
4.46%, 04/18/06	8,181	8,074	<b>Calyon</b>		
4.46%, 04/20/06	18,588	18,341	4.21%, 01/11/06	308,000	308,000
◆ White Pine Finance, L.L.C., Section 3c7 / 144A			4.01%, 02/28/06	13,000	13,000
4.05%, 01/06/06	54,164	54,134	<b>Canadian Imperial Bank of Commerce</b>		
4.35%, 02/17/06	30,310	30,140	3.96%, 02/01/06	78,000	78,000
4.35%, 02/22/06	13,251	13,169	<b>Citibank, N.A.</b>		
4.38%, 02/27/06	10,135	10,066	4.05%, 01/06/06	120,000	120,000
4.41%, 03/03/06	10,742	10,663	4.34%, 02/23/06	73,000	73,000

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)
<b>Credit Agricole S.A.</b>			<b>Northern Rock, PLC</b>		
4.61%, 06/21/06	185,000	185,000	4.25%, 01/26/06	25,000	25,000
<b>Credit Suisse</b>			4.18%, 01/27/06	100,000	100,000
4.25%, 01/03/06	74,000	74,000	<b>Rabobank Nederland</b>		
4.25%, 01/26/06	56,000	56,000	4.51%, 05/22/06	80,000	80,000
4.58%, 06/06/06	200,000	200,000	<b>Royal Bank of Canada</b>		
4.59%, 06/13/06	63,000	63,000	3.99%, 02/23/06	400,000	400,000
<b>DePfa Bank, PLC</b>			4.01%, 02/28/06	128,000	128,000
4.05%, 01/06/06	30,000	30,000	<b>Royal Bank of Scotland, PLC</b>		
4.21%, 01/13/06	39,000	39,000	4.29%, 02/01/06	71,000	71,000
4.12%, 01/19/06	20,000	20,000	4.41%, 05/05/06	56,000	56,000
<b>Deutsche Bank, AG</b>			<b>San Paolo IMI SpA</b>		
3.85%, 01/13/06	150,000	150,000	4.36%, 03/01/06	100,000	100,000
3.96%, 02/01/06	56,000	56,000	4.40%, 04/10/06	153,000	153,000
4.62%, 10/26/06	236,000	236,000	<b>Societe Generale</b>		
<b>DnB Nor Bank ASA</b>			4.32%, 02/21/06	100,000	99,999
3.81%, 01/20/06	20,000	20,000	4.61%, 06/21/06	76,000	76,000
<b>Dresdner Bank AG</b>			4.63%, 06/22/06	422,000	422,000
4.30%, 01/10/06	68,000	68,000	<b>Suntrust Bank, Inc.</b>		
4.25%, 01/26/06	57,000	57,000	4.20%, 02/03/06	140,000	140,000
<b>First Tennessee Bank, N.A.</b>			<b>Toronto Dominion Bank</b>		
4.23%, 01/23/06	82,000	82,000	4.46%, 03/27/06	50,000	50,000
<b>Fortis Bank</b>			4.46%, 03/28/06	282,000	282,000
4.18%, 04/03/06	289,000	289,000	4.64%, 06/28/06	76,000	76,000
4.40%, 04/07/06	124,000	124,000	<b>U.S. Bank, N.A.</b>		
<b>+ HBOS Treasury Services, PLC</b>			4.11%, 01/20/06	190,000	190,000
4.38%, 03/10/06	132,000	132,000	4.15%, 01/25/06	293,000	293,000
4.41%, 05/05/06	56,000	56,000	<b>Unicredito Italiano SpA</b>		
<b>HSBC Bank, USA</b>			3.78%, 01/17/06	235,000	235,000
4.13%, 03/29/06	100,000	100,000	4.11%, 01/19/06	310,000	310,000
4.30%, 04/21/06	26,000	26,000	3.82%, 01/23/06	25,000	25,000
<b>ING Bank, N.V.</b>			4.29%, 04/18/06	242,000	242,000
4.11%, 01/20/06	340,000	340,000	<b>Washington Mutual Bank, FA</b>		
<b>Landesbank Baden-Wuerttemberg</b>			4.44%, 03/14/06	112,000	112,000
4.48%, 03/31/06	146,000	146,000	4.63%, 06/19/06	74,000	74,000
4.58%, 06/12/06	276,000	276,006	<b>Wells Fargo Bank, N.A.</b>		
<b>Mizuho Corp. Bank, Ltd.</b>			4.27%, 01/12/06	428,000	428,000
4.28%, 02/10/06	167,000	167,000	4.31%, 01/26/06	184,000	183,999
<b>Nordea Bank Finland, PLC</b>			<b>Wilmington Trust Co.</b>		
4.24%, 04/06/06	100,000	100,000	4.37%, 03/01/06	26,000	25,998
4.46%, 05/08/06	141,000	141,000	4.42%, 03/08/06	15,000	15,000
4.62%, 08/08/06	146,000	146,000			
					<b>10,377,000</b>

## 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)
<b>Bank Notes 1.8%</b>					
<b>Bank of America, N.A.</b>			<b>+ Cook County, ILL.</b>		
4.19%, 01/11/06	157,000	157,000	Series 2004D		
4.25%, 01/26/06	45,000	45,000	4.41%, 01/07/06	30,000	30,000
4.25%, 01/27/06	550,000	550,000	<b>Credit Suisse</b>		
	<b>752,000</b>		4.32%, 01/11/06	326,000	326,000
	<b>29,096,667</b>		<b>Dexia Credit Local</b>		
			4.32%, 01/26/06	79,000	78,980
			<b>◆ Dorada Finance, Inc., Section 3c7 / 144A</b>		
			4.32%, 01/17/06	100,000	99,999
			<b>◆ Five Finance Inc., Section 3c7 / 144A</b>		
			4.33%, 01/17/06	49,000	48,996
			<b>• GE Life &amp; Annuity Assurance Co.</b>		
			4.37%, 01/01/06	150,000	150,000
			<b>General Electric Capital Corp.</b>		
			4.44%, 01/09/06	175,000	175,000
			4.47%, 01/17/06	75,000	75,000
			<b>HSH Nordbank, AG</b>		
			4.29%, 01/09/06	302,000	301,987
			<b>• J.P. Morgan Securities, Inc.</b>		
			4.29%, 01/01/06	200,000	200,000
			<b>◆ Lexington Parker Capital Co., L.L.C., Section 4(2) / 144A</b>		
			4.24%, 01/03/06	95,102	95,099
			4.29%, 01/09/06	45,000	44,998
			<b>◆ Liberty Lighthouse U.S. Capital Co. L.L.C., Section 4(2) / 144A</b>		
			4.27%, 01/05/06	73,000	72,993
			4.29%, 01/09/06	66,000	65,996
			4.34%, 01/19/06	20,000	20,000
			4.34%, 01/30/06	49,000	48,998
			<b>◆ Links Finance, L.L.C., Section 3c7 / 144A</b>		
			4.29%, 01/09/06	30,000	29,996
			4.34%, 01/10/06	57,000	57,004
			4.32%, 01/17/06	115,000	114,988
			4.35%, 01/17/06	73,000	73,004
			<b>+ Loanstar Assets Partners II, L.P.</b>		
			4.46%, 01/07/06	45,000	45,000
			<b>+ Lowndes Corp., Georgia, 144A</b>		
			Taxable Demand Bond Series 1997		
			4.45%, 01/07/06	3,100	3,100
			<b>+ Merlot Trust Section 4(2) / 144A</b>		
			Series 2000B		
			4.53%, 01/07/06	32,630	32,630

## Variable-Rate Obligations 17.7% of net assets

## + ABAG Financial Authority for Nonprofit Corps., California

RB (Public Pole Institute) Series 2002B  
4.38%, 01/07/06 17,785 17,785

## + Albuquerque, New Mexico Airport

RB Series 2000B  
4.35%, 01/07/06 15,900 15,900

## Bank of Ireland, 144A

4.34%, 01/20/06 50,000 50,000

## Bank of New York Co., Inc., 144A

4.42%, 01/27/06 75,000 75,000

## Barclays Bank, PLC

4.23%, 01/03/06 128,000 127,988  
4.25%, 01/05/06 90,000 89,992  
4.30%, 01/10/06 80,000 79,993  
4.29%, 01/17/06 45,000 44,996  
4.31%, 01/23/06 467,000 466,962

## ◆+ Beta Finance, Inc., Section 3c7 / 144A

4.32%, 01/17/06 200,000 199,998

## BNP Paribas

4.25%, 01/04/06 65,000 64,987  
4.31%, 01/17/06 95,000 94,990

## Canadian Imperial Bank of Commerce

4.43%, 01/17/06 100,000 100,000  
4.35%, 01/23/07 65,000 65,000

## ◆ CC (USA), Inc., Section 3c7 / 144A

4.34%, 01/23/06 61,000 60,999

## + CFM International, Inc., 144A

4.38%, 01/07/06 16,975 16,975

## Commonwealth Bank of Australia, 144A

4.35%, 01/24/06 50,000 50,000

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)
Series 2001A67			<b>Royal Bank of Scotland, PLC</b>		
4.53%, 01/07/06	35,065	35,065	4.26%, 01/03/06	150,000	149,990
Series 2001A7			4.25%, 01/04/06	100,000	99,982
4.53%, 01/07/06	15,470	15,470	4.26%, 01/06/06	90,000	89,993
<b>Merrill Lynch &amp; Co., Inc.</b>			4.33%, 01/30/06	181,000	180,976
4.35%, 01/17/06	100,000	100,000	<b>Royal Bank of Scotland, PLC, 144A</b>		
• <b>Metropolitan Life Insurance Co.</b>			4.34%, 01/23/06	185,000	185,000
4.36%, 01/03/06	100,000	100,000	• <b>Santa Rosa, California</b>		
• <b>Monumental Life Insurance Co.</b>			Pension Obligation Revenue		
4.39%, 01/01/06	100,000	100,000	Taxable Bonds Series 2003A		
<b>Morgan Stanley</b>			4.38%, 01/07/06	9,300	9,300
4.30%, 01/03/06	240,000	240,000	• <b>SE Christian Church, Jefferson County, Kentucky</b>		
4.34%, 01/17/06	30,000	30,000	Series 2003		
• <b>New Jersey Economic Development Authority</b>			4.39%, 01/07/06	8,700	8,700
Adjustable Rate Lease Revenue			◆ <b>Sigma Finance, Inc., Section 3c7 / 144A</b>		
Taxable Bonds (Barnes &			4.30%, 01/06/06	11,000	11,000
Noble, Inc. Distribution & Freight			4.32%, 01/17/06	67,000	66,998
Consolidation Center Project)			4.33%, 01/17/06	73,000	72,995
Series 1995A			4.35%, 01/17/06	110,000	110,002
4.34%, 01/07/06	11,830	11,830	• <b>Sisters of Mercy of the Americas Regional Community</b>		
Adjustable Rate Lease Revenue			<b>of Omaha, Nebraska</b>		
Taxable Bonds (Barnes &			Series 2001		
Noble, Inc. Distribution & Freight			4.39%, 01/07/06	11,860	11,860
Consolidation Center Project)			<b>Societe Generale, 144A</b>		
Series 1995B			4.26%, 01/03/06	60,000	60,000
4.34%, 01/07/06	10,000	10,000	<b>Svenska Handelsbanken AB</b>		
Adjustable Rate Lease Revenue			4.25%, 01/03/06	100,000	99,985
Taxable Bonds (Camden Center			<b>The Goldman Sachs Group, Inc.</b>		
Project) Series 2002A			4.33%, 01/03/06	128,000	128,050
4.34%, 01/07/06	20,850	20,850	• <b>The Goldman Sachs Group, Inc.</b>		
Adjustable Rate Lease Revenue			4.34%, 01/04/06	40,000	40,000
Taxable Bonds (Camden Center			4.40%, 01/13/06	150,000	150,000
Project) Series 2002B			• <b>The Goldman Sachs Group, Inc., 144A</b>		
4.34%, 01/07/06	20,000	20,000	4.39%, 01/09/06	225,000	225,000
<b>Norddeutsche Landesbank Girozentrale</b>			• <b>Travelers Insurance Co.</b>		
4.27%, 01/03/06	30,000	29,998	4.43%, 01/30/06	100,000	100,000
4.32%, 01/10/06	100,000	99,991	◆ <b>Wachovia Asset Securitization, Inc., 144A</b>		
4.32%, 01/17/06	75,000	74,993	Series 2005-HM1A Class AMM		
4.34%, 01/24/06	50,000	50,000	4.37%, 01/25/06	50,922	50,922
<b>Nordea AB</b>			<b>Washington Mutual Bank, FA</b>		
4.34%, 01/11/06	45,000	45,000	4.36%, 01/30/06	140,000	140,000
<b>Royal Bank of Canada</b>			<b>Wells Fargo &amp; Co., 144A</b>		
4.39%, 01/10/06	60,000	60,000	4.34%, 01/03/06	75,000	75,000
			4.36%, 01/17/06	165,000	165,002

**Portfolio Holdings** continued

Issuer Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
<b>◆ Whistlejacket Capital, L.L.C., Section 3c7 / 144A</b>		
4.33%, 01/17/06	73,000	72,995
4.33%, 01/20/06	87,000	86,993
<b>◆ White Pine Finance, L.L.C., Section 3c7 / 144A</b>		
4.24%, 01/03/06	40,000	39,999
4.32%, 01/12/06	47,000	46,996
4.32%, 01/17/06	118,000	117,987
4.32%, 01/23/06	88,000	87,999
		<b>7,538,254</b>

Security	Maturity Amount (\$ x 1,000)	Value (\$ x 1,000)
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**Other Investments** 13.7% of net assets

**Repurchase Agreements 13.7%****Bank of America Securities L.L.C.**

Tri-Party Repurchase Agreement  
Collateralized by U.S. Government  
Securities with a value of \$1,836,000  
4.30%, issued 12/30/05,  
due 01/03/06 1,800,860 1,800,000

**Bear Stearns & Co. Inc.**

Tri-Party Repurchase Agreement  
Collateralized by U.S. Government  
Securities with a value of \$918,003  
4.28%, issued 12/30/05,  
due 01/03/06 900,428 900,000

**Credit Suisse First Boston L.L.C.**

Tri-Party Repurchase Agreement  
Collateralized by U.S. Government  
Securities with a value of \$819  
4.26%, issued 12/30/05,  
due 01/03/06 801 801

**Goldman Sachs Group Inc.**

Tri-Party Repurchase Agreement  
Collateralized by U.S. Government  
Securities with a value of \$1,020,000  
4.33%, issued 12/30/05,  
due 01/03/06 1,000,482 1,000,000

Security	Maturity Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Morgan Stanley &amp; Co. Inc.</b>		
Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$1,029,294 4.28%, issued 12/30/05 due 01/03/06	1,000,476	1,000,000
<b>UBS Financial Services, Inc.</b>		
Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$1,155,662 4.35%, issued 12/27/05, due 01/03/06	228,193	228,000
4.29%, issued 12/30/05, due 01/03/06	905,431	905,000
		<b>5,833,801</b>

**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, 2005, portfolio holdings included illiquid and / or restricted securities as follows:**

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

4.08%, 10/11/05, 01/12/06	54,500	54,433
4.45%, 12/15/05, 03/17/06	40,000	39,633
4.13%, 09/27/05, 03/28/06	51,000	50,507
		<hr/>
		<b>144,573</b>

**GE Life & Annuity Assurance Co.**

4.37%, 06/01/05, 01/01/06	100,000	100,000
4.37%, 02/01/05, 01/01/06	50,000	50,000
		<hr/>
		<b>150,000</b>

**J.P. Morgan Securities, Inc.**

4.29%, 01/01/06	200,000	<b>200,000</b>
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**Metropolitan Life Insurance Co.**

4.36%, 02/01/05, 01/03/06	100,000	<b>100,000</b>
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**Monumental Life Insurance Co.**

4.39%, 06/10/93, 01/01/06	100,000	<b>100,000</b>
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**Travelers Insurance Co.**

4.43%, 10/28/05, 01/30/06	100,000	<b>100,000</b>
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**The Goldman Sachs Group, Inc.**

4.34%, 10/04/05, 01/04/06	40,000	40,000
4.40%, 07/18/05, 01/13/06	150,000	150,000
		<hr/>
		<b>190,000</b>

**The Goldman Sachs Group, Inc., 144A**

4.39%, 07/09/04, 01/09/06	225,000	<b>225,000</b>
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## Statement of

**Assets and Liabilities**

As of December 31, 2005. All numbers x 1,000 except NAV.

Unless stated, all numbers x 1,000.

**Assets**

Investments, at value	\$36,634,921
Repurchase agreements, at value	5,833,801
Interest receivable	91,574
Prepaid expenses	+ 500
<b>Total assets</b>	<b>42,560,796</b>

**Liabilities**

Payables:	
Dividends to shareholders	3,883
Investment adviser and administrator fees	958
Transfer agent and shareholder service fees	1,571
Trustees' fees	47
Accrued expenses	+ 1,927
<b>Total liabilities</b>	<b>8,386</b>

**Net Assets**

<b>Total assets</b>	42,560,796
<b>Total liabilities</b>	– 8,386
<b>Net assets</b>	<b>\$42,552,410</b>

**Net Assets by Source**

Capital received from investors	42,552,459
Net realized capital losses	(49)

**Net Asset Value (NAV)**

<b>Net Assets</b>	<b>÷</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$42,552,410		42,553,018		\$1.00

The amortized cost of the fund's securities was \$42,468,722. Includes illiquid and/or restricted securities worth \$1,209,573, or 2.8% of the fund's total net assets. Also, includes other restricted but deemed liquid securities comprised of 144A, section 4(2) and 3c7 securities, worth \$13,297,784 or 31.3% of the fund's total net assets. During the reporting period, the fund had \$431 in transactions with other Schwab Funds®.

**Federal Tax Data****Cost basis of portfolio** \$42,468,722**Unused capital losses:**Expires 12/31 of: Loss amount:  
2007 \$49



## Statement of

**Operations**

For January 1, 2005 through December 31, 2005. All numbers x 1,000.

**Investment Income**

Interest	<b>\$1,401,279</b>
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**Expenses**

Investment adviser and administrator fees	135,271
Transfer agent and shareholder service fees	193,285
Trustees' fees	185
Custodian and portfolio accounting fees	3,535
Professional fees	173
Registration fees	938
Shareholder reports	3,066
Other expenses	+ 486
Total expenses	336,939
Expense reduction	- 19,092
<b>Net expenses</b>	<b>317,847</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	1,401,279
<b>Net expenses</b>	- 317,847
<b>Net investment income</b>	<b>1,083,432</b>
<b>Increase in net assets from operations</b>	<b>\$1,083,432</b>

Unless stated, all numbers x 1,000.

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

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

For the fund's independent trustees only.

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

Statements of

**Changes in Net Assets**

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

**Operations**

	1/1/05–12/31/05	1/1/04–12/31/04
Net investment income	\$1,083,432	\$316,431
<b>Increase in net assets from operations</b>	<b>1,083,432</b>	<b>316,431</b>

**Distributions Paid**

Dividends from net investment income	<b>1,083,432</b>	<b>316,431</b>
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**Transactions in Fund Shares**

Shares sold	133,869,279	131,897,898
Shares reinvested	1,067,563	310,836
Shares redeemed	+ (136,407,280)	(137,265,143)
<b>Net transactions in fund shares</b>	<b>(1,470,438)</b>	<b>(5,056,409)</b>

**Net Assets**

Beginning of period	44,022,848	49,079,257
Total decrease	+ (1,470,438)	(5,056,409)
<b>End of period</b>	<b>\$42,552,410</b>	<b>\$44,022,848</b>

Unless stated, all numbers x 1,000.

The tax-basis components of distributions are:

**Current year**

Ordinary income	\$1,083,432
Long-term capital gains	\$—

**Prior year**

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

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

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

# Financial Notes

## 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 Investor Money Fund  
 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 using the effective interest rate method. 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, 2005, 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, 2005 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

**PricewaterhouseCoopers LLP**

San Francisco, California

February 14, 2006

# Investment Advisory Agreement Approval

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

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

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

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

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

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

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

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

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



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

**Economies of Scale.** The trustees considered the existence of any economies of scale and whether those are passed along to a fund's shareholders through a graduated investment advisory fee schedule or other means, including any fee waivers by CSIM and its affiliates. In this regard, and consistent with their consideration of fund expenses, the trustees considered that CSIM and Schwab have previously committed resources to minimize the effects on shareholders of diseconomies of scale during periods when fund assets were relatively small through their contractual expense waivers. For example, such diseconomies of scale may particularly affect newer funds or funds with investment strategies that are from time to time out of favor, but shareholders may benefit from the continued availability of such funds at subsidized expense levels. The trustees also considered CSIM's agreement to contractual investment advisory fee schedules which include lower fees at higher graduated asset levels. With respect to the Schwab Money Market Fund, the Board also considered Schwab's agreement that that fund's net operating expenses (excluding interest, taxes and certain non-routine expenses) would not exceed 74 (seventy-four) basis points for the period January 1, 2005 until April 30, 2006. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the funds obtain reasonable benefit from economies of scale.

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

**Subsequent Continuation, August 2005.** At the August 31, 2005 meeting of the Board, the trustees, including a majority of the Independent Trustees, approved the continuation of the Agreement through June 30, 2006. This approval extended the interim approval of the Agreement by the Board, which had taken place on May 24, 2005 and is discussed above. In connection with the approval of the Agreement, the Board considered additional information provided by CSIM in response to the Board's requests at the May 24, 2005 meeting, as well as reconsidered the information provided and factors considered at prior meetings. The Board concluded that the information provided at the meeting supported continuation of the Agreement, subject to CSIM's continuing review of expense ratios for the Schwab Money Market Fund. In the course of their deliberations, the trustees did not identify any particular information or factor that was all-important or controlling. Based on the trustees' deliberation and their evaluation of the information described above, the Board, including all of the Independent Trustees, unanimously approved the continuation of the Agreement and concluded that the compensation under the Agreement is fair and reasonable in light of such services and expenses and such other matters as the trustees have considered to be relevant in the exercise of their reasonable judgment.

# Trustees and Officers

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

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

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

Independent Trustees		
Name and Year of Birth	Trustee Since	Main Occupations and Other Directorships and Affiliations
Mariann Byerwalter 1960	2000 (all trusts).	Chairman, JDN Corp. Advisory LLC (real estate). <i>Until 2001:</i> Special Advisor to the President, Stanford University. <i>From 1996-2001:</i> Vice President of Business Affairs, Chief Financial Officer, Stanford University. Ms. Byerwalter is on the Boards of Stanford University, America First Cos. (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, Pacific Life Insurance Company (insurance), Laudus Trust and Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex. <sup>2</sup>

<sup>1</sup> 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.

<sup>2</sup> This includes 10 series of the Laudus Trust and the sole series of the Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex.

## Independent Trustees continued

Name and Year of Birth	Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Donald F. Dorward</b> 1931	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chief Executive Officer, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999</i> : Executive Vice President, Managing Director, Grey Advertising. <i>Until 1996</i> : President, Chief Executive Officer, Allen & Dorward Advertising.
<b>William A. Hasler</b> 1941	2000 (all trusts).	Dean Emeritus of the Haas School of Business, University of California, Berkeley. <i>Until 2/04</i> , Co-Chief Executive Officer, Aphton Corporation (bio-pharmaceuticals). <i>Prior to 8/98</i> , Dean of the Haas School of Business, University of California, Berkeley (higher education). Mr. Hasler is on the Boards of Aphton Corporation (bio-pharmaceuticals), Mission West Properties (commercial real estate), Stratex Networks (network equipment), TOUSA (home building), Genitope Corp. (bio-pharmaceuticals), Laudus Trust and Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex. <sup>3</sup> Non-Executive Chairman, Solectron Corporation (manufacturing).
<b>Robert G. Holmes</b> 1931	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer, Director, Semloh Financial, Inc. (international financial services and investment advisory firm).
<b>Gerald B. Smith</b> 1950	2000 (all trusts).	<i>Since 1990</i> , Chairman and Chief Executive Officer and founder of Smith Graham & Co. (investment advisors). Mr. Smith is on the Board of Cooper Industries (electrical products, tools and hardware); Chairman, Texas Southern University Foundation; Executive Committee and Board Member, MD Anderson Cancer Center; Chairman of the audit committee of Northern Border Partners, M.L.P. (energy).
<b>Donald R. Stephens</b> 1938	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chairman, Chief Executive Officer, North American Trust (real estate investment trust).
<b>Michael W. Wilsey</b> 1943	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer, Wilsey Bennett, Inc. (real estate investment and management, and other investments).

<sup>3</sup> This includes 10 series of the Laudus Trust and the sole series of the Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex.

## Interested Trustees

Name and Year of Birth	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Charles R. Schwab</b> <sup>4</sup> 1937	Chairman, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer and Director, The Charles Schwab Corporation, Charles Schwab & Co., Inc.; Chairman and Director, Charles Schwab Investment Management, Inc., Charles Schwab Bank, N.A.; Chairman and Chief Executive Officer, Schwab (SIS) Holdings Inc. I, Schwab International Holdings, Inc.; Chief Executive Officer and Director, Schwab Holdings, Inc.; Director, U.S. Trust Company, N.A., U.S. Trust Corporation, United States Trust Company of New York. <i>Until 5/03</i> , Co-Chief Executive Officer, The Charles Schwab Corporation. Trustee, Charles and Helen Schwab Foundation; Chairman, All Kinds of Minds Institute (education), Trustee, Stanford University; Chairman and Director, Charles Schwab Foundation; Chairman of the Finance Committee, San Francisco Museum of Modern Art.
<b>Randall W. Merk</b> <sup>4</sup> 1954	Trustee, 2005 (all trusts).	Executive Vice President and President, Asset Management Products & Services, Charles Schwab & Co., Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From 9/02 to 7/04</i> , President and Chief Executive Officer, Charles Schwab Investment Management, Inc. and Executive Vice President, Charles Schwab & Co., Inc. <i>Prior to 9/02</i> , President and Chief Investment Officer, American Century Investment Management; Director, American Century Companies, Inc. <i>Until 6/01</i> , Chief Investment Officer, Fixed Income, American Century Companies, Inc.

## Officers of the Trust

Name and Year of Birth	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
<b>Evelyn Dilsaver</b> 1955	President, Chief Executive Officer (all trusts).	Executive Vice President, President, Director, Charles Schwab Investment Management, Inc. Vice President, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 7/04</i> : Senior Vice President, Asset Management Products & Services Enterprise. <i>Until 6/03</i> : Executive Vice President, Chief Financial Officer, Chief Administrative Officer, U.S. Trust.
<b>Stephen B. Ward</b> 1955	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co.

<sup>4</sup> In addition to their positions with the investment adviser and the distributor, Messrs. Schwab and Merk also own stock of the Charles Schwab Corporation.

## Officers of the Trust continued

Name and Year of Birth	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
<b>Kimon Daifotis</b> 1959	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President and Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Until 6/04</i> : Vice President and Senior Portfolio Manager, Charles Schwab Investment Management, Inc.
<b>Jeffrey Mortimer</b> 1963	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc.; Vice President, Chief Investment Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 5/04</i> : Vice President and Senior Portfolio Manager, Charles Schwab Investment Management, Inc.
<b>Randall Fillmore</b> 1960	Chief Compliance Officer (all trusts).	Senior Vice President, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Chief Compliance Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 9/03</i> : Vice President, Charles Schwab & Co., Inc. and Charles Schwab Investment Management, Inc. <i>Until 2002</i> : Vice President, Internal Audit, Charles Schwab & Co., Inc.
<b>Koji E. Felton</b> 1961	Secretary (all trusts).	Senior Vice President, Chief Counsel and Corporate Secretary, Charles Schwab Investment Management, Inc.; Senior Vice President and Deputy General Counsel, Charles Schwab & Co., Inc. <i>Prior to 6/98</i> , Branch Chief in Enforcement at U.S. Securities and Exchange Commission in San Francisco.
<b>George Pereira</b> 1964	Treasurer, Principal Financial Officer (all trusts).	Senior Vice President and Chief Financial Officer, Charles Schwab Investment Management, Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From 12/99 to 11/04</i> , Senior Vice President, Financial Reporting, Charles Schwab & Co., Inc.

# Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Portfolio terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Notes



## Notes

## Notes

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

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

### Methods for Placing Orders

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

#### Internet<sup>1</sup>

[www.schwab.com](http://www.schwab.com)

#### Schwab by Phone™<sup>2</sup>

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

#### TeleBroker®

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

#### Mail

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

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

### Proxy Voting Policies, Procedures and Results

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

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

## The Schwab Funds Family®

### Stock Funds

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

### Asset Allocation Funds

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

### Bond Funds

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

### Schwab Money Funds

Schwab offers an array of money market funds that seek high current income consistent with safety and liquidity.<sup>3</sup> 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®.

<sup>1</sup> Shares of Sweep Investments™ may not be purchased directly over the Internet.

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

<sup>3</sup> 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 Municipal Money Fund™

**Annual Report**

December 31, 2005

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# From the Chairman



Charles Schwab  
Chairman

Dear Shareholder,

I founded Schwab over thirty years ago to be a home for serious investors. That mission continues to guide us today as we constantly innovate on behalf of our clients. By continuing to provide the highest quality products and services—at a great price—we remain true to our heritage.

I take particular pride in the Schwab Funds. Founded over 15 years ago, they have grown to include more than 50 funds with over \$140 billion in assets as of this report date. With a variety of investment strategies, Schwab Funds provide a range of innovative investment choices that can serve as a foundation for your asset allocation plan.

Schwab Funds is managed by Charles Schwab Investment Management, Inc., which currently ranks as one of the largest investment managers in the country. Our portfolio managers share a passion for market analysis and use some of the most sophisticated financial models available. I am proud of their depth of experience, which reflects an average tenure of more than 15 years in the investment industry. Furthermore, I am impressed with the commitment that our managers bring to the stewardship of the funds, for you, their shareholders.

We strive every day to warrant the trust you have placed in us; that will never change. 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 letters of the first and last names being capitalized and prominent.

*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.*

# Management's Discussion for the year ended December 31, 2005



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

Dear Shareholder,

I'm pleased to bring you the annual report for your Schwab money fund for the year ended December 31, 2005. Although the period was marked by volatility, our money funds provided competitive yields as well as safety and stability.

I would like to take this opportunity to remind you that Schwab Funds offers a range of position-traded money funds that are available with a variety of minimums and investment strategies to meet your needs. These funds and share classes are available beginning with a minimum initial investment of \$25,000 (\$15,000 for IRA and custodial accounts) and include both taxable and, for clients who are tax sensitive, tax-free investment strategies. To make these products even more convenient, we've recently reduced the subsequent investment minimum requirement from \$5,000 to \$500 on several of our Value Advantage Investments.

We continue to develop and manage Schwab Funds to help you achieve your goals and to provide an uncomplicated way to build a well-diversified portfolio. During the report period covered by this book, Schwab Funds launched seven new funds across varying investment styles and strategies.

In closing, I speak for all of Schwab Funds when I say we want Schwab to be the place where investors can find useful, quality financial products and services to help them succeed.

Thank you for investing in Schwab Funds.

Sincerely,

A handwritten signature in black ink that reads "Evelyn Dilsaver". The signature is fluid and cursive, with a small dot above the 'i' in Dilsaver.

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





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

## The Investment Environment and the Fund

Despite having witnessed a turbulent year in the news, the markets remained in a steady growth mode and ended the one-year report period with positive results. Oil prices hit highs never seen before and the Federal Reserve continued to raise short-term interest rates to curb inflationary pressures, raising the rates eight consecutive times in the one-year report period and bringing the benchmark rate up to 4.25%. The moves had a limited impact on overall economic growth, due primarily to the low level of rates from which the increases began.

Regardless of the concerns of high energy prices, which remained a significant headwind for economic performance throughout the period, corporate earnings remained strong throughout the year. Additionally, with the unemployment rate hovering around 5% and GDP growth around 3.5%, job and income growth remained positive and investors remained optimistic. Productivity gains and more restrictive monetary policy kept a lid on core inflation. The productivity gains, coupled with foreign investors buying large amounts of U.S. government securities, helped to contain increases in long-term interest rates. These conditions caused the dollar to rally, which took pressure off the price of imported goods.

The big news for the past two quarters was the impact of Hurricanes Katrina and Rita. The devastation caused by these storms was particularly heavy with respect to the energy infrastructures in the South. Oil prices rose sharply in the aftermath of the hurricanes, with crude oil peaking above \$71 per barrel in early September, although softening oil demand and quick action by the federal government to release Strategic Petroleum Reserves led to a subsequent decline off that peak. During the fourth quarter, oil had dropped to as low as \$58 a barrel, but then rebounded back to \$64 as of the end of the period. While the full economic effect of the hurricanes remains unknown, the damage appears to be limited to the regions in the hurricanes' path and to the energy infrastructures in those areas.

Another significant event that happened during the report period was the appointment of Ben Bernanke to succeed Alan Greenspan as Chairman of the Federal Reserve Board. Although he had not yet been confirmed into office as of the end of the report period, Bernanke's experience on

the Federal Open Market Committee and his expertise in monetary economics has eased the concerns of the markets and caused investors to expect a smooth transition.

**As noted above, the Fed continued in its tightening mode, raising short-term rates 0.25% at each of its eight meetings this year.** At the end of the one year report period, the benchmark rate was up to 4.25%. The higher rates translated into higher money fund yields making them more attractive as an investment vehicle. The yields on municipal variable-rate demand notes rose significantly during the year as the Bond Market Association's BMA seven-day municipal index rose by 1.50%. This change caused the yields on the Schwab Municipal Money Fund to increase for the period.

During the year, the fund's weighted average maturity (WAM) was positioned anywhere from neutral to 15 days longer than the peer group averages. When the opportunity arose, we added commercial paper with maturities of 30-90 days as well as variable-rate demand notes. We feel that both of these asset classes offered the best relative value during the report period.

The combination of rising interest rates, and improved financial circumstances for state and local governments combined to cause a decline in fixed-rate note issuance for 2005. The drop off in note supply was partially offset by an increase in structured variable-rate notes.

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 12/31/05

Seven-Day Yields

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

Ticker Symbol	Sweep Shares SWXXX	Value Advantage Shares™ SWTXX	Select Shares® SWLXX	Institutional Shares SWOXX
Seven-Day Yield <sup>1</sup>	2.71%	2.91%	3.01%	3.12%
Seven-Day Yield—No Waiver <sup>2</sup>	2.53%	2.76%	2.76%	2.76%
Seven-Day Effective Yield <sup>1</sup>	2.73%	2.93%	3.04%	3.15%
Seven-Day Taxable-Equivalent Effective Yield <sup>1, 3</sup>	4.20%	4.51%	4.68%	4.85%

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](http://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	34 days
Credit Quality of Holdings % of portfolio	100% Tier 1
Credit-Enhanced Securities % of portfolio	75%
Minimum Initial Investment <sup>4</sup>	
Sweep Investments*	*
Value Advantage Shares (\$15,000 for IRA and custodial accounts) <sup>5</sup>	\$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.

<sup>1</sup> Fund expenses have been partially absorbed by CSIM and Schwab.

<sup>2</sup> Yield if fund expenses had not been partially absorbed by CSIM and Schwab.

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

<sup>4</sup> Please see prospectus for further detail and eligibility requirements.

<sup>5</sup> Municipal money funds are generally not appropriate investments for IRAs and other tax-deferred accounts. Please consult your tax advisor about your situation.

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

# Fund Expenses (unaudited)

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, 2005 and held through December 31, 2005.

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

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

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

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

	Expense Ratio <sup>1</sup> (Annualized)	Beginning Account Value at 7/1/05	Ending Account Value (Net of Expenses) at 12/31/05	Expenses Paid During Period <sup>2</sup> 7/1/05–12/31/05
<b>Schwab Municipal Money Fund™</b>				
<i>Sweep Shares</i>				
Actual Return	0.65%	\$1,000	\$1,010.30	\$3.29
Hypothetical 5% Return	0.65%	\$1,000	\$1,021.93	\$3.31
<i>Value Advantage Shares™</i>				
Actual Return	0.45%	\$1,000	\$1,011.30	\$2.28
Hypothetical 5% Return	0.45%	\$1,000	\$1,022.94	\$2.29
<i>Select Shares®</i>				
Actual Return	0.35%	\$1,000	\$1,011.80	\$1.77
Hypothetical 5% Return	0.35%	\$1,000	\$1,023.44	\$1.79
<i>Institutional Shares</i>				
Actual Return	0.24%	\$1,000	\$1,012.40	\$1.22
Hypothetical 5% Return	0.24%	\$1,000	\$1,024.00	\$1.22

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

<sup>2</sup> Expenses for each share class are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 184 days of the period, and divided by 365 days of the fiscal year.

# Financial Statements

## Financial Highlights

Sweep Shares	1/1/05– 12/31/05	1/1/04– 12/31/04	1/1/03– 12/31/03	1/1/02– 12/31/02	1/1/01– 12/31/01
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	1.00	1.00	1.00	1.00	1.00
Income from investment operations:					
Net investment income	0.02	0.01	(0.00) <sup>1</sup>	0.01	0.02
Less distributions:					
Dividends from net investment income	(0.02)	(0.01)	(0.00) <sup>1</sup>	(0.01)	(0.02)
Net asset value at end of period	1.00	1.00	1.00	1.00	1.00
Total return (%)	1.79	0.60	0.46	0.91	2.23
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.65	0.66	0.66	0.66	0.66
Gross operating expenses	0.82	0.81	0.81	0.82	0.83
Net investment income	1.77	0.60	0.46	0.90	2.21
Net assets, end of period (\$ x 1,000,000)	7,467	7,563	7,494	7,435	7,265
<b>Value Advantage Shares</b>					
	1/1/05– 12/31/05	1/1/04– 12/31/04	1/1/03– 12/31/03	1/1/02– 12/31/02	1/1/01– 12/31/01
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	1.00	1.00	1.00	1.00	1.00
Income from investment operations:					
Net investment income	0.02	0.01	0.01	0.01	0.02
Less distributions:					
Dividends from net investment income	(0.02)	(0.01)	(0.01)	(0.01)	(0.02)
Net asset value at end of period	1.00	1.00	1.00	1.00	1.00
Total return (%)	2.00	0.81	0.68	1.12	2.45
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.45	0.45	0.45	0.45	0.45
Gross operating expenses	0.59	0.58	0.58	0.59	0.61
Net investment income	1.97	0.80	0.68	1.11	2.35
Net assets, end of period (\$ x 1,000,000)	3,007	3,245	3,901	4,480	3,778

<sup>1</sup> Per-share amount was less than \$0.01.

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

Net asset value at beginning of period	1.00	1.00	1.00
Income from investment operations:			
Net investment income	0.02	0.01	(0.00) <sup>2</sup>
Less distributions:			
Dividends from net investment income	(0.02)	(0.01)	(0.00) <sup>2</sup>
Net asset value at end of period	1.00	1.00	1.00
Total return (%)	2.10	0.92	0.39 <sup>3</sup>

**Ratios/Supplemental Data (%)**

Ratios to average net assets:			
Net operating expenses	0.35	0.35	0.35 <sup>4</sup>
Gross operating expenses	0.59	0.58	0.58 <sup>4</sup>
Net investment income	2.11	0.93	0.68 <sup>4</sup>
Net assets, end of period (\$ x 1,000,000)	966	727	474

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

Net asset value at beginning of period	1.00	1.00	1.00
Income from investment operations:			
Net investment income	0.02	0.01	(0.00) <sup>2</sup>
Less distributions:			
Dividends from net investment income	(0.02)	(0.01)	(0.00) <sup>2</sup>
Net asset value at end of period	1.00	1.00	1.00
Total return (%)	2.21	1.03	0.45 <sup>3</sup>

**Ratios/Supplemental Data (%)**

Ratios to average net assets:			
Net operating expenses	0.24	0.24	0.24 <sup>4</sup>
Gross operating expenses	0.59	0.58	0.58 <sup>4</sup>
Net investment income	2.20	1.08	0.80 <sup>4</sup>
Net assets, end of period (\$ x 1,000,000)	1,783	1,459	718

<sup>1</sup> Commencement of operations.<sup>2</sup> Per-share amount was less than \$0.01.<sup>3</sup> Not annualized.<sup>4</sup> Annualized.

**Portfolio Holdings** as of December 31, 2005

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](http://www.schwab.com/schwabfunds).

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

- + Credit-enhanced security
- ▷ Liquidity-enhanced security
- Variable-rate security
- ◆ Delayed-delivery security
- 144A Security; restricted but deemed liquid
- ▲ All or a portion of this security is held as collateral for futures contracts and delayed-delivery security

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

<b>Holdings by Category</b>		<b>Cost</b> (\$x1,000)	<b>Value</b> (\$x1,000)
<b>99.6%</b>	<b>Municipal Securities</b>	13,163,744	13,163,744
<b>99.6%</b>	<b>Total Investments</b>	<b>13,163,744</b>	<b>13,163,744</b>
<b>0.4%</b>	<b>Other Assets and Liabilities</b>		59,379
<b>100.0%</b>	<b>Net Assets</b>		<b>13,223,123</b>

<b>Issuer</b> <b>Rate, Maturity Date</b>	<b>Face Amount</b> (\$ x 1,000)	<b>Value</b> (\$ x 1,000)
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**Municipal Securities** 99.6% of net assets**Alabama 1.4%****Alabama IDA****+■ IDRB (Scientific Utilization)**

Series 1996		
3.76%, 01/07/06	1,620	1,620

**Bessemer Medical Clinic Board****+▷■ RB Series 1990A**

2.80%, 06/15/06	14,725	14,725
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**Birmingham Public Educational Building Auth****+■ Student Housing RB**

Series 2005A		
3.51%, 01/07/06	6,415	6,415

**Birmingham Special Care Facilities Financing Auth****+■ Health Care Facility RB (Eastern Health System) Series 2003A**

3.52%, 01/07/06	36,350	36,350
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**Daphne Utilities Board****+▷■ Water, Gas and Sewer Refunding**

RB Series 2000		
3.54%, 01/07/06	7,630	7,630

**Decatur IDB****■ Exempt Facilities Refunding RB**

(Nucor Steel Decatur)		
Series 2003A		
3.63%, 01/07/06	17,000	17,000

**Dothan IDB****+■ IDRB (Baxley Blowpipe)**

Series 1997		
4.26%, 01/07/06	100	100

**Ft Payne IDA****+■ IDRB (Charleston Hosiery)**

Series 1997		
3.62%, 01/07/06	800	800

**Health Care Auth for Baptist Health****+▷■ Notes Series 2005A**

3.61%, 01/07/06	46,000	46,000
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**Hoover Board of Education****+▷■ Capital Outlay TAN Series 2001**

3.54%, 01/07/06	14,810	14,810
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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)
<b>Indian Springs Village</b>			<b>Chandler IDA</b>		
+■ RB (Joseph Bruno Montessori Academy) Series 1999 3.65%, 01/07/06	1,190	1,190	+■ IDRB (South Bay Circuits) Series 1999A 3.65%, 01/07/06	1,300	1,300
<b>Montgomery Downtown Redevelopment Auth</b>			<b>Deer Valley Unified SD No. 97</b>		
■ Bonds (Southern Poverty Law Center) Series 2000 3.66%, 01/07/06	15,000	15,000	+ School Improvement Bonds (Project of 2004) Series 2005A 2.64%, 07/01/06	10,000	10,067
<b>Scottsboro</b>			<b>Downtown Phoenix Hotel Corp</b>		
+■ School Warrants Series 1997 3.50%, 01/07/06	3,430	3,430	+■■ Subordinate RB Series 2005B 3.58%, 01/04/06	21,360	21,360
<b>Stevenson IDB</b>			<b>Maricopa Cnty IDA</b>		
+■ Environmental Improvement RB (Mead Corp) Series 1997 3.55%, 01/07/06	17,300	17,300	+■ M/F Mortgage Refunding RB (San Fernando Apts) Series 2004 3.60%, 01/07/06	7,750	7,750
<b>Tuscaloosa Cnty</b>			<b>Phoenix Civic Improvement Corp</b>		
+■ IDRB (Knight Specialties) Series 1998 3.70%, 01/07/06	885	885	+■ Subordinated Excise Tax RB (Airport Improvements) Series 1995 3.58%, 01/07/06	1,000	1,000
		<b>183,255</b>	+■■ Subordinated Excise Tax RB (Civic Expansion) Series 2005A 3.55%, 01/07/06	4,675	4,675
<b>Alaska 0.1%</b>			<b>Phoenix IDA</b>		
<b>Alaska Housing Finance Corp</b>			+■■ Government Office Lease Refunding RB (Capitol Mall LLC) Series 2005 3.55%, 01/07/06	4,165	4,165
►■ General Mortgage RB Series 2002A 3.56%, 01/07/06	5,995	5,995	►■ S/F Mortgage Draw-Down RB Series 2005A 3.60%, 01/07/06	10,740	10,740
►■ Mortgage RB Series 1999A-2 3.58%, 01/07/06	5,785	5,785	<b>Pine Ridge Village/Campus Heights LLC</b>		
<b>Alaska Industrial Development and Export Auth</b>			+■ RB (Northern Arizona University) Series 2005 3.53%, 01/04/06	20,000	20,000
+►■ Revolving Fund Bonds Series 1997A 3.59%, 01/07/06	4,850	4,850	<b>Salt River Pima-Maricopa Indian Community</b>		
		<b>16,630</b>	+■ Bonds Series 2005 3.55%, 01/07/06	5,000	5,000
<b>Arizona 1.0%</b>					
<b>Arizona School Facilities Board</b>					
+►■ State School Trust RB Series 2004A 3.56%, 01/07/06	4,995	4,995			
<b>Arizona Transportation Board</b>					
►■ Highway Refunding RB Series 2005A 3.56%, 01/07/06	3,365	3,365			



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)
<b>Sun Devil Energy Center</b>					
➤ RB (Arizona State University) Series 2004 3.53%, 01/07/06	19,000	19,000	➤ GO Bonds Series 2004A-3 3.75%, 01/07/06	13,525	13,525
<b>Yavapai Cnty IDA</b>			➤ Various Purpose GO Bonds 3.40%, 01/04/06	110	110
➤ Hospital RB (Yavapai Regional Medical Center) Series 1997B 3.51%, 01/07/06	13,950	13,950	<b>California Dept of Water Resources</b>		
		<b>127,367</b>	➤ Power Supply RB Series 2002B-1 3.70%, 01/07/06	2,000	2,000
<b>Arkansas 0.1%</b>			➤ Power Supply RB Series 2002C-1 3.55%, 01/07/06	54,305	54,305
<b>Arkansas Development Finance Auth</b>			➤ Power Supply RB Series 2002C-17 3.48%, 01/07/06	1,000	1,000
➤ IDRB (C&C Holding Co) Series 1998 3.65%, 01/07/06	700	700	<b>California HFA</b>		
<b>Independence Cnty</b>			➤ Home Mortgage RB Series 2002B 3.80%, 01/07/06	4,000	4,000
➤ IDRB (Townsend) Series 1996 3.58%, 01/07/06	9,000	9,000	➤ Home Mortgage RB Series 2002J 3.78%, 01/07/06	17,870	17,870
		<b>9,700</b>	➤ Home Mortgage RB Series 2003H 3.52%, 01/07/06	925	925
<b>California 4.6%</b>			➤ Home Mortgage RB Series 2003M 3.55%, 01/04/06	34,300	34,300
<b>Access Loans For Learning Student Loan Corp</b>			➤ Home Mortgage RB Series 2005A 3.55%, 01/07/06	20,000	20,000
➤ Student Loan Program RB Series II-A1 3.56%, 01/07/06	35,000	35,000	➤ M/F Housing RB III Series 2002E 3.53%, 01/07/06	2,805	2,805
➤ Student Loan Program RB Series II-A2 3.56%, 01/07/06	20,000	20,000	<b>California Infrastructure and Economic Development Bank</b>		
➤ Student Loan Program RB Series II-A3 3.56%, 01/07/06	23,700	23,700	➤ RB (Asian Art Museum Foundation of SF) Series 2005 3.70%, 01/07/06	8,500	8,500
➤ Student Loan Program RB Sr Series II-A8 2.83%, 06/01/06	33,300	33,300	<b>California Statewide Communities Development Auth</b>		
➤ Student Loan Program RB Sr Series II-A9 3.45%, 01/07/06	74,000	74,000	TRAN Series 2005A-2 2.62%, 06/30/06	12,500	12,583
<b>California</b>			TRAN Series 2005A-3 2.62%, 06/30/06	7,500	7,550
➤ Economic Recovery Bonds Series 2004C-3 3.72%, 01/07/06	5,700	5,700			
➤ GO Bonds Series 2004 B-2 3.65%, 01/07/06	5,000	5,000			

## 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)
TRAN Series 2005A-4 2.63%, 06/30/06	30,000	30,197	<b>Colorado</b> General Fund TRAN Series 2005A 2.62%, 06/27/06	230,000	231,310
TRAN Series 2005A-4 2.62%, 06/30/06	42,500	42,782	<b>Colorado Dept of Transportation</b> +■ Refunding RAN Series 2004B 3.55%, 01/07/06	4,745	4,745
TRAN Series 2005A-5 2.63%, 06/30/06	18,000	18,118	<b>Colorado HFA</b> +■ Economic Development RB (Pemracs) Series 2000A 3.65%, 01/07/06	3,150	3,150
TRAN Series 2005A-5 2.62%, 06/30/06	50,000	50,332	<b>Colorado Student Loan Auth</b> +■ RB Series 1989A 3.55%, 01/07/06	49,400	49,400
<b>Irvine Updates Improvement Board Assessment District</b> +■ Assessment District No. 97-17 Limited Obligation Improvement Bonds 3.62%, 01/07/06	3,175	3,175	+■ Sr Bonds Series 1990A 3.63%, 01/07/06	14,400	14,400
<b>Los Angeles</b> TRAN Series 2005 2.68%, 06/30/06	60,000	60,380	+■ Sr Lien RB Series 1999A-2 3.55%, 01/07/06	28,400	28,400
<b>Los Angeles Community Redevelopment Agency</b> +■ M/F Housing RB (Wilshire Station Apts) Series 2003A 3.76%, 01/03/06	21,500	21,500	+■ Sr Lien RB Series 1999A-3 3.55%, 01/07/06	29,800	29,800
<b>Southern California Metropolitan Water District</b> +■ Water RB Series 2001C-2 3.75%, 01/07/06	11,000	11,000	<b>Denver City and Cnty</b> +■ Airport System RB Series 1992F 3.55%, 01/07/06	17,475	17,475
		<b>613,657</b>	+■ Airport System RB Series 1992G 3.55%, 01/07/06	17,925	17,925
<b>Colorado 4.8%</b> <b>Arapahoe Cnty</b> +■ Refunding IDR (Denver Jetcenter) Series 1997 3.25%, 01/30/06	3,500	3,500	+■ Airport System RB Series 2005A 3.55%, 01/07/06	22,462	22,462
<b>Arvada</b> +■ Water Enterprise RB Series 2001 3.10%, 01/03/06	3,900	3,900	+■ Airport System Refunding RB Series 2000B 3.60%, 01/07/06	68,400	68,400
<b>Broomfield Urban Renewal Auth</b> +■ Tax Increment RB (Broomfield Event Center) Series 2005 3.53%, 01/07/06	13,785	13,785	+■ Airport System Refunding RB Series 2000C 3.55%, 01/07/06	50,000	50,000
<b>Centerra Metropolitan District No. 1</b> +■ RB Series 2004 3.54%, 01/07/06	10,000	10,000	+■ GO Bonds (Justice System Facilities and Zoo) Series 2005 3.55%, 01/07/06	9,350	9,350
			<b>Jefferson Cnty SD</b> +■ GO Bonds (SD No. R-1) Series 2004 3.56%, 01/07/06	4,990	4,990

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)
<b>Lowry Economic Development Auth</b>			<b>Sussex Cnty</b>		
➤■ IDRB Series 2002B 3.51%, 01/07/06	14,140	14,140	➤■ IDRB (Perdue-Agrirecycle) Series 2000 3.60%, 01/07/06	5,300	5,300
➤■ Refunding RB Series 2002A 3.51%, 01/07/06	10,870	10,870	➤■ RB (Baywood) Series 1997A 3.73%, 01/04/06	2,400	2,400
<b>Park Creek Metropolitan District</b>			<b>District of Columbia 1.3%</b>		
➤■ Jr Subordinate Limited Property Tax Supported RB Series 2005 3.55%, 01/07/06	13,250	13,250	<b>District of Columbia</b>		
<b>Thompson SD R2-J</b>			➤■ Enterprise Zone RB (Crowell and Moring) Series 2001 3.60%, 01/04/06	3,300	3,300
➤■ GO Bonds Series 2005 3.55%, 01/07/06	4,220	4,220	➤■ GO Refunding Bonds Series 1999B 3.55%, 01/07/06	14,640	14,640
<b>Westminster Economic Development Auth</b>			➤■ RB (American Psychological Association) Series 2003 3.60%, 01/07/06	2,755	2,755
➤■ Tax Increment RB (Westminster Plaza) Series 1997A 3.65%, 01/07/06	6,145	6,145	➤■ RB (St Coletta Special Education Public Charter School) Series 2005 3.55%, 01/07/06	4,150	4,150
<b>Connecticut 0.9%</b>			<b>District of Columbia Water and Sewer Auth</b>		
<b>Connecticut HFA</b>			➤■ Public Utility Subordinated Lien RB Series 2003 3.55%, 01/07/06	13,168	13,168
➤■ Housing Draw Down Bonds Series 2004B 3.56%, 01/07/06	6,765	6,765	<b>Metropolitan Washington Airports Auth</b>		
➤■ S/F Mortgage Draw Down RB Series 2004B 3.56%, 01/07/06	114,225	114,225	➤ Airport System Revenue CP Series One A&B 3.11%, 01/30/06	20,000	20,000
<b>Delaware 0.3%</b>			➤■ Airport System RB Series 2005A 3.58%, 01/07/06	14,995	14,995
<b>Delaware</b>			➤ Flexible Term PFC Revenue Notes Series D 3.20%, 02/13/06	30,000	30,000
➤■ GO Refunding Bonds Series 2005C 3.55%, 01/07/06	5,845	5,845	➤ Flexible Term PFC Revenue Notes Series A 3.20%, 02/15/06	8,500	8,500
<b>New Castle Cnty</b>			➤ Flexible Term PFC Revenue Notes Series B 3.30%, 03/15/06	22,500	22,500
➤■ Airport Facility RB (Flightsafety International) Series 2002 3.55%, 01/07/06	16,600	16,600	➤ Flexible Term PFC Revenue Notes Series C 3.20%, 02/14/06	23,000	23,000
➤■ M/F Rental Housing RB (Fairfield English Village) Series 2005 3.60%, 01/07/06	8,500	8,500			
<b>631,617</b>					
<b>120,990</b>					
<b>38,645</b>					

## 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)
<b>+</b> ■ RB Series 1997B 3.59%, 01/07/06	1,655	1,655	<b>Charlotte Cnty</b>		
<b>+</b> ■ RB Series 2001A 3.59%, 01/07/06	5,870	5,870	<b>+</b> ■ Refunding RB Series 2003B 3.55%, 01/07/06	5,600	5,600
<b>+</b> ■ Refunding RB Series 2002C 3.45%, 01/07/06	1,800	1,800	<b>Charlotte Cnty HFA</b>		
<b>+</b> ■ Refunding RB Series 2004D 3.59%, 01/07/06	2,750	2,750	<b>+</b> ■ M/F Housing RB (Murdock Circle Apts) Series 2000 3.51%, 01/07/06	3,220	3,220
	<b>169,083</b>		<b>Clay Cnty Utility Auth</b>		
<b>Florida 4.5%</b>			<b>+</b> ■ RB Series 2003A 3.55%, 01/07/06	3,210	3,210
<b>Alachua Cnty Health Facilities Auth</b>			<b>Collier Cnty IDA</b>		
<b>+</b> ■ RB (Shands Hospital-University of Florida) Series 1992R 3.54%, 01/07/06	11,540	11,540	<b>+</b> ■ Educational Facilities RB (Community School of Naples) Series 2002 3.55%, 01/07/06	2,100	2,100
<b>Brevard Cnty Health Facilities Auth</b>			<b>Dade Cnty IDA</b>		
<b>+</b> ■ RB (Wuesthoff Health Systems) Series 2004 3.55%, 01/07/06	1,200	1,200	<b>+</b> ■ IDRb (Michael-Ann Russell Jewish Community Center) Series 1997 3.55%, 01/07/06	3,985	3,985
<b>Brevard Cnty HFA</b>			<b>+</b> ■ IDRb (South Florida Stadium Corp) Series 1985C 3.55%, 01/04/06	1,050	1,050
<b>+</b> ■ M/F Housing RB (Manatee Cove Apts) Series 2005 3.55%, 01/07/06	5,715	5,715	<b>Davie</b>		
<b>+</b> ■ M/F Housing Refunding RB (Shore View Apts) Series 1995 3.55%, 01/07/06	1,900	1,900	<b>+</b> ■ RB (United Jewish Community of Broward Cnty) Series 2003 3.55%, 01/07/06	2,200	2,200
<b>Broward Cnty Educational Facilities Auth</b>			<b>Escambia HFA</b>		
<b>+</b> ■ RB (Nova Southeastern University) Series 2000A 3.55%, 01/07/06	7,300	7,300	<b>+</b> ■ S/F Mortgage RB Series 2001A 3.63%, 01/07/06	100	100
<b>Broward Cnty HFA</b>			<b>Eustis</b>		
<b>+</b> ■ M/F Housing RB (Landings of Inverrary Apts) Series 1985 3.45%, 01/07/06	2,500	2,500	<b>+</b> ■ RB Installment 1997A 3.55%, 01/07/06	3,260	3,260
<b>+</b> ■ M/F Housing RB (Sanctuary Apts) Series 1985 3.45%, 01/07/06	2,000	2,000	<b>Florida Board of Education</b>		
<b>Broward Cnty SD</b>			<b>+</b> ■ Capital Outlay Refunding Bonds Series 2005D 3.54%, 01/07/06	2,600	2,600
<b>+</b> ■ School Board COP Series 2005B 3.55%, 01/07/06	14,460	14,460	<b>+</b> ■ Lottery RB Series 2005A 3.55%, 01/07/06	1,200	1,200

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Florida Development Finance Corp</b>			<b>Hillsborough Cnty Aviation Auth</b>		
+■ IDRB (Sunshine State Christian Homes, Inc) Series 1999A3 3.60%, 01/07/06	1,160	1,160	+ Airport Facilities Subordinated TECP Series B 3.14%, 02/16/06	47,476	47,476
+■ IDRB Enterprise Bond Program (Pioneer-Ram) Series 1998A3 3.65%, 01/04/06	880	880	<b>Hillsborough Cnty Educational Facilities Auth</b>		
<b>Florida HFA</b>			+■ RB (University of Tampa) Series 2000 3.60%, 01/07/06	5,300	5,300
+■ Housing RB (Caribbean Key Apts) Series 1996F 3.55%, 01/07/06	300	300	<b>Hillsborough Cnty HFA</b>		
+■ M/F Mortgage RB (Clarcona Groves Apts) Series 2005A 3.44%, 01/04/06	1,000	1,000	+■ M/F Housing RB (Claymore Crossing Apts) Series 2005 3.56%, 01/04/06	1,000	1,000
+■ M/F Mortgage RB (Pinnacle Pointe Apts) Series 2003N 3.44%, 01/07/06	1,200	1,200	<b>Hillsborough Cnty IDA</b>		
+■ M/F Mortgage Refunding RB (Victoria Park Apts) Series 2002J-1 3.51%, 01/07/06	1,570	1,570	+■ Educational Facilities RB (Berkeley Preparatory School, Inc) Series 1999 3.55%, 01/04/06	4,415	4,415
<b>Florida Local Government Finance Commission</b>			+■ IDRB (University Community Hospital) Series 1994 2.85%, 06/22/06	11,470	11,470
+ Pooled TECP Series 1994A 2.98%, 01/05/06	11,929	11,929	+■ RB (Independent Day School) Series 2000 3.60%, 01/07/06	900	900
<b>Gainesville</b>			<b>Jacksonville Economic Development Commission</b>		
+■ IDRB (Lifesouth Community Blood Centers) Series 1999 3.55%, 01/04/06	5,220	5,220	+■ Educational Facilities RB (Episcopal High School) Series 2002 3.55%, 01/07/06	5,400	5,400
<b>Greater Orlando Aviation Auth</b>			+■ Refunding RB (YMCA of Florida First Coast) Series 2003 3.55%, 01/07/06	4,700	4,700
+ Airport Facilities Subordinated TECP Series B 3.10%, 01/05/06	23,500	23,500	<b>Jacksonville Health Facilities Auth</b>		
<b>Gulf Breeze</b>			+■ RB (River Garden/The Coves) Series 1994 3.47%, 01/07/06	3,110	3,110
+■ Local Government Loan Program RB Series 1985E 3.52%, 01/07/06	7,140	7,140	<b>Lake Shore Hospital Auth</b>		
<b>Halifax Hospital Medical Center</b>			+■ Health Facility RB (Lake Shore Hospital) Series 1991 3.55%, 01/07/06	3,000	3,000
+■ RB (Florida Health Care Plan) Series 1998 3.52%, 01/07/06	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)
<b>Manatee Cnty HFA</b>			<b>Orlando and Orange Cnty Expressway Auth</b>		
➤■ M/F Housing RB (La Mirada Gardens) Series 2002A 3.51%, 01/07/06	4,000	4,000	➤■ RB Series 2005D 3.52%, 01/07/06	8,940	8,940
➤■ M/F Housing RB (Sabal Palm Harbor Apts) Series 2000A 3.51%, 01/07/06	4,200	4,200	<b>Palm Beach Cnty</b>		
<b>Miami-Dade Cnty</b>			➤■ Airport RB (Galaxy Aviation) Series 2000A 3.60%, 01/04/06	8,000	8,000
Solid Waste System RB Series 2005			➤■ RB (Norton Gallery and School of Art) Series 1995 3.43%, 01/04/06	2,500	2,500
➤■ 3.55%, 01/07/06	5,480	5,480	<b>Palm Beach Cnty HFA</b>		
➤■ 3.55%, 01/07/06	5,460	5,460	➤■ M/F Housing Refunding RB (Emerald Bay Club Apts) Series 2004 3.54%, 01/07/06	7,000	7,000
➤■ Water and Sewer System Refunding RB Series 2005 3.51%, 01/07/06	63,000	63,000	<b>Palm Beach Cnty SD</b>		
<b>Miami-Dade Cnty IDA</b>			Sales Tax Revenue CP		
➤■ RB (Belen Jesuit Preparatory School) Series 1999 3.55%, 01/07/06	6,355	6,355	➤ 3.12%, 02/13/06	58,000	58,000
➤■ RB (Gulliver Schools) Series 2000 3.60%, 01/07/06	3,800	3,800	➤ 3.13%, 02/14/06	11,500	11,500
<b>Miami-Dade Cnty SD</b>			<b>Pinellas Cnty Educational Facilities Auth</b>		
RAN Series 2005			➤■ RB (Shorecrest Preparatory School) Series 2001 3.52%, 01/04/06	905	905
TAN Series 2005			➤■ Refunding RB (Canterbury School of Florida) Series 2004 3.52%, 01/07/06	4,510	4,510
2.90%, 06/27/06	60,000	60,371	<b>Pinellas Cnty HFA</b>		
<b>Orange Cnty HFA</b>			➤■ M/F Housing RB (Greenwood Apts) Series 2002A 3.60%, 01/05/06	6,460	6,460
➤■ M/F Guaranteed Mortgage Refunding RB (Sundown Associates II) Series 1989A 3.56%, 01/07/06	4,600	4,600	<b>Pinellas Cnty IDA</b>		
➤■ M/F Housing RB (Alta Westgate Apts) Series 2005C 3.56%, 01/04/06	6,920	6,920	➤■ RB (Pact) Series 2003 3.55%, 01/07/06	7,200	7,200
➤■ M/F Housing Refunding RB (Post Fountains At Lee Vista) Series 1997E 3.58%, 01/07/06	1,000	1,000	<b>Pinellas Cnty Industry Council</b>		
<b>Orange Cnty IDA</b>			➤■ RB (Operation Par) Series 1999 3.47%, 01/07/06	4,450	4,450
➤■ IDRB (Central Florida YMCA) Series 2002A 3.60%, 01/07/06	4,000	4,000	<b>Port St Lucie</b>		
➤■ IDRB (Goodwill Industries of Central Florida) Series 1999 3.55%, 01/07/06	6,000	6,000	➤■ Utility System Refunding RB Series 2004A 3.53%, 01/07/06	3,000	3,000

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)
<b>Reedy Creek Improvement District</b>			<b>Atlanta Urban Residential Finance Auth</b>		
+■ Utilities Refunding RB Series 2003-2 3.54%, 01/07/06	7,585	7,585	+■ M/F Housing RB (Brentwood Creek Apts ) Series 1999 3.60%, 01/04/06	4,320	4,320
<b>Santa Rosa Cnty</b>			+■ M/F Housing RB (Brentwood Meadows Apts ) Series 1999 3.60%, 01/04/06	2,865	2,865
+■ Health Facilities RB (Baptist Hospital) Series 2003 3.55%, 01/07/06	7,185	7,185	+■ M/F Housing RB (Brentwood Village Apts ) Series 1999 3.60%, 01/04/06	5,810	5,810
<b>Sunshine State Governmental Financing Commission</b>			+■ M/F Housing RB (Capitol Gateway Apts Phase I) Series 2005 3.63%, 01/07/06	4,125	4,125
+■ CP Revenue Notes (Miami- Dade Cnty Program) Series G 2.95%, 01/07/06	6,439	6,439	+■ M/F Housing RB (Carver Redevelopment Phase III) Series 2001 3.60%, 01/04/06	1,375	1,375
+■ TECP Series 1998A 3.09%, 02/06/06	12,000	12,000	+■ M/F Housing RB (Delmonte/ Brownlee Court) Series 2001A 3.60%, 01/04/06	4,600	4,600
<b>Tampa</b>			+■ M/F Housing RB (Lindbergh City Center Apts) Series 2004 3.58%, 01/07/06	5,000	5,000
+■ Health Care Facilities RB (Lifelink Foundation) Series 1997 3.55%, 01/07/06	4,700	4,700	+■ M/F Housing RB (M St Apts) Series 2003 3.58%, 01/07/06	7,000	7,000
<b>Tampa Bay Water Auth</b>			+■ M/F Housing RB (Peaks at West Atlanta Apts) Series 2001 3.60%, 01/04/06	4,900	4,900
+■ Utility System RB Series 2002 3.60%, 01/07/06	6,700	6,700	+■ M/F Sr Housing RB (Big Bethel Village) Series 2001 3.60%, 01/07/06	4,400	4,400
		<b>588,433</b>	<b>Atlanta Water and Sewer System</b>		
<b>Georgia 4.1%</b>			+■ Water and Wastewater RB Series 2001C 3.70%, 01/07/06	20,900	20,900
<b>Atlanta</b>			<b>Augusta Housing Auth</b>		
+■ Airport General Refunding RB Series 2000A 3.55%, 01/07/06	11,195	11,195	+■ M/F Housing RB (G-Hope) Series 2001 3.60%, 01/04/06	3,685	3,685
+■ Airport General Refunding RB Series 2000C 3.59%, 01/07/06	3,385	3,385			
+■ Airport General Refunding RB Series 2003RF-D 3.59%, 01/07/06	6,180	6,180			
+■ Water and Wastewater RB Series 2004 3.56%, 01/07/06	9,305	9,305			
<b>Atlanta Development Auth</b>					
+■ Student Housing RB (Georgia State University) Series 2005A 3.55%, 01/07/06	5,000	5,000			

## 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)
<b>Burke Cnty Development Auth</b>			<b>DeKalb Cnty Development Auth</b>		
+■ Pollution Control RB (Georgia Power Co Plant Vogtle) Second Series 2005 3.55%, 01/07/06	15,960	15,960	+■ RB (Arbor Montessori School) Series 1998 3.55%, 01/07/06	1,100	1,100
<b>Cherokee Cnty</b>			<b>DeKalb Cnty Housing Auth</b>		
+■ IDRB (Universal Alloy Corp) Series 1996 3.57%, 01/07/06	1,500	1,500	+■ M/F Housing RB (Brittany Apts) Series 2001 3.60%, 01/07/06	8,000	8,000
<b>Clayton Cnty Development Auth</b>			+■ M/F Housing RB (Eagles Trace Apts) Series 1996 3.55%, 01/07/06	8,650	8,650
+■ IDRB (Wilson Holdings) Series 1998 3.65%, 01/07/06	300	300	+■ M/F Housing RB (Mountain Crest Apts) Series 2002 3.60%, 01/07/06	7,775	7,775
<b>Clayton Cnty Housing Auth</b>			+■ M/F Housing RB (Villas of Friendly Heights Apts) Series 2001 3.60%, 01/04/06	3,520	3,520
+■ M/F Housing RB (Hyde Park Club Apts) Series 1997 3.65%, 01/04/06	11,895	11,895	+■ M/F Housing RB (Wesley Club Apts) Series 2002 3.60%, 01/04/06	5,945	5,945
<b>Cobb Cnty Housing Auth</b>			<b>DeKalb Cnty Public Safety and Judicial Facilities Auth</b>		
+■ M/F Housing RB (Walton Green Apts) Series 1995 3.57%, 01/07/06	13,500	13,500	■ RB Series 2004A 3.56%, 01/07/06	17,895	17,895
+■ M/F Housing RB (Woodchase Village Apts) Series 2003 3.63%, 01/07/06	4,000	4,000	<b>Effingham Cnty IDA</b>		
+■ M/F Housing Refunding RB (Walton Park Apts) Series 2000 3.57%, 01/07/06	21,100	21,100	+■ RB (TEMCOR) Series 2001 3.60%, 01/04/06	3,355	3,355
<b>Columbus Development Auth</b>			<b>Fulton Cnty</b>		
+■ RB (Foundation Properties) Series 2002 3.56%, 01/07/06	11,285	11,285	+■ Water and Sewerage RB Series 2004 3.42%, 01/07/06	10,000	10,000
<b>Columbus Housing Auth</b>			<b>Fulton Cnty Development Auth</b>		
+■ M/F Housing RB (Eagles Trace Apts) Series 2002 3.60%, 01/07/06	6,200	6,200	+■ RB (Atlanta International School) Series 1997 3.55%, 01/07/06	2,400	2,400
<b>Dalton Development Auth</b>			+■ RB (Trinity School) Series 2001 3.55%, 01/04/06	7,000	7,000
+■ Revenue Certificates (Hamilton Health Care System) Series 2003B 3.55%, 01/07/06	5,245	5,245	<b>Fulton-DeKalb Hospital Auth</b>		
<b>Dawson Cnty</b>			+■ Refunding Revenue Certificates Series 2003 3.55%, 01/07/06	4,995	4,995
+■ IDRB (World Wide Mnfng) Series 1998 3.62%, 01/07/06	1,950	1,950	<b>Gainesville Redevelopment Auth</b>		
			+■ Educational Facilities RB (Riverside Military Academy) Series 1999 3.52%, 01/07/06	200	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)
<b>Georgia</b>			<b>Macon-Bibb Cnty Hospital Auth</b>		
▶■ GO Bonds Series 1998B 3.56%, 01/07/06	20,245	20,245	➤■ Revenue Anticipation Certificates (Medical Center of Central Georgia) Series 1998 3.55%, 01/07/06	4,000	4,000
▶■ GO Bonds Series 2002B 3.55%, 01/07/06	1,100	1,100	<b>Marietta Housing Auth</b>		
▶■ GO Bonds Series 2005A 3.55%, 01/07/06	6,830	6,830	➤■ M/F Housing RB (Walton Village Apts) Series 2005 3.65%, 01/07/06	14,300	14,300
<b>Gordon Cnty Development Auth</b>			<b>Metropolitan Atlanta Rapid Transit Auth</b>		
➤■ RB (Constantine Dyeing) Series 2001 3.60%, 01/07/06	1,890	1,890	Sales Tax Revenue CP BAN (Third Indenture) Series 2004A		
<b>Houston Cnty Development Auth</b>			➤ 3.10%, 02/07/06	5,000	5,000
➤■ IDRB (Douglas Asphalt Co) Series 2000 3.60%, 01/07/06	1,500	1,500	➤ 3.12%, 02/09/06	5,000	5,000
<b>Jefferson Cnty Development Auth</b>			➤ Sales Tax Revenue CP BAN (Third Indenture) Series 2004B 3.11%, 02/07/06	9,500	9,500
➤■ IDRB (Grove River Mills) Series 1997 3.62%, 01/07/06	1,500	1,500	<b>Miller Cnty Development Auth</b>		
<b>Laurens Cnty Development Auth</b>			➤■ IDRB (Birdsong Corp) Series 2000 3.60%, 01/07/06	2,500	2,500
➤■ Solid Waste Disposal RB (Southeast Paper Manufacturing Co) Series 1993 3.60%, 01/07/06	25,000	25,000	<b>Municipal Gas Auth of Georgia</b>		
➤■ Solid Waste Disposal RB (Southeast Paper Manufacturing Co) Series 1997 3.60%, 01/07/06	26,000	26,000	➤■ Gas RB (Gas Portfolio III) Series B 3.57%, 01/07/06	54,900	54,900
<b>Lawrenceville Housing Auth</b>			<b>Pooler Development Auth</b>		
➤■ M/F Housing RB (Chatham Club Apts) Series 2002 3.59%, 01/07/06	7,700	7,700	➤■ M/F Housing RB (Alta Towne Lake Apts) Series 2005 3.60%, 01/07/06	19,500	19,500
<b>Lowndes Cnty Development Auth</b>			<b>Savannah Economic Development Auth</b>		
➤■ M/F Housing RB (FMPH Valdosta) Series 1999 3.60%, 01/04/06	4,625	4,625	➤■ Exempt Facility RB (Georgia Kaolin Terminal) Series 1997 3.60%, 01/07/06	11,000	11,000
			➤■ Exempt Facility RB (Home Depot) Series 1995B 3.59%, 01/07/06	5,000	5,000
			➤■ First Mortgage RB (Marshes of Skidaway Island) Series 2003C 3.56%, 01/07/06	10,200	10,200

## 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)
<b>Savannah Housing Auth</b>			<b>Hawaii 0.2%</b>		
+■ M/F Housing RB (Indigo Pointe Apts) Series 2001A-1 3.60%, 01/04/06	3,500	3,500	+■ GO Bonds Series 2002CZ 3.55%, 01/07/06	5,900	5,900
+■ M/F Housing RB (Live Oak Plantation Apts) Series 2001A-1 3.60%, 01/04/06	2,500	2,500	+■ Special Purpose Refunding RB (Hawaiian Electric Co) Series 2000 3.59%, 01/07/06	9,095	9,095
<b>Summerville Development Auth</b>			<b>Hawaii Housing Finance and Development Corp</b>		
+■ Exempt Facility RB (Image Industries) Series 1997 3.61%, 01/07/06	11,000	11,000	■ S/F Mortgage Purchase RB 3.66%, 01/07/06	2,535	2,535
<b>Thomasville Hospital Auth</b>			<b>Honolulu City and Cnty</b>		
+■ Revenue Anticipation Certificates (John D. Archbold Memorial Hospital) Series 2003 3.55%, 01/07/06	5,800	5,800	+■ GO Bonds Series 2003A 3.56%, 01/07/06	14,995	14,995
<b>Walton Cnty Development Auth</b>			<b>Idaho 0.4%</b>		
+■ RB (Tucker Door and Trim Corp) Series 2000 3.70%, 01/04/06	2,600	2,600	<b>Idaho</b>		
<b>Webster Cnty IDA</b>			TAN Series 2005 2.64%, 06/30/06		
+■ IDRB (Tolleson Lumber Co) Series 1999 3.57%, 01/07/06	4,000	4,000	<b>Idaho State University Foundation</b>		
<b>Whitfield Cnty Development Auth</b>			+■ RB (LE and Thelma E. Stephens Performing Arts Center) Series 2001 3.53%, 01/07/06		
+■ RB (Product Concepts Residential) Series 2001 3.60%, 01/04/06	240	240	3,955	3,955	
<b>Winder-Barrow Industrial Building Auth</b>			<b>Illinois 7.9%</b>		
+■ IDRB (Progress Container Corp) Series 2000 3.60%, 01/04/06	2,405	2,405	<b>Aurora</b>		
<b>Worth Cnty</b>			+■ M/F Housing Refunding RB (Apts of Fox Valley Villages) Series 1999A 3.59%, 01/07/06		
+■ Refunding IDRB (Seabrook Peanut Co) Series 1996B 3.60%, 01/07/06	1,300	1,300	<b>Carol Stream</b>		
			+■ M/F Housing Refunding RB (St Charles Square) Series 1997 3.63%, 01/07/06		
			<b>Chicago</b>		
			Chicago O'Hare International Airport CP Series 2005		
			+ 2.85%, 01/18/06	39,091	39,091
			+ 3.25%, 01/06/06	38,118	38,118
			+ 3.20%, 01/10/06	32,000	32,000
		<b>548,450</b>			

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)
■ Collateralized S/F Mortgage RB Series 1999A 3.66%, 01/07/06	1,610	1,610	➤■ General Airport Third Lien Refunding RB Series 2003B-2 3.58%, 01/07/06	10,800	10,800
➤■ GO Bonds Series 2003C 3.55%, 01/07/06 GO Project and Refunding Bonds Series 2005B	5,000	5,000	Second Lien Passenger Facility Charge RB Series 2001A		
➤■ 3.42%, 01/04/06	13,610	13,610	➤■ 3.59%, 01/04/06	11,070	11,070
➤■ 3.55%, 01/07/06	8,200	8,200	➤■ 3.59%, 01/07/06	6,315	6,315
■ M/F Housing RB (Central Station Senior Housing) Series 2004			■ Special Facilities RB (O'Hare Tech Center II) Series 2002		
3.56%, 01/07/06	9,500	9,500	3.56%, 01/07/06	15,500	15,500
■ M/F Housing RB (Central Station) Series 2004A			■ Special Facility Refunding RB (Lufthansa German Airlines) Series 2001		
3.56%, 01/07/06	25,170	25,170	3.54%, 01/04/06	43,770	43,770
➤■ Midway Airport RB Series 1998C			<b>Cook Cnty</b>		
3.56%, 01/07/06	24,480	24,480	■ RB (Bernard Zell Anshe Emet Day School) Series 2005		
➤■ O'Hare International Airport General Airport Third Lien RB Series 2005A			3.53%, 01/04/06	7,700	7,700
3.56%, 01/07/06	20,620	20,620	■ RB (Catholic Theological Union) Series 2005		
➤■ O'Hare International Airport General Airport Third Lien Refunding RB Series 2005B			3.53%, 01/07/06	4,000	4,000
3.55%, 01/07/06	11,490	11,490	<b>East Dundee, Kane and Cook Counties</b>		
➤■ Sales Tax Refunding RB Series 2005			■ IDRb (Otto Engineering) Series 1998		
3.42%, 01/07/06	9,745	9,745	3.59%, 01/07/06	1,685	1,685
■ Sr Lien Water RB Series 2000			<b>Elmhurst</b>		
3.56%, 01/07/06	12,975	12,975	■ IDRb (Elm Machining Corp) Series 1997		
<b>Chicago Board of Education</b>			3.68%, 01/07/06	1,460	1,460
➤■ Unlimited Tax GO Bonds Series 1997			<b>Hampshire</b>		
3.55%, 01/07/06	7,120	7,120	■ IDRb (Poli-Film America) Series 1998A		
<b>Chicago O'Hare International Airport</b>			3.62%, 01/07/06	2,500	2,500
■ General Airport Second Lien RB Series 1988B			<b>Illinois</b>		
3.53%, 01/07/06	12,300	12,300	➤■ Civic Center Bonds Series 1991		
■ General Airport Second Lien RB Series 1994B			3.61%, 01/07/06	2,940	2,940
3.62%, 01/07/06	41,484	41,484	GO Bonds (Illinois First) Series 2000		
➤■ General Airport Third Lien Refunding RB Series 2003A-2			➤■ 3.56%, 01/07/06	14,000	14,000
3.60%, 01/07/06	5,295	5,295	➤■ 3.56%, 01/07/06	19,575	19,575

## Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
GO Bonds (Illinois First) Series 2002			RB (Chicago Academy of Sciences) Series 1997		
+D■ 3.56%, 01/07/06	12,375	12,375	3.53%, 01/07/06	2,615	2,615
+D■ 3.56%, 01/07/06	14,125	14,125	RB (Chicago Academy of Sciences) Series 1998		
■ GO Bonds Series 2004A			3.53%, 01/07/06	5,700	5,700
3.55%, 01/07/06	6,675	6,675	RB (Illinois Institute of Technology) Series 2004		
+D■ GO Bonds Series 2005			3.53%, 01/07/06	2,500	2,500
3.55%, 01/07/06	6,500	6,500	RB (Joan W. and Irving B. Harris Theater For Music and Dance) Series 2005		
<b>Illinois Development Finance Auth</b>			3.53%, 01/04/06	8,200	8,200
+■ Economic Development RB (Korex Corp) Series 1990			RB (Lake Forest Academy) Series 1994		
3.65%, 01/07/06	4,000	4,000	3.53%, 01/07/06	4,000	4,000
+D■ Gas Supply Refunding RB (People's Gas) Series 2003E			RB (Lake Forest Country Day School) Series 2005		
3.61%, 01/07/06	14,995	14,995	3.53%, 01/07/06	4,000	4,000
+■ IDRB (Arc-Tronics) Series 1999			RB (Loyola Academy) Series 2001		
3.63%, 01/07/06	1,785	1,785	3.53%, 01/07/06	10,000	10,000
+■ IDRB (Camcraft Inc) Series 1993			RB (Perspectives Charter School) Series 2003		
3.73%, 01/07/06	1,800	1,800	3.53%, 01/07/06	5,500	5,500
+■ IDRB (Radiological Society of North America) Series 1997			+D■ RB (Presbyterian Home Lake Forest Place) Series 1996A		
3.57%, 01/07/06	3,230	3,230	3.53%, 01/07/06	23,350	23,350
+■ Qualified Residential Rental Bonds (River Oaks) Series 1989			RB (Presbyterian Homes Two Arbor Lane) Series 2001		
3.58%, 01/07/06	32,000	32,000	3.53%, 01/04/06	9,000	9,000
+■ RB (American College of Surgeons) Series 1996			RB (Richard H. Driehaus Museum) Series 2005		
3.55%, 01/06/06	13,100	13,100	3.53%, 01/07/06	3,800	3,800
+■ RB (Aurora Central Catholic High School) Series 1994			RB (Sacred Heart Schools) Series 2003		
3.78%, 01/04/06	1,000	1,000	3.53%, 01/07/06	7,100	7,100
+■ RB (Carmel High School) Series 2003			RB (Slovak American Charitable Association) Series 2000		
3.53%, 01/07/06	6,200	6,200	3.53%, 01/04/06	7,615	7,615
+■ RB (Catholic Charities Housing Development Corp) Series 1993A			+D■ RB (St Ignatius College Prep) Series 2002		
3.68%, 01/07/06	9,160	9,160	3.53%, 01/07/06	2,800	2,800
+■ RB (Catholic Charities Housing Development Corp) Series 1993B			RB (St Ignatius College) Series 1994		
3.68%, 01/07/06	910	910	3.53%, 01/07/06	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)
<b>RB (Wheaton Academy)</b> Series 1998 3.53%, 01/07/06	9,000	9,000	<b>Lombard</b> <b>Refunding IDRB (B&amp;H Partnership) Series 1995</b> 3.91%, 01/07/06	1,850	1,850
<b>Water Facilities Refunding RB</b> (Illinois-American Water Co) Series 2002 3.63%, 01/07/06	5,000	5,000	<b>Metropolitan Pier and Exposition Auth</b> <b>Refunding Bonds (McCormick Place Expansion)</b> Series 1998A 3.56%, 01/07/06	14,355	14,355
<b>Illinois Education Facility Auth</b> <b>RB (Chicago Historical Society)</b> Series 1989 3.58%, 01/07/06	7,600	7,600	<b>Refunding Bonds (McCormick Place Expansion)</b> Series 1999A-C 3.56%, 01/07/06	9,790	9,790
<b>RB (Northwestern University)</b> Series 2003 3.55%, 01/07/06	7,010	7,010	<b>Refunding Bonds (McCormick Place Expansion)</b> Series 2002B 3.54%, 01/07/06	18,490	18,490
<b>RB (Shedd Aquarium)</b> Series 1997 3.54%, 01/07/06	2,000	2,000	<b>Metropolitan Water Reclamation District of Greater Chicago</b> <b>Unlimited Tax GO Refunding Bonds Series 2002A</b> 3.50%, 01/07/06	800	800
<b>Illinois Finance Auth</b> <b>RB (Spertus Institute of Jewish Studies) Series 2005</b> 3.52%, 01/04/06	21,070	21,070	<b>Montgomery Special Service Area No. 10</b> <b>Special Tax Bonds (Blackberry Crossing West) Series 2004</b> 3.53%, 01/07/06	18,183	18,183
<b>Illinois Health Facilities Auth</b> <b>RB (Bensenville Home Society)</b> Series 1989A 3.52%, 01/07/06	1,975	1,975	<b>Palatine</b> <b>Special Facility Limited Obligation RB (Little City for Community Development)</b> Series 1998 3.53%, 01/07/06	5,000	5,000
<b>RB (Ingalls Health System)</b> Series 1994 3.55%, 01/07/06	29,930	29,930	<b>Regional Transportation Auth</b> <b>Cook, DuPage, Kane, Lake, McHenry &amp; Will Counties</b> <b>GO Bonds Series 2005A</b> 3.55%, 01/07/06	29,215	29,215
<b>RB (Villa St Benedict)</b> Series 2003B 3.62%, 01/07/06	5,700	5,700	<b>Regional Transportation Auth</b> <b>GO Refunding Bonds</b> Series 1999 3.56%, 01/07/06	21,785	21,785
<b>RB (Washington and Jane Smith Home) Series 1991</b> 3.58%, 01/07/06	2,600	2,600			
<b>Illinois Housing Development Auth</b> <b>M/F Mortgage Refunding RB</b> (Hyde Park Tower Apts) Series 2000A 3.63%, 01/04/06	4,500	4,500			
<b>Illinois Student Assistance Commission</b> <b>Student Loan RB Series 1996A</b> 3.55%, 01/07/06	1,200	1,200			
<b>Illinois Toll Highway Auth</b> <b>Sr Priority RB Series 2005A</b> 3.55%, 01/07/06	43,235	43,235			

## Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Rockford</b>			<b>Elkhart Cnty</b>		
+■ IDRB (Ring Can Corp) Series 1998 3.60%, 01/07/06	940	940	+■ Economic Development RB (West Plains Apts) Series 1998A 3.58%, 01/04/06	1,800	1,800
+■ IDRB (Rockford Industrial Welding Supply) Series 1996 3.68%, 01/07/06	2,000	2,000	<b>Indiana Development Finance Auth</b>		
<b>Schaumburg</b>			+■ Environmental RB (PSI Energy) Series 2004A 3.60%, 01/07/06	22,000	22,000
+▶■ GO Bonds Series 2004B 3.55%, 01/07/06	10,825	10,825	+■ IDRB (Big Sky Park) Series 1999 3.56%, 01/07/06	4,600	4,600
<b>Southwestern Illinois Development Auth</b>			+■ IDRB (Cives Corp) Series 1998 3.57%, 01/07/06	7,150	7,150
+■ Refunding IDRB (Holten Meat) Series 2004 3.65%, 01/07/06	6,860	6,860	<b>Indiana Educational Facilities Auth</b>		
<b>University of Illinois</b>			+■ RB (St Joseph's College) Series 2004 3.52%, 01/07/06	11,835	11,835
+▶■ Auxiliary Facilities RB Series 1999A 3.54%, 01/07/06	3,500	3,500	<b>Indiana Finance Auth</b>		
<b>Wheeling</b>			+■ Environmental RB (PSI Energy Inc) Series 2005B 3.54%, 01/04/06	10,500	10,500
+■ M/F Housing Refunding RB (Woodland Creek Apts II) Series 2002 3.56%, 01/07/06	17,655	17,655	<b>Indiana Health Facility Financing Auth</b>		
<b>Will-Kankakee Regional Development Auth</b>			+▶■ Hospital RB (Sisters of St Francis Health Services, Inc) Series 1999A 3.55%, 01/07/06	7,605	7,605
+■ IDRB (Toltec Steel Services) Series 2002 3.59%, 01/07/06	6,730	6,730	+▶■ Insured RB Series 1985A 3.58%, 01/07/06	3,280	3,280
<b>Woodridge</b>			■ RB (Ascension Health Credit Group) Series 2001A-2 2.72%, 06/01/06	9,000	9,000
+▶■ M/F Housing Refunding RB (Hinsdale Lake Terrace Apts) Series 1990 3.56%, 01/06/06	20,760	20,760	<b>Indiana HFA</b>		
<b>Yorkville</b>			▶■ S/F Mortgage RB Series 1998D-2 3.66%, 01/07/06	9,995	9,995
+■ IDRB (FE Wheaton and Co) Series 1996 3.68%, 01/07/06	950	950	▶■ S/F Mortgage RB Series 2000B-2 3.68%, 01/07/06	4,780	4,780
		<b>1,039,526</b>	▶■ S/F Mortgage RB Series 2002B 3.59%, 01/07/06	3,000	3,000
<b>Indiana 1.3%</b>					
<b>Brownburg 1999 School Bldg Corp</b>					
+▶■ First Mortgage Refunding Bonds Series 2005B 3.55%, 01/07/06	11,600	11,600			

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
■ S/F Mortgage RB Series 2004B-2 and 2005C-2 3.58%, 01/07/06	5,810	5,810	<b>Iowa 1.4%</b> <b>Iowa</b> TRAN Series 2005 3.22%, 06/30/06	50,000	50,311
<b>Indianapolis</b> +■ M/F Housing RB (Nora Pines Apts) Series 2001 3.60%, 01/07/06	9,275	9,275	<b>Iowa Higher Education Loan Auth</b> +■ Private College Facility RB (Graceland University) Series 2003 3.60%, 01/07/06	2,000	2,000
+►■ Thermal Energy System RB Series 2001A 3.56%, 01/07/06	9,900	9,900	<b>Iowa School Corporations</b> Cash Anticipation Program Warrant Certificates Series 2005-2006 A + 2.63%, 06/28/06	82,000	82,534
<b>Indianapolis Local Public Improvement Bond Bank</b> +►■ Bonds (Indianapolis Airport Auth) Series 2005B 3.59%, 01/07/06	3,125	3,125	+ 2.68%, 06/28/06	220	221
+►■ RB (Indianapolis Airport Auth) Series 2004I 3.59%, 01/07/06	11,295	11,295	<b>Iowa Student Loan Liquidity Corp</b> +►■ RB Series 1988B 3.54%, 01/07/06	46,500	46,500
<b>Marion</b> +■ Economic Development RB (Indiana Wesleyan University) Series 2000 3.55%, 01/07/06	7,500	7,500	<b>Tobacco Settlement Auth</b> +►■ Asset-Backed Bonds Series C 3.57%, 01/07/06	8,350	8,350
<b>St Joseph Cnty</b> +■ Economic Development RB (Corby Apts) Series 1997B 3.63%, 01/04/06	3,430	3,430			<b>189,916</b>
+■ Economic Development RB (Pin Oaks Apts) Series 1997A 3.63%, 01/04/06	1,000	1,000	<b>Kansas 0.8%</b> <b>Douglas Cnty Unified SD No. 497</b> GO Temporary Notes Series 2005-1 2.64%, 07/12/06	32,200	32,424
+■ Economic Development RB (Western Manor Apts) Series 1997C 3.63%, 01/07/06	2,130	2,130	<b>Kansas Dept of Transportation</b> +■ Highway RB Series 1999 3.56%, 01/07/06	37,500	37,500
<b>Vigo Cnty</b> +■ Economic Development RB (Sisters of Providence) Series 2001 3.58%, 01/07/06	3,500	3,500	<b>Kansas Development Finance Auth</b> +■ M/F Housing RB (Saddlewood Apts) Series 2004M 3.62%, 01/07/06	6,400	6,400
<b>Vincennes University</b> +■ Student Fee Bonds Series G 3.58%, 01/07/06	5,730	5,730	<b>Wichita</b> +■ Airport Facility Refunding and Improvement RB (Flightsafety International) Series 1999-II 3.55%, 01/07/06	26,170	26,170
	<b>169,840</b>				<b>102,494</b>

## 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)
<b>Kentucky 2.8%</b>			<b>Richmond</b>		
<b>Daviess Cnty</b>			+■ IDRB (Mikron) Series 1995		
■ Solid Waste Disposal Facilities			3.55%, 01/07/06		
RB (Scott Paper Co)			7,175		
Series 1993A					
3.55%, 01/07/06			366,901		
20,000			<b>Louisiana 2.5%</b>		
20,000			<b>Calcasieu Parish IDB</b>		
<b>Elizabethtown</b>			+■ Refunding IDRB (Weingarten		
+■ IDRB (ALTEC) Series 1997			Realty Investors)		
3.55%, 01/07/06			Series 1995		
3,000			3.56%, 01/07/06		
3,000			1,990		
<b>Jefferson Cnty</b>			1,990		
+■ M/F Housing Refunding RB			<b>Ernest N. Morial-New Orleans</b>		
(Camden Brookside Apts)			<b>Exhibit Hall Auth</b>		
Series 2002			+■■■ Sr Subordinate Special Tax		
3.57%, 01/07/06			Bonds Series 2003A		
8,900			3.58%, 01/07/06		
8,900			4,995		
+■ Sports Stadium RB (University			4,995		
of Louisville Athletic			<b>Lafayette IDB</b>		
Association) Series 1997			+■ Refunding IDRB (Westwood		
3.65%, 01/07/06			Village) Series 1995		
2,100			3.56%, 01/07/06		
2,100			3,735		
<b>Kentucky Asset/Liability</b>			3,735		
<b>Commission Project</b>			<b>Lafayette Public Power Auth</b>		
General Fund TRAN			+■■■ Electric Refunding RB		
Series 2005A			Series 2003 A&B		
2.67%, 06/28/06			3.56%, 01/07/06		
225,000			5,310		
226,421			5,310		
<b>Kentucky Higher Education</b>			<b>Lake Charles Harbor and</b>		
<b>Student Loan Corp</b>			<b>Terminal District</b>		
+■■ Insured RB Series 1991E			+■ Dock and Wharf RB (Conoco		
3.45%, 01/07/06			Inc) Series 2000		
12,600			3.60%, 01/04/06		
12,600			10,500		
+■■ Insured RB Series 1996A			10,500		
3.45%, 01/07/06			<b>Louisiana</b>		
23,850			+■■■ GO Refunding Bonds		
23,850			Series 2005A		
<b>Kentucky Housing Corp</b>			3.55%, 01/07/06		
■■■ RB Series 1998B			6,275		
3.59%, 01/07/06			6,275		
11,995			<b>Louisiana</b>		
11,995			+■■■ GO Refunding Bonds		
■■■ RB Series 1998F			Series 2005A		
3.66%, 01/07/06			3.55%, 01/07/06		
19,320			6,275		
19,320			<b>Louisiana</b>		
■■■ RB Series 2002A			+■■■ GO Refunding Bonds		
3.59%, 01/07/06			Series 2005A		
4,425			3.55%, 01/07/06		
4,425			31,890		
<b>Louisville and Jefferson Cnty</b>			31,890		
<b>Metropolitan Sewer District</b>			+■■■ 3.56%, 01/07/06		
+■■■ Sewage and Drainage System			<b>Louisiana HFA</b>		
RB Series 1999A			■■■ S/F Mortgage Refunding RB		
3.56%, 01/07/06			Series 2005A		
6,115			3.59%, 01/07/06		
6,115			37,000		
<b>Louisville and Jefferson Cnty</b>			37,000		
<b>Regional Airport Auth</b>					
■ Special Facilities RB					
Series 1999C					
3.77%, 01/07/06					
21,000					
21,000					



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)
<b>Louisiana Local Government Environmental Facilities and Community Development Auth</b>			<b>Maine 0.8%</b>		
+■ RB (University of Louisiana- Monroe) Series 2004A 3.53%, 01/07/06	8,000	8,000	<b>Maine</b>		
+■ RB (University of Louisiana- Monroe) Series 2004C 3.53%, 01/07/06	12,515	12,515	GO TAN 2.70%, 06/30/06		
<b>Louisiana Offshore Terminal Auth</b>			<b>Maine Finance Auth</b>		
+■ Deepwater Port Refunding RB First State Series 1992A 3.55%, 01/07/06	10,000	10,000	+■ RB (Jackson Laboratory) Series 2002 3.55%, 01/07/06	5,600	5,600
+■ Deepwater Port Refunding RB Series 2003B 3.58%, 01/07/06	5,700	5,700	+■ Solid Waste Disposal RB (Casella Waste Systems Inc) Series 2005 3.57%, 01/04/06	12,500	12,500
<b>Louisiana Public Facility Auth</b>			<b>Maine Housing Auth</b>		
+■ Lease Purchase RB Series 2003 3.61%, 01/07/06	30,000	30,000	■ General Housing Draw Down Bonds Series 2005A 3.56%, 01/07/06	7,415	7,415
+■ RB (Tiger Athletic Foundation) Series 2004 3.55%, 01/07/06	25,710	25,710	■ General Housing Draw Down Bonds Series 2005B 3.60%, 01/07/06	53,095	53,095
<b>New Orleans</b>			■ Mortgage Purchase Bonds Series 2002F-2 3.60%, 01/07/06	3,705	3,705
+■ GO Refunding Bonds Series 2005 3.56%, 01/07/06	7,940	7,940			<b>104,955</b>
<b>New Orleans Aviation Board</b>			<b>Maryland 0.5%</b>		
+■ Refunding Bonds Series 1993B 3.60%, 01/07/06	4,560	4,560	<b>Maryland</b>		
<b>New Orleans IDB</b>			■ GO Bonds State and Local Facilities Loan of 2003 First Series A 3.55%, 01/07/06	5,900	5,900
+■ M/F Housing RB (3700 Orleans) Series 2000 3.60%, 01/07/06	29,000	29,000	<b>Maryland Community Development Administration</b>		
<b>St James Parish</b>			■ S/F Program Bonds Third Series 1999 3.66%, 01/07/06	32,335	32,335
Pollution Control Refunding RB (Texaco) Series 1988A 3.15%, 02/14/06	49,030	49,030	<b>Maryland Economic Development Corp</b>		
Pollution Control Refunding RB (Texaco) Series 1988B 3.15%, 02/14/06	39,030	39,030	+■ IDR (Dixon Valve and Coupling Co) Series 1998 3.62%, 01/07/06	1,390	1,390
		<b>332,030</b>	<b>Maryland Energy Financing Administration</b>		
			+■ Limited Obligation Local District Cooling Facilities RB (Comfort Link) Series 2001 3.60%, 01/04/06	10,000	10,000

## Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Montgomery Cnty</b>			<b>Massachusetts Bay Transportation Auth</b>		
►■ GO Consolidated Public Improvement Refunding Bonds Series 2005A 3.55%, 01/07/06	2,560	2,560	■ Assessment Bonds Series 2005A 3.55%, 01/07/06	1,000	1,000
<b>Montgomery Cnty Housing Opportunities Commission</b>			■ Sr Sales Tax Bonds Series 2005A 3.54%, 01/07/06	5,785	5,785
■ Housing RB (Oakfield Apts) Series 2005I 3.53%, 01/04/06	16,000	16,000	■ Sr Sales Tax RB Series 2005A 3.53%, 01/07/06	6,905	6,905
		<b>68,185</b>	<b>Massachusetts Development Finance Agency</b>		
<b>Massachusetts 1.4%</b>			■ M/F Housing RB (Archstone Reading Apts) Series 2004A 3.59%, 01/07/06	3,000	3,000
■ GO Bonds Consolidated Loan Series 2001D 3.54%, 01/07/06	2,785	2,785	■ M/F Housing Refunding RB (Kensington at Chelmsford) Series 2002 3.51%, 01/07/06	250	250
■ GO Bonds Consolidated Loan Series 2004A 3.55%, 01/07/06	2,495	2,495	■ RB (FIBA Technologies) Series 2003 3.59%, 01/07/06	200	200
■ GO Bonds Consolidated Loan Series 2005A 3.40%, 01/04/06	5,500	5,500	■ RB (Fessenden School) Series 2001 3.55%, 01/07/06	1,000	1,000
■ GO Bonds Consolidated Loan Series 2005C 3.53%, 01/07/06	10,200	10,200	■ RB (Gordon College) Series 2002 3.53%, 01/07/06	500	500
■ GO Refunding Bonds Series 2001C 3.55%, 01/07/06	500	500	■ RB (YMCA of Greater Boston) Series 2004A 3.53%, 01/07/06	900	900
■ GO Refunding Bonds Series 2004A 3.58%, 01/04/06	16,000	16,000	<b>Massachusetts Health and Educational Facilities Auth</b>		
■ GO Refunding Bonds Series 2005A 3.50%, 01/07/06	1,000	1,000	■ RB (Baystate Medical Center) Series D 3.55%, 01/07/06	25,800	25,800
■ Special Obligation Dedicated Tax RB Series 2005 3.54%, 01/07/06	29,700	29,700	■ RB (MIT) Series K 3.54%, 01/07/06	6,710	6,710
■ Special Obligation RB Consolidated Loan Series 2005A 3.53%, 01/07/06	3,500	3,500	■ RB (Winchester Hospital) Series D 3.55%, 01/07/06	5,000	5,000
<b>Massachusetts Bay Transit Auth</b>			■ RB (Worcester City Campus Corp) Series 2005D 3.53%, 01/07/06	4,790	4,790
■ General Transportation System Bonds Series 1999A 3.53%, 01/07/06	10,000	10,000	<b>Massachusetts Port Auth</b>		
			■ RB Series 2005 A&C 3.55%, 01/07/06	6,950	6,950

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)
<b>Massachusetts School Building Auth</b>			<b>Detroit SD</b>		
+►■ Dedicated Sales Tax Bonds Series 2005A 3.54%, 01/07/06	13,300	13,300	+►■ School Building and Site Improvement Bonds Series 2001A 3.59%, 01/07/06	4,620	4,620
<b>Massachusetts Turnpike Auth</b>			+►■ School Building and Site Improvement Refunding Bonds Series 2005A 3.55%, 01/07/06		
+►■ Subordinate RB (Metropolitan Highway System) Series 1999A 3.55%, 01/07/06	7,110	7,110	<b>Georgetown Economic Development Corp</b>		
<b>Massachusetts Water Pollution Abatement Trust</b>			+■ Limited Obligation RB (Sunset Manor) Series 2000 3.53%, 01/07/06		
►■ Pool Program Bonds Series 10 3.54%, 01/07/06	3,840	3,840	<b>Grand Rapids Economic Development Corp</b>		
►■ Pool Program Bonds Series 5 3.53%, 01/07/06	2,000	2,000	+■ Refunding RB (Amway Hotel Corp) Series 1991A 3.61%, 01/07/06		
►■ RB Subordinate Series 1999A 3.53%, 01/04/06	5,500	5,500	<b>Jackson Cnty Hospital Finance Auth</b>		
<b>Massachusetts Water Resources Auth</b>			+■ Refunding RB (W.A. Foote Memorial Hospital) Series 2005B 3.53%, 01/07/06		
General Refunding RB Series 2005A			<b>Michigan</b>		
+►■ 3.55%, 01/07/06	3,088	3,088	►■ GO Notes Series 2006A 3.58%, 01/04/06		
+►■ 3.53%, 01/07/06	2,200	2,200	<b>Michigan Higher Education Facilities Auth</b>		
		<b>187,508</b>	+■ Limited Obligation Refunding RB (Hope College) Series 2004 3.56%, 01/07/06		
<b>Michigan 3.9%</b>			<b>Michigan Job Development Auth</b>		
<b>Allen Park Public Schools</b>			+■ Limited Obligation RB (Frankenmuth Bavarian Inn Motor Lodge) Series 1985 2.54%, 01/30/06		
►■ Unlimited Tax School Building Bonds Series 2003 3.56%, 01/07/06	10,760	10,760	<b>Michigan Municipal Bond Auth</b>		
<b>Ann Arbor Economic Development Corp</b>			+ Revenue Notes (Detroit SD) Series C 3.03%, 08/18/06		
+■ Limited Obligation Refunding RB (Glacier Hills) Series 2000B 3.53%, 01/07/06	8,330	8,330			
<b>Detroit</b>					
+►■ Sewage Disposal System RB Series 1999A 3.56%, 01/07/06	34,650	34,650			
+►■ Sewage Disposal System Second Lien RB Series 2001B 3.59%, 01/07/06	4,260	4,260			

## 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)
Revenue Notes Series 2005B-1 2.87%, 08/18/06	20,000	20,138	<b>Wayne Cnty</b> +■ Airport Jr Lien RB (Detroit Metropolitan Wayne Cnty Airport) Series 2001 3.52%, 01/07/06	14,470	14,470
<b>Michigan Strategic Fund</b> +■ Limited Obligation RB (Advance Plastics Corp) Series 1996 3.68%, 01/07/06	870	870	+■ Airport RB (Detroit Metropolitan Wayne Cnty Airport) Series 2002A 3.54%, 01/07/06	135,970	135,970
+■ Limited Obligation RB (American Cancer Society) Series 2000 3.59%, 01/07/06	3,965	3,965	+■ Airport Refunding RB (Detroit Metropolitan Wayne Cnty Airport) Series 1996B 3.54%, 01/07/06	43,090	43,090
+■ Limited Obligation RB (EPI Printers) Series 1997 3.68%, 01/07/06	480	480	<b>Wayne Cnty Airport Auth</b> +■ Airport RB (Detroit Metropolitan Wayne Cnty Airport) Series 2005 3.59%, 01/07/06	18,370	18,370
+■ Limited Obligation RB (Mans) Series 1991 3.68%, 01/07/06	210	210	+■ RB (Detroit Metropolitan Airport) Series 2005 3.58%, 01/07/06	2,750	2,750
+■ Limited Obligation RB (Mans) Series 1998B 3.68%, 01/07/06	695	695	+■ RB Series 2005 3.59%, 01/07/06	3,640	3,640
+■ Limited Obligation RB (United Machining) Series 1998 3.68%, 01/07/06	4,000	4,000			<b>510,482</b>
+■ Limited Obligation Refunding RB (Detroit Edison Co Pollution Control Bonds) Series 1999C 3.58%, 01/07/06	9,245	9,245	<b>Minnesota 1.9%</b> <b>Bloomington Port Auth</b> +■ Special Tax Refunding RB (Mall of America) Series 1999B 3.56%, 01/07/06	21,700	21,700
+■ Limited Obligation Refunding RB (Detroit Edison Co) Series 2003A 3.60%, 01/07/06	5,995	5,995	<b>Burnsville</b> +■ M/F Housing Refunding RB (Southwind Apts) Series 2004 3.55%, 01/07/06	8,350	8,350
<b>Michigan Trunk Line Fund</b> +■ Refunding Bonds Series 1998A 3.54%, 01/07/06	46,666	46,666	<b>Eden Prairie</b> +■ M/F Housing RB (Eden Prairie Leased Housing Associates I) Series 2003A 3.61%, 01/07/06	6,000	6,000
<b>Oakland Cnty</b> +■ Limited Obligation RB (Husky Envelope Products) Series 1999 3.68%, 01/07/06	1,840	1,840	<b>Hennepin Cnty</b> ■ GO Refunding Bonds Series 1996C 3.65%, 01/07/06	650	650
+■ Limited Obligation RB (Pontiac Vision 2000 Schools) Series 2000 3.57%, 01/07/06	8,300	8,300			

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)
<b>Hennepin Cnty Housing and Redevelopment Auth</b>			<b>Minnesota Higher Education Facilities Auth</b>		
+■ M/F Housing Refunding RB (Stone Arch Apts) Series 2002 3.60%, 01/07/06	2,800	2,800	+■ RB (Trustees of the Hamline University of Minnesota) Series Six-E1 3.53%, 01/07/06	2,800	2,800
<b>Inver Grove Heights</b>			+■ RB (Trustees of the Hamline University of Minnesota) Series Six-E2 3.53%, 01/07/06	4,000	4,000
+■ Sr Housing Refunding RB (PHM/Inver Grove, Inc) Series 2005 3.55%, 01/07/06	6,000	6,000	+■ RB (University of St Thomas) Series 4-O 3.51%, 01/07/06	9,700	9,700
<b>Mendota Heights</b>			+■ RB (University of St Thomas) Series 5-I 3.51%, 01/07/06	3,600	3,600
+■ Refunding IDR B (Dakota Business Plaza) Series 2000 3.73%, 01/07/06	2,300	2,300	<b>Rochester</b>		
<b>Minneapolis-St Paul Metropolitan Airports Commission</b>			Health Care Facilities RB (Mayo Foundation) Series 1992C 3.15%, 02/06/06	20,200	20,200
+►■ RB Series 2000B 3.59%, 01/07/06	5,225	5,225	<b>Rochester Health Care Facilities</b>		
+►■ Subordinate Refunding RB Series 2005B 3.59%, 01/07/06	6,000	6,000	► RB (Mayo Foundation) Series 2001A 3.15%, 02/06/06	15,000	15,000
<b>Minnesota</b>			► RB (Mayo Foundation) Series 2001B 3.15%, 02/06/06	10,600	10,600
COP (Minnesota SD Credit Enhancement Program) Series 2005 4.00%, 09/12/06	30,000	30,211	<b>St Louis Park</b>		
<b>Minnesota Agricultural and Economic Development Board</b>			+■ M/F Housing RB (At The Park) Series 2002A 3.65%, 01/07/06	3,300	3,300
+■ RB (Evangelical Lutheran Good Samaritan Society) Series 1996 3.56%, 01/07/06	7,200	7,200	+■ M/F Housing Refunding RB (Knollwood Place Apts) Series 2005 3.40%, 01/04/06	5,650	5,650
<b>Minnesota HFA</b>			<b>St Paul Housing and Redevelopment Auth</b>		
► Residential Housing Finance Bonds Series 2003B 3.45%, 01/07/06	6,000	6,000	+■ District Heating RB Series 1999D 3.56%, 01/06/06	3,080	3,080
► Residential Housing Finance Bonds Series 2004G 3.58%, 01/07/06	17,910	17,910	<b>256,276</b>		
► Residential Housing Finance Bonds Series 2005M 3.45%, 01/07/06	58,000	58,000			

## 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)
<b>Mississippi 0.4%</b>			<b>St Charles Cnty IDA</b>		
<b>Jackson Cnty</b>			+■ M/F Housing Refunding RB (Time Centre Apts Phase I) Series 2004A 3.56%, 01/07/06		
■ Pollution Control Refunding RB (Chevron USA) Series 1993 3.70%, 01/07/06	3,450	3,450	15,600 15,600		
<b>Mississippi</b>			+■ M/F Housing Refunding RB (Time Centre Apts Phase II) Series 2004B 3.60%, 01/07/06		
▶■ GO Refunding Bonds Series 2001 3.56%, 01/07/06	14,880	14,880	4,500 4,500		
<b>Mississippi Business Finance Corp</b>			<b>St Louis IDA</b>		
+■ IDRB (Electric Mills Wood Preserving) Series 1999 3.61%, 01/07/06	5,000	5,000	+■ IDRB (Kessler Container) Series 1997A 3.60%, 01/07/06		
+■ IDRB (Omega Motion) Series 1996 3.57%, 01/07/06	3,500	3,500	+■ M/F Housing Refunding RB (Merchandise Mart Apts) Series 2005A 3.60%, 01/07/06		
+■ IDRB (VC Regional Assembly and Manufacturing) Series 2003 3.55%, 01/07/06	9,210	9,210	10,475 10,475		
<b>Mississippi Home Corp</b>			<b>Washington IDA</b>		
+▶■ S/F Mortgage RB Series 2002A 3.59%, 01/07/06	5,130	5,130	+■ IDRB (Pauwels Transformers) Series 1995 3.82%, 01/07/06		
+▶■ S/F Mortgage RB Series 2002C2 3.59%, 01/07/06	4,875	4,875	2,600 2,600		
		<b>46,045</b>	<b>51,205</b>		
<b>Missouri 0.4%</b>			<b>Montana 0.3%</b>		
<b>Missouri Development Finance Board</b>			<b>Montana State Health Facility Auth</b>		
+■ IDRB (Milbank Manufacturing Co) Series 1997 3.70%, 01/07/06	3,000	3,000	Hospital RB (Deaconess- Billings Clinic Health System) Series 1994		
<b>Missouri Higher Education Loan Auth</b>			+▶■ 3.58%, 01/04/06		
+▶■ Student Loan RB Sr Series 2005A 3.43%, 01/07/06	9,000	9,000	+▶■ 3.58%, 01/04/06		
<b>Missouri Housing Development Commission</b>			<b>38,880</b>		
■ S/F Mortgage RB Series 2004A-1 3.58%, 01/07/06	4,230	4,230	<b>Nebraska 0.5%</b>		
			<b>American Public Energy Agency</b>		
			■ Gas Supply RB Series 2005A 3.60%, 01/07/06		
			20,783 20,783		
			<b>Lincoln Electric System</b>		
			+▶■ RB Series 2005 3.55%, 01/07/06		
			15,000 15,000		
			<b>Nebraska Investment Finance Auth</b>		
			■ S/F Housing RB Series 1998G 3.66%, 01/07/06		
			10,735 10,735		

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)
<b>■ S/F Housing RB</b> Series 1999E 3.59%, 01/04/06 <b>Stanton Cnty</b> <b>■ IDR B (Nucor Corp)</b> Series 1996 3.63%, 01/07/06	225	225	<b>Las Vegas Valley Water District</b> GO (Limited Tax) Water CP Series 2004 A&B <b>▶ 2.90%, 01/11/06</b> <b>▶ 3.10%, 02/08/06</b> <b>▶ 3.12%, 02/15/06</b> <b>▶▶■ GO Refunding Bonds</b> Series 2005A 3.55%, 01/07/06	9,600 30,000 26,500 37,025	9,600 30,000 26,500 37,025
	19,300	19,300			
		<b>66,043</b>			
<b>Nevada 2.9%</b> <b>Clark Cnty</b> <b>▶▶■ Airport System Subordinate</b> Lien RB Series 2005D-2 3.58%, 01/04/06 <b>▶▶■ Airport System Subordinate</b> Lien RB Series 2005D-3 3.40%, 01/04/06 <b>▶■ Economic Development RB</b> (UNLV Foundation) Series 1999 3.53%, 01/07/06 <b>▶■ IDR B (Southwest Gas Corp)</b> Series 2003A 3.63%, 01/07/06 <b>▶▶■ IDR B (Southwest Gas Corp)</b> Series 2004A 3.57%, 01/07/06 <b>▶▶■ Passenger Facility Charge</b> Refunding RB (Las Vegas- McCarran International Airport) Series 2005A-2 3.54%, 01/04/06	4,780 7,280 325 12,500 3,167 52,000	4,780 7,280 325 12,500 3,167 52,000	<b>Nevada</b> <b>▶▶■ Highway Improvement (Motor</b> Vehicle Fuel Tax) RB Series 2003 3.55%, 01/07/06 <b>Nevada Housing Division</b> <b>▶■ M/F Housing RB (Apache</b> Pines Apts) Series 1999A 3.55%, 01/07/06 <b>▶■ M/F Housing RB (Banbridge</b> Apts) Series 2000A 3.55%, 01/07/06 <b>▶■ M/F Housing RB (Bluffs Apts)</b> Series 2002A 3.55%, 01/07/06 <b>▶■ M/F Housing RB (City Center)</b> Series 2000A 3.55%, 01/07/06 <b>▶■ M/F Housing RB (Home</b> Suites) Series 1989A 3.45%, 01/07/06 <b>▶■ M/F Housing RB (Sierra</b> Pointe Apts) Series 2005 3.55%, 01/07/06 <b>▶■ M/F Housing RB (Silver Pines</b> Apts) Series 2002A 3.45%, 01/07/06 <b>▶■ M/F Housing RB (Silver</b> Terrace Apts) Series 2003A 3.55%, 01/07/06 <b>▶■ M/F Housing RB (St Rose</b> Seniors Apts) Series 2002A 3.55%, 01/07/06 <b>▶■ M/F Housing RB (Sundance</b> Village Apts) Series 2004 3.55%, 01/07/06 <b>▶■ M/F Housing Refunding RB</b> (Oakmont) Series 2002 3.55%, 01/07/06	2,193 7,415 3,960 17,850 7,495 9,985 5,500 5,150 14,770 15,000 4,350	2,193 7,415 3,960 17,850 7,495 9,985 5,500 5,150 14,770 15,000 4,350
<b>Clark Cnty SD</b> <b>▶▶■ GO (Limited Tax) Building</b> Bonds Series 2001F 3.42%, 01/07/06 <b>▶▶■ GO (Limited Tax) Building</b> Bonds Series 2005C 3.55%, 01/07/06 <b>▶▶■ GO (Limited Tax) Refunding</b> Bonds Series 2005A 3.55%, 01/07/06 <b>Las Vegas Convention and</b> <b>Visitors Auth</b> <b>▶▶■ Refunding RB Series 2005</b> 3.55%, 01/07/06	21,715 16,045 10,915 4,185	21,715 16,045 10,915 4,185			

## 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)
<b>Nevada System of Higher Education</b>			TRAN Series Fiscal 2006A 2.84%, 06/23/06	75,000	75,403
+■ University RB Series 2005B 3.55%, 01/07/06	16,030	16,030	<b>New Jersey Health Care Facilities Financing Auth</b>		
<b>Washoe Cnty</b>			+■ RB Series 2004A-4 3.48%, 01/07/06	12,505	12,505
+■ GO Refunding Bonds (Convention Center) Series 2001A 3.56%, 01/07/06	26,000	26,000	<b>New Jersey Transportation Trust Fund Auth</b>		
		<b>376,435</b>	+■ Transportation System Bonds Series 2005D 3.55%, 01/07/06	49,235	49,235
<b>New Hampshire 0.4%</b>			<b>New Jersey Turnpike Auth</b>		
<b>New Hampshire Business Finance Auth</b>			RB Series 2000A +■ 3.55%, 01/07/06	5,000	5,000
+■ Solid Waste Disposal RB (Lonza Biologics) Series 2003 3.63%, 01/07/06	30,000	30,000	+■ 3.55%, 01/07/06	1,000	1,000
<b>New Hampshire Health and Educational Facilities Auth</b>			+■ RB Series 2004C-2 3.54%, 01/07/06	22,445	22,445
+■ RB (Easter Seals New Hampshire) Series 2004A 3.55%, 01/07/06	6,060	6,060	+■ RB Series C 3.55%, 01/07/06	2,995	2,995
+■ RB (Frisbie Memorial Hospital) Series 2005 3.55%, 01/07/06	4,895	4,895			<b>295,277</b>
+■ RB (Riverwoods) Series 2003 3.62%, 01/04/06	3,085	3,085	<b>New Mexico 0.2%</b>		
<b>New Hampshire HFA</b>			<b>Farmington</b>		
+■ S/F Mortgage Acquisition RB Series 1997C 3.66%, 01/07/06	1,595	1,595	+■ Hospital RB (San Juan Regional Medical Center) Series 2004B 3.54%, 01/07/06	5,000	5,000
+■ S/F Mortgage Acquisition RB Series 1998B 3.66%, 01/07/06	9,730	9,730	<b>Santa Fe</b>		
		<b>55,365</b>	+■ Tax Subordinate Lien Wastewater System RB Series 1997B 3.55%, 01/07/06	16,800	16,800
<b>New Jersey 2.2%</b>					<b>21,800</b>
<b>Gloucester Cnty</b>			<b>New York 4.0%</b>		
■ Pollution Control Refunding RB (Exxon Mobil) Series 2003 3.60%, 01/07/06	1,000	1,000	<b>Long Island Power Auth</b>		
<b>New Jersey</b>			+■ Electric System RB Series 1998A 3.55%, 01/07/06	10,970	10,970
TRAN Series Fiscal 2006A 2.80%, 06/23/06	125,000	125,694	+■ Electric System Subordinated RB Series 2001-2B 3.65%, 01/07/06	7,700	7,700
			<b>Metropolitan Transportation Auth</b>		
			+■ RB Series 2005B 3.55%, 01/07/06	20,000	20,000



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)
<b>New York City</b>					
<div> <div></div> <div></div> <div></div> </div> <b>GO Bonds Fiscal 1994</b> Series A-5 3.72%, 01/07/06	3,000	3,000	<div> <div></div> <div></div> <div></div> </div> <b>Water and Sewer System RB</b> Series 2002G 3.54%, 01/07/06	13,545	13,545
<div> <div></div> <div></div> <div></div> </div> <b>GO Bonds Fiscal 1995</b> Series B-7 3.72%, 01/07/06	4,100	4,100	<div> <div></div> <div></div> <div></div> </div> <b>Water and Sewer System RB</b> Series 2003F-2 3.77%, 01/07/06	15,400	15,400
<div> <div></div> <div></div> <div></div> </div> <b>GO Bonds Fiscal 2002</b> Series A 3.55%, 01/07/06	15,000	15,000	<div> <div></div> <div></div> <div></div> </div> <b>Water and Sewer System RB</b> Series 2005D 3.54%, 01/07/06	11,490	11,490
<div> <div></div> <div></div> <div></div> </div> <b>GO Bonds Fiscal 2004</b> Series F 3.58%, 01/07/06	50,000	50,000	<div> <div></div> <div></div> <div></div> </div> <b>Water and Sewer System RB</b> Series 2006A 3.55%, 01/07/06	18,835	18,835
<div> <div></div> <div></div> <div></div> </div> <b>GO Bonds Fiscal 2006</b> Series E-2 3.70%, 01/07/06	4,300	4,300	<div> <div></div> <div></div> <div></div> </div> <b>Water and Sewer System</b> Refunding RB Series 2005D 3.55%, 01/07/06	18,800	18,800
<div> <div></div> <div></div> <div></div> </div> <b>GO Bonds Fiscal 2006</b> Series G 3.55%, 01/07/06	7,935	7,935	<div> <div></div> <div></div> <div></div> </div> <b>Water and Sewer System</b> Second General Resolution RB Fiscal 2006 Series AA-3 3.52%, 01/07/06	20,000	20,000
<b>New York City Health and Hospitals Corp</b>			<b>New York City Transitional Finance Auth</b>		
<div> <div></div> <div></div> <div></div> </div> <b>Health System Bonds</b> Series 1999A 3.54%, 01/07/06	8,000	8,000	<div> <div></div> <div></div> <div></div> </div> <b>Recovery Bonds Fiscal 2003</b> Series 2A 3.67%, 01/07/06	5,000	5,000
<b>New York City Housing Development Corp</b>			<div> <div></div> <div></div> <div></div> </div> <b>Recovery Bonds Fiscal 2003</b> Series 2D 3.54%, 01/07/06	14,905	14,905
<div> <div></div> <div></div> <div></div> </div> <b>M/F Mortgage RB (2 Gold Street) Series 2003A</b> 3.55%, 01/07/06	500	500	<div> <div></div> <div></div> <div></div> </div> <b>Recovery Bonds Fiscal 2003</b> Series 3B 3.75%, 01/07/06	5,500	5,500
<div> <div></div> <div></div> <div></div> </div> <b>M/F Rental Housing RB (One Columbus Place) Series 1998A</b> 3.60%, 01/07/06	9,500	9,500	<b>New York State Dormitory Auth</b>		
<div> <div></div> <div></div> <div></div> </div> <b>M/F Rental Housing RB (Sierra) Series 2003A</b> 3.60%, 01/07/06	6,115	6,115	<div> <div></div> <div></div> <div></div> </div> <b>RB (State University Educational Facilities) Series 2000B</b> 3.53%, 01/07/06	20,000	20,000
<b>New York City Municipal Water Finance Auth</b>			<b>New York State Energy Research Development Auth</b>		
<div> <div></div> <div></div> <div></div> </div> <b>Water and Sewer System RB</b> Series 1994G 3.65%, 01/07/06	600	600	<div> <div></div> <div></div> <div></div> </div> <b>Gas Facilities RB (Brooklyn Union Gas) Series 1996</b> 3.55%, 01/07/06	1,570	1,570
<div> <div></div> <div></div> <div></div> </div> <b>Water and Sewer System RB</b> Series 1995A 3.67%, 01/07/06	29,000	29,000	<b>New York State HFA</b>		
<div> <div></div> <div></div> <div></div> </div> <b>Water and Sewer System RB</b> Series 2000C 3.77%, 01/07/06	6,100	6,100	<div> <div></div> <div></div> <div></div> </div> <b>RB (101 West End Ave) Series 1998A</b> 3.52%, 01/07/06	1,700	1,700
			<div> <div></div> <div></div> <div></div> </div> <b>RB (150 E 44th St) Series 2000A</b> 3.52%, 01/07/06	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)
<b>RB (250 W 50th St)</b> Series 1997A 3.41%, 01/04/06	1,400	1,400	<b>Westchester Cnty IDA</b> <b>■</b> IDRB (Levister Redevelopment Co) Series 2001A 3.41%, 01/07/06	1,000	1,000
<b>■</b> RB (345 E 94th St) Series 1998A 3.52%, 01/07/06	565	565	<b>William Floyd Union Free SD</b> TAN Series 2005 2.70%, 06/27/06	23,000	23,141
<b>■</b> RB (345 E 94th St) Series 1999A 3.52%, 01/07/06	4,000	4,000	<b>Yonkers IDA</b> <b>■</b> Civic Facility RB (Consumers Union) Series 1994 3.65%, 01/07/06	420	420
<b>■</b> RB (W 20th St) Series 2001A 3.53%, 01/07/06	12,200	12,200			
<b>■</b> RB (W 23rd St) Series 2002A 3.52%, 01/04/06	22,100	22,100			<b>530,721</b>
<b>New York State Mortgage Agency</b> <b>■</b> Mortgage RB Series 109 3.56%, 01/07/06	25,800	25,800	<b>North Carolina 2.2%</b> <b>Charlotte</b> <b>■</b> Airport Refunding RB Series 1997A 3.54%, 01/07/06	35,400	35,400
<b>■</b> S/F Mortgage RB Series 92 3.55%, 01/07/06	2,865	2,865	<b>Charlotte-Mecklenburg Cnty Hospital Auth</b> <b>■</b> Health Care RB (Carolinas Health Care System) Series 2005A 3.55%, 01/07/06	13,250	13,250
<b>New York State Thruway Auth</b> <b>■</b> General RB Series 2005F 3.55%, 01/07/06	25,840	25,840	<b>■</b> Health Care Refunding RB (Carolinas Health Care System) Series 2005C 3.55%, 01/07/06	19,000	19,000
<b>■</b> Second General Highway and Bridge Trust Fund Bonds Series 2005B 3.54%, 01/07/06	12,280	12,280	<b>Durham Housing Auth</b> <b>■</b> M/F Housing RB (Pendleton Townhomes) Series 2001 3.60%, 01/07/06	5,405	5,405
<b>New York State Urban Development Corp</b> <b>■</b> State Personal Income Tax RB Series 2005B 3.55%, 01/07/06	8,000	8,000	<b>Forsyth Cnty</b> <b>■</b> RB (Plymouth Printing Co) Series 1998 3.62%, 01/07/06	870	870
<b>Port Auth of New York and New Jersey</b> <b>■</b> Consolidated Bonds 139th Series 3.43%, 01/07/06	19,980	19,980	<b>Guilford Cnty Industrial Facilities and Pollution Control Financing Auth</b> <b>■</b> IDRB (Metalcraft of Mayville SE Manufacturing) Series 1997 3.60%, 01/07/06	1,100	1,100
<b>■</b> Consolidated Bonds 140th Series 3.52%, 01/07/06	4,985	4,985			
<b>■</b> Consolidated Bonds 141st Series 3.56%, 01/07/06	6,585	6,585			
<b>Triborough Bridge and Tunnel Auth</b> <b>■</b> General Refunding RB Series 2002B 3.55%, 01/07/06	9,995	9,995			

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Hertford Cnty Industrial Facilities and Pollution Control Financing Auth</b>			<b>Piedmont Triad Airport Auth</b>		
IDRB (Nucor Corp)			➤➤■ Airport RB Series 2004B		
Series 2000A			3.60%, 01/07/06	23,500	23,500
■ 3.55%, 01/04/06	17,500	17,500	<b>Raleigh-Durham Airport Auth</b>		
■ 3.71%, 01/04/06	26,500	26,500	➤➤■ RB Series 2005B		
			3.59%, 01/07/06	4,680	4,680
<b>Johnston Cnty Industrial Facilities and Pollution Control Financing Auth</b>			<b>Rockingham Cnty Industrial Facilities and Pollution Control Financing Auth</b>		
➤■ IDRB (Flanders Corp)			➤■ IDRB (McMichael Mills)		
Series 1998			Series 1997		
3.60%, 01/07/06	4,500	4,500	3.57%, 01/07/06	1,100	1,100
<b>Mecklenburg Cnty</b>			<b>Rowan Cnty Industrial Facilities and Pollution Control Financing Auth</b>		
➤■ M/F Housing RB (Sycamore			➤■ IDRB (Taylor Clay Products)		
Green Apts) Series 2001			Series 1999		
3.60%, 01/07/06	8,240	8,240	3.57%, 01/07/06	3,000	3,000
<b>North Carolina</b>			<b>Sampson Cnty Industrial Facilities and Pollution Control Finance Auth</b>		
➤■ GO Public Improvement Bonds			➤■ IDRB (Crumpler Plastic Pipe)		
Series 2005A			Series 1999		
3.56%, 01/07/06	7,795	7,795	3.62%, 01/07/06	2,000	2,000
<b>North Carolina Educational Facilities Finance Agency</b>			<b>Union Cnty Industrial Facilities and Pollution Control Financing Auth</b>		
➤■ RB (High Point University)			➤■ RB (Rock-Tenn Converting Co)		
Series 1997			Series 1997		
3.52%, 01/07/06	4,210	4,210	3.60%, 01/07/06	1,750	1,750
➤■ RB (Queens College)			<b>University of North Carolina At Chapel Hill</b>		
Series 1999B			➤■ General Revenue and		
3.52%, 01/07/06	5,520	5,520	Refunding RB Series 2005A		
<b>North Carolina HFA</b>			3.55%, 01/07/06	7,510	7,510
➤■ Home Ownership RB			<b>Wake Cnty Housing Auth</b>		
Series 1A			➤■ M/F Housing RB (Walnut		
3.59%, 01/07/06	11,855	11,855	Ridge Apts) Series 2000		
➤■ Homeownership RB			3.60%, 01/04/06	9,865	9,865
Series 8-A and 17-A			<b>Wilmington Housing Auth</b>		
3.58%, 01/07/06	4,640	4,640	➤■ M/F Housing RB (Garden		
<b>North Carolina State Education Assistance Auth</b>			Lakes Estates) Series 1999		
➤➤■ Student Loan RB			3.60%, 01/04/06	6,860	6,860
Series 2005A-1					
3.55%, 01/07/06	40,000	40,000			
➤➤■ Student Loan RB					
Series 2005A-3					
3.58%, 01/07/06	23,500	23,500			
					<b>289,550</b>

## 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)
<b>North Dakota 0.5%</b>					
<b>North Dakota HFA</b>					
■ Home Mortgage Finance Program Series 2004B 3.54%, 01/07/06	24,455	24,455	■ Residential Mortgage RB Series 2001C 3.63%, 01/07/06	4,865	4,865
■ Home Mortgage Finance Program Series 2005A 3.54%, 01/04/06	22,100	22,100	<b>Ohio Higher Educational Facility Commission</b>		
■ Home Mortgage Finance Program Series 2005C 3.54%, 01/04/06	12,000	12,000	+■ RB (Pooled Financing) Series 2003B 3.53%, 01/07/06	4,765	4,765
<b>Richland Cnty</b>			+■ RB (The Cleveland Institute of Music) Series 2005 3.56%, 01/07/06	5,000	5,000
+■ Solid Waste Disposal RB (Minn-Dak Farmers Coop) Series 1996A 3.82%, 01/07/06	6,370	6,370	<b>Ohio Water Development Auth</b>		
+■ Solid Waste Disposal RB (Minn-Dak Farmers Coop) Series 1996B 3.82%, 01/07/06	585	585	+■ Pollution Control Refunding RB (FirstEnergy Nuclear Generation Corp) Series 2005A 3.57%, 01/06/06	57,000	57,000
		<b>65,510</b>	<b>Port of Greater Cincinnati Development Auth</b>		
<b>Ohio 1.2%</b>			+■ RB (National Underground Railroad Freedom Center) Series 2003A 3.58%, 01/07/06	15,000	15,000
<b>Akron, Bath and Copley Joint Township Hospital District</b>					<b>151,760</b>
+■ RB (Summa Health System) Series 2004B 3.56%, 01/07/06	7,500	7,500	<b>Oklahoma 0.9%</b>		
<b>Cleveland</b>			<b>Muldrow Public Works Auth</b>		
+■ Airport System RB Series 1997D 3.54%, 01/07/06	34,760	34,760	+■ IDRB (OK Foods) Series 1995 3.55%, 01/07/06	4,500	4,500
<b>Franklin Cnty</b>			<b>Oklahoma Cnty Industrial Auth</b>		
+■ Hospital RB (The Children's Hospital) Series 2003 3.53%, 01/07/06	5,000	5,000	+■ RB (National Cowboy Hall of Fame) Series 1999 3.55%, 01/07/06	995	995
<b>Ohio</b>			<b>Oklahoma Development Finance Auth</b>		
+■ RB (Pooled Financing) Series 2004 3.53%, 01/07/06	8,925	8,925	+■ RB (Shawnee Funding) Series 1996 3.60%, 01/07/06	3,100	3,100
<b>Ohio HFA</b>			<b>Oklahoma Student Loan Auth</b>		
+■ M/F Refunding RB (10 Wilmington Place) Series 1991B 3.56%, 01/06/06	8,945	8,945	+■ Bonds and Notes Series 1997A 3.55%, 01/07/06	33,000	33,000
			+■ Bonds and Notes Series 1998A 3.55%, 01/07/06	33,100	33,100

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>+■ Bonds and Notes</b>			<b>Portland</b>		
Series 2000A-4			<b>+■ M/F Housing RB (Village of Lovejoy Fountain)</b>		
3.55%, 01/04/06	20,945	20,945	Series 1997		
<b>+■ Bonds and Notes</b>			3.59%, 01/07/06	8,500	8,500
Series 2005A					<b>77,125</b>
3.55%, 01/04/06	15,045	15,045			
<b>Payne Cnty Economic Development Auth</b>			<b>Pennsylvania 7.0%</b>		
<b>+■ Student Housing RB (OSUF Phase III Student Housing)</b>			<b>Allegheny Cnty Hospital Development Auth</b>		
Series 2005			<b>+■ RB (UPMC Senior Communities) Series 2003</b>		
3.53%, 01/07/06	8,500	8,500	3.51%, 01/07/06	10,000	10,000
		<b>119,185</b>	<b>Allegheny Cnty IDA</b>		
<b>Oregon 0.6%</b>			<b>+■ Pollution Control Refunding RB (Duquesne Light Co)</b>		
<b>Oregon Economic Development Commission</b>			Series 1999B		
<b>+■ RB (Kettle Foods)</b>			3.54%, 01/07/06	11,400	11,400
Series 1998-196			<b>Allegheny Cnty Port Auth</b>		
3.59%, 01/04/06	4,250	4,250	<b>+■ Special Revenue Transportation Bonds Series 1999</b>		
<b>+■ RB (Pendleton Flour Mills)</b>			3.53%, 01/07/06	11,495	11,495
Series 1997-182			<b>Allegheny County Hospital Development Auth</b>		
3.55%, 01/07/06	3,390	3,390	<b>■ RB (University of Pittsburgh Medical Center)</b>		
<b>Oregon Facilities Auth</b>			Series 2005B		
<b>+■ RB (Quatama Crossing Housing) Series 2005A</b>			3.63%, 12/15/06	13,000	13,000
3.52%, 01/07/06	9,800	9,800	<b>Bermudian Springs SD</b>		
<b>Oregon Housing and Community Services Dept</b>			<b>+■ GO Bonds Series 2005</b>		
<b>■ Mortgage RB (S/F Mortgage Program) Series 2005F</b>			3.51%, 01/07/06	3,600	3,600
3.56%, 01/07/06	13,685	13,685	<b>Central Bucks SD</b>		
<b>■ S/F Mortgage RB</b>			<b>+■ GO Series 2000A</b>		
Series 2004L			3.56%, 01/07/06	3,605	3,605
3.56%, 01/07/06	5,000	5,000	<b>Daniel Boone Area SD</b>		
<b>Port of Portland</b>			<b>+■ GO Bonds Series 2004</b>		
<b>+■ Special Obligation RB (Portland Bulk Terminals) Series 1996</b>			3.52%, 01/07/06	5,880	5,880
3.65%, 01/07/06	28,000	28,000	<b>Dauphin Cnty General Auth</b>		
<b>+■ Special Obligation RB (Portland Bulk Terminals) Series 1999</b>			<b>+■ RB (Education and Health Loan) Series 1997</b>		
3.55%, 01/07/06	4,500	4,500	3.56%, 01/07/06	6,465	6,465

## 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)
<b>Delaware Cnty IDA</b>			<b>Mercer Cnty</b>		
+■ RB (YMCA of Philadelphia) Series 1999 3.62%, 01/04/06	100	100	+■■■ GO Bonds Series 2001 3.54%, 01/07/06	7,725	7,725
+■■■ Water Facilities RB (Aqua Pennsylvania Inc) Series 2005A 3.56%, 01/07/06	600	600	<b>Montgomery Cnty IDA</b>		
<b>Delaware Valley Regional Finance Auth</b>			+■ Pollution Control Refunding RB (Peco Energy Co) Series 1994A 3.12%, 02/13/06	21,560	21,560
Local Government RB Series 1986 +■ 3.50%, 01/04/06	6,000	6,000	<b>Montgomery Cnty IDA</b>		
Local Government RB Series 1998A +■■■ 3.54%, 01/07/06	9,995	9,995	+■ School RB (Friends' Central School) Series 2002 3.50%, 01/07/06	925	925
+■■■ 3.57%, 01/07/06	500	500	<b>Norwin SD</b>		
+■■■ 3.59%, 01/07/06	13,210	13,210	+■■■ GO Bonds Series 2001A 2.65%, 01/25/06	11,500	11,500
<b>Easton Area SD</b>			<b>Pennsylvania</b>		
+■ GO Bonds Series 2005 3.53%, 01/07/06	7,200	7,200	+■■■ GO Bonds First Series 2003 3.54%, 01/07/06	300	300
<b>Erie SD</b>			+■■■ GO Bonds Second Series 2002 3.54%, 01/07/06	14,995	14,995
+■■■ GO Bonds Series 2001A 3.54%, 01/07/06	15,695	15,695	<b>Pennsylvania Convention Center Auth</b>		
<b>Hanover Public SD</b>			+■■■ RB Series 1989A 3.54%, 01/07/06	4,500	4,500
+■ GO Bonds Series 2005 3.51%, 01/07/06	5,000	5,000	<b>Pennsylvania Energy Development Auth</b>		
<b>Harrisburg Auth</b>			+■ RB (B&W Ebensburg) Series 1986 3.54%, 01/07/06	18,380	18,380
+■ Water Refunding RB Series 2002B 3.56%, 01/07/06	5,000	5,000	<b>Pennsylvania HFA</b>		
+■ Water Refunding RB Series 2003A 3.56%, 01/07/06	13,800	13,800	+■■■ S/F Mortgage RB Draw Down Series 2003A 3.58%, 01/07/06	3,600	3,600
<b>Lampeter-Strasburg SD</b>			+■■■ S/F Mortgage RB Drawdown Series 2003 3.58%, 01/07/06	5,030	5,030
+■ GO Bonds Series 2004A 3.53%, 01/07/06	6,000	6,000	■■■ S/F Mortgage RB Series 1999A 3.59%, 01/07/06	13,420	13,420
<b>Luzerne Cnty IDA</b>			■■■ S/F Mortgage RB Series 2004-83B 3.42%, 01/07/06	9,690	9,690
+■■■ Water Facility Refunding RB (Pennsylvania-American Water Co Water Facilities) Series A 3.57%, 01/07/06	3,000	3,000	■■■ S/F Mortgage RB Series 2004-84C 3.57%, 01/07/06	16,250	16,250
<b>Manheim Township SD</b>					
+■ GO Bonds Series 2004 3.53%, 01/07/06	3,400	3,400			

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)
■ S/F Mortgage RB Series 2004-84D 3.57%, 01/07/06	20,350	20,350	▶▶■ RB (University of Pennsylvania Health Services) Series 2005A 2.80%, 06/15/06	5,990	5,990
■ S/F Mortgage RB Series 2005-88B 3.53%, 01/04/06	49,900	49,900	■ RB (University of Pennsylvania) Series 2005C 3.55%, 01/07/06	5,000	5,000
■ S/F Mortgage RB Series 2005-89 3.57%, 01/04/06	10,000	10,000	<b>Pennsylvania Public School Building Auth</b>		
<b>Pennsylvania Higher Education Assistance Agency</b>			▶▶■ Lease RB (Philadelphia SD) Series 2003 3.55%, 01/07/06	4,730	4,730
▶▶■ Student Loan RB Series 1988A 3.43%, 01/07/06	76,000	76,000	▶▶■ RB (Parkland SD) Series 1999D 3.56%, 01/07/06	10,665	10,665
▶▶■ Student Loan RB Series 1988B 3.43%, 01/04/06	37,900	37,900	▶▶■ School RB (Marple Newton SD) Series 2001 3.54%, 01/07/06	4,965	4,965
▶▶■ Student Loan RB Series 1994A 3.43%, 01/07/06	39,500	39,500	<b>Pennsylvania State University</b>		
▶▶■ Student Loan RB Series 1995A 3.43%, 01/07/06	70,000	70,000	■ RB Series 2001A 3.50%, 01/07/06	1,300	1,300
▶▶■ Student Loan RB Series 1997A 3.60%, 01/07/06	28,900	28,900	<b>Pennsylvania Turnpike Commission</b>		
▶▶■ Student Loan RB Series 1999A 3.54%, 01/07/06	31,000	31,000	▶▶■ RB Series 2004A 3.55%, 01/07/06	6,225	6,225
▶▶■ Student Loan RB Series 2000A 3.60%, 01/04/06	28,075	28,075	▶▶■ Registration Fee Refunding RB Series 2005B 3.50%, 01/07/06	5,200	5,200
▶▶■ Student Loan RB Series 2001A 3.60%, 01/04/06	21,450	21,450	▶▶■ Registration Fee Refunding RB Series 2005C 3.50%, 01/07/06	5,000	5,000
▶▶■ Student Loan RB Series 2003A-1 3.60%, 01/07/06	7,000	7,000	<b>Philadelphia</b>		
▶▶■ Student Loan RB Series 2003A-2 3.60%, 01/07/06	38,000	38,000	▶▶■ Airport RB Series 2005A 3.58%, 01/07/06	6,900	6,900
<b>Pennsylvania Higher Educational Facilities Auth</b>			▶▶■ Airport Refunding RB Series 2005C 3.63%, 01/04/06	51,050	51,050
▶▶■ RB (Drexel University) Series 2005B 3.52%, 01/07/06	5,000	5,000	<b>Philadelphia Gas Works</b>		
			▶▶■ RB Third Series 2001 3.54%, 01/07/06	4,295	4,295
			<b>Philadelphia IDA</b>		
			▶■ RB (City Line Holiday Inn) Series 1996 3.40%, 01/07/06	4,600	4,600
			▶▶■ RB Series 1998A 3.59%, 01/07/06	12,710	12,710

## 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)
<b>Reading SD</b>			<b>Rhode Island Housing and Mortgage Finance Corp</b>		
+►■ GO Bonds Series 2003A 3.42%, 01/07/06	4,225	4,225	■ Homeownership Opportunity Bonds Series 1998-29A 3.66%, 01/07/06	19,020	19,020
<b>Red Lion Area SD</b>			<b>Rhode Island IDA</b>		
+►■ GO Bonds Series 2005 3.51%, 01/07/06	15,000	15,000	+■ IDRB (Greystone of Lincoln) Series 2000 3.80%, 01/07/06	1,400	1,400
<b>Scranton Redevelopment Auth</b>			<b>Rhode Island Student Loan Auth</b>		
+■ Guaranteed Lease RB Series 2004 3.56%, 01/07/06	9,295	9,295	+►■ RB Series 1995-1 3.54%, 01/07/06	30,000	30,000
<b>University of Pittsburgh</b>			+►■ RB Series 1996-1 3.54%, 01/07/06	19,000	19,000
Pitt Asset Notes Series 2005 2.69%, 08/11/06	22,000	22,169	+►■ RB Series 1996-2 3.54%, 01/07/06	20,000	20,000
<b>West Cornwall Township Municipal Auth</b>			+►■ RB Series 1996-3 3.54%, 01/07/06	23,000	23,000
+■ RB (Lebanon Valley Brethren Home) Series 1995 3.57%, 01/07/06	720	720			<b>125,595</b>
<b>Westmoreland Cnty Municipal Auth</b>			<b>South Carolina 1.3%</b>		
+►■ Municipal Service RB Series 2005 3.55%, 01/07/06	3,090	3,090	<b>Beaufort-Jasper Higher Education Commission</b>		
		<b>929,024</b>	+■ Student Housing RB (University of South Carolina- Beaufort Student Housing) Series 2005 3.53%, 01/07/06	16,540	16,540
<b>Puerto Rico 0.4%</b>			<b>Berkeley Cnty SD</b>		
<b>Puerto Rico</b>			+►■ School Building Bonds Series 2002 3.54%, 01/07/06	7,575	7,575
+ TRAN Series 2006 3.23%, 07/28/06	53,750	54,133	<b>Florence Cnty Public Facilities Corp</b>		
<b>Puerto Rico Highway and Transportation Auth</b>			+►■ Refunding COP (Law Enforcement and Civic Centers) Series 2003 3.56%, 01/07/06	24,985	24,985
+►■ RB Series Y 3.50%, 01/07/06	800	800	<b>Greenville IDA</b>		
		<b>54,933</b>	+■ IDRB (Stevens Aviation Technical Services) Series 1997 3.62%, 01/07/06	3,500	3,500
<b>Rhode Island 1.0%</b>					
<b>Rhode Island Economic Development Corp</b>					
+►■ Airport RB Series 2005A 3.59%, 01/07/06	6,180	6,180			
+►■ Airport Refunding RB Series 2005C 3.55%, 01/07/06	6,995	6,995			



Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>South Carolina Housing and Development Auth</b>			<b>South Dakota Housing Development Auth</b>		
+■ M/F Rental Housing RB (Ashley Apts) Series 1999 3.60%, 01/07/06	4,000	4,000	■ Homeownership Mortgage Bonds Series 2004G 3.54%, 01/07/06	11,000	11,000
+■ M/F Rental Housing RB (Piedmont Manor Apts) Series 2000B-1 3.60%, 01/04/06	5,755	5,755	+■ M/F Housing RB (Harmony Heights) Series 2001 3.65%, 01/07/06	6,500	6,500
+■ M/F Rental Housing RB (Spartanburg Terrace Apts) Series 2000C-1 3.60%, 01/07/06	1,960	1,960			<b>44,630</b>
+■ M/F Rental Housing Refunding RB (Fairway Apts) Series 2001A 3.55%, 01/04/06	7,735	7,735	<b>Tennessee 3.2%</b>		
<b>South Carolina Jobs Economic Development Auth</b>			<b>Bristol Health and Educational Facilities Board</b>		
+■ IDR (Sanders Brothers Construction Co) Series 1996 3.62%, 01/07/06	350	350	+■ RB (King College) Series 2001 3.55%, 01/07/06	6,450	6,450
+■ RB (Holcim) Series 2003 3.68%, 01/07/06	6,250	6,250	<b>Carter Cnty IDB</b>		
<b>South Carolina Public Service Auth</b>			+■ M/F Housing Refunding RB (Willow Run Apts) Series 1990 3.65%, 01/07/06	6,675	6,675
► TECP 2.80%, 01/05/06	29,701	29,701	<b>Chattanooga Health, Education and Housing Facility Board</b>		
<b>South Carolina Transportation Infrastructure Bank</b>			+■ RB (Baylor School) Series 1996 3.55%, 01/07/06	2,035	2,035
+►■ RB Series 1999A 3.56%, 01/07/06	22,610	22,610	+■ THA Program RB (Cumberland Medical Center) Series 2004A 3.52%, 01/07/06	45,670	45,670
+►■ Refunding RB Series 2005A 3.55%, 01/07/06	30,000	30,000	<b>Clarksville Public Build Auth</b>		
<b>Spartanburg Cnty IDA</b>			+■ Pooled Financing RB (Tennessee Municipal Bond Fund) Series 1997 3.55%, 01/07/06	4,400	4,400
+■ Refunding IDR (Bemis Co) Series 1991 3.57%, 01/07/06	4,750	4,750	<b>Franklin Cnty IDB</b>		
		<b>165,711</b>	+■ IDR (Hi-Tech) Series 1997 3.55%, 01/07/06	3,300	3,300
<b>South Dakota 0.3%</b>			<b>Grundy Cnty IDB</b>		
<b>South Dakota Health and Educational Facilities Auth</b>			+■ Limited Obligation RB (Toyo Seat USA Corp) Series 2001 3.73%, 01/07/06	3,330	3,330
+►■ RB (McKenna Hospital) Series 1994 3.56%, 01/07/06	27,130	27,130	<b>Hendersonville IDB</b>		
			+■ Refunding IDR (Betty Machine Co) Series 2001 3.60%, 01/04/06	3,345	3,345

## 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)
<b>Huntingdon IDB</b>					
➤■ IDR B (Associated Rubber Co) Series 1999 3.60%, 01/04/06	2,000	2,000	➤■ RB (Ensworth School) Series 2002 3.55%, 01/07/06	7,525	7,525
<b>Jackson Health, Educational and Housing Facility Board</b>			<b>Metropolitan Government of Nashville and Davidson Cnty IDB</b>		
➤■ M/F Housing RB (Patrician Terrace Apts) Series 2005 3.60%, 01/07/06	2,400	2,400	➤■ Educational Facilities Refunding RB (David Lipscomb University) Series 2003 3.55%, 01/07/06	8,100	8,100
<b>Jackson IDB</b>			➤■ IDR B (Bindtech) Series 1997 3.60%, 01/07/06	2,550	2,550
➤■ Solid Waste Facility Bonds (Ameristeel Corp) Series 1997 3.60%, 01/07/06	3,800	3,800	➤■ M/F Housing RB (Arbor Crest) Series 1985B 3.55%, 01/07/06	12,750	12,750
<b>Knoxville</b>			➤■ M/F Housing RB (Arbor Knoll) Series 1985A 3.55%, 01/07/06	13,400	13,400
➤■ Wastewater System Improvement RB Series 2005A 3.55%, 01/07/06	6,190	6,190	<b>Metropolitan Nashville Airport Auth</b>		
<b>McMinn Cnty IDA</b>			➤■ Passenger Facility Charge Refunding Bonds Series 2003 3.60%, 01/04/06	5,600	5,600
➤■ Solid Waste Disposal Facilities RB (Bowater) Series 1999 3.57%, 01/07/06	13,500	13,500	<b>Montgomery Cnty Public Building Auth</b>		
<b>Memphis</b>			➤■ Pooled Financing RB (Tennessee Cnty Loan Pool) Series 2002 3.75%, 01/07/06	4,800	4,800
➤■ Electric System Subordinate RB Series 2003A 3.55%, 01/07/06	2,800	2,800	<b>Sevier Cnty Public Building Auth</b>		
➤■ General Improvement Refunding Bonds Series 2005 3.55%, 01/07/06	5,639	5,639	➤■ Public Improvement Bonds Series 1995C-1 3.53%, 01/07/06	2,775	2,775
<b>Metropolitan Government of Nashville and Davidson Cnty Health and Educational Facilities Board</b>			➤■ Public Improvement Bonds Series 1996E-4 3.53%, 01/07/06	2,155	2,155
➤■ M/F Housing RB (Burning Tree Apts) Series 2005 3.60%, 01/07/06	8,815	8,815	➤■ Public Improvement Bonds Series 1996E-5 3.53%, 01/07/06	1,225	1,225
➤■ M/F Housing RB (Chippington Tower Apts I & II) Series 2005 3.61%, 01/04/06	13,500	13,500	➤■ Public Improvement Bonds Series 1996F-1 3.53%, 01/07/06	8,150	8,150
■ RB (Ascension Health Credit Group) Series 2001B-1 2.85%, 08/01/06	35,000	35,000	➤■ Public Improvement Bonds Series 1996F-2 3.53%, 01/07/06	4,350	4,350

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)
<b>+■ Public Improvement Bonds</b> Series 1996G 3.53%, 01/07/06	4,810	4,810	<b>Texas 11.4%</b> <b>Alvin Independent SD</b> <b>+■ Unlimited Schoolhouse RB</b> Series 2005 3.42%, 01/04/06	6,190	6,190
<b>+■ Public Improvement Bonds</b> Series 1996II-C 3.53%, 01/07/06	755	755	<b>Amarillo Health Facility Corp</b> <b>+■ Refunding RB (Evangelical</b> Lutheran Good Samaritan Society) Series 1997 3.56%, 01/07/06	2,000	2,000
<b>+■ Public Improvement Bonds</b> Series 1998III-C-1 3.53%, 01/07/06	7,400	7,400	<b>Austin</b> <b>■ Public Improvement Bonds</b> Series 2000 3.56%, 01/07/06	6,000	6,000
<b>Shelby Cnty</b> TAN Series 2005 2.65%, 06/30/06	27,000	27,175	<b>+■ Public Improvement Refunding</b> Bonds Series 2005 3.55%, 01/07/06	4,045	4,045
<b>Shelby Cnty Health,</b> <b>Education and Housing</b> <b>Facility Board</b> <b>+■ M/F Housing RB (TUP I)</b> Series 1997A 3.66%, 01/04/06	5,000	5,000	<b>+■ Water and Wastewater</b> Refunding RB Series 2001 A&B 3.54%, 01/04/06	6,425	6,425
<b>+■ RB (Rhodes College)</b> Series 2000 3.53%, 01/07/06	9,465	9,465	<b>Bexar Cnty Health Facilities</b> <b>Development Corp</b> <b>+■ Health Care RB (Chandler</b> Memorial Home) Series 1995 3.54%, 01/07/06	3,445	3,445
<b>+■ RB (St Benedict at Auburndale</b> High School) Series 2003 3.54%, 01/07/06	5,000	5,000	<b>Brazos River Auth</b> <b>+■ Pollution Control Refunding RB</b> (TXU Electric Co) Series 2001D-1 3.56%, 01/07/06	14,300	14,300
<b>+■ RB (The Hutchison School)</b> Series 2005 3.53%, 01/07/06	10,000	10,000	<b>Brownville Utility System</b> <b>+■ Revenue Improvement and</b> Refunding Bonds Series 2005A 3.56%, 01/07/06	7,000	7,000
<b>Tennessee</b> GO TECP Series A 2.88%, 01/10/06	20,000	20,000	<b>Collin Cnty HFA</b> <b>+■ M/F Housing RB (Huntington</b> Apts) Series 1996 3.62%, 01/07/06	6,150	6,150
<b>Tennessee Housing</b> <b>Development Agency</b> <b>■ Homeownership Program</b> Bonds Series 2001-1C 3.64%, 01/07/06	6,175	6,175	<b>Dallas</b> <b>■ GO Bonds Series 2005</b> 3.56%, 01/07/06	7,180	7,180
<b>Volunteer Student Loan</b> <b>Funding Corp</b> <b>+■ RB Series 1987A-1</b> 3.55%, 01/04/06	15,000	15,000			
<b>+■ RB Series 1987A-2</b> 3.55%, 01/07/06	13,700	13,700			
<b>+■ RB Series 1987A-3</b> 3.55%, 01/04/06	59,700	59,700			
		<b>426,409</b>			

## 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)
► Waterworks and Sewer System CP Series B 3.10%, 02/07/06	5,000	5,000	<b>Greater East Texas Student Loan Corp</b> RB Series 1992B		
<b>Dallas Area Rapid Transit</b>			+■ 3.56%, 01/07/06	30,200	30,200
+►■ Sr Lien Sales Tax RB Series 2001 3.56%, 01/07/06	16,130	16,130	+■ 2.85%, 07/01/06	14,000	14,000
<b>Dallas Fort Worth International Airport</b>			+■ RB Series 1995B 2.85%, 07/03/06	10,000	10,000
+►■ Joint Improvement RB Series 2003A 3.59%, 01/07/06	14,990	14,990	+■ Refunding RB Series 1993A 3.56%, 01/07/06	48,150	48,150
+►■ Joint Improvement and Refunding RB Series 2002A 3.59%, 01/07/06	8,995	8,995	+■ Refunding RB Series 1993B 3.56%, 01/07/06	23,400	23,400
+►■ Joint RB Series 2003A 3.58%, 01/07/06	2,500	2,500	+■ Refunding RB Series 1995A 3.60%, 01/07/06	35,700	35,700
+►■ 3.60%, 01/07/06	6,370	6,370	<b>Greater Texas Student Loan Corp</b>		
■ Refunding RB (United Parcel Service) Series 2002 3.77%, 01/07/06	10,550	10,550	+■ RB Series 1998A 3.56%, 01/07/06	10,250	10,250
<b>Dallas Independent SD</b>			<b>Gulf Coast IDA</b>		
+►■ Unlimited Tax School Building and Refunding Bonds Series 2004A 3.55%, 01/07/06	1,200	1,200	+■ Environmental Facilities RB (Citgo Petroleum Corp) Series 2004 3.82%, 01/07/06	24,000	24,000
<b>Denton Utility System</b>			+■ IDRB (Grama Corp) Series 1994 3.61%, 01/04/06	6,440	6,440
+►■ RB Series 2000A 3.55%, 01/07/06	5,230	5,230	<b>Gulf Coast Waste Disposal Auth</b>		
<b>Duncanville Independent SD</b>			■ Environmental Facilities RB (Exxon Mobil) Series 2000 3.75%, 01/07/06	16,850	16,850
+►■ Unlimited Tax Refunding Bonds Series 2005 3.55%, 01/07/06	10,355	10,355	■ Environmental Facilities RB (ExxonMobil) Series 2001A 3.75%, 01/07/06	25,000	25,000
<b>El Paso</b>			■ Environmental Facilities RB (ExxonMobil) Series 2001B 3.75%, 01/07/06	11,000	11,000
+►■ Water and Sewer Refunding RB Series 1998 3.66%, 01/07/06	9,635	9,635	<b>Harris Cnty</b>		
<b>Grand Prairie IDA</b>			+►■ Jr Lien Special RB (Rodeo) Series 2001C 3.45%, 01/07/06	1,800	1,800
+■ IDRB (NTA Leasing Co) Series 1994 3.66%, 01/07/06	1,280	1,280	►■ Permanent Improvement Refunding Bonds Series 2004A 3.55%, 01/07/06	21,100	21,100
<b>Grapevine IDA</b>			+►■ Toll Road Sr Lien Refunding RB Series 2005A 3.55%, 01/07/06	6,470	6,470
+■ Airport Improvement RB (Simuflite Training International) Series 1983A 2.70%, 04/03/06	19,000	19,000			

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)
<b>Harris Cnty Health Facility Development Corp</b>			<b>Houston ISD</b>		
+►■ RB (SCH Health Care) Series 1997B 3.56%, 01/07/06	14,850	14,850	+►■ Limited Tax Refunding Bonds Series 2005B 3.55%, 01/07/06	10,485	10,485
<b>Harris Cnty HFA</b>			+►■ Limited Tax Schoolhouse and Refunding Bonds Series 2003 3.56%, 01/07/06	5,300	5,300
+■ M/F Housing RB (Dominion Square Apts) Series 2000 3.66%, 01/07/06	2,825	2,825	<b>Houston Port Auth</b>		
+■ M/F Housing RB (Village At Cornerstone Apts) Series 2004 3.60%, 01/07/06	8,360	8,360	+►■ Unlimited Tax Refunding Bonds Series 2005B 3.55%, 01/07/06	3,770	3,770
<b>Hays Consolidated Independent SD</b>			<b>Jewett Economic Development Corp</b>		
+►■ Unlimited Tax Refunding Bonds Series 2005 3.55%, 01/07/06	3,690	3,690	■ IDR (Nucor Corp) Series 2003 3.63%, 01/07/06	6,200	6,200
<b>Houston</b>			<b>Katy Independent SD</b>		
+►■ Airport System Subordinate Lien Refunding RB Series 2005A 3.54%, 01/04/06	51,800	51,800	+►■ Unlimited Tax School Building Bonds Series 2000A 3.56%, 01/07/06	10,145	10,145
+►■ Combined Utility System First Lien Refunding RB Series 2005 3.63%, 01/07/06	7,300	7,300	<b>Lavaca-Navidad River Auth</b>		
►■ Public Improvement Refunding Bonds Series 1998A 3.56%, 01/07/06	21,655	21,655	+■ Water Supply System Contract RB (Formosa Plastics Corp) Series 1990 3.58%, 01/07/06	13,600	13,600
+►■ Public Improvement Refunding Bonds Series 2005A 3.55%, 01/07/06	14,000	14,000	<b>Leander Independent SD</b>		
+►■ Water and Sewer System Jr Lien Refunding RB Series 2002A 3.59%, 01/07/06	6,530	6,530	+►■ Unlimited Tax School Building and Refunding Bonds Series 2003 3.44%, 01/07/06	10,000	10,000
<b>Houston Combined Utility System</b>			<b>Lower Colorado River Auth</b>		
+►■ First Lien Refunding RB Series 2004A 3.55%, 01/07/06	5,350	5,350	+►■ Refunding RB Series 1999A 3.56%, 01/07/06	10,770	10,770
+►■ First Lien Refunding RB Series 2005A 3.55%, 01/07/06	15,250	15,250	<b>Mansfield IDA</b>		
			+■ IDR (Southern Champion Tray) Series 1999 3.60%, 01/04/06	1,600	1,600
			<b>Mansfield Independent SD</b>		
			+►■ Unlimited Tax School Building Bonds Series 2005 3.55%, 01/07/06	6,390	6,390

## 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)
<b>Matagorda Cnty Navigation District No. 1</b>			<b>Pflugerville Independent SD</b>		
+■ Refunding RB (Houston Lighting and Power Co) 3.59%, 01/07/06	19,385	19,385	+■ Unlimited Tax Refunding Bonds Series 2005 3.55%, 01/07/06	4,000	4,000
<b>Midland College District</b>			<b>Port Arthur Independent SD</b>		
+■ GO Bonds Series 2005 3.55%, 01/07/06	5,555	5,555	+■ Unlimited Tax School Building Bonds Series 2005 3.56%, 01/07/06	23,395	23,395
<b>Midlothian Independent SD</b>			<b>San Antonio</b>		
+■ Unlimited Tax School Building and Refunding Bonds Series 2004 3.57%, 01/07/06	8,840	8,840	+■ Airport System Revenue Improvement Bonds Series 2002 3.59%, 01/07/06	9,240	9,240
<b>North East Independent SD</b>			+■ Water System Refunding RB Series 2005 3.55%, 01/07/06	12,335	12,335
+■ Unlimited Tax Refunding Bonds Series 2005 3.55%, 01/07/06	3,500	3,500	<b>San Antonio Empowerment Zone Development Corp</b>		
+■ Unlimited Tax School Building Bonds Series 2005 3.55%, 01/07/06	5,015	5,015	+■ Contract RB (Drury Southwest Hotel) Series 2005 3.60%, 01/07/06	10,450	10,450
<b>North Texas Higher Education Auth</b>			<b>San Antonio IDA</b>		
+■ Student Loan RB Series 1998 3.45%, 01/07/06	9,000	9,000	+■ IDR (Gruma Corp) Series 1994 3.61%, 01/04/06	4,095	4,095
+■ Student Loan RB Series 2005A 3.45%, 01/04/06	20,600	20,600	<b>Spring Independent SD</b>		
+■ Student Loan RB Series 2005C 3.45%, 01/04/06	50,000	50,000	+■ Unlimited Tax Schoolhouse Bonds Series 2005 3.55%, 01/07/06	5,985	5,985
<b>North Texas Tollway Auth</b>			<b>Texas</b>		
+■ Dallas North Tollway System RB Series 2005A 3.55%, 01/07/06	2,600	2,600	+■ GO Bonds (Veterans' Housing Assistance Program-Fund II) Series 2002A-2 3.59%, 01/07/06	6,000	6,000
<b>Panhandle Plains Higher Education Auth</b>			+■ GO Bonds (Veterans' Housing Assistance Program-Fund II) Series 2005A 3.60%, 01/07/06	16,500	16,500
+■ Student Loan RB Series 1991A 3.54%, 01/07/06	32,400	32,400	+■ GO Refunding Bonds (College Student Loan) Series 2003 2.85%, 07/01/06	30,630	30,630
+■ Student Loan RB Series 1992A 3.54%, 01/07/06	19,100	19,100	TRAN Series 2005 3.00%, 08/31/06	25,000	25,241
+■ Student Loan RB Series 1993A 3.54%, 01/07/06	21,700	21,700	3.01%, 08/31/06	100,000	100,959
			3.25%, 08/31/06	44,600	44,950
			3.30%, 08/31/06	835	841

See financial notes. 49

## 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)
<b>RB (Rowland Hall-St Mark's School) Series 2001</b> 3.51%, 01/07/06	9,280	9,280	<b>Montgomery Cnty IDA</b> <b>RB (Virginia Tech Foundation) Series 2001B</b> 3.61%, 01/07/06	695	695
<b>University of Utah</b> <b>Refunding RB (Auxiliary and Campus Facilities) Series 1998A</b> 3.56%, 01/07/06	30,060	30,060	<b>Newport News IDA</b> <b>RB (CNU Warwick Student Apts) Series 2004</b> 3.55%, 01/07/06	4,300	4,300
<b>Student Loan RB Series 1993A</b> 3.45%, 01/04/06	5,000	5,000	<b>Norfolk</b> <b>Parking System Refunding RB Series 2000B</b> 3.56%, 01/07/06	9,450	9,450
<b>Utah Building Ownership Auth</b> <b>Lease Refunding RB Series 1998C</b> 3.56%, 01/07/06	9,695	9,695	<b>Norfolk Redevelopment and Housing Auth</b> <b>RB (E2F Student Housing I) Series 2005</b> 3.55%, 01/07/06	7,000	7,000
<b>Utah State Board of Regents</b> <b>Student Loan RB Series 2005W</b> 3.45%, 01/07/06	35,280	35,280	<b>Portsmouth Redevelopment and Housing Auth</b> <b>M/F Housing RB (Churchland North Apts) Series 1999</b> 3.60%, 01/07/06	6,395	6,395
		<b>155,470</b>	<b>Virginia Beach Development Auth</b> <b>M/F Residential Rental Housing RB (Silver Hill at Thalia) Series 1999</b> 3.60%, 01/07/06	4,100	4,100
<b>Vermont 0.1%</b> <b>Vermont Economic Development Auth</b> <b>IDRB (Agri-Mark) Series 1999A</b> 3.72%, 01/07/06	17,000	17,000	<b>Virginia Port Auth</b> <b>RB (2002 Resolution) Series 2005A</b> 3.45%, 01/04/06	2,645	2,645
<b>IDRB (Agri-Mark) Series 1999B</b> 3.72%, 01/07/06	1,000	1,000			<b>53,785</b>
		<b>18,000</b>	<b>Washington 4.5%</b> <b>Central Puget Sound Regional Transit Auth</b> <b>Sales Tax RB Series 2005A</b> 3.56%, 01/07/06	7,975	7,975
<b>Virginia 0.4%</b> <b>Arlington Cnty IDA</b> <b>M/F Housing RB (Gates of Balston Apts) Series 2005</b> 3.58%, 01/04/06	14,500	14,500	<b>Douglas Cnty Development Corp</b> <b>RB (Executive Flight) Series 1998</b> 3.60%, 01/07/06	6,100	6,100
<b>Fairfax Cnty</b> <b>Public Improvement and Refunding Bonds Series 2004A</b> 3.55%, 01/07/06	1,000	1,000			
<b>King George Cnty</b> <b>Solid Waste Disposal Facility RB (Garnet) Series 1996</b> 3.60%, 01/07/06	3,700	3,700			



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)
<b>Energy Northwest</b>			<b>Port of Centralia IDA</b>		
+►■ Electric Refunding RB (Project No. 1) Series 2005A 3.55%, 01/07/06	10,720	10,720	+■ Solid Waste RB (LeMay Enterprises) Series 1999 3.55%, 01/07/06	1,035	1,035
+►■ Refunding Electric RB (Columbia Generating Station No. 3) Series 2001A 3.56%, 01/07/06	29,700	29,700	<b>Port of Moses Lake Public Corp</b>		
+►■ Refunding Electric RB (Project No. 1) Series 2002A 3.55%, 01/07/06	36,655	36,655	+■ RB (National Frozen Foods Corp) Series 1997 3.50%, 01/07/06	2,000	2,000
+►■ Refunding Electric RB (Project No. 3) Series 2003A 3.55%, 01/07/06	8,690	8,690	<b>Port of Seattle</b>		
<b>Everett IDA</b>			+►■ Intermediate Lien Refunding RB Series 2005A 3.55%, 01/07/06	14,825	14,825
■ Exempt Facilities RB (Kimberly-Clark Corp) Series 2002 3.55%, 01/07/06	3,200	3,200	+►■ RB Series 2001B 3.59%, 01/07/06	4,430	4,430
+■ RB (Partners Trust I/Synsor) Series 1996 3.55%, 01/07/06	3,100	3,100	+►■ RB Series 2003A 3.55%, 01/07/06	1,000	1,000
<b>King Cnty Rural Library District</b>			+►■ Special Facility RB (Terminal 18) Series 1999B 3.59%, 01/04/06	49,795	49,795
+►■ Unlimited Tax GO Bonds Series 2005 3.55%, 01/07/06	11,605	11,605	+►■ Subordinate Lien RB Series 1999B 3.59%, 01/07/06	2,875	2,875
<b>Olympia</b>			+■ Subordinate Lien RB Series 2005 3.45%, 01/04/06	8,500	8,500
+■ Solid Waste RB (LeMay Enterprises) Series 1999 3.55%, 01/07/06	5,075	5,075	<b>Port of Tacoma</b>		
<b>Pierce Cnty</b>			+►■ RB Series 2005 3.58%, 01/07/06	6,290	6,290
+■ IDRB (McFarland Cascade) Series 1996 3.65%, 01/07/06	3,945	3,945	+►■ RB Series 2005 3.60%, 01/07/06	5,760	5,760
+►■ Unlimited Tax GO Bonds Series 2001 3.56%, 01/07/06	43,655	43,655	<b>Seattle</b>		
<b>Pierce Cnty Economic Development Corp</b>			+►■ Drainage and Wastewater Refunding RB Series 2002 3.55%, 01/07/06	6,875	6,875
+■ RB (Flex-A-Lite Consolidated) Series 1996 3.55%, 01/07/06	2,250	2,250	<b>Seattle Housing Auth</b>		
+■ RB (K&M Holdings II) Series 1997 3.62%, 01/07/06	1,300	1,300	+■ RB (CHHIP and HRG) Series 1996 3.55%, 01/07/06	3,335	3,335
+■ Solid Waste RB (LeMay Enterprises) Series 1999 3.55%, 01/07/06	1,645	1,645	+■ RB (Casa Pacifica Apts) Series 1997 3.55%, 01/07/06	2,900	2,900
			<b>Snohomish Cnty Public Utility District No. 1</b>		
			+►■ Electric System Refunding RB Series 2005A 3.56%, 01/07/06	7,440	7,440

## 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)
<b>Tacoma Housing Auth</b>					
➤■ RB (Crown Assisted Living) Series 1998 3.59%, 01/07/06	3,060	3,060	➤■ Solid Waste Disposal RB (Waste Management) Series 2000C 3.56%, 01/04/06	5,500	5,500
<b>Washington</b>					
➤■ GO Bonds Series 1998C 3.56%, 01/07/06	12,150	12,150	➤■ Solid Waste Disposal RB (Waste Management) Series 2000H 3.56%, 01/04/06	6,825	6,825
➤■ GO Bonds Series 2000B 3.56%, 01/07/06	13,380	13,380	Solid Waste Disposal RB (Waste Management) Series 2000I		
➤■ GO Bonds Series 2003A 3.57%, 01/07/06	5,170	5,170	➤■ 3.53%, 01/04/06	10,240	10,240
➤■ GO Refunding Bonds Series R-2006A 3.55%, 01/07/06	16,350	16,350	➤■ 3.56%, 01/04/06	7,235	7,235
➤■ Motor Vehicle Fuel Tax GO Bonds Series 2006B 3.55%, 01/07/06	2,500	2,500	<b>Washington Health Care Facilities Auth</b>		
➤■ Unlimited GO Bonds Series B 3.56%, 01/07/06	30,485	30,485	➤■ RB (Yakima Valley Farm Workers Clinic) Series 1997 3.50%, 01/07/06	3,000	3,000
➤■ Various Purpose GO Bonds Series 2005D 3.55%, 01/07/06	12,425	12,425	<b>Washington Housing Finance Commission</b>		
<b>Washington Economic Development Finance Auth</b>			➤■ M/F Housing RB (Anchor Village Apts) Series 1997 3.60%, 01/07/06	10,750	10,750
➤■ IDRB (Tonkin Building Associates) Series 1997A 3.65%, 01/07/06	1,000	1,000	➤■ M/F Housing RB (Brittany Park Phase II) Series 1998A 3.60%, 01/07/06	3,480	3,480
➤■ Lease RB (Washington Biomedical Research Properties II) Series 2005E 3.58%, 01/04/06	14,620	14,620	➤■ M/F Housing RB (Brittany Park) Series 1996A 3.60%, 01/07/06	8,930	8,930
➤■ RB (Hunter Douglas) Series 1997A 3.60%, 01/07/06	3,500	3,500	➤■ M/F Housing RB (Fairwinds Redmond) Series 2005A 3.63%, 01/07/06	7,500	7,500
➤■ RB (Skills) Series 1998N 3.59%, 01/07/06	2,665	2,665	➤■ M/F Housing RB (Highlander Apts) Series 2004A 3.60%, 01/07/06	7,000	7,000
➤■ Solid Waste Disposal RB (Cedar Grove Composting) Series 2004B 3.55%, 01/07/06	5,600	5,600	➤■ M/F Housing RB (Lakewood Meadows Apts) Series 2000A 3.60%, 01/07/06	3,140	3,140
➤■ Solid Waste Disposal RB (Lemay Enterprises) Series 2005B 3.55%, 01/07/06	5,670	5,670	➤■ M/F Housing RB (Merrill Gardens at Queen Anne) Series 2004A 3.63%, 01/07/06	11,000	11,000
➤■ Solid Waste Disposal RB (Waste Management Inc) Series 2005D 3.60%, 01/07/06	9,000	9,000	➤■ M/F Housing RB (Merrill Gardens) Series 1997A 3.60%, 01/07/06	6,125	6,125

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)
<b>■</b> M/F Housing RB (Rainier Court Apts) Series 2003A 3.60%, 01/07/06 <b>■</b> M/F Housing RB (Rosecreek Apts) Series 1998A 3.63%, 01/07/06 <b>■</b> M/F Housing RB (Silver Creek Apts) Series 2004 3.60%, 01/07/06 <b>■</b> M/F Housing RB (Vintage at Burien) Series 2004A 3.60%, 01/07/06 <b>■</b> M/F Housing RB (Woodrose Apts) Series 1999A 3.60%, 01/07/06 <b>■</b> M/F Mortgage RB (Canyon Lakes) Series 1993 3.57%, 01/07/06 <b>■</b> M/F Mortgage RB (Lake Washington Apts) Series 1996 3.55%, 01/07/06 <b>■</b> M/F Mortgage RB (Meridian Court Apts) Series 1996 3.65%, 01/07/06 <b>■</b> M/F RB (Cedar Ridge Retirement) Series 2005A 3.63%, 01/07/06 <b>■</b> Non-Profit RB (Wesley Homes) Series 2005A 3.38%, 01/03/06 <b>■</b> Non-Profit Refunding RB (Horizon House) Series 2005 3.54%, 01/07/06 <b>Yakama Indian Nation</b> <b>■</b> RB (Yakama Forest Products) Series 1997 3.55%, 01/07/06 <b>Yakima Cnty Public Corp</b> <b>■</b> IDRB (Cowiche Growers) Series 1998 3.60%, 01/07/06 <b>■</b> RB (Michelsen Packaging) Series 1996 3.55%, 01/07/06	12,750 3,570 4,100 6,570 6,750 4,215 8,050 6,700 5,030 3,000 11,725  2,100 2,500 600	12,750 3,570 4,100 6,570 6,750 4,215 8,050 6,700 5,030 3,000 11,725  2,100 2,500 600	<b>West Virginia 0.5%</b> <b>Braxton Cnty</b> <b>■</b> Solid Waste Disposal Refunding RB (Weyerhouser Co) Series 1998 3.62%, 01/07/06 <b>Marion Cnty</b> <b>■</b> Solid Waste Disposal Facility RB (Grant Town Cogeneration) Series 1990B 3.47%, 01/07/06 <b>■</b> Solid Waste Disposal Facility RB (Grant Town Cogeneration) Series 1990C 3.47%, 01/07/06 <b>■</b> Solid Waste Disposal Facility RB (Grant Town Cogeneration) Series 1990D 3.47%, 01/07/06 <b>West Virginia Housing Development Fund</b> <b>■</b> Housing Finance Bonds Series 2001D 3.55%, 01/07/06 <b>Wisconsin 2.1%</b> <b>Colburn IDA</b> <b>■</b> IDRB (Heartland Farms) Series 1994 3.75%, 01/07/06 <b>Kenosha</b> <b>■</b> IDRB (Asyst Technologies) Series 1997 3.56%, 01/07/06 <b>Kimberly Area SD</b> <b>■</b> GO Refunding Bonds 3.56%, 01/07/06 <b>Milwaukee Cnty</b> <b>■</b> Airport RB Series 2000A 3.59%, 01/07/06	16,275 18,525 15,900 3,000 15,615  5,800 5,000 6,075 18,470	16,275 18,525 15,900 3,000 15,615  5,800 5,000 6,075 18,470  <b>69,315</b>
<b>598,635</b>					

## 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)
<b>Southeast Wisconsin Professional Baseball Park District</b>			<b>Wisconsin Housing and Economic Development Auth-1988 Homeownership Resolution</b>		
+►■ Sales Tax Refunding Bonds Series 1998 3.54%, 01/07/06	5,000	5,000	■ Homeownership RB Series 2004D 3.54%, 01/07/06	73,750	73,750
<b>Wisconsin</b>			Homeownership RB Series 2005C		
+►■ GO Bonds Series 2005-1 3.55%, 01/07/06	8,150	8,150	►■ 3.59%, 01/04/06	38,500	38,500
■ GO Bonds Series 2005D 3.55%, 01/07/06	20,000	20,000	►■ 3.60%, 01/07/06	4,875	4,875
+►■ GO Refunding Bonds Series 2005-1 3.55%, 01/07/06	4,580	4,580	►■ Homeownership RB Series 2003A 3.60%, 01/07/06	3,435	3,435
+►■ Transportation RB Series 2005A 3.54%, 01/07/06	9,670	9,670	►■ RB Series 2004D 3.60%, 01/07/06	3,040	3,040
<b>Wisconsin Housing and Economic Development Auth-1987 Homeownership Resolution</b>			<b>Wisconsin Rapids</b>		
+■ Business Development RB (Ultratec) Series 1995-7 3.75%, 01/07/06	2,050	2,050	+■ IDRB (Thiele Kaolin) Series 1998 3.60%, 01/07/06	4,500	4,500
►■ Homeownership RB Series 2002C 3.55%, 01/07/06	3,040	3,040			<b>282,270</b>
►■ Homeownership RB Series 2002D 3.59%, 01/07/06	435	435	<b>Wyoming 0.6%</b>		
►■ Homeownership RB Series 2003B 3.59%, 01/04/06	13,800	13,800	<b>Lincoln Cnty</b>		
►■ Homeownership RB Series 2005A 3.54%, 01/04/06	20,725	20,725	■ Pollution Control RB (Exxon) Series 1987A 3.77%, 01/07/06	22,200	22,200
+►■ Housing RB Series 2002B 3.55%, 01/07/06	15,655	15,655	■ Pollution Control RB (Exxon) Series 1987B 3.77%, 01/07/06	10,600	10,600
+►■ S/F Draw Down RB Series 2003-1 3.60%, 01/07/06	15,720	15,720	<b>Sublette Cnty</b>		
			■ Pollution Control RB (Exxon) Series 1987A 3.75%, 01/07/06	7,500	7,500
			<b>Wyoming</b>		
			Education Fund TRAN Series 2005A 2.63%, 06/28/06	45,000	45,293
					<b>85,593</b>

End of investments.

## Statement of

**Assets and Liabilities**

As of December 31, 2005. All numbers x 1,000 except NAV.

**Assets**

Investments, at value	\$13,163,744
Cash	410
Receivables:	
Fund shares sold	58,055
Investments sold	3,127
Interest	83,405
Prepaid expenses	+ 458
<b>Total assets</b>	<b>13,309,199</b>

**Liabilities**

Payables:	
Fund shares redeemed	36,970
Dividends to shareholders	3,693
Investments bought	44,500
Investment adviser and administrator fees	218
Transfer agent and shareholder service fees	323
Trustees' fees	17
Accrued expenses	+ 355
<b>Total liabilities</b>	<b>86,076</b>

**Net Assets**

<b>Total assets</b>	13,309,199
<b>Total liabilities</b>	- 86,076
<b>Net assets</b>	<b>\$13,223,123</b>

**Net Assets by Source**

Capital received from investors	13,227,144
Net realized capital losses	(4,021)

**Net Asset Value (NAV) by Share Class**

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Sweep Shares	\$7,466,874		7,471,008		\$1.00
Value Advantage Shares	\$3,007,098		3,007,686		\$1.00
Select Shares	\$965,861		966,002		\$1.00
Institutional Shares	\$1,783,290		1,783,575		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost for the fund's securities was \$13,163,744. Includes restricted but deemed liquid securities comprised of 144A securities worth \$3,681,408 or 28.3% of the fund's total net assets. During the reporting period, the fund had \$5,395,285 in transactions with other Schwab Funds.

**Federal Tax Data****Cost basis of portfolio** \$13,163,744**Unused capital losses:**

Expires 12/31 of:	Loss amount:
2007	\$775
2008	874
2011	241
2012	1,479
2013	+ 652
	<b>\$4,021</b>

**Reclassifications:**

Net realized capital losses	\$837
Reclassified as:	
Net investment income not yet distributed	(\$315)
Capital received from investors	(\$522)

## Statement of

**Operations**

For January 1, 2005 through December 31, 2005. All numbers x 1,000.

**Investment Income**

Interest	<b>\$315,205</b>
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**Net Realized Gains and Losses**

Net realized losses on investments sold	(755)
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**Expenses**

Investment adviser and administrator fees	44,856
Transfer agent and shareholder service fees:	
Sweep Shares	32,821
Value Advantage Shares	6,977
Select Shares	1,927
Institutional Shares	3,620
Trustees' fees	71
Custodian and portfolio accounting fees	1,065
Professional fees	72
Registration fees	1,181
Shareholder reports	345
Other expenses	+ 131
Total expenses	93,066
Expense reduction	- 24,125
<b>Net expenses</b>	<b>68,941</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	315,205
<b>Net expenses</b>	- 68,941
<b>Net investment income</b>	<b>246,264</b>
<b>Net realized losses</b>	+ (755)
<b>Increase in net assets from operations</b>	<b>\$245,509</b>

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:**

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

**Shareholder Services:**

<b>Share Class</b>	<b>% of Average Daily Net Assets</b>
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 \$17,852 from the investment adviser (CSIM) and \$6,273 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:

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

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

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

## Statements of

**Changes in Net Assets**

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

Unless stated, all numbers x 1,000.

**Operations**

	1/1/05–12/31/05	1/1/04–12/31/04
Net investment income	\$246,264	\$95,108
Net realized losses	+ (755)	(1,704)
<b>Increase in net assets from operations</b>	<b>245,509</b>	<b>93,404</b>

100% of the funds dividends for the current and prior periods are tax-exempt interest dividends.

**Distributions Paid****Dividends from Net Investment Income**

Sweep Shares	129,009	45,088
Value Advantage Shares	62,499	29,727
Select Shares	18,472	5,971
Institutional Shares	+ 36,165	14,086
<b>Total dividends from net investment income</b>	<b>246,145</b>	<b>94,872</b>

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.

**Transactions in Fund Shares****Shares Sold**

Sweep Shares	34,222,246	32,230,523
Value Advantage Shares	3,763,501	3,977,079
Select Shares	2,018,411	1,518,310
Institutional Shares	+ 3,704,608	4,180,409
<b>Total shares sold</b>	<b>43,708,766</b>	<b>41,906,321</b>

**Shares Reinvested**

Sweep Shares	126,513	44,201
Value Advantage Shares	55,374	26,335
Select Shares	15,562	5,139
Institutional Shares	+ 31,212	11,892
<b>Total shares reinvested</b>	<b>228,661</b>	<b>87,567</b>

**Shares Redeemed**

Sweep Shares	(34,444,625)	(32,204,616)
Value Advantage Shares	(4,056,494)	(4,658,834)
Select Shares	(1,795,103)	(1,270,436)
Institutional Shares	+ (3,411,103)	(3,451,756)
<b>Total shares redeemed</b>	<b>(43,707,325)</b>	<b>(41,585,642)</b>

**Net transactions in fund shares**

**230,102**      **408,246**

Represents shares sold plus shares reinvested, minus shares redeemed.

**Net Assets**

Beginning of period	12,993,657	12,586,879
Total increase or decrease	+ 229,466	406,778
<b>End of period</b>	<b>\$13,223,123</b>	<b>\$12,993,657</b>

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 \$— and \$196 at the end of the current and prior period, respectively.

# 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 Investor Money Fund

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 using the effective interest rate method. 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, 2005, 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, 2005 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

**PricewaterhouseCoopers LLP**

San Francisco, California

February 14, 2006

# Investment Advisory Agreement Approval

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

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

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

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

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

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

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

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

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

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

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

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

In the course of their deliberations, the trustees did not identify any particular information or factor that was all-important or controlling. Based on the trustees' deliberation and their evaluation of the information

described above, the Board, including all of the Independent Trustees, unanimously approved the interim continuation of the Agreement and concluded that the compensation under the Agreement is fair and reasonable in light of such services and expenses and such other matters as the trustees have considered to be relevant in the exercise of their reasonable judgment.

**Subsequent Continuation, August 2005.** At the August 31, 2005 meeting of the Board, the trustees, including a majority of the Independent Trustees, approved the continuation of the Agreement through June 30, 2006. This approval extended the interim approval of the Agreement by the Board, which had taken place on May 24, 2005 and is discussed above. In connection with the approval of the Agreement, the Board considered additional information provided by CSIM in response to the Board's requests at the May 24, 2005 meeting, as well as reconsidered the information provided and factors considered at prior meetings including, with respect to the Schwab Municipal Money Fund, commitments by CSIM to reduce the guaranteed overall expense ratio for the Sweep Share Classes of the Schwab Municipal Money Fund by three basis points between May 1, 2006 and May 1, 2008. The Board concluded that the information provided at the meeting supported continuation of the Agreement. In the course of their deliberations, the trustees did not identify any particular information or factor that was all-important or controlling. Based on the trustees' deliberation and their evaluation of the information described above, the Board, including all of the Independent Trustees, unanimously approved the continuation of the Agreement and concluded that the compensation under the Agreement is fair and reasonable in light of such services and expenses and such other matters as the trustees have considered to be relevant in the exercise of their reasonable judgment.

# Trustees and Officers

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

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

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

Independent Trustees		
Name and Year of Birth	Trustee Since	Main Occupations and Other Directorships and Affiliations
Mariann Byerwalter 1960	2000 (all trusts).	Chairman, JDN Corp. Advisory LLC (real estate). <i>Until 2001:</i> Special Advisor to the President, Stanford University. <i>From 1996-2001:</i> Vice President of Business Affairs, Chief Financial Officer, Stanford University. Ms. Byerwalter is on the Boards of Stanford University, America First Cos. (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, Pacific Life Insurance Company (insurance), Laudus Trust and Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex. <sup>2</sup>

<sup>1</sup> 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.

<sup>2</sup> This includes 10 series of the Laudus Trust and the sole series of the Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex.

## Independent Trustees continued

Name and Year of Birth	Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Donald F. Dorward</b> 1931	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chief Executive Officer, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999</i> : Executive Vice President, Managing Director, Grey Advertising. <i>Until 1996</i> : President, Chief Executive Officer, Allen & Dorward Advertising.
<b>William A. Hasler</b> 1941	2000 (all trusts).	Dean Emeritus of the Haas School of Business, University of California, Berkeley. <i>Until 2/04</i> , Co-Chief Executive Officer, Aphton Corporation (bio-pharmaceuticals). <i>Prior to 8/98</i> , Dean of the Haas School of Business, University of California, Berkeley (higher education). Mr. Hasler is on the Boards of Aphton Corporation (bio-pharmaceuticals), Mission West Properties (commercial real estate), Stratex Networks (network equipment), TOUSA (home building), Genitope Corp. (bio-pharmaceuticals), Laudus Trust and Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex. <sup>3</sup> Non-Executive Chairman, Solectron Corporation (manufacturing).
<b>Robert G. Holmes</b> 1931	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer, Director, Semloh Financial, Inc. (international financial services and investment advisory firm).
<b>Gerald B. Smith</b> 1950	2000 (all trusts).	<i>Since 1990</i> , Chairman and Chief Executive Officer and founder of Smith Graham & Co. (investment advisors). Mr. Smith is on the Board of Cooper Industries (electrical products, tools and hardware); Chairman, Texas Southern University Foundation; Executive Committee and Board Member, MD Anderson Cancer Center; Chairman of the audit committee of Northern Border Partners, M.L.P. (energy).
<b>Donald R. Stephens</b> 1938	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chairman, Chief Executive Officer, North American Trust (real estate investment trust).
<b>Michael W. Wilsey</b> 1943	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer, Wilsey Bennett, Inc. (real estate investment and management, and other investments).

<sup>3</sup> This includes 10 series of the Laudus Trust and the sole series of the Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex.



## Interested Trustees

Name and Year of Birth	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Charles R. Schwab</b> <sup>4</sup> 1937	Chairman, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer and Director, The Charles Schwab Corporation, Charles Schwab & Co., Inc.; Chairman and Director, Charles Schwab Investment Management, Inc., Charles Schwab Bank, N.A.; Chairman and Chief Executive Officer, Schwab (SIS) Holdings Inc. I, Schwab International Holdings, Inc.; Chief Executive Officer and Director, Schwab Holdings, Inc.; Director, U.S. Trust Company, N.A., U.S. Trust Corporation, United States Trust Company of New York. <i>Until 5/03</i> , Co-Chief Executive Officer, The Charles Schwab Corporation. Trustee, Charles and Helen Schwab Foundation; Chairman, All Kinds of Minds Institute (education), Trustee, Stanford University; Chairman and Director, Charles Schwab Foundation; Chairman of the Finance Committee, San Francisco Museum of Modern Art.
<b>Randall W. Merk</b> <sup>4</sup> 1954	Trustee, 2005 (all trusts).	Executive Vice President and President, Asset Management Products & Services, Charles Schwab & Co., Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From 9/02 to 7/04</i> , President and Chief Executive Officer, Charles Schwab Investment Management, Inc. and Executive Vice President, Charles Schwab & Co., Inc. <i>Prior to 9/02</i> , President and Chief Investment Officer, American Century Investment Management; Director, American Century Companies, Inc. <i>Until 6/01</i> , Chief Investment Officer, Fixed Income, American Century Companies, Inc.

## Officers of the Trust

Name and Year of Birth	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
<b>Evelyn Dilsaver</b> 1955	President, Chief Executive Officer (all trusts).	Executive Vice President, President, Director, Charles Schwab Investment Management, Inc. Vice President, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 7/04</i> : Senior Vice President, Asset Management Products & Services Enterprise. <i>Until 6/03</i> : Executive Vice President, Chief Financial Officer, Chief Administrative Officer, U.S. Trust.
<b>Stephen B. Ward</b> 1955	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co.

<sup>4</sup> In addition to their positions with the investment adviser and the distributor, Messrs. Schwab and Merk also own stock of the Charles Schwab Corporation.

## Officers of the Trust continued

Name and Year of Birth	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
<b>Kimon Daifotis</b> 1959	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President and Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Until 6/04</i> : Vice President and Senior Portfolio Manager, Charles Schwab Investment Management, Inc.
<b>Jeffrey Mortimer</b> 1963	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc.; Vice President, Chief Investment Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 5/04</i> : Vice President and Senior Portfolio Manager, Charles Schwab Investment Management, Inc.
<b>Randall Fillmore</b> 1960	Chief Compliance Officer (all trusts).	Senior Vice President, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Chief Compliance Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 9/03</i> : Vice President, Charles Schwab & Co., Inc. and Charles Schwab Investment Management, Inc. <i>Until 2002</i> : Vice President, Internal Audit, Charles Schwab & Co., Inc.
<b>Koji E. Felton</b> 1961	Secretary (all trusts).	Senior Vice President, Chief Counsel and Corporate Secretary, Charles Schwab Investment Management, Inc.; Senior Vice President and Deputy General Counsel, Charles Schwab & Co., Inc. <i>Prior to 6/98</i> , Branch Chief in Enforcement at U.S. Securities and Exchange Commission in San Francisco.
<b>George Pereira</b> 1964	Treasurer, Principal Financial Officer (all trusts).	Senior Vice President and Chief Financial Officer, Charles Schwab Investment Management, Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From 12/99 to 11/04</i> , Senior Vice President, Financial Reporting, Charles Schwab & Co., Inc.

# Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Portfolio terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Notes

## Notes

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

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

### Methods for Placing Orders

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

#### Internet<sup>1</sup>

[www.schwab.com](http://www.schwab.com)

#### Schwab by Phone™<sup>2</sup>

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

#### TeleBroker®

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

#### Mail

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

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

### Proxy Voting Policies, Procedures and Results

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

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

## The Schwab Funds Family®

### Stock Funds

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

### Asset Allocation Funds

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

### Bond Funds

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

### Schwab Money Funds

Schwab offers an array of money market funds that seek high current income consistent with safety and liquidity.<sup>3</sup> 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®.

<sup>1</sup> Shares of Sweep Investments™ may not be purchased directly over the Internet.

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

<sup>3</sup> 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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MFR26568-03



# Schwab Municipal Money Funds

## **Annual Report**

December 31, 2005

Schwab New York  
Municipal Money Fund™

Schwab New Jersey  
Municipal Money Fund™

Schwab Pennsylvania  
Municipal Money Fund™

Schwab Florida  
Municipal Money Fund™

Schwab Massachusetts  
Municipal Money Fund™

*charles* SCHWAB

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# From the Chairman



Charles Schwab  
Chairman

Dear Shareholder,

I founded Schwab over thirty years ago to be a home for serious investors. That mission continues to guide us today as we constantly innovate on behalf of our clients. By continuing to provide the highest quality products and services—at a great price—we remain true to our heritage.

I take particular pride in the Schwab Funds. Founded over 15 years ago, they have grown to include more than 50 funds with over \$140 billion in assets as of this report date. With a variety of investment strategies, Schwab Funds provide a range of innovative investment choices that can serve as a foundation for your asset allocation plan.

Schwab Funds is managed by Charles Schwab Investment Management, Inc., which currently ranks as one of the largest investment managers in the country. Our portfolio managers share a passion for market analysis and use some of the most sophisticated financial models available. I am proud of their depth of experience, which reflects an average tenure of more than 15 years in the investment industry. Furthermore, I am impressed with the commitment that our managers bring to the stewardship of the funds, for you, their shareholders.

We strive every day to warrant the trust you have placed in us; that will never change. 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 letters of the first and last names being capitalized and prominent.

*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.*

# Management's Discussion for the year ended December 31, 2005



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

Dear Shareholder,

I'm pleased to bring you the annual report for your Schwab money fund for the year ended December 31, 2005. Although the period was marked by volatility, our money funds provided competitive yields as well as safety and stability.

I would like to take this opportunity to remind you that Schwab Funds offers a range of position-traded money funds that are available with a variety of minimums and investment strategies to meet your needs. These funds and share classes are available beginning with a minimum initial investment of \$25,000 (\$15,000 for IRA and custodial accounts) and include both taxable and, for clients who are tax sensitive, tax-free investment strategies. To make these products even more convenient, we've recently reduced the subsequent investment minimum requirement from \$5,000 to \$500 on several of our Value Advantage Investments.

We continue to develop and manage Schwab Funds to help you achieve your goals and to provide an uncomplicated way to build a well-diversified portfolio. During the report period covered by this book, Schwab Funds launched seven new funds across varying investment styles and strategies.

In closing, I speak for all of Schwab Funds when I say we want Schwab to be the place where investors can find useful, quality financial products and services to help them succeed.

Thank you for investing in Schwab Funds.

Sincerely,

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

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



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

## The Investment Environment and the Fund

Despite having witnessed a turbulent year in the news, the markets remained in a steady growth mode and ended the one-year report period with positive results. Oil prices hit highs never seen before and the Federal Reserve continued to raise short-term interest rates to curb inflationary pressures, raising the rates eight consecutive times in the one-year report period and bringing the benchmark rate up to 4.25%. The moves had a limited impact on overall economic growth, due primarily to the low level of rates from which the increases began.

Regardless of the concerns of high energy prices, which remained a significant headwind for economic performance throughout the period, corporate earnings remained strong throughout the year. Additionally, with the unemployment rate hovering around 5% and GDP growth around 3.5%, job and income growth remained positive and investors remained optimistic. Productivity gains and more restrictive monetary policy kept a lid on core inflation. The productivity gains, coupled with foreign investors buying large amounts of U.S. government securities, helped to contain increases in long-term interest rates. These conditions caused the dollar to rally, which took pressure off the price of imported goods.

The big news for the past two quarters was the impact of Hurricanes Katrina and Rita. The devastation caused by these storms was particularly heavy with respect to the energy infrastructures in the South. Oil prices rose sharply in the aftermath of the hurricanes, with crude oil peaking above \$71 per barrel in early September, although softening oil demand and quick action by the federal government to release Strategic Petroleum Reserves led to a subsequent decline off that peak. During the fourth quarter, oil had dropped to as low as \$58 a barrel, but then rebounded back to \$64 as of the end of the period. While the full economic effect of the hurricanes remains unknown, the damage appears to be limited to the regions in the hurricanes' path and to the energy infrastructures in those areas.

Another significant event that happened during the report period was the appointment of Ben Bernanke to succeed Alan Greenspan as Chairman of the Federal Reserve Board. Although he had not yet been confirmed into office as of the end of the report period, Bernanke's experience on the Federal Open Market Committee and his expertise in monetary economics has eased the concerns of the markets and caused investors to expect a smooth transition.

**As noted above, the Fed continued in its tightening mode, raising short-term rates 0.25% at each of its eight meetings this year.** At the end of the one-year report period, the benchmark rate was up to 4.25%. The higher rates translated into higher money fund yields making them more attractive as an investment vehicle. The yields on municipal variable-rate demand notes rose significantly during the year as the Bond Market Association's BMA seven-day municipal index rose by 1.50%. This change caused the yields on the Schwab Municipal Money Funds to increase for the period.

During the year, the fund's weighted average maturity (WAM) was positioned anywhere from neutral to 15 days longer than the peer group averages. When the opportunity arose, we added commercial paper with maturities of 30-90 days as well as variable-rate demand notes. We feel that both of these asset classes offered the best relative value during the report period.

The combination of rising interest rates, and improved financial circumstances for state and local governments combined to cause a decline in fixed-rate note issuance for 2005. The drop off in note supply was partially offset by an increase in structured variable-rate notes.

**New York State is enjoying higher than expected revenues for fiscal 2006 and Governor Pataki projects ending the year (3/31/06) with a \$2 billion surplus due to stronger than expected personal income and corporate franchise tax revenues.** Revenues are expected to grow 11% for the second year, although the growth is centered in the New York City metropolitan area. Spending in the fiscal 2006 general fund budget is now expected to total \$47.23 billion. The state projects ending fiscal 2006 with \$3.2 billion in reserves, or about 6% of general fund spending, with \$2 billion to be held in a stabilization reserve to offset projected gaps in the fiscal 2008 and 2009 budgets. The Governor's proposed fiscal 2007 budget includes \$3.2 billion in tax cuts over the next three years and increases education spending by \$634 million but does not address \$5.6 billion in state Supreme Court-ordered increases in education funding for New York City.

New York City's economy has continued to improve and the city revised its fiscal 2006 revenue estimates up by \$2 billion in November 2005 with most of the additional revenues earmarked to prepay expenses occurring in fiscal 2007. The city's financial position is expected to be further enhanced with additional city income tax receipts as Wall Street firms

have indicated they are paying \$21.5 billion in bonuses for calendar 2005. However, many local governments in northern and western New York continue to operate under tremendous financial pressure as their manufacturing-dominated economies have not been bolstered with new employment 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 increased 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 Aa3 from A1 by Moody's Investors Service in December 2005. The ratings are AA and AA- from Standard & Poor's and Fitch, respectively.

**New Jersey's \$27.9 billion fiscal 2006 budget (ending 6/30/06) includes spending at levels slightly below that of the fiscal 2005 budget of \$28 billion which had included a 14% increase in spending.** The fiscal 2006 no-growth budget relies primarily on on-going revenues unlike the previous three budgets which included substantial one-time revenues. Further, the fiscal 2006 budget does not include any deficit bond financing as the state's Supreme Court ruled it was an unconstitutional means of balancing the budget after the state had issued \$5.5 billion in deficit bonds during the previous three fiscal years. Through December 2005, state revenue collections were on target with projections but personal income tax receipts from Wall Street bonuses are expected to exceed budgeted projections. Former U.S. Senator Jon Corzine was elected Governor in November 2005 and takes office on January 17, 2006. He will replace Acting Governor Richard Codey, who will remain as president of the state senate.

The state's economy remains strong. Job growth rose 0.9% between November 2004 and November 2005. The unemployment rate as of November 2005 was 4.6% and remains below the national average. The unemployment rate trended upward in the second half of 2005 as the labor force participation rate increased.

New Jersey remains a solid investment grade credit due to its diverse economy, high wealth levels and revenue-raising ability. New Jersey's general obligation debt is rated Aa3 by Moody's Investors Service and AA- by Fitch; and was upgraded by Standard & Poor's to AA in July 2005.

**Pennsylvania's fiscal 2006 enacted budget totals \$25.2 billion, up 5% from spending in the fiscal 2005 budget.** At the end of fiscal 2005, (6/30/05), the state reported \$927 million in available reserves, or 3.7% of the year's expenditures. The growth in the state's fiscal 2006 spending is driven primarily by an 8% increase in medical assistance with much of the increase being used to replace one-time federal funds that were distributed in fiscal 2004 and 2005 to aid states during the national recession. Total revenues are expected to grow more slowly at 2%, led by 5% growth in personal income tax receipts and 3% growth in sales tax receipts. However, as the Commonwealth has historically budgeted very conservatively, year-end results are likely to be more positive. In addition, the state has approximately \$325 million in its budget stabilization fund to which it is required to make deposits equal to 25% of the year's surplus revenues.

Job growth is strong. Nonfarm employment as of November 2005 was up 1.2% year-over-year, driven by growth in the service sector. The unemployment rate was 5.1%, comparable to the national average, although personal income growth slightly trails the national average.

The Commonwealth's credit quality is derived from its conservative financial management, increasing economic diversification and moderate debt levels. Pennsylvania is rated Aa2 by Moody's Investors Service, AA by Standard and Poor's, and AA by Fitch.

**Florida's economic growth remained very strong in 2005, continuing the strong expansion achieved in 2004 despite significant hurricane events in both years.** The state expects to report a \$1.1 billion operating surplus in the fiscal year that ended June 30, 2005 and over \$4.5 billion of year-end reserves. The state's sales and use, corporation, and documentary stamp tax collections were up nearly 15% on a combined basis in fiscal 2005. Though Florida endured four serious hurricanes in 2004, and Hurricanes Katrina and Wilma in 2005, much of the direct state costs associated with these events are expected to be reimbursed through the Federal Emergency Management Agency. In addition, reconstruction activity related to the hurricanes is captured in the state's sales tax collections.

The original budget for fiscal 2006 projected moderate economic growth and provided for \$225 million in tax reductions. In November 2005, revenue projections were updated to reflect an additional \$1.7 billion in receipts, led by sales, corporate income and stamp taxes. The latest projection indicates that year-end balances will likely remain in excess of \$4.6 billion.



Florida's total nonfarm jobs were up a strong 3.3% on average each month through November 2005, following on 3.3% annual job growth in 2004. The average unemployment rate for the period was 4.0%, down from 4.8% in 2004. With its resilient economic performance and strong reserve levels, the state's credit ratings were Aa1 from Moody's, AAA from Standard & Poor's, and AA+ from Fitch.

**Over the past two fiscal years, the Commonwealth of Massachusetts' financial performance has significantly improved mainly due to strong personal income tax revenues and disciplined spending.** The Commonwealth's fiscal 2006 general fund budget totals \$25.5 billion and includes a projected 4.8% increase in tax revenues, primarily from higher personal income tax collections. On a budgetary basis, the Commonwealth projects ending fiscal 2006 with a \$2.5 billion fund balance, or 9.8% of expenditures, up from \$2.4 billion at 6/30/05.

Massachusetts' economy continues in its fourth year of recovery and the rise in personal income tax revenues suggests job growth is solid, with the unemployment rate falling from 5.4% in January 2005 to 4.4% in November 2005. Due to the diversity of the state's economy, its high personal-wealth levels and its associated revenue raising ability, Massachusetts remains a strong investment-grade credit. As of the report date, the state's credit ratings were Aa2 from Moody's, AA from Standard & Poor's and AA from Fitch.

Performance and Fund Facts as of 12/31/05

Seven-Day Yields

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

Ticker Symbol	Municipal Money Funds					
	New York		New Jersey	Pennsylvania	Florida	Massachusetts
	Sweep Shares	Value Advantage Shares™				
	SWNXX	SWYXX	SWJXX	SWEXX	SWFXX	SWDXX
<b>Seven-Day Yield<sup>1</sup></b>	2.75%	2.95%	2.70%	2.71%	2.68%	2.67%
<b>Seven-Day Yield–No Waiver<sup>2</sup></b>	2.56%	2.80%	2.48%	2.45%	2.49%	2.41%
<b>Seven-Day Effective Yield<sup>1</sup></b>	2.76%	2.97%	2.72%	2.72%	2.70%	2.68%
<b>Seven-Day Taxable-Equivalent Effective Yield<sup>1,3</sup></b>	4.83%	5.20%	4.60%	4.32%	4.15%	4.35%

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](http://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
<b>Weighted Average Maturity</b>	30 days	38 days	38 days	23 days	36 days
<b>Credit Quality of Holdings</b> % of portfolio	100% Tier 1	100% Tier 1	100% Tier 1	100% Tier 1	100% Tier 1
<b>Credit-Enhanced Securities</b> % of portfolio	72%	79%	73%	91%	52%
<b>Minimum Initial Investment<sup>4</sup></b>					
<i>Sweep Investments™</i>	*	*	*	*	*
<i>Value Advantage Shares</i>	\$25,000	n/a	n/a	n/a	n/a
(\$15,000 for IRA and custodial accounts) <sup>5</sup>					

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.

<sup>1</sup> Fund expenses have been partially absorbed by CSIM and Schwab.

<sup>2</sup> Yield if fund expenses had not been partially absorbed by CSIM and Schwab.

<sup>3</sup> Taxable-equivalent effective yields assume the following 2005 maximum tax rates: New York 42.90% (federal regular income, New York state and New York city taxes); New Jersey 40.83%, Pennsylvania 37.00%, and Massachusetts 38.45% (federal regular and state personal income taxes); Florida 35.00% (federal regular income tax). Investment income may be subject to the Alternative Minimum Tax.

<sup>4</sup> Please see prospectus for further detail and eligibility requirements.

<sup>5</sup> Municipal money funds are generally not appropriate investments for IRAs and other tax-deferred accounts. Please consult your tax advisor about your situation.

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

# Fund Expenses (unaudited)

## 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, 2005 and held through December 31, 2005

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

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

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

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

	Expense Ratio <sup>1</sup> (Annualized)	Beginning Account Value at 7/1/05	Ending Account Value (Net of Expenses) at 12/31/05	Expenses Paid During Period <sup>2</sup> 7/1/05– 12/31/05
<b>Schwab New York Municipal Money Fund™</b>				
<i>Sweep Shares</i>				
Actual Return	0.65%	\$1,000	\$1,010.30	\$3.29
Hypothetical 5% Return	0.65%	\$1,000	\$1,021.93	\$3.31
<i>Value Advantage Shares™</i>				
Actual Return	0.45%	\$1,000	\$1,011.30	\$2.28
Hypothetical 5% Return	0.45%	\$1,000	\$1,022.94	\$2.29
<b>Schwab New Jersey Municipal Money Fund™</b>				
Actual Return	0.65%	\$1,000	\$1,010.30	\$3.29
Hypothetical 5% Return	0.65%	\$1,000	\$1,021.93	\$3.31
<b>Schwab Pennsylvania Municipal Money Fund™</b>				
Actual Return	0.65%	\$1,000	\$1,010.30	\$3.29
Hypothetical 5% Return	0.65%	\$1,000	\$1,021.93	\$3.31
<b>Schwab Florida Municipal Money Fund™</b>				
Actual Return	0.65%	\$1,000	\$1,010.30	\$3.29
Hypothetical 5% Return	0.65%	\$1,000	\$1,021.93	\$3.31
<b>Schwab Massachusetts Municipal Money Fund™</b>				
Actual Return	0.65%	\$1,000	\$1,010.10	\$3.29
Hypothetical 5% Return	0.65%	\$1,000	\$1,021.93	\$3.31

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

<sup>2</sup> Expenses for each fund or share class are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 184 days of the period, and divided by 365 days of the fiscal year.

# Schwab New York Municipal Money Fund™

## Financial Statements

### Financial Highlights

<b>Sweep Shares</b>	<b>1/1/05– 12/31/05</b>	<b>1/1/04– 12/31/04</b>	<b>1/1/03– 12/31/03</b>	<b>1/1/02– 12/31/02</b>	<b>1/1/01– 12/31/01</b>
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	1.00	1.00	1.00	1.00	1.00
Income from investment operations:					
Net investment income	0.02	0.01	0.00 <sup>1</sup>	0.01	0.02
Less distributions:					
Dividends from net investment income	(0.02)	(0.01)	(0.00) <sup>1</sup>	(0.01)	(0.02)
Net asset value at end of period	1.00	1.00	1.00	1.00	1.00
Total return (%)	1.78	0.56	0.41	0.80	2.06
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.66	0.69	0.69	0.69	0.69
Gross operating expenses	0.84	0.84	0.84	0.85	0.86
Net investment income	1.75	0.55	0.41	0.80	2.04
Net assets, end of period (\$ x 1,000,000)	1,031	1,073	1,038	944	889
<b>Value Advantage Shares</b>	<b>1/1/05– 12/31/05</b>	<b>1/1/04– 12/31/04</b>	<b>1/1/03– 12/31/03</b>	<b>1/1/02– 12/31/02</b>	<b>1/1/01– 12/31/01</b>
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	1.00	1.00	1.00	1.00	1.00
Income from investment operations:					
Net investment income	0.02	0.01	0.01	0.01	0.02
Less distributions:					
Dividends from net investment income	(0.02)	(0.01)	(0.01)	(0.01)	(0.02)
Net asset value at end of period	1.00	1.00	1.00	1.00	1.00
Total return (%)	2.00	0.80	0.66	1.04	2.30
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.45	0.45	0.45	0.45	0.45
Gross operating expenses	0.61	0.61	0.61	0.62	0.64
Net investment income	2.00	0.79	0.65	1.04	2.23
Net assets, end of period (\$ x 1,000,000)	834	654	690	676	604

<sup>1</sup> Per share amount was less than \$0.01.

**Portfolio Holdings** as of December 31, 2005

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](http://www.schwab.com/schwabfunds).

- + Credit-enhanced security
- Liquidity-enhanced security
- Variable-rate security
- 144A Security; restricted but deemed liquid

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.

<b>Holdings by Category</b>		<b>Cost</b> (\$x1,000)	<b>Value</b> (\$x1,000)
<b>100.2%</b>	<b>Municipal Securities</b>	1,867,913	1,867,913
<b>100.2%</b>	<b>Total Investments</b>	<b>1,867,913</b>	<b>1,867,913</b>
<b>(0.2)%</b>	<b>Other Assets and Liabilities</b>		(3,101)
<b>100.0%</b>	<b>Net Assets</b>		<b>1,864,812</b>

<b>Issuer</b> <b>Rate, Maturity Date</b>	<b>Face Amount</b> (\$ x 1,000)	<b>Value</b> (\$ x 1,000)
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**Municipal Securities** 100.2% of net assets**New York 98.7%****Albany IDA**

+■ IDRB (Newkirk Products)	Series 1995A		
	3.61%, 01/07/06	900	900

+■ Refunding IDRB (United Cerebral Palsy Association-Capital District) Series 1997B	3.56%, 01/07/06	9,480	9,480
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**Binghamton**

Various Purpose BAN Series 2005	2.92%, 09/22/06	15,000	15,114
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**Broome Cnty IDA**

+■ Civic Facility RB (Elizabeth Church Manor Nursing Home)	Series 2003		
	3.51%, 01/04/06	6,050	6,050

+■ Civic Facility RB (Methodist Homes For the Aging)	Series 2003		
	3.51%, 01/07/06	5,415	5,415

**Chautauqua Cnty**

+■ Civic Facility RB (Jamestown Center City Development Corp)	Series 2000A		
	3.55%, 01/07/06	11,410	11,410

+■ IDRB (GrafcO Industries)	Series 2002		
	3.59%, 01/07/06	5,395	5,395

**Connetquot Central SD**

TAN Series 2005-2006	2.83%, 06/30/06	15,000	15,084
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**Hauppauge Union Free SD**

TAN Series 2005-2006	2.72%, 06/29/06	7,500	7,546
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**Herkimer Cnty**

+■ Civic Facility RB (Templeton Foundation)	Series 2000		
	3.59%, 01/07/06	1,750	1,750

**Herricks Union Free SD**

TAN Series 2005-2006	2.80%, 06/29/06	3,400	3,420
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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)
<b>Jay Street Development Corp</b>			<b>New York City</b>		
<b>+</b> ■ Courts Facility Lease RB Fiscal 2004 Series A-4 3.65%, 01/07/06	3,065	3,065	<b>+</b> ■ GO Bonds Fiscal 1994 Series A-5 3.72%, 01/07/06	685	685
<b>+</b> ■ Courts Facility Lease RB Fiscal 2005 Series A 3.65%, 01/03/06	1,000	1,000	<b>+</b> ■ GO Bonds Fiscal 1994 Series H-4 3.65%, 01/07/06	5,800	5,800
<b>Long Island Power Auth</b>			<b>+</b> ■ GO Bonds Fiscal 1995 Series B-4 3.72%, 01/07/06	5,300	5,300
<b>+</b> ■ Electric System General RB Series 1998A 3.54%, 01/07/06	21,000	21,000	<b>+</b> ■ GO Bonds Fiscal 2000 Series A 3.54%, 01/07/06	3,395	3,395
<b>+</b> ■ Electric System General RB Series 2001A 3.54%, 01/07/06	4,365	4,365	<b>+</b> ■ GO Bonds Fiscal 2001 Series A 3.55%, 01/07/06	7,385	7,385
<b>+</b> ■ Electric System RB Series 1998A 3.55%, 01/07/06	1,900	1,900	<b>+</b> ■ GO Bonds Fiscal 2001 Series B 3.55%, 01/07/06	3,460	3,460
<b>+</b> ■ Electric System Subordinated RB Series 2001-2B 3.65%, 01/07/06	3,200	3,200	<b>+</b> ■ GO Bonds Fiscal 2002 Series A 3.55%, 01/07/06	9,750	9,750
<b>Madison Cnty IDA</b>			<b>+</b> ■ GO Bonds Fiscal 2002 Series A-6 3.67%, 01/07/06	6,045	6,045
<b>+</b> ■ Civic Facility RB (Colgate University) Series 2005A 3.55%, 01/05/06	14,880	14,880	<b>+</b> ■ GO Bonds Fiscal 2002 Series G 3.54%, 01/07/06	16,400	16,400
<b>Metropolitan Transportation Auth</b>			<b>+</b> ■ GO Bonds Fiscal 2002 Series G 5.00%, 08/01/06	9,165	9,254
<b>+</b> ■ Dedicated Tax Fund Bonds Series 1998A 3.54%, 01/07/06	9,440	9,440	<b>+</b> ■ GO Bonds Fiscal 2003 Series C-4 3.34%, 01/07/06	19,000	19,000
<b>+</b> ■ Dedicated Tax Fund Bonds Series 1999A 3.53%, 01/05/06	10,800	10,800	<b>+</b> ■ GO Bonds Fiscal 2004 Series F 3.58%, 01/07/06	50,000	50,000
<b>+</b> ■ Dedicated Tax Fund Bonds Series 2002A 3.54%, 01/07/06	10,980	10,980	<b>+</b> ■ GO Bonds Fiscal 2004 Series H-1 3.67%, 01/07/06	40,750	40,750
<b>+</b> ■ RB Series 2003B 3.54%, 01/07/06	3,500	3,500	<b>+</b> ■ GO Bonds Fiscal 2004 Series H-7 3.65%, 01/07/06	4,200	4,200
<b>+</b> ■ RB Series 2005B 3.54%, 01/07/06	11,470	11,470	<b>+</b> ■ GO Bonds Fiscal 2004 Series J 3.54%, 01/07/06	9,160	9,160
<b>+</b> ■ 3.55%, 01/07/06	8,310	8,310	<b>+</b> ■ GO Bonds Fiscal 2005 Series E 3.55%, 01/07/06	21,095	21,095
<b>+</b> ■ Refunding RB Series 2002A 3.55%, 01/07/06	22,000	22,000	<b>+</b> ■ GO Bonds Fiscal 2005 Series H 3.54%, 01/07/06	18,115	18,115
<b>Middle Country Central SD</b>			<b>+</b> ■ GO Bonds Fiscal 2005 Series N 3.54%, 01/07/06	10,820	10,820
BAN Series 2005 3.00%, 08/23/06	8,000	8,062	<b>+</b> ■ GO Bonds Fiscal 2005 Series O 3.54%, 01/07/06	7,150	7,150
<b>Nassau Cnty</b>			<b>+</b> ■ GO Bonds Fiscal 2005 Series P 3.55%, 01/07/06	7,000	7,000
TAN Series 2005A 3.24%, 10/31/06	25,000	25,254	<b>+</b> ■ GO Bonds Fiscal 2006 Series E-2 3.70%, 01/07/06	16,300	16,300
			<b>+</b> ■ GO Bonds Fiscal 2006 Series E-4 3.51%, 01/07/06	6,000	6,000
			<b>New York City Health and Hospitals Corp</b>		
			<b>+</b> ■ Health System Bonds Series 1999A 3.54%, 01/07/06	9,620	9,620

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)
<b>New York City Housing Development Corp</b>					
➤■ M/F Mortgage RB (First Avenue) Series 2002A 3.60%, 01/04/06	16,445	16,445	➤■ Water and Sewer System RB Series 1993C 3.72%, 01/07/06	3,900	3,900
➤■ M/F Rental Housing RB (100 Jane St) Series 1998A 3.60%, 01/07/06	6,525	6,525	➤■ Water and Sewer System RB Series 1994G 3.65%, 01/07/06	10,900	10,900
➤■ M/F Rental Housing RB (Atlantic Court Apts) Series 2005A 3.60%, 01/04/06	10,600	10,600	➤■ Water and Sewer System RB Series 1995A 3.67%, 01/07/06	10,700	10,700
➤■ M/F Rental Housing RB (One Columbus Place) Series 1998A 3.60%, 01/07/06	40,500	40,500	➤■ Water and Sewer System RB Series 1998B 3.54%, 01/07/06	4,735	4,735
➤■ M/F Rental Housing RB (Sierra) Series 2003A 3.60%, 01/07/06	18,585	18,585	■ Water and Sewer System RB Series 2001D 3.56%, 01/07/06	4,995	4,995
➤■ M/F Rental Housing RB (The Nicole) Series 2005A 3.60%, 01/04/06	10,200	10,200	■ Water and Sewer System RB Series 2002 & 2003A 3.54%, 01/07/06	8,500	8,500
➤■ M/F Rental Housing RB (Tribeca Tower) Series 1997A 3.41%, 01/07/06	2,300	2,300	➤■ Water and Sewer System RB Series 2002G 3.54%, 01/07/06	10,000	10,000
➤■ M/F Rental Housing RB (West End Towers) Series 2004A 3.60%, 01/04/06	20,000	20,000	➤■ Water and Sewer System RB Series 2005C 3.54%, 01/07/06	2,750	2,750
<b>New York City IDA</b>			Water and Sewer System RB Series 2005D		
➤■ Refunding IDR (Allway Tools) Series 1997 3.58%, 01/07/06	1,395	1,395	➤■ 3.55%, 01/07/06	9,935	9,935
➤■ Special Facilities RB (American Airlines- JFK International Airport) Series 2002 A&B 3.61%, 01/07/06	20,000	20,000	■ 3.55%, 01/07/06	5,965	5,965
➤■ Special Facility RB (Terminal One Group Association) Series 2005 3.61%, 01/07/06	4,820	4,820	■ Water and Sewer System Second General Resolution RB Fiscal 2006 Series AA-3 3.52%, 01/07/06	4,000	4,000
<b>New York City Municipal Water Finance Auth</b>			<b>New York City Transitional Finance Auth</b>		
■ Crossover Refunding Bonds Series 2002F 3.54%, 01/07/06	7,495	7,495	■ Future Tax Secured Bonds Fiscal 1999 Series A 3.54%, 01/07/06	4,970	4,970
			➤■ Future Tax Secured Bonds Fiscal 2000 Series A 3.55%, 01/07/06	15,720	15,720
			■ Future Tax Secured Bonds Fiscal 2000 Series C 3.54%, 01/07/06	14,545	14,545
			■ Future Tax Secured Bonds Fiscal 2001 Series B 3.67%, 01/07/06	2,600	2,600

## Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
■ Future Tax Secured Refunding Bonds Fiscal 2005 Series A 3.55%, 01/07/06	26,230	26,230	■ State Personal Income Tax RB Series 2005F 3.55%, 01/07/06	12,000	12,000
■ Future Tax Secured Refunding Bonds Fiscal 2005 Series A-1 3.55%, 01/07/06	8,620	8,620	►■ State Personal Income Tax RB Series 2005F 3.54%, 01/07/06	4,450	4,450
Future Tax Secured Refunding Bonds Fiscal 2006 Series A-1 3.43%, 11/01/06	19,665	19,908	►■ State Personal Income Tax Refunding RB (Education) Series 2005B 3.54%, 01/07/06	6,855	6,855
■ Recovery Bonds Fiscal 2003 Series 2A 3.67%, 01/07/06	11,100	11,100	►■ State Personal Income Tax Refunding RB Series 2005B 3.54%, 01/07/06	9,625	9,625
■ Recovery Bonds Fiscal 2003 Series 2D 3.54%, 01/07/06	13,000	13,000	<b>New York State Energy Research Development Auth</b>		
■ Recovery Bonds Fiscal 2003 Series 3B 3.75%, 01/07/06	2,700	2,700	■ Facilities RB (Consolidated Edison Company of New York, Inc) Series 2005A-1 3.47%, 01/04/06	10,000	10,000
<b>New York State</b>			■ Facilities RB Series 2004C-2 3.57%, 01/07/06	5,500	5,500
■ Environmental Quality 1986 GO Bonds Series 1998A 3.07%, 02/14/06	11,500	11,500	►■ Gas Facilities RB (Brooklyn Union Gas) Series 1996 3.55%, 01/07/06	14,125	14,125
■ GO Bonds Series 2000A 2.83%, 02/06/06	14,000	14,000	<b>New York State Environmental Facilities Corp</b>		
<b>New York State Dormitory Auth</b>			■ State Clean and Drinking Water Revolving Funds RB Series 2002B 3.55%, 01/07/06	24,225	24,225
►■ Consolidated Fifth General Resolution RB (City University System) Series 2003A 3.54%, 01/07/06	7,295	7,295	<b>New York State HFA</b>		
►■ Facilities Improvement RB (Mental Health Services) Series 2005D-1 3.54%, 01/07/06	7,100	7,100	■ RB (101 West End Ave) Series 1998A 3.52%, 01/07/06	21,500	21,500
►■ Insured RB (Mt Sinai School of Medicine) Series 1994A 3.55%, 01/07/06	2,900	2,900	■ RB (101 West End Ave) Series 1999A 3.52%, 01/07/06	38,750	38,750
►■ Lease RB (Suny Dorm Facilities) Series 2005A 3.55%, 01/07/06	5,675	5,675	■ RB (150 E 44th St) Series 2000A 3.52%, 01/07/06	10,000	10,000
RB (State University Educational Facilities) Series 2000B 3.53%, 01/07/06	27,030	27,030	■ RB (250 W 50th St) Series 1997A 3.41%, 01/07/06	7,300	7,300
3.55%, 01/07/06	12,375	12,375	■ RB (250 W 93rd St) Series 2005A 3.63%, 01/04/06	7,500	7,500
►■ RB (Upstate Community Colleges) Series 2005A 3.55%, 01/07/06	3,875	3,875	■ RB (345 E 94th St) Series 1998A 3.52%, 01/07/06	4,700	4,700



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)
<b>➤■</b> RB (345 E 94th St) Series 1999A 3.52%, 01/07/06	5,900	5,900	<b>■</b> Homeowner Mortgage RB Series 65 3.56%, 01/07/06	3,780	3,780
<b>➤■</b> RB (350 W 43rd St) Series 2002A 3.60%, 01/04/06	20,400	20,400	<b>■</b> Homeowner Mortgage RB Series 77A 3.55%, 01/05/06	35,495	35,495
<b>➤■</b> RB (70 Battery Place) Series 1997A 3.60%, 01/07/06	23,300	23,300	<b>■</b> Homeowner Mortgage RB Series 79 3.55%, 01/07/06	14,995	14,995
<b>➤■</b> RB (Avalon Chrystie Place I) Series 2004A 3.54%, 01/07/06	40,300	40,300	<b>■</b> Homeowner Mortgage RB Series 87 3.55%, 01/07/06	5,425	5,425
<b>➤■</b> RB (Clinton Green South) Series 2005A 3.61%, 01/04/06	15,000	15,000	<b>New York State Power Auth</b>		
<b>➤■</b> RB (Ocean Park Apts) Series 2005A 3.48%, 01/04/06	3,000	3,000	<b>▶</b> CP Series 1 3.12%, 02/08/06	35,000	35,000
<b>➤■</b> RB (Sea Park East) Series 2004A 3.60%, 01/07/06	18,300	18,300	<b>▶</b> CP Series 2 3.05%, 02/07/06	45,870	45,870
<b>➤■</b> RB (Sea Park West) Series 2004A 3.60%, 01/07/06	7,600	7,600	<b>New York State Thruway Auth</b>		
<b>➤■</b> RB (The Helena) Series 2003A 3.41%, 01/07/06	20,000	20,000	<b>➤■</b> General RB Series F 3.54%, 01/07/06	10,575	10,575
<b>➤■</b> RB (Tribeca Park) Series 1997A 3.41%, 01/07/06	7,000	7,000	<b>■</b> General Refunding RB Series E 3.55%, 01/07/06	6,995	6,995
<b>➤■</b> RB (Union Square South) Series 1996A 3.41%, 01/07/06	16,800	16,800	<b>➤■</b> State Personal Income Tax RB (Transportation) Series 2005A 3.55%, 01/07/06	18,990	18,990
<b>➤■</b> RB (W 20th St) Series 2001A 3.53%, 01/07/06	20,800	20,800	<b>New York State Thruway Auth-Hwy &amp; Bridge Trust Fund</b>		
<b>➤■</b> RB (W 33rd St) Series 2003A 3.60%, 01/04/06	8,200	8,200	Bonds Series 2005B <b>➤■</b> 3.54%, 01/07/06	28,400	28,400
<b>New York State Local Assistance Corp</b>			<b>➤■</b> 3.55%, 01/07/06	17,485	17,485
<b>➤■</b> Refunding RB Series 1993C 3.55%, 01/07/06	9,900	9,900	<b>New York State Tobacco Settlement Financing Corp</b>		
<b>➤■</b> Refunding RB Series 1997B 3.54%, 01/07/06	20,965	20,965	<b>➤■</b> Asset Backed RB Series 2003A-1C 3.56%, 01/07/06	5,815	5,815
<b>New York State Mortgage Agency</b>			<b>New York State Urban Development Corp</b>		
<b>■</b> Homeowner Mortgage RB Series 129 3.52%, 01/04/06	11,000	11,000	<b>➤■</b> State Personal Income Tax RB (State Facilities and Equipment) Series 2004A-2 3.53%, 01/07/06	4,290	4,290
			<b>North Syracuse Central SD</b>		
			BAN Series 2005 2.72%, 06/23/06	6,331	6,361
			<b>Port Auth of New York and New Jersey</b>		
			<b>▶</b> CP Series B 3.12%, 02/06/06	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)
<b>Port Auth of New York and New Jersey</b>			General Refunding RB		
+■ Consolidated Bonds 127th Series			Series 2002B		
3.56%, 01/07/06	3,000	3,000	+■ 3.53%, 01/04/06	8,950	8,950
■ Consolidated Bonds 135th Series			■ 3.56%, 01/07/06	14,000	14,000
3.56%, 01/07/06	16,000	16,000	<b>West Babylon Union Free SD</b>		
+■ Consolidated Bonds 138th Series			TAN Series 2005-2006		
3.56%, 01/07/06	1,000	1,000	2.95%, 06/29/06		
Consolidated Bonds 140th Series			3,500		
3.52%, 01/07/06	6,020	6,020	<b>Westchester Cnty IDA</b>		
3.55%, 01/07/06	23,515	23,515	+■ IDRB (Levister Redevelopment		
+■ Consolidated Bonds 141st Series			Co) Series 2001B		
3.57%, 01/07/06	1,350	1,350	3.41%, 01/07/06		
■ Consolidated Bonds 85th Series			8,000		
3.54%, 01/07/06	6,795	6,795	<b>William Floyd Union Free SD</b>		
Special Project Bonds			TAN Series 2005		
(JFK International Air Terminal)			2.70%, 06/27/06		
Series 6			25,000		
+■ 3.58%, 01/07/06	1,470	1,470	25,153		
+■ 3.55%, 01/07/06	1,100	1,100	<b>Yonkers IDA</b>		
<b>Schenectady IDA</b>			+■ Civic Facility RB (Consumers		
+■ IDRB (Fortitech Holding Corp)			Union) Series 1989		
Series 1995A			3.65%, 01/07/06		
3.61%, 01/07/06	700	700	1,200		
<b>Seneca Cnty IDA</b>			+■ Civic Facility RB (Consumers		
+■ Solid Waste Disposal RB (Seneca			Union) Series 1991		
Meadows Inc) Series 2005			3.65%, 01/07/06		
3.56%, 01/07/06	5,000	5,000	700		
<b>South Huntington Union Free SD</b>			+■ Civic Facility RB (Consumers		
TAN Series 2005-2006			Union) Series 1994		
2.90%, 06/30/06	5,000	5,027	3.65%, 01/07/06		
<b>Suffolk Cnty</b>			1,580		
TAN Series 2006-I			<b>1,839,613</b>		
3.19%, 08/16/06	25,000	25,122	<b>Puerto Rico 1.5%</b>		
<b>Syracuse</b>			<b>Puerto Rico</b>		
+ RAN Series 2005D			+■ Public Improvement Bonds		
2.90%, 06/30/06	15,000	15,080	Series 2000		
<b>Tompkins Cnty IDA</b>			3.50%, 01/07/06		
+■ Civic Facility RB (Ithaca College)			4,100		
Series 2004			+■ Public Improvement and		
3.56%, 01/07/06	7,500	7,500	Refunding Bonds Series 2000		
<b>Triborough Bridge and Tunnel Auth</b>			3.51%, 01/07/06		
+■ General RB Series 2001A			2,300		
3.53%, 01/07/06	15,000	15,000	<b>Puerto Rico Highway and Transportation Auth</b>		
			+■ Subordinated RB Series 2003		
			3.37%, 01/03/06		
			6,200		
			Transportation Refunding RB		
			Series L		
			+■ 3.55%, 01/04/06		
			3,700		
			+■ 3.52%, 01/07/06		
			2,500		
			<b>Puerto Rico Infrastructure Financing Auth</b>		
			+■ Special Tax RB Series 2005A		
			3.50%, 01/07/06		
			9,500		
			<b>28,300</b>		

End of investments.

## Statement of

**Assets and Liabilities**

As of December 31, 2005. All numbers x 1,000 except NAV.

Unless stated, all numbers x 1,000.

**Assets**

Investments, at value	\$1,867,913
Cash	400
Receivables:	
Fund shares sold	19,238
Interest	9,122
Prepaid expenses	+ 52
<b>Total assets</b>	<b>1,896,725</b>

**Liabilities**

Payables:	
Fund shares redeemed	6,358
Investment bought	25,122
Dividends to shareholders	265
Investment adviser and administrator fees	35
Transfer agent and shareholder service fees	41
Trustees' fees	7
Accrued expenses	+ 85
<b>Total liabilities</b>	<b>31,913</b>

**Net Assets**

<b>Total assets</b>	1,896,725
<b>Total liabilities</b>	- 31,913
<b>Net assets</b>	<b>\$1,864,812</b>

**Net Assets by Source**

Capital received from investors	1,865,210
Net realized capital losses	(398)

**Net Asset Value (NAV) by Share Class**

Share Class	Net Assets	+	Shares Outstanding	=	NAV
Sweep Shares	\$1,030,553		1,030,875		\$1.00
Value Advantage Shares	\$834,259		834,398		\$1.00

The amortized cost for the fund's securities was \$1,867,913. Includes restricted but deemed liquid securities comprised of 144A securities worth \$883,965 or 47.4% of the fund's total net assets. During the reporting period, the fund had \$1,088,140 in transactions with other Schwab Funds®.

**Federal Tax Data**

<b>Cost basis of portfolio</b>	\$1,867,913
<b>Unused capital losses:</b>	
Expires 12/31 of:	Loss amount:
2009	\$12
2012	244
2013	+ 142
	<b>\$398</b>

## Statement of

**Operations**

For January 1, 2005 through December 31, 2005. All numbers x 1,000.

**Investment Income**

Interest	<b>\$43,696</b>
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**Net Realized Gains and Losses**

Net realized losses on investments sold	<b>(110)</b>
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**Expenses**

Investment adviser and administrator fees	6,593	
Transfer agent and shareholder service fees:		
Sweep Shares	4,802	
Value Advantage Shares	1,609	
Trustees' fees	27	
Custodian and portfolio accounting fees	168	
Professional fees	37	
Registration fees	47	
Shareholder reports	56	
Other expenses	+	25
Total expenses	13,364	
Expense reduction	-	2,992
<b>Net expenses</b>	<b>10,372</b>	

**Increase in Net Assets from Operations**

<b>Total investment income</b>	43,696
<b>Net expenses</b>	-
	10,372
<b>Net investment income</b>	<b>33,324</b>
<b>Net realized losses</b>	+
	(110)
<b>Increase in net assets from operations</b>	<b>\$33,214</b>

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 \$2,761 from the investment adviser (CSIM) and \$231 from the transfer agent and shareholder service agent (Schwab). These reductions reflect a guarantee by CSIM and Schwab to limit the annual operating expenses of this fund through April 29, 2006, as follows:

Share Class	% of Average Daily Net Assets
Sweep Shares	0.65%
Value Advantage Shares	0.45%

Prior to April 30, 2005, the limit was 0.69% for sweep shares.

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

Statements of

**Changes in Net Assets**

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

Unless stated, all numbers x 1,000.

**Operations**

	1/1/05–12/31/05	1/1/04–12/31/04
Net investment income	\$33,324	\$11,141
Net realized losses	+ (110)	(276)
<b>Increase in net assets from operations</b>	<b>33,214</b>	<b>10,865</b>

100% of the funds dividends for the current and prior periods are tax-exempt interest dividends.

**Distributions Paid**

Dividends from net investment income		
Sweep Shares	18,708	5,821
Value Advantage Shares	+ 14,616	5,320
<b>Total dividends from net investment income</b>	<b>33,324</b>	<b>11,141</b>

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

**Transactions in Fund Shares****Shares Sold**

Sweep Shares	4,603,574	4,091,385
Value Advantage Shares	+ 1,134,247	724,557
<b>Total shares sold</b>	<b>5,737,821</b>	<b>4,815,942</b>

**Shares Reinvested**

Sweep Shares	18,393	5,721
Value Advantage Shares	+ 13,508	4,941
<b>Total shares reinvested</b>	<b>31,901</b>	<b>10,662</b>

**Shares Redeemed**

Sweep Shares	(4,664,683)	(4,061,536)
Value Advantage Shares	+ (966,945)	(765,643)
<b>Total shares redeemed</b>	<b>(5,631,628)</b>	<b>(4,827,179)</b>

Represents shares sold plus shares reinvested, minus shares redeemed.

**Net transactions in fund shares****138,094 (575)****Net Assets**

Beginning of period	1,726,828	1,727,679
Total increase or decrease	+ 137,984	(851)
<b>End of period</b>	<b>\$1,864,812</b>	<b>\$1,726,828</b>

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<sup>TM</sup>

## Financial Statements

### Financial Highlights

	1/1/05– 12/31/05	1/1/04– 12/31/04	1/1/03– 12/31/03	1/1/02– 12/31/02	1/1/01– 12/31/01
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	1.00	1.00	1.00	1.00	1.00
Income from investment operations:					
Net investment income	0.02	0.01	0.00 <sup>1</sup>	0.01	0.02
Less distributions:					
Dividends from net investment income	(0.02)	(0.01)	(0.00) <sup>1</sup>	(0.01)	(0.02)
Net asset value at end of period	1.00	1.00	1.00	1.00	1.00
Total return (%)	1.80	0.57	0.43	0.84	2.13
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.65	0.65	0.65	0.66 <sup>2</sup>	0.65
Gross operating expenses	0.86	0.86	0.86	0.89	0.90
Net investment income	1.78	0.57	0.43	0.83	2.08
Net assets, end of period (\$ x 1,000,000)	472	448	463	425	382

<sup>1</sup> Per share amount was less than \$0.01.

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

**Portfolio Holdings** as of December 31, 2005

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](http://www.schwab.com/schwabfunds).

- + Credit-enhanced security
- Liquidity-enhanced security
- Variable-rate security
- 144A Security; restricted but deemed liquid

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)
<b>94.1%</b>	<b>Municipal Securities</b>	444,316	444,316
<b>94.1%</b>	<b>Total Investments</b>	<b>444,316</b>	<b>444,316</b>
<b>5.9%</b>	<b>Other Assets and Liabilities</b>		28,053
<b>100.0%</b>	<b>Net Assets</b>		<b>472,369</b>

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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**Municipal Securities** 94.1% of net assets**New Jersey 90.5%****Bergen Cnty Improvement Auth**

+■ Sr Special Purpose Limited Obligation RB (Encap Golf Holdings LLC) Series 2005B	3.57%, 01/07/06	9,000	9,000
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**Essex Cnty Improvement Auth**

+■ GO Guaranteed Lease RB (Cnty Correctional Facility) Series 2000	3.54%, 01/07/06	3,000	3,000
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+■ Project Consolidation RB Series 2004	3.54%, 01/07/06	5,895	5,895
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**Garden State Preservation Trust**

+■ Open Space and Farmland Preservation Bonds Series 2003A	3.54%, 01/07/06	1,500	1,500
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**Hammonton**

BAN	2.25%, 01/12/06	5,142	5,143
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**Hopatcong**

BAN	2.95%, 08/11/06	9,000	9,056
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**Jersey City**

School Promissory Notes Series 2005A	2.45%, 02/24/06	4,000	4,005
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**New Jersey**

TRAN Series Fiscal 2006A	2.78%, 06/23/06	10,000	10,056
	2.80%, 06/23/06	5,000	5,028
	3.23%, 06/23/06	21,910	21,984

**New Jersey Economic Development Auth**

Exempt Facility RB (Chambers Co-Generation)			
+	3.37%, 02/09/06	6,000	6,000
+	3.35%, 03/06/06	6,100	6,100
Exempt Facility RB (Keystone)			
	3.16%, 03/07/06	10,000	10,000
	3.20%, 02/09/06	5,000	5,000

## 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)
<b>➤■</b> First Mortgage Refunding RB (Winchester Gardens at Homestead) Series 2004B 3.40%, 01/07/06	4,000	4,000	<b>➤■</b> School Facilities Construction RB Series 2005K 3.55%, 01/07/06	3,065	3,065
<b>➤■</b> Gas Facilities Refunding RB (NUI Corp) Series 1997A 3.57%, 01/07/06	3,260	3,260	<b>➤■</b> School Facilities Construction Refunding Bonds Series 2005N 3.54%, 01/07/06	3,030	3,030
<b>➤■</b> Motor Vehicle Surcharge RB Series 2004A 3.55%, 01/07/06	3,880	3,880	<b>➤■</b> Special Facility RB (Port Newark Container Terminal) Series 2003 3.53%, 01/04/06	1,500	1,500
<b>➤■</b> 3.54%, 01/07/06	2,580	2,580	<b>➤■</b> Thermal Energy Facilities RB (Marina Energy LLC-2001) Series A 3.35%, 01/07/06	8,500	8,500
<b>➤■</b> Natural Gas Facilities Refunding RB (Nui Corp) Series 1997A 3.57%, 01/07/06	1,525	1,525	<b>➤■</b> Thermal Energy Facilities RB (Thermal Energy Limited Partnership I) Series 1997 3.58%, 01/07/06	5,000	5,000
<b>➤■</b> RB (Baptist Home Society of New Jersey) Series 2003 3.89%, 01/07/06	3,520	3,520	<b>New Jersey Educational Facilities Auth</b> <b>➤■</b> RB (Higher Education Capital Improvement Fund) Series 2002A 3.55%, 01/07/06	8,610	8,610
<b>➤■</b> RB (G&W Laboratories) Series 2003 3.58%, 01/07/06	5,050	5,050	<b>New Jersey Environmental Infrastructure Trust</b> <b>➤■</b> RB (Bergen Cnty Improvement Auth-Encap Golf Holdings LLC) Series 2005 3.57%, 01/07/06	9,800	9,800
<b>➤■</b> RB (Geriatric Services Housing Corp) Series 2001 3.47%, 01/07/06	1,500	1,500	<b>New Jersey Health Care Facilities Financing Auth</b> <b>➤■</b> RB (JFK Health Systems Obligated Group) Series 1993 3.54%, 01/07/06	6,000	6,000
<b>➤■</b> RB (Hamilton Industrial Development) Series 1998 3.58%, 01/07/06	5,370	5,370	<b>➤■</b> RB (Jersey Shore Medical Center Obligated Group ) Series 1994 3.54%, 01/07/06	4,500	4,500
<b>➤■</b> RB (Meridian Assisted Living at Shrewsbury) Series 2004 3.57%, 01/07/06	5,250	5,250	<b>➤■</b> RB (Somerset Medical Center) Series A 3.55%, 01/07/06	14,200	14,200
<b>➤■</b> RB (Omni Baking Co) Series 2001 3.52%, 01/07/06	3,600	3,600	<b>➤■</b> Refunding RB (St Barnabas Health Care System) Series 1998B 3.54%, 01/07/06	3,100	3,100
<b>➤■</b> RB (Princeton Day School, Inc) Series 2005 3.50%, 01/04/06	5,000	5,000	<b>New Jersey Sports and Exposition Auth</b> <b>➤■</b> State Contract Bonds Series 1992C 3.33%, 01/07/06	9,585	9,585
<b>➤■</b> RB (St James Preparatory School and St James Social Service Corp) Series 1998 3.53%, 01/07/06	4,220	4,220			
<b>➤■</b> RB (Stone Brothers Secaucus) Series 2001 3.56%, 01/06/06	1,650	1,650			
<b>➤■</b> Refunding RB (Crane's Mill) Series 2005B 3.55%, 01/05/06	6,125	6,125			
<b>➤■</b> Refunding RB (Station Plaza Park and Ride) Series 2003 3.58%, 01/07/06	2,945	2,945			



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)
<b>New Jersey Transportation Trust Fund Auth</b>			CP Obligations Series B		
+■ Transportation System Bonds Series 2005A			▶ 3.12%, 02/06/06	3,000	3,000
3.55%, 01/07/06	6,635	6,635	▶ 3.10%, 02/09/06	17,835	17,835
+■ Transportation System Bonds Series 2005B			Special Project Bonds (JFK International Air Terminal) Series 6		
3.20%, 10/12/06	4,745	4,745	+■ 3.58%, 01/07/06	800	800
Transportation System Bonds Series 2005D			+■ 3.55%, 01/07/06	4,895	4,895
+■ 3.55%, 12/31/05	7,490	7,490	▶ TECP Series A		
+■ 3.55%, 01/07/06	4,325	4,325	3.10%, 02/08/06	5,000	5,000
■ Transportation System RB Series 1998A			<b>Rahway</b>		
3.54%, 01/07/06	11,495	11,495	BAN		
+■ Transportation System RB Series 2004B			2.70%, 06/27/06	5,675	5,703
3.54%, 01/07/06	1,980	1,980	<b>Sparta</b>		
<b>New Jersey Turnpike Auth</b>			BAN		
RB Series 2000A			2.23%, 01/13/06	4,000	4,001
+■ 3.52%, 01/07/06	11,200	11,200	<b>Union Cnty Improvement Auth</b>		
+■ 3.54%, 01/07/06	8,665	8,665	+■ Mortgage RB (Cedar Glen Housing Corp) Series A		
+■ 3.55%, 01/07/06	10,000	10,000	3.55%, 01/07/06	9,500	9,500
+■ RB Series C			<b>427,361</b>		
3.55%, 01/07/06	7,070	7,070	<b>Puerto Rico 3.6%</b>		
+■ Refunding RB Series 2004A			<b>Puerto Rico</b>		
3.55%, 01/07/06	11,495	11,495	+■ Public Improvement Bonds Series 2001A		
+■ Refunding RB Series 2005A			3.53%, 01/07/06	1,500	1,500
3.54%, 01/07/06	14,485	14,485	+ TRAN Series 2006		
<b>Port Auth of New York and New Jersey</b>			3.23%, 07/28/06	5,000	5,035
+■ Consolidated Bonds 127th Series			<b>Puerto Rico Highway and Transportation Auth</b>		
3.56%, 01/07/06	8,480	8,480	+■ Highway Refunding RB Series BB		
■ Consolidated Bonds 135th Series			3.52%, 12/31/05	1,000	1,000
3.56%, 01/07/06	4,000	4,000	Transportation Refunding RB Series L		
Consolidated Bonds 138th Series			+■ 3.52%, 12/31/05	2,000	2,000
3.56%, 01/07/06	5,000	5,000	+■ 3.55%, 01/04/06	4,000	4,000
+■ 3.56%, 01/07/06	9,000	9,000	<b>Puerto Rico Housing Finance Corp</b>		
Consolidated Bonds 140th Series			+■ Homeownership Mortgage RB Series 2000A		
+■ 3.55%, 01/07/06	2,940	2,940	3.53%, 01/07/06	3,420	3,420
+■ 3.55%, 01/07/06	4,490	4,490	<b>16,955</b>		
+■ Consolidated Bonds 141st Series					
3.57%, 01/07/06	5,000	5,000			

End of investments.

Statement of

Assets and Liabilities

As of December 31, 2005. All numbers x 1,000 except NAV.

Assets

Investments, at value	\$444,316
Cash	264
Receivables:	
Investments sold	24,429
Interest	3,488
Prepaid expenses	+ 20
<b>Total assets</b>	<b>472,517</b>

Liabilities

Payables:	
Dividends to shareholders	67
Investment adviser and administrator fees	7
Transfer agent and shareholder service fees	18
Trustees' fees	7
Accrued expenses	+ 49
<b>Total liabilities</b>	<b>148</b>

Net Assets

<b>Total assets</b>	472,517
<b>Total liabilities</b>	- 148
<b>Net assets</b>	<b>\$472,369</b>

Net Assets by Source

Capital received from investors	472,369
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Net Asset Value (NAV)

<b>Net Assets</b>	<b>÷</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$472,369		472,080		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost for the fund's securities was \$444,316. Includes restricted but deemed liquid securities comprised of 144A securities, worth \$217,315 or 46.0% of the fund's total net assets. During the reporting period, the fund had \$459,235 in transactions with other Schwab Funds®.

Federal Tax Data

<b>Cost basis of portfolio</b>	\$444,316
<b>Capital losses utilized</b>	\$46
<b>Reclassifications:</b>	
Long term capital gains	\$4
Capital received from investors	\$14
Reclassified as:	
Net investment income not yet distributed	(\$18)

## Statement of

**Operations**

For January 1, 2005 through December 31, 2005. All numbers x 1,000.

**Investment Income**

Interest	<b>\$11,186</b>
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**Net Realized Gains and Losses**

Net realized gains on investments sold	<b>42</b>
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**Expenses**

Investment adviser and administrator fees	1,746
Transfer agent and shareholder service fees	2,068
Trustees' fees	24
Custodian and portfolio accounting fees	36
Professional fees	27
Registration fees	37
Shareholder reports	22
Other expenses	+
	21
Total expenses	3,981
Expense reduction	-
	983
<b>Net expenses</b>	<b>2,998</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	11,186
<b>Net expenses</b>	-
	2,998
<b>Net investment income</b>	<b>8,188</b>
<b>Net realized gains</b>	+
	42
<b>Increase in net assets from operations</b>	<b>\$8,230</b>

Unless stated, all numbers x 1,000.

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

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

For the fund's independent trustees only.

This reduction was made by the investment adviser (CSIM). It reflects a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the annual operating expenses through April 29, 2006, to 0.65% of average daily net assets. This limit excludes interest, taxes and certain non-routine expenses.

Statements of

**Changes in Net Assets**

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

Unless stated, all numbers x 1,000.

**Operations**

	1/1/05–12/31/05	1/1/04–12/31/04
Net investment income	\$8,188	\$2,723
Net realized gains or losses	+ 42	(54)
<b>Increase in net assets from operations</b>	<b>8,230</b>	<b>2,669</b>

100% of the funds dividends for the current and prior periods are tax-exempt interest dividends.

**Distributions Paid**

Dividends from net investment income	<b>8,191</b>	<b>2,694</b>
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Because all transactions in this section took place at \$1.00 per share, figures for share quantities are the same as for dollars.

**Transactions in Fund Shares**

Shares sold	1,586,641	1,561,315
Shares reinvested	8,032	2,651
Shares redeemed	+ (1,569,930)	(1,579,474)
<b>Net transactions in fund shares</b>	<b>24,743</b>	<b>(15,508)</b>

**Net Assets**

Beginning of period	447,587	463,120
Total increase or decrease	+ 24,782	(15,533)
<b>End of period</b>	<b>\$472,369</b>	<b>\$447,587</b>

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 \$— and \$21 at the end of the current and prior report periods, respectively.

# Schwab Pennsylvania Municipal Money Fund™

## Financial Statements

### Financial Highlights

	1/1/05– 12/31/05	1/1/04– 12/31/04	1/1/03– 12/31/03	1/1/02– 12/31/02	1/1/01– 12/31/01
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	1.00	1.00	1.00	1.00	1.00
Income from investment operations:					
Net investment income	0.02	0.01	0.00 <sup>1</sup>	0.01	0.02
Less distributions:					
Dividends from net investment income	(0.02)	(0.01)	(0.00) <sup>1</sup>	(0.01)	(0.02)
Net asset value at end of period	1.00	1.00	1.00	1.00	1.00
Total return (%)	1.82	0.62	0.49	0.87	2.20
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.65	0.65	0.65	0.65	0.65
Gross operating expenses	0.88	0.86	0.87	0.89	0.92
Net investment income	1.82	0.62	0.48	0.87	2.14
Net assets, end of period (\$ x 1,000,000)	378	346	328	301	292

<sup>1</sup> Per share amount was less than \$0.01.

**Portfolio Holdings** as of December 31, 2005

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](http://www.schwab.com/schwabfunds).

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

- + Credit-enhanced security
- ▷ Liquidity-enhanced security
- Variable-rate security
- ◆ Delayed-delivery security
- 144A Security; restricted but deemed liquid
- ▲ 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.

<b>Holdings by Category</b>		<b>Cost</b> (\$x1,000)	<b>Value</b> (\$x1,000)
<b>99.3%</b>	<b>Municipal Securities</b>	375,460	375,460
<b>99.3%</b>	<b>Total Investments</b>	<b>375,460</b>	<b>375,460</b>
<b>0.7%</b>	<b>Other Assets and Liabilities</b>		2,601
<b>100.0%</b>	<b>Net Assets</b>		<b>378,061</b>

<b>Issuer</b> <b>Rate, Maturity Date</b>	<b>Face Amount</b> (\$ x 1,000)	<b>Value</b> (\$ x 1,000)
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**Municipal Securities** 99.3% of net assets**Pennsylvania 96.6%****Allegheny Cnty Hospital Development Auth**

■ RB (University of Pittsburgh Medical Center) Series 2005B 3.63%, 01/15/07	7,000	7,000
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**Allegheny Cnty IDA**

+■ Pollution Control Refunding RB (Duquesne Light Co) Series 1999B 3.54%, 01/07/06	3,095	3,095
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**Allegheny Cnty Port Auth**

+ GAN Series 2005 2.68%, 06/30/06	10,000	10,063
+■ Special Revenue Transportation Bonds Series 1999 3.41%, 01/07/06	500	500

**Beaver Cnty IDA**

+■ Pollution Control Refunding RB (FirstEnergy Nuclear Generation Corp) Series 2005A 3.58%, 01/04/06	7,500	7,500
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**Berks Cnty**

+■ RB (Beacon Container) Series 1998A 3.67%, 01/07/06	380	380
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**Bermudian Springs SD**

+■ GO Bonds Series 2005 3.51%, 01/07/06	400	400
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**Central Bucks SD**

+■ GO Series 2000A 3.56%, 01/07/06	1,350	1,350
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**Chester Cnty School Auth**

+■ School Lease RB Series 2005 3.55%, 01/07/06	1,760	1,760
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**Delaware Cnty IDA**

+■ Hospital RB (Crozer-Chester Medical Center) Series 2002 3.52%, 01/07/06	4,800	4,800
+■ RB (YMCA of Philadelphia) Series 1999 3.62%, 01/04/06	2,005	2,005

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)
<b>+►■ Water Facilities RB</b> (Aqua Pennsylvania Inc) Series 2005A 3.56%, 01/07/06	1,650	1,650	<b>Montgomery Cnty Redevelopment Auth</b>		
<b>Delaware Valley Regional Finance Auth</b>			<b>+■ M/F Housing Refunding RB</b> (Glenmore Associates) Series 1995A 3.53%, 01/07/06	3,750	3,750
<b>+■ Local Government RB</b> Series 1986 3.50%, 01/07/06	4,600	4,600	<b>Northhampton Cnty</b>		
Local Government RB Series 1998A			<b>+■ RB (Binney and Smith)</b> Series 1997A 3.57%, 01/07/06	3,250	3,250
<b>+►■ 3.57%, 01/07/06</b>	4,055	4,055	<b>+■ RB (Binney and Smith)</b> Series 1997B 3.57%, 01/07/06	780	780
<b>+►■ 3.59%, 01/07/06</b>	1,300	1,300	<b>Norwin SD</b>		
<b>Easton Area SD</b>			<b>+►■ GO Bonds Series 2001A</b> 2.65%, 01/25/06	9,710	9,710
<b>+►■ GO Bonds Series 2005</b> 3.53%, 01/07/06	2,800	2,800	<b>Pennsylvania</b>		
<b>Erie SD</b>			<b>+►■ GO Bonds First Series 2003</b> 3.54%, 01/07/06	14,470	14,470
<b>+►■ GO Bonds Series 2001A</b> 3.42%, 01/04/06	16,950	16,950	<b>Pennsylvania Convention Center Auth</b>		
<b>Harrisburg Auth</b>			<b>+►■ RB Series 1989A</b> 3.54%, 01/07/06	2,745	2,745
<b>+►■ Water Refunding RB</b> Series 2003A 3.56%, 01/07/06	3,300	3,300	<b>Pennsylvania Economic Development Finance Auth</b>		
<b>Luzerne Cnty IDA</b>			<b>+■ Bonds (Westrum Harleysville II)</b> Series 2005 3.57%, 01/07/06	6,200	6,200
<b>+■ RB (Methodist Homes)</b> Series 2003 3.56%, 01/07/06	4,800	4,800	<b>+■ Exempt Facilities RB (Amtrak)</b> Series 2001B 3.60%, 01/07/06	14,000	14,000
<b>Manheim Township SD</b>			<b>+■ Exempt Facilities RB</b> (Shippingport) Series 2005A 3.60%, 01/04/06	9,000	9,000
<b>+►■ GO Bonds Series 2004</b> 3.53%, 01/07/06	3,600	3,600	<b>Pennsylvania Energy Development Auth</b>		
<b>Mercer Cnty</b>			<b>+■ RB (B&amp;W Ebensburg)</b> Series 1986 3.54%, 01/07/06	8,415	8,415
<b>+►■ GO Bonds Series 2001</b> 3.42%, 01/07/06	1,275	1,275	<b>+■ RB (Westrum Hanover)</b> Series 2004 3.57%, 01/07/06	5,900	5,900
<b>Montgomery Cnty IDA</b>			<b>Pennsylvania HFA</b>		
<b>+ Pollution Control Refunding RB</b> (Peco Energy Co) Series 1994A 3.12%, 02/13/06	16,000	16,000	<b>■ Residential Development</b> Refunding RB Series 2002A 3.61%, 01/07/06	6,000	6,000
<b>+■ Environmental Facilities RB</b> (Ionza Inc) Series 2000 3.63%, 01/07/06	7,000	7,000	<b>+►■ S/F Mortgage RB Drawdown</b> Series 2003 3.58%, 01/07/06	3,775	3,775
<b>+■ Pollution Control Refunding RB</b> (Peco Energy Co) Series 1999A 3.55%, 01/07/06	6,800	6,800	<b>■ S/F Mortgage RB</b> Series 1998-64 3.60%, 01/07/06	15,495	15,495
<b>+■ School RB (Friends' Central School)</b> Series 2002 3.50%, 01/07/06	4,110	4,110			

**Portfolio Holdings** continued[illegible]



## Statement of

**Assets and Liabilities**

As of December 31, 2005. All numbers x 1,000 except NAV.

**Assets**

Investments, at value	\$375,460
Cash	266
Interest receivable	2,437
Prepaid expenses	+ 20
<b>Total assets</b>	<b>378,183</b>

**Liabilities**

Payables:	
Dividends to shareholders	61
Investment adviser and administrator fees	4
Transfer agent and shareholder service fees	14
Trustees' fees	7
Accrued expenses	+ 36
<b>Total liabilities</b>	<b>122</b>

**Net Assets**

<b>Total assets</b>	378,183
<b>Total liabilities</b>	- 122
<b>Net assets</b>	<b>\$378,061</b>

**Net Assets by Source**

Capital received from investors	378,116
Net investment income not yet distributed	2
Net realized capital losses	(57)

**Net Asset Value (NAV)**

<b>Net Assets</b>	<b>÷</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$378,061		378,100		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost for the fund's securities was \$375,460. Includes restricted but deemed liquid securities comprised of 144A securities worth \$146,250 or 38.7% of the fund's total net assets. During the reporting period, the fund had \$730,499 in transactions with other Schwab Funds.

**Federal Tax Data**

<b>Cost basis of portfolio</b>	\$375,460
<b>Undistributed earnings:</b>	
Tax-exempt income	\$2
<b>Unused capital losses:</b>	
Expires 12/31 of:	Loss amount:
2012	\$14
2013	+ \$43
	<b>\$57</b>

## Statement of

**Operations**

For January 1, 2005 through December 31, 2005. All numbers x 1,000.

**Investment Income**

Interest	<b>\$8,990</b>
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**Net Realized Gains and Losses**

Net realized losses on investments sold	<b>(43)</b>
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**Expenses**

Investment adviser and administrator fees	1,382
Transfer agent and shareholder service fees	1,636
Trustees' fees	23
Custodian and portfolio accounting fees	33
Professional fees	27
Registration fees	74
Shareholder reports	18
Other expenses	+
	9
Total expenses	3,202
Expense reduction	-
	839
<b>Net expenses</b>	<b>2,363</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	8,990
<b>Net expenses</b>	-
	2,363
<b>Net investment income</b>	<b>6,627</b>
<b>Net realized losses</b>	+
	(43)
<b>Increase in net assets from operations</b>	<b>\$6,584</b>

Unless stated, all numbers x 1,000.

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

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

For the fund's independent trustees only.

This reduction was made by the investment adviser (CSIM). It reflects a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the annual operating expenses of this fund through April 29, 2006, to 0.65% of average daily net assets. This limit excludes interest, taxes and certain non-routine expenses.

Statements of

**Changes in Net Assets**

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

**Operations**

	1/1/05–12/31/05	1/1/04–12/31/04
Net investment income	\$6,627	\$2,157
Net realized losses	+ (43)	(14)
<b>Increase in net assets from operations</b>	<b>6,584</b>	<b>2,143</b>

**Distributions Paid**

Dividends from net investment income	<b>6,627</b>	<b>2,155</b>
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**Transactions in Fund Shares**

Shares sold	1,434,497	1,416,322
Shares reinvested	6,480	2,109
Shares redeemed	+ (1,408,453)	(1,400,551)
<b>Net transactions in fund shares</b>	<b>32,524</b>	<b>17,880</b>

**Net Assets**

Beginning of period	345,580	327,712
Total increase	+ 32,481	17,868
<b>End of period</b>	<b>\$378,061</b>	<b>\$345,580</b>

Unless stated, all numbers x 1,000.

100% of the funds dividends for the current and prior periods are 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 and prior period.

# Schwab Florida Municipal Money Fund™

## Financial Statements

### Financial Highlights

	1/1/05– 12/31/05	1/1/04– 12/31/04	1/1/03– 12/31/03	1/1/02– 12/31/02	1/1/01– 12/31/01
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	1.00	1.00	1.00	1.00	1.00
Income from investment operations:					
Net investment income	0.02	0.01	0.00 <sup>1</sup>	0.01	0.02
Less distributions:					
Dividends from net investment income	(0.02)	(0.01)	(0.00) <sup>1</sup>	(0.01)	(0.02)
Net asset value at end of period	1.00	1.00	1.00	1.00	1.00
Total return (%)	1.81	0.60	0.46	0.96	2.32
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.65	0.66	0.64	0.59	0.59
Gross operating expenses	0.85	0.85	0.85	0.87	0.87
Net investment income	1.78	0.59	0.47	0.95	2.30
Net assets, end of period (\$ x 1,000,000)	1,973	1,905	1,804	1,785	1,518

<sup>1</sup> Per share amount was less than \$0.01.

**Portfolio Holdings** as of December 31, 2005

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](http://www.schwab.com/schwabfunds).

- + Credit-enhanced security
- Liquidity-enhanced security
- Variable-rate security
- 144A Security; restricted but deemed liquid

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)
<b>97.9%</b>	<b>Municipal Securities</b>	1,930,939	1,930,939
<b>97.9%</b>	<b>Total Investments</b>	<b>1,930,939</b>	<b>1,930,939</b>
<b>2.1%</b>	<b>Other Assets and Liabilities</b>		41,931
<b>100.0%</b>	<b>Net Assets</b>		<b>1,972,870</b>

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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**Municipal Securities** 97.9% of net assets**Connecticut 0.2%****Connecticut HFA**

+■ S/F Mortgage Draw Down RB Series 2004B 3.56%, 01/07/06	4,505	<b>4,505</b>
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**Florida 86.7%****Alachua Cnty Health Facilities Auth**

+■ RB (Shands Hospital-University of Florida) Series 1992R 3.54%, 01/07/06	59,745	59,745
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**Alachua Cnty School Board**

+■ COP Series 2004 3.54%, 01/07/06	9,045	9,045
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**Brevard Cnty Health Facilities Auth**

+■ RB (Wuesthoff Health Systems) Series 2004 3.55%, 01/04/06	13,000	13,000
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**Broward Cnty**

+■ Subordinate Port Facilities Refunding RB (Port Everglades) Series 1998 3.45%, 01/07/06	8,860	8,860
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**Broward Cnty Educational Facilities Auth**

+■ RB (Nova Southeastern University) Series 2000A 3.55%, 01/07/06	3,250	3,250
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**Broward Cnty HFA**

+■ M/F Housing RB (Landings of Inverrary Apts) Series 1985 3.45%, 01/07/06	5,000	5,000
+■ M/F Housing RB (Pembroke Village Apts) Series 2004 3.54%, 01/07/06	7,000	7,000
+■ M/F Housing RB (Pier Club Village Apts) Series 2004 3.46%, 01/07/06	13,800	13,800
+■ M/F Housing RB (Sanctuary Apts) Series 1985 3.45%, 01/07/06	7,000	7,000
+■ M/F Housing RB (Sawgrass Pines Apts) Series 1993A 3.46%, 01/04/06	8,100	8,100

## 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)
<b>■</b> M/F Housing RB (Southern Pointe) Series 1997 3.40%, 01/07/06	7,750	7,750	<b>Escambia HFA</b> <b>■</b> S/F Mortgage RB Series 2001A 3.63%, 01/07/06	3,040	3,040
<b>■</b> M/F Housing Refunding RB (Island Club Apts) Series 2001A 3.45%, 01/07/06	3,000	3,000	<b>■</b> S/F Mortgage RB Series 1997A 3.66%, 01/07/06	720	720
<b>■</b> M/F Housing Refunding RB (Reflections Apts) Series 1999 3.51%, 01/07/06	10,000	10,000	<b>■</b> S/F RB Series 2001A 3.59%, 01/07/06	1,780	1,780
<b>Cape Coral</b> CP Notes <b>+</b> 2.80%, 01/24/06 <b>+</b> 2.65%, 04/04/06			<b>■</b> S/F RB Series 2002A-1 2.95%, 04/06/06	4,335	4,335
<b>Charlotte Cnty</b> <b>■</b> Refunding RB Series 2003A 3.46%, 01/07/06	3,400	3,400	<b>Florida</b> <b>■</b> RB (Dept of Environmental Protection Preservation 2000) Series 1997B 3.55%, 01/07/06	22,950	22,950
<b>Charlotte Cnty HFA</b> <b>■</b> M/F Housing RB (Murdock Circle Apts) Series 2000 3.51%, 01/07/06	6,940	6,940	<b>Florida Board of Education</b> <b>■</b> Capital Outlay Bonds Series 1998A 3.53%, 01/07/06	11,000	11,000
<b>Clay Cnty Utility Auth</b> <b>■</b> RB Series 2003A 3.55%, 01/07/06	6,355	6,355	<b>■</b> Capital Outlay Bonds Series 1998E 3.55%, 01/07/06	12,280	12,280
<b>Collier Cnty</b> <b>■</b> IDRB (Ave Maria Utility Co) Series 2005 3.44%, 01/04/06	10,000	10,000	<b>■</b> Capital Outlay Bonds Series 1999C 3.55%, 01/07/06	17,815	17,815
<b>Collier Cnty HFA</b> <b>■</b> M/F Housing RB (Brittany Bay Apts) Series 2001A 3.52%, 01/07/06	3,350	3,350	<b>■</b> Capital Outlay Bonds Series 2001I 3.55%, 01/07/06	4,715	4,715
<b>■</b> M/F Housing RB (Summer Lakes Phase II Apts) Series 2005 3.56%, 01/04/06	10,000	10,000	<b>■</b> Capital Outlay Bonds Series 2003C 3.53%, 01/04/06	7,500	7,500
<b>Collier Cnty IDA</b> <b>■</b> Educational Facilities RB (Community School of Naples) Series 2002 3.55%, 01/07/06	5,250	5,250	<b>■</b> Capital Outlay Refunding Bonds Series 2001B 3.55%, 01/07/06	14,100	14,100
<b>Davie</b> <b>■</b> RB (United Jewish Community of Broward Cnty) Series 2003 3.55%, 01/07/06	8,550	8,550	<b>■</b> Capital Outlay Refunding Bonds Series 2005C 3.55%, 01/07/06	14,970	14,970
			<b>■</b> Capital Outlay Refunding Bonds Series 2005D 3.54%, 01/07/06	21,500	21,500
			<b>■</b> Lottery RB Series 2002C 3.54%, 01/07/06	33,695	33,695
			<b>■</b> Lottery RB Series 2005A 3.54%, 01/07/06	26,055	26,055
			<b>■</b> 3.55%, 01/07/06	5,800	5,800

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)
<b>Florida Dept of Transportation</b>					
➔■ Turnpike RB Series 2000A 3.55%, 01/07/06	11,820	11,820	➔■ M/F Mortgage RB (Mill Creek Apts) Series 2004K 3.55%, 01/07/06	8,000	8,000
<b>Florida Development Finance Corp</b>			➔■ M/F Mortgage RB (Pinnacle Pointe Apts) Series 2003N 3.44%, 01/07/06	6,215	6,215
➔■ IDRb (Central Farms) Series 1999A4 3.65%, 01/07/06	710	710	➔■ M/F Mortgage RB (Wellesley Apts) Series 2003O 3.44%, 01/04/06	7,940	7,940
➔■ IDRb (Schmitt Family Partnership) Series 1999A2 3.65%, 01/07/06	1,750	1,750	➔■ M/F Mortgage RB (Wexford Apts) Series 2003P 3.44%, 01/04/06	8,035	8,035
➔■ IDRb (Vutec Corp) Series 1999A1 3.65%, 01/07/06	1,520	1,520	➔■ M/F Mortgage Refunding RB (Monterey Lake Apts) Series 2005C 3.59%, 01/04/06	7,325	7,325
<b>Florida HFA</b>			➔■ M/F Mortgage Refunding RB (Tuscany Pointe Apts) Series 2005D 3.52%, 01/07/06	12,090	12,090
➔■ Homeowner Mortgage RB Series 2000-4 3.63%, 01/07/06	2,635	2,635	➔■ M/F Mortgage Refunding RB (Victoria Park Apts) Series 2002J-1 3.51%, 01/07/06	8,800	8,800
➔■ Housing RB (Ashley Lake Park II) Series 1989J 3.52%, 01/07/06	19,535	19,535	➔■ RB (Heritage Pointe Apts) Series 1999I-1 3.55%, 01/07/06	9,500	9,500
➔■ Housing RB (Caribbean Key Apts) Series 1996F 3.55%, 01/07/06	12,100	12,100	➔■ RB (Timberline Apts) Series 1999P 3.45%, 01/07/06	6,135	6,135
➔■ Housing RB (Heron Park) Series 1996U 3.52%, 01/07/06	7,235	7,235	<b>Florida Higher Educational Facilities Financing Auth</b>		
➔■ Housing RB (Tiffany Club Apts) Series 1996P 3.55%, 01/07/06	7,050	7,050	➔■ RB (Flagler College Inc) Series 2005 3.55%, 01/04/06	9,400	9,400
➔■ M/F Housing RB (Cameron Cove Apts) Series 1985XX 3.42%, 01/07/06	8,000	8,000	➔■ RB (Southeastern University, Inc) Series 2005 3.52%, 01/07/06	13,000	13,000
➔■ M/F Housing Refunding RB (Reflections Apts) Series 2001K-A 3.54%, 01/07/06	13,500	13,500	<b>Florida Local Government Finance Commission</b>		
➔■ M/F Housing Refunding RB (South Pointe) Series 1998J 3.59%, 01/07/06	4,925	4,925	➔ Pooled TECP Series 1994A 2.83%, 01/06/06	3,000	3,000
➔■ M/F Mortgage RB (Arlington Apts) Series 2004G-1 3.56%, 01/07/06	11,340	11,340	➔ 3.15%, 01/05/06	24,500	24,500
➔■ M/F Mortgage RB (Clarcona Groves Apts) Series 2005A 3.44%, 01/04/06	3,250	3,250	➔ 2.85%, 01/06/06	3,000	3,000
➔■ M/F Mortgage RB (Lynn Lake Apts) Series 2005B-1 3.60%, 01/07/06	10,100	10,100	➔ 3.11%, 02/03/06	15,526	15,526
			➔ 3.10%, 02/07/06	17,471	17,471
			➔ 3.13%, 02/08/06	5,000	5,000
			➔ Pooled TECP Series 1998B 3.22%, 01/20/06	8,601	8,601

## 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)
<b>Fort Pierce Utilities Auth</b>			<b>Hillsborough Cnty IDA</b>		
+■ Refunding RB Series 2003 3.55%, 01/07/06	6,325	6,325	+■ IDRB (University Community Hospital) Series 1994 2.85%, 06/22/06	21,085	21,085
<b>Gainesville</b>			+■ RB (Tampa Metropolitan Area YMCA) Series 2000 3.60%, 01/07/06	7,600	7,600
+■ IDRB (Exactech) Series 1997 3.60%, 01/07/06	2,100	2,100	<b>Hillsborough Cnty Port District</b>		
<b>Gainesville Utility System</b>			+■ Refunding RB (Tampa Port Auth) Series 2005A 3.59%, 01/07/06	14,151	14,151
+■ RB Series 2005A 3.55%, 01/07/06	4,545	4,545	<b>Jacksonville Aviation Auth</b>		
<b>Greater Orlando Aviation Auth</b>			+■ Refunding RB Series 2005 3.38%, 01/04/06	10,815	10,815
+ Airport Facilities Subordinated TECP Series B 3.10%, 01/05/06	34,410	34,410	<b>Jacksonville Economic Development Commission</b>		
+■ Airport Facilities RB Series 2002E 3.40%, 01/07/06	99,415	99,415	+■ RB (Bolles School) Series 1999A 3.42%, 01/07/06	2,800	2,800
+■ Airport Facility RB (Flightsafety International) Series 2003A 3.60%, 01/07/06	8,900	8,900	+■ Special Facility Airport RB (Holland Sheltair Aviation Group) Series 2004A-1 3.60%, 01/07/06	10,280	10,280
<b>Gulf Breeze</b>			+■ Special Facility Airport RB (Holland Sheltair Aviation Group) Series 2005B 3.60%, 01/07/06	2,100	2,100
+■ Local Government Loan Program RB Series 1985C 3.52%, 01/07/06	6,735	6,735	<b>Jacksonville Electric Auth</b>		
<b>Hillsborough Cnty Aviation Auth</b>			+■ Water and Sewer System Subordinated RB Series 2003B 3.38%, 01/04/06	16,785	16,785
+ Airport Facilities Subordinated TECP Series B 2.93%, 01/05/06	22,500	22,500	<b>Jacksonville HFA</b>		
+■ RB (Tampa International Airport) Series 2003A 3.59%, 01/07/06	5,495	5,495	+■ M/F Housing RB (Brookwood Forest Apts) Series 2005 3.45%, 01/04/06	4,000	4,000
+■ RB (Tampa International Airport) Series 2005A 3.59%, 01/07/06	2,600	2,600	<b>Jacksonville Port Auth</b>		
<b>Hillsborough Cnty HFA</b>			+■ Port Facility RB Series 1996 3.58%, 01/07/06	10,100	10,100
+■ M/F Housing RB (Claymore Crossing Apts) Series 2005 3.56%, 01/04/06	3,000	3,000	<b>Lee Cnty</b>		
+■ M/F Housing RB (Lake Kathy Apts) Series 2005 3.57%, 01/07/06	6,000	6,000	+■ Airport RB Series 2000A 3.59%, 01/07/06	4,957	4,957
+■ M/F Housing RB (Meridian Pointe Apts) Series 2005 3.55%, 01/07/06	6,600	6,600	+■ Educational Facilities RB (Canterbury School) Series 1999 3.55%, 01/07/06	6,000	6,000



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)
<b>Lee Cnty HFA</b>					
+■ M/F Housing RB (Crossings At Cape Coral Apts) Series 1999A 3.51%, 01/07/06	6,160	6,160	+■■■ GO Bonds Series 2005 3.55%, 01/07/06	10,000	10,000
+■ M/F Housing RB (University Club Apts) Series 2002A 3.51%, 01/07/06	7,500	7,500	+■■■ Stormwater Utility RB Series 2004 3.55%, 01/07/06	1,960	1,960
<b>Manatee Cnty HFA</b>			+■■■ Water and Sewer System Refunding RB Series 2005 3.51%, 01/07/06	12,000	12,000
+■ M/F Housing RB (Centre Court Apts) Series 2000 3.56%, 01/07/06	3,760	3,760	<b>Miami-Dade Cnty Educational Facilities Auth</b>		
+■ M/F Housing RB (Sabal Palm Harbor Apts) Series 2000A 3.51%, 01/07/06	3,070	3,070	+■■■ RB (University of Miami) Series 2004A 3.54%, 01/07/06	6,575	6,575
+■ M/F Housing RB (Sabal Palm Harbor Apts) Series 2000B 3.51%, 01/07/06	3,630	3,630	<b>Miami-Dade Cnty HFA</b>		
+■ M/F Mortgage Refunding RB (Hampton Court) Series 1989A 3.42%, 01/07/06	3,500	3,500	+■ M/F Mortgage RB Series 2003-3 3.56%, 01/07/06	9,150	9,150
<b>Miami Health Facilities Auth</b>			<b>Miami-Dade Cnty IDA</b>		
+■ Refunding RB (Miami Jewish Home and Hospital for the Aged, Inc) Series 2005 3.55%, 01/04/06	7,600	7,600	+■ IDRB (Airbus Service Co) Series 1998A 3.52%, 01/07/06	8,240	8,240
<b>Miami-Dade Cnty</b>			+■■■ IDRB (Airis Miami LLC) Series 1999A 3.42%, 01/07/06	14,100	14,100
+ Aviation TECP (Miami International Airport) Series A 3.23%, 01/06/06	13,547	13,547	+■ IDRB (Fine Art Lamps) Series 1998 3.60%, 01/07/06	1,500	1,500
+■■■ Aviation RB (Miami International Airport) Series 2002 3.59%, 01/07/06	5,370	5,370	+■ IDRB (Tarmac America) Series 2004 3.60%, 01/07/06	3,200	3,200
+■■■ Aviation RB (Miami International Airport) Series 2004B 3.55%, 01/07/06	5,000	5,000	<b>Miami-Dade Cnty SD</b>		
+■■■ Aviation RB (Miami International Airport) Series 2005A 3.58%, 01/07/06	5,400	5,400	RAN Series 2005 2.62%, 06/27/06	30,000	30,196
+ Aviation Refunding RB (Miami International Airport-Hub of the Americas) Series 2005B 4.00%, 10/01/06	2,455	2,471	TAN Series 2005 2.69%, 06/27/06	45,000	45,278
			<b>Ocala</b>		
			+■■■ Utility Systems RB Series 2005B 3.55%, 01/07/06	5,525	5,525
			<b>Ocean Highway and Port Auth</b>		
			+■ RB Series 1990 3.63%, 01/07/06	9,400	9,400
			<b>Okeechobee Cnty</b>		
			+■ Exempt Facility RB (Okeechobee Landfill) Series 1999 3.47%, 01/07/06	15,000	15,000

## 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)
<b>Orange Cnty Health Finance Auth</b>					
+ Refunding Program RB (Pooled Hospital Loan) Series 1985 3.18%, 01/19/06	18,600	18,600	+■ RB (Center For Drug Free Living) Series 1999 3.42%, 01/07/06	8,815	8,815
+ Refunding Program RB (Pooled Hospital Loan) Series 1985 3.19%, 01/24/06	19,600	19,600	+■ RB (Central Florida YMCA) Series 2005 3.55%, 01/07/06	6,000	6,000
<b>Orange Cnty HFA</b>			<b>Orlando and Orange Cnty Expressway Auth</b>		
+■ M/F Housing RB (Glenn On Millenia Boulevard) Series 2001C 3.52%, 01/07/06	3,355	3,355	+■ RB Series 2005C 3.50%, 01/07/06	10,000	10,000
+■ M/F Housing RB (Palm Key Apts) Series 1997C 3.41%, 01/07/06	5,000	5,000	+■ RB Series 2005D 3.52%, 01/07/06	15,000	15,000
+■ M/F Housing RB (The Cove At Lady Lake Apts) Series 2005A 3.54%, 01/04/06	6,500	6,500	+■ Refunding RB Series 2003C-3 3.33%, 01/07/06	13,000	13,000
+■ M/F Housing RB (West Pointe Villas Apts) Series 2000F 3.55%, 01/07/06	5,750	5,750	<b>Orlando Utilities Commission</b>		
+■ M/F Housing RB (Windsor Pines) Series 2000E 3.51%, 01/07/06	3,200	3,200	■ Water and Electric RB Series 2002B 3.40%, 01/07/06	5,100	5,100
+■ M/F Housing Refunding RB (Andover Place Apts) Series 1998F 3.56%, 01/07/06	7,770	7,770	<b>Palm Bay</b>		
+■ M/F Housing Refunding RB (Post Fountains At Lee Vista) Series 1997E 3.58%, 01/07/06	6,235	6,235	+■ Utility System Improvement RB Series 2005A 3.54%, 01/07/06	9,145	9,145
+■ M/F Housing Refunding RB (Smokewood/Sun Key Apts) Series 1992A 3.59%, 01/07/06	20,050	20,050	<b>Palm Beach Cnty</b>		
+■ Refunding RB (Highland Pointe Apts) Series 1998J 3.54%, 01/07/06	7,455	7,455	+■ Criminal Justice Facilities RB Series 1997 3.55%, 01/07/06	7,495	7,495
<b>Orange Cnty IDA</b>			+■ Economic Development Refunding and Improvement RB (YMCA) Series 2003 3.42%, 01/07/06	13,700	13,700
+■ Educational Facilities RB (UCF Hospitality School Student Housing Foundation) Series 2004 3.55%, 01/07/06	9,000	9,000	+■ IDBR (South Florida Blood Banks) Series 2002 3.55%, 01/07/06	8,075	8,075
			+■ IDRB (Palm Beach Day School) Series 1999 3.55%, 01/07/06	7,000	7,000
			+■ RB (Zoological Society of the Palm Beaches) Series 2001 3.60%, 01/07/06	5,500	5,500
			<b>Palm Beach Cnty Educational Facilities Auth</b>		
			+■ RB (Lynn University) Series 2001 3.55%, 01/07/06	9,835	9,835
			<b>Palm Beach Cnty Health Facilities Auth</b>		
			+ Refunding Program RB (Pooled Hospital Loan) Series 1985 3.19%, 01/19/06	7,300	7,300

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)
<b>Palm Beach Cnty HFA</b>			<b>Seminole Cnty IDA</b>		
➤■ M/F Housing RB (Azalea Place Apts) Series 1999A 3.51%, 01/07/06	3,000	3,000	➤■ IDRB (Amrhein Family Limited Partnership) Series 2001 3.60%, 01/07/06	4,125	4,125
➤■ M/F Housing Refunding RB (Spinnaker Landing Apts) Series 1998 3.60%, 01/07/06	2,745	2,745	<b>St Petersburg</b>		
<b>Palm Beach Cnty SD</b>			➤■ Capital Improvement RB (Airport) Series 1997C 3.60%, 01/07/06	210	210
➤ Sales Tax Revenue CP Notes 3.10%, 02/15/06	9,500	9,500	<b>Sumter Cnty IDA</b>		
<b>Peace River/Manasota Regional Water Supply Auth</b>			➤■ IDRB (Robbins Manufacturing Co) Series 1997 3.52%, 01/07/06	1,200	1,200
➤■ Utility System Refunding RB Series 2005 A&B 3.55%, 01/07/06	11,000	11,000	<b>Sumter Landing Community Development District</b>		
<b>Pinellas Cnty IDA</b>			➤■ Recreational RB Series 2005A 3.55%, 01/07/06	3,330	3,330
➤■ IDRB (H&S Swansons Tool Co) Series 2001 3.60%, 01/07/06	3,275	3,275	<b>Sunshine State Governmental Finance Commission</b>		
➤■ IDRB (Restorative Care of America) Series 2001 3.70%, 01/07/06	1,630	1,630	➤■ CP Revenue Notes (Miami-Dade Cnty Program) Series G 2.95%, 01/05/06	5,000	5,000
<b>Pinellas Cnty SD</b>			TECP Series 1998A 2.90%, 01/05/06	15,000	15,000
TAN Series 2005 3.21%, 06/30/06	20,000	20,075	➤■ 3.09%, 02/06/06	20,207	20,207
<b>Polk Cnty IDA</b>			<b>Tallahassee-Leon Cnty Civic Center Auth</b>		
➤■ IDRB (Pavermodule) Series 1998 3.60%, 01/07/06	2,710	2,710	➤■ Capital Improvement RB Series 1998A 3.55%, 01/07/06	9,290	9,290
<b>Port St Lucie</b>			<b>Tampa</b>		
➤■ Utility System Refunding RB Series 2004A 3.53%, 01/07/06	12,000	12,000	➤■ Educational Facilities RB (Pepin Academy of Tampa) Series 2002 3.56%, 01/07/06	3,755	3,755
<b>Reedy Creek Improvement District</b>			➤■ RB (CHF-Tampa LLC Project for the University of Tampa) Series 2005A 3.52%, 01/07/06	9,000	9,000
➤■ Utilities Refunding RB Series 2003-2 3.54%, 01/07/06	7,590	7,590	➤■ RB (Tampa Preparatory School) Series 2000 3.40%, 01/07/06	10,100	10,100
<b>Sarasota Cnty</b>			<b>Tampa Bay Water Auth</b>		
➤■ RB (Sarasota Family YMCA) Series 1999 3.42%, 01/07/06	2,470	2,470	➤■ Utility System Refunding and Improvement RB Series 2001A 3.59%, 01/07/06	5,200	5,200
➤■ Utility System Refunding RB Series 2005A 3.55%, 01/07/06	4,525	4,525	<b>University of South Florida Research Foundation</b>		
<b>Sarasota Cnty Health Facilities Auth</b>			➤■ RB (Interdisciplinary Research Building) Series 2004A 3.75%, 01/04/06	18,155	18,155
➤■ RB (Sarasota-Manatee Jewish Housing Council, Inc) Series 2005A 3.33%, 01/07/06	8,400	8,400			

## Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Volusia Cnty Educational Facilities Auth</b>			<b>Puerto Rico 6.9%</b>		
➤ RB (Bethune-Cookman College) Series 2001 3.55%, 01/07/06	10,475	10,475	➤ Public Improvement Bonds Series 2001A 3.53%, 01/07/06	8,000	8,000
		<b>1,710,435</b>	➤ TRAN Series 2006 3.23%, 07/28/06	15,000	15,107
<b>Illinois 0.4%</b>			<b>Puerto Rico Electric Power Auth</b>		
<b>Chicago O'Hare International Airport</b>			➤ Power RB Series NN 3.55%, 01/07/06	15,000	15,000
➤ General Airport Third Lien RB Series 2003B-2 3.58%, 01/07/06	8,595	<b>8,595</b>	➤ RB Series HH 3.54%, 01/05/06	9,200	9,200
<b>Indiana 0.1%</b>			<b>Puerto Rico Highway and Transportation Auth</b>		
<b>Indiana HFA</b>			RB Series Y		
➤ S/F Mortgage RB Series 2002B 3.59%, 01/04/06	1,025	<b>1,025</b>	➤ 3.54%, 01/07/06	10,600	10,600
<b>Louisiana 0.3%</b>			➤ 3.50%, 01/07/06	5,000	5,000
<b>East Baton Rouge</b>			➤ Transportation Refunding RB Series L 3.53%, 01/07/06	16,000	16,000
■ Pollution Control Refunding RB 3.69%, 01/07/06	6,000	<b>6,000</b>	<b>Puerto Rico Housing Finance Corp</b>		
<b>Michigan 1.2%</b>			➤ Homeownership Mortgage RB Series 1998A 3.57%, 01/07/06	9,900	9,900
<b>Detroit</b>			<b>Puerto Rico Infrastructure Financing Auth</b>		
RAN Series 2005 2.63%, 04/03/06	20,000	20,068	■ Special Obligation Bonds Series 2000A 3.54%, 01/07/06	20,000	20,000
<b>Wayne Cnty</b>			➤ Special Tax RB Series 2005A 3.50%, 01/07/06	2,000	2,000
➤ Airport RB (Detroit Metropolitan Wayne Cnty Airport) Series 2002A 3.54%, 01/07/06	4,350	4,350	➤ Special Tax Refunding RB Series 2005C 3.52%, 01/07/06	15,890	15,890
		<b>24,418</b>	<b>Puerto Rico Public Buildings Auth</b>		
<b>New York 1.3%</b>			➤ Government Facilities RB Series B 3.54%, 01/07/06	10,095	10,095
<b>New York City Municipal Water Finance Auth</b>					<b>136,792</b>
➤ Water and Sewer System RB Fiscal 1993C 3.72%, 01/07/06	16,300	16,300	<b>Texas 0.4%</b>		
<b>Port Auth of New York and New Jersey</b>			<b>Dallas Fort Worth International Airport</b>		
➤ Consolidated Bonds 138th Series 3.56%, 01/07/06	8,330	8,330	➤ Joint Improvement and Refunding RB Series 2001A 3.58%, 01/07/06	7,495	<b>7,495</b>
		<b>24,630</b>			
<b>Pennsylvania 0.4%</b>					
<b>Allegheny Cnty Port Auth</b>					
➤ GAN Series 2005 2.68%, 06/30/06	7,000	<b>7,044</b>			

End of investments.

## Statement of

**Assets and Liabilities**

As of December 31, 2005. All numbers x 1,000 except NAV.

**Assets**

Investments, at value	\$1,930,939
Cash	253
Receivables:	
Investments sold	32,480
Interest	9,477
Prepaid expenses	+ 34
<b>Total assets</b>	<b>1,973,183</b>

**Liabilities**

Payables:	
Dividends to shareholders	138
Investment adviser and administrator fees	31
Transfer agent and shareholder service fees	75
Trustees' fees	8
Accrued expenses	+ 61
<b>Total liabilities</b>	<b>313</b>

**Net Assets**

<b>Total assets</b>	1,973,183
<b>Total liabilities</b>	- 313
<b>Net assets</b>	<b>\$1,972,870</b>

**Net Assets by Source**

Capital received from investors	1,973,169
Net investment income not yet distributed	12
Net realized capital losses	(311)

**Net Asset Value (NAV)**

<b>Net Assets</b>	<b>+</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$1,972,870		1,973,081		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost for the fund's securities was \$1,930,939. Includes restricted but deemed liquid securities comprised of 144A securities, worth \$589,963 or 29.9% of the fund's total net assets. During the reporting period, the fund had \$2,657,796 in transactions with other Schwab Funds.

**Federal Tax Data**

<b>Cost basis of portfolio</b>	\$1,930,939
<b>Undistributed earnings:</b>	
Tax-exempt income	\$12
<b>Unused capital losses:</b>	
Expires 12/31 of:	Loss amount:
2012	\$80
2013	+ 231
	<b>\$311</b>

## Statement of

**Operations**

For January 1, 2005 through December 31, 2005. All numbers x 1,000.

**Investment Income**

Interest	<b>\$29,436</b>
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**Net Realized Gains and Losses**

Net realized losses on investments sold	<b>(223)</b>
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**Expenses**

Investment adviser and administrator fees	4,526	
Transfer agent and shareholder service fees	5,434	
Trustees' fees	27	
Custodian and portfolio accounting fees	94	
Professional fees	30	
Registration fees	72	
Shareholder reports	53	
Other expenses	+	17
Total expenses		10,253
Expense reduction	-	2,362
<b>Net expenses</b>		<b>7,891</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	29,436
<b>Net expenses</b>	- 7,891
<b>Net investment income</b>	<b>21,545</b>
<b>Net realized losses</b>	+ (223)
<b>Increase in net assets from operations</b>	<b>\$21,322</b>

Unless stated, all numbers x 1,000.

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

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

For the fund's independent trustees only.

This reduction was made by the investment adviser (CSIM). It reflects a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the annual operating expenses through April 29, 2006, to 0.65% of average daily net assets. Prior to April 30, 2005, the limit was 0.66%. This limit excludes interest, taxes and certain non-routine expenses.

Statements of

**Changes in Net Assets**

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

Unless stated, all numbers x 1,000.

**Operations**

	1/1/05–12/31/05	1/1/04–12/31/04
Net investment income	\$21,545	\$7,043
Net realized losses	+ (223)	(88)
<b>Increase in net assets from operations</b>	<b>21,322</b>	<b>6,955</b>

100% of the funds dividends for the current and prior periods are tax-exempt interest dividends.

**Distributions Paid**

Dividends from net investment income	<b>21,545</b>	<b>7,031</b>
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**Transactions in Fund Shares**

Shares sold	5,637,418	4,541,419
Shares reinvested	21,042	6,847
Shares redeemed	+ (5,589,996)	(4,447,636)
<b>Net transactions in fund shares</b>	<b>68,464</b>	<b>100,630</b>

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

**Net Assets**

Beginning of period	1,904,629	1,804,075
Total increase	+ 68,241	100,554
<b>End of period</b>	<b>\$1,972,870</b>	<b>\$1,904,629</b>

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

Includes net investment income not yet distributed in the amount of \$12 at the end of current and prior period.

# Schwab Massachusetts Municipal Money Fund™

## Financial Statements

### Financial Highlights

	1/1/05– 12/31/05	1/1/04– 12/31/04	5/16/03¹– 12/31/03
<b>Per-Share Data (\$)</b>			
Net asset value at beginning of period	1.00	1.00	1.00
Income from investment operations:			
Net investment income	0.02	0.01	0.00²
Less distributions:			
Dividends from net investment income	(0.02)	(0.01)	(0.00)²
Net asset value at end of period	1.00	1.00	1.00
Total return (%)	1.78	0.64	0.30³
<b>Ratios/Supplemental Data (%)</b>			
Ratios to average net assets:			
Net operating expenses	0.63	0.60	0.51⁴⁵
Gross operating expenses	0.87	0.86	0.86⁴
Net investment income	1.76	0.63	0.48⁴
Net assets, end of period (\$ x 1,000,000)	351	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, 2005

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](http://www.schwab.com/schwabfunds).

- ✚ Credit-enhanced security
- Liquidity-enhanced security
- Variable-rate security
- 144A Security; restricted but deemed liquid

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.

<b>Holdings by Category</b>		<b>Cost</b> (\$x1,000)	<b>Value</b> (\$x1,000)
<b>99.0%</b>	<b>Municipal Securities</b>	347,818	347,818
<b>99.0%</b>	<b>Total Investments</b>	<b>347,818</b>	<b>347,818</b>
<b>1.0%</b>	<b>Other Assets and Liabilities</b>		3,570
<b>100.0%</b>	<b>Net Assets</b>		<b>351,388</b>

<b>Issuer</b> <b>Rate, Maturity Date</b>	<b>Face Amount</b> (\$ x 1,000)	<b>Value</b> (\$ x 1,000)
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**Municipal Securities** 99.0% of net assets**Massachusetts 96.1%****Bridgewater-Raynham Regional SD**

BAN		
2.70%, 07/05/06	1,726	1,735

**Danvers**

BAN		
2.40%, 02/03/06	2,300	2,302

**Duxbury**

BAN		
2.25%, 01/13/06	2,000	2,001

**Falmouth**

BAN		
2.73%, 07/21/06	2,000	2,014
3.24%, 07/21/06	2,775	2,790

**Fitchburg**

BAN		
2.80%, 06/09/06	1,305	1,312

**Freetown-Lakeville Regional SD**

BAN		
3.06%, 10/20/06	2,000	2,018

**Haverhill**

BAN		
3.25%, 11/10/06	2,000	2,021

**Hudson**

BAN		
2.82%, 05/12/06	3,000	3,012

**King Philip Regional SD**

GO BAN Lot B		
3.25%, 06/15/06	2,300	2,313

**Lancaster**

BAN		
2.80%, 04/21/06	3,157	3,168

**Marion**

BAN		
2.72%, 07/14/06	2,561	2,578

**Massachusetts**

✚■ GO Bonds Consolidated Loan Series 1998C		
3.54%, 01/07/06	3,485	3,485

■ GO Bonds Consolidated Loan Series 2000C		
3.53%, 01/07/06	3,000	3,000

✚■ GO Bonds Consolidated Loan Series 2001D		
3.55%, 01/07/06	5,585	5,585

## 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)
<b>+■</b> GO Bonds Consolidated Loan Series 2004A 3.54%, 01/07/06	3,950	3,950	<b>+■</b> RB (Boston University) Series T-1 3.54%, 01/07/06	2,605	2,605
GO Bonds Consolidated Loan Series 2005C			<b>+■</b> RB (Community Resources for Justice) Series 2005 3.53%, 01/07/06	5,000	5,000
<b>■</b> 3.54%, 01/07/06	5,185	5,185	<b>+■</b> RB (FIBA Technologies) Series 2003 3.59%, 01/04/06	1,800	1,800
<b>■</b> 3.55%, 01/07/06	5,800	5,800	<b>+■</b> RB (Fessenden School) Series 2001 3.55%, 01/07/06	2,000	2,000
<b>■</b> 3.53%, 01/07/06	9,800	9,800	<b>+■</b> RB (Gordon College) Series 2002 3.53%, 01/07/06	1,600	1,600
GO Refunding Bonds Series 2004A			<b>+■</b> RB (WGBH Educational Foundation) Series 2002A 3.55%, 01/07/06	3,000	3,000
<b>+■</b> 3.58%, 01/04/06	5,990	5,990	<b>+■</b> RB (Worcester Academy) Series 2000 3.53%, 01/07/06	7,500	7,500
<b>+■</b> 3.55%, 01/07/06	3,000	3,000	<b>+■</b> RB (YMCA of Greater Boston) Series 2004A 3.53%, 01/07/06	600	600
<b>+■</b> GO Refunding Bonds Series 2004C 3.53%, 01/05/06	5,000	5,000	<b>Massachusetts Health and Educational Facilities Auth</b>		
TECP Series G			<b>+■</b> RB (Baystate Medical Center) Series D 3.55%, 01/07/06	9,000	9,000
<b>■</b> 3.24%, 01/17/06	9,000	9,000	<b>+■</b> RB (Boston Home) Series 2002B 3.53%, 01/05/06	2,500	2,500
<b>Massachusetts Bay Transportation Auth</b>			<b>+■</b> RB (Capital Assets Program) Series 1985D 3.72%, 01/03/06	240	240
Assessment Bonds Series 2005A			<b>■</b> RB (MIT) Series K 3.54%, 01/07/06	8,800	8,800
<b>■</b> 3.54%, 01/07/06	9,995	9,995	<b>■</b> RB (Massachusetts Institute of Technology) Series I-1 3.55%, 01/07/06	4,000	4,000
<b>■</b> 3.55%, 01/07/06	7,000	7,000	<b>+■</b> RB (Winchester Hospital) Series D 3.55%, 01/07/06	4,000	4,000
<b>■</b> Sr Sales Tax Bonds Series 2004C 3.55%, 01/05/06	5,685	5,685	<b>Massachusetts HFA</b>		
Sr Sales Tax Bonds Series 2005A			<b>■</b> Housing Bonds Series 2003S 3.66%, 01/04/06	7,285	7,285
<b>■</b> 3.53%, 01/07/06	2,800	2,800			
<b>■</b> 3.54%, 01/07/06	19,400	19,400			
<b>■</b> 3.55%, 01/07/06	5,000	5,000			
<b>+■</b> Sr Sales Tax RB Series 2005A 3.54%, 01/07/06	2,300	2,300			
<b>Massachusetts Development Finance Agency</b>					
<b>+■</b> Education RB (Dexter School) Series 2000 3.53%, 01/07/06	6,320	6,320			
<b>+■</b> M/F Housing RB (Archstone Reading Apts) Series 2004A 3.59%, 01/07/06	5,000	5,000			
<b>+■</b> M/F Housing RB (Midway Studios) Series 2003A 3.59%, 01/07/06	5,000	5,000			
<b>+■</b> M/F Housing Refunding RB (Kensington at Chelmsford) Series 2002 3.51%, 01/07/06	16,300	16,300			
<b>+■</b> RB (Berkshire School) Series 2001 3.52%, 01/07/06	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)
■ RB Series 2005H 3.66%, 01/04/06	2,965	2,965	2.70%, 07/14/06	2,000	2,011
Rental Housing Mortgage RB Series 2002F			<b>Silver Lake Regional SD</b> GO BAN		
+■ 3.58%, 01/07/06	5,315	5,315	2.58%, 03/30/06	3,000	3,006
+■ 3.56%, 01/07/06	4,715	4,715	<b>University of Massachusetts Building Auth</b> Refunding RB Sr Series 2005-2		
<b>Massachusetts IFA</b> +■ RB (New England College of Optometry) Series 1997			3.55%, 01/07/06	3,000	3,000
3.53%, 01/07/06	6,330	6,330	<b>West Tisbury</b> BAN		
<b>Massachusetts Port Auth</b> +■ RB (Delta Airlines, Inc) Series 2001A			2.85%, 06/15/06	1,850	1,859
3.58%, 01/07/06	2,495	2,495	<b>Woburn</b> BAN		
<b>Massachusetts School Building Auth</b> +■ Dedicated Sales Tax Bonds Series 2005A			3.05%, 10/06/06	2,000	2,021
3.54%, 01/07/06	17,005	17,005			<b>337,746</b>
<b>Massachusetts Turnpike Auth</b> +■ RB (Western Turnpike) Series 1997A			<b>Puerto Rico 2.9%</b> <b>Puerto Rico</b> +■ TRAN Series 2006		
3.54%, 01/07/06	8,500	8,500	3.23%, 07/28/06	10,000	<b>10,072</b>
<b>Massachusetts Water Pollution Abatement Trust</b> +■ Pool Program Bonds Series 5					
3.53%, 01/07/06	3,000	3,000			
+■ RB Subordinate Series 1999A					
3.53%, 01/04/06	9,500	9,500			
<b>Massachusetts Water Resources Auth</b> + CP Series 1994					
3.08%, 02/08/06	5,500	5,500			
General Refunding RB Series 2005A					
+■ 3.53%, 01/07/06	1,700	1,700			
+■ 3.54%, 01/07/06	4,705	4,705			
<b>Nashoba Regional SD</b> State Qualified BAN					
2.90%, 09/14/06	2,780	2,806			
<b>Natick</b> BAN					
2.75%, 04/28/06	2,000	2,006			
<b>New Bedford</b> BAN Series B					
3.24%, 02/24/06	10,000	9,999			
<b>Pembroke</b> BAN					
2.87%, 08/03/06	3,000	3,019			
<b>Ralph C. Mahar Regional SD</b> BAN					

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End of investments.

## Statement of

**Assets and Liabilities**

As of December 31, 2005. All numbers x 1,000 except NAV.

**Assets**

Investments, at value	\$347,818
Cash	300
Interest receivable	3,299
Prepaid expenses	+ 48
<b>Total assets</b>	<b>351,465</b>

**Liabilities**

Payables:	
Dividends to shareholders	23
Investment adviser and administrator fees	4
Transfer agent and shareholder service fees	13
Trustees' fees	7
Accrued expenses	+ 30
<b>Total liabilities</b>	<b>77</b>

**Net Assets**

<b>Total assets</b>	351,465
<b>Total liabilities</b>	- 77
<b>Net assets</b>	<b>\$351,388</b>

**Net Assets by Source**

Capital received from investors	351,482
Net investment income not yet distributed	1
Net realized capital losses	(95)

**Net Asset Value (NAV)**

<b>Net Assets</b>	<b>÷</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$351,388		351,483		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost for the fund's securities was \$347,818. Includes restricted but deemed liquid securities comprised of 144A securities worth of \$225,385 or 64.1% of the fund's total net assets. During the reporting period, the fund had \$630,110 in transactions with other Schwab Funds.

**Federal Tax Data****Cost basis of portfolio** \$347,818**Undistributed earnings:**

Tax-exempt income \$1

**Unused capital losses:**

Expires 12/31 of: Loss amount:

2011 \$2

2012 83

2013 + 10

**\$95**

## Statement of

**Operations**

For January 1, 2005 through December 31, 2005. All numbers x 1,000.

**Investment Income**

Interest	<b>\$8,466</b>
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**Net Realized Gains and Losses**

Net realized losses on investments sold	<b>(10)</b>
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**Expenses**

Investment adviser and administrator fees	1,347
Transfer agent and shareholder service fees	1,595
Trustees' fees	27
Custodian and portfolio accounting fees	30
Professional fees	27
Registration fees	45
Shareholder reports	6
Other expenses	+
	8
Total expenses	3,085
Expense reduction	–
	843
<b>Net expenses</b>	<b>2,242</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	8,466
<b>Net expenses</b>	–
	2,242
<b>Net investment income</b>	<b>6,224</b>
<b>Net realized losses</b>	+
	(10)
<b>Increase in net assets from operations</b>	<b>\$6,214</b>

Unless stated, all numbers x 1,000.

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

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

For the fund's independent trustees only.

This reduction was made by the investment adviser (CSIM). It reflects a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the operating expenses of this fund through April 29, 2006, to 0.65% of average daily net assets. Prior to May 1, 2005, this limit was 0.60%. This limit excludes interest, taxes and certain non-routine expenses.

Statements of

**Changes in Net Assets**

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

Unless stated, all numbers x 1,000.

**Operations**

	1/1/05–12/31/05	1/1/04–12/31/04
Net investment income	\$6,224	\$2,365
Net realized losses	(10)	(89)
<b>Increase in net assets from operations</b>	<b>6,214</b>	<b>2,276</b>

100% of the funds dividends for the current and prior periods are tax-exempt interest dividends.

**Distributions Paid**

Dividends from net investment income	<b>6,223</b>	<b>2,359</b>
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Because all transactions in this section took place at \$1.00 a share, figures for share quantities are the same as for dollars.

**Transactions in Fund Shares**

Shares sold	1,272,243	1,294,316
Shares reinvested	6,127	2,326
Shares redeemed	+ (1,312,689)	(1,273,373)
<b>Net transactions in fund shares</b>	<b>(34,319)</b>	<b>23,269</b>

**Net Assets**

Beginning of period	385,716	362,530
Total increase or decrease	+ (34,328)	23,186
<b>End of period</b>	<b>\$351,388</b>	<b>\$385,716</b>

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 \$1 and \$— at the end of current period and prior report periods, respectively.

# 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 Investor Money Fund
- 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 using the effective interest rate method. 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 portfolios constituting The Charles Schwab Family of Funds, hereafter referred to as the “Funds”) at December 31, 2005, 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 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, 2005 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

### **PricewaterhouseCoopers LLP**

San Francisco, California

February 14, 2006

# Investment Advisory Agreement Approval

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

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

addition to the detailed information about the funds that the Board reviews during the course of each year, including information that relates to fund operations and fund performance. The trustees also receive a memorandum from fund counsel regarding the responsibilities of trustees for the approval of investment advisory contracts. In addition, the Independent Trustees receive advice from independent counsel to the Independent Trustees, meet in executive session outside the presence of fund management and participate in question and answer sessions with representatives of CSIM.

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

1. the nature, extent and quality of the services provided to the funds under the Agreement, including the resources of CSIM and its affiliates dedicated to the funds;
2. each fund’s investment performance and how it compared to that of certain other comparable mutual funds;
3. each fund’s expenses and how those expenses compared to those of certain other comparable mutual funds;
4. the profitability of CSIM and its affiliates, including Charles Schwab & Co., Inc. (“Schwab”), with respect to each fund, including both direct and indirect benefits accruing to CSIM and its affiliates; and

5. the extent to which economies of scale would be realized as the funds grow and whether fee levels in the Agreement reflect those economies of scale for the benefit of fund investors.

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

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

the Florida Municipal Money Fund—Sweep Shares, had lower performance relative to their respective peer groups than other funds, and inquired as to the underlying reasons for this relative performance. The Board also requested that CSIM evaluate the reasons for such funds' relative performance, consider appropriate measures to address the performance and report the results of their findings at the next Board meeting. Following such evaluation, and based upon CSIM's agreement to perform such analyses, etc. relating to performance, the Board concluded, within the context of its full deliberations, that the performance of the funds supported interim renewal of the Agreement.

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

**Profitability.** With regard to profitability, the trustees considered the compensation flowing to CSIM and its affiliates, directly or indirectly. In this connection, the trustees reviewed management's

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

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

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

**Subsequent Continuation, August 2005.** At the August 31, 2005 meeting of the Board, the trustees, including a majority of the Independent Trustees, approved the continuation of the Agreement through June 30, 2006. This approval extended the interim approval of the Agreement by the Board, which had taken place on May 24, 2005 and is discussed above. In connection with the approval of the Agreement, the Board considered additional information provided by CSIM in response to the Board's requests at the May 24, 2005 meeting, as well as reconsidered the information provided and factors considered at prior meetings. The Board concluded that the information provided at the meeting supported continuation of the Agreement. In the course of their deliberations, the trustees did not identify any particular information or factor that was all-important or controlling. Based on the trustees' deliberation and their evaluation of the information described above, the Board, including all of the Independent Trustees, unanimously approved the continuation of the Agreement and concluded that the compensation under the Agreement is fair and reasonable in light of such services and expenses and such other matters as the trustees have considered to be relevant in the exercise of their reasonable judgment.

# Trustees and Officers

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

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

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

Independent Trustees		
Name and Year of Birth	Trustee Since	Main Occupations and Other Directorships and Affiliations
Mariann Byerwalter 1960	2000 (all trusts).	Chairman, JDN Corp. Advisory LLC (real estate). <i>Until 2001:</i> Special Advisor to the President, Stanford University. <i>From 1996-2001:</i> Vice President of Business Affairs, Chief Financial Officer, Stanford University. Ms. Byerwalter is on the Boards of Stanford University, America First Cos. (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, Pacific Life Insurance Company (insurance), Laudus Trust and Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex. <sup>2</sup>

<sup>1</sup> 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.

<sup>2</sup> This includes 10 series of the Laudus Trust and the sole series of the Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex.

## Independent Trustees continued

Name and Year of Birth	Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Donald F. Dorward</b> 1931	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chief Executive Officer, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999</i> : Executive Vice President, Managing Director, Grey Advertising. <i>Until 1996</i> : President, Chief Executive Officer, Allen & Dorward Advertising.
<b>William A. Hasler</b> 1941	2000 (all trusts).	Dean Emeritus of the Haas School of Business, University of California, Berkeley. <i>Until 2/04</i> , Co-Chief Executive Officer, Aphton Corporation (bio-pharmaceuticals). <i>Prior to 8/98</i> , Dean of the Haas School of Business, University of California, Berkeley (higher education). Mr. Hasler is on the Boards of Aphton Corporation (bio-pharmaceuticals), Mission West Properties (commercial real estate), Stratex Networks (network equipment), TOUSA (home building), Genitope Corp. (bio-pharmaceuticals), Laudus Trust and Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex. <sup>3</sup> Non-Executive Chairman, Solectron Corporation (manufacturing).
<b>Robert G. Holmes</b> 1931	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer, Director, Semloh Financial, Inc. (international financial services and investment advisory firm).
<b>Gerald B. Smith</b> 1950	2000 (all trusts).	<i>Since 1990</i> , Chairman and Chief Executive Officer and founder of Smith Graham & Co. (investment advisors). Mr. Smith is on the Board of Cooper Industries (electrical products, tools and hardware); Chairman, Texas Southern University Foundation; Executive Committee and Board Member, MD Anderson Cancer Center; Chairman of the audit committee of Northern Border Partners, M.L.P. (energy).
<b>Donald R. Stephens</b> 1938	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chairman, Chief Executive Officer, North American Trust (real estate investment trust).
<b>Michael W. Wilsey</b> 1943	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer, Wilsey Bennett, Inc. (real estate investment and management, and other investments).

<sup>3</sup> This includes 10 series of the Laudus Trust and the sole series of the Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex.

## Interested Trustees

Name and Year of Birth	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Charles R. Schwab</b> <sup>4</sup> 1937	Chairman, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer and Director, The Charles Schwab Corporation, Charles Schwab & Co., Inc.; Chairman and Director, Charles Schwab Investment Management, Inc., Charles Schwab Bank, N.A.; Chairman and Chief Executive Officer, Schwab (SIS) Holdings Inc. I, Schwab International Holdings, Inc.; Chief Executive Officer and Director, Schwab Holdings, Inc.; Director, U.S. Trust Company, N.A., U.S. Trust Corporation, United States Trust Company of New York. <i>Until 5/03</i> , Co-Chief Executive Officer, The Charles Schwab Corporation. Trustee, Charles and Helen Schwab Foundation; Chairman, All Kinds of Minds Institute (education), Trustee, Stanford University; Chairman and Director, Charles Schwab Foundation; Chairman of the Finance Committee, San Francisco Museum of Modern Art.
<b>Randall W. Merk</b> <sup>4</sup> 1954	Trustee, 2005 (all trusts).	Executive Vice President and President, Asset Management Products & Services, Charles Schwab & Co., Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From 9/02 to 7/04</i> , President and Chief Executive Officer, Charles Schwab Investment Management, Inc. and Executive Vice President, Charles Schwab & Co., Inc. <i>Prior to 9/02</i> , President and Chief Investment Officer, American Century Investment Management; Director, American Century Companies, Inc. <i>Until 6/01</i> , Chief Investment Officer, Fixed Income, American Century Companies, Inc.

## Officers of the Trust

Name and Year of Birth	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
<b>Evelyn Dilsaver</b> 1955	President, Chief Executive Officer (all trusts).	Executive Vice President, President, Director, Charles Schwab Investment Management, Inc. Vice President, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 7/04</i> : Senior Vice President, Asset Management Products & Services Enterprise. <i>Until 6/03</i> : Executive Vice President, Chief Financial Officer, Chief Administrative Officer, U.S. Trust.
<b>Stephen B. Ward</b> 1955	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co.

<sup>4</sup> In addition to their positions with the investment adviser and the distributor, Messrs. Schwab and Merk also own stock of the Charles Schwab Corporation.



## Officers of the Trust continued

Name and Year of Birth	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
<b>Kimon Daifotis</b> 1959	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President and Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Until 6/04</i> : Vice President and Senior Portfolio Manager, Charles Schwab Investment Management, Inc.
<b>Jeffrey Mortimer</b> 1963	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc.; Vice President, Chief Investment Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 5/04</i> : Vice President and Senior Portfolio Manager, Charles Schwab Investment Management, Inc.
<b>Randall Fillmore</b> 1960	Chief Compliance Officer (all trusts).	Senior Vice President, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Chief Compliance Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 9/03</i> : Vice President, Charles Schwab & Co., Inc. and Charles Schwab Investment Management, Inc. <i>Until 2002</i> : Vice President, Internal Audit, Charles Schwab & Co., Inc.
<b>Koji E. Felton</b> 1961	Secretary (all trusts).	Senior Vice President, Chief Counsel and Corporate Secretary, Charles Schwab Investment Management, Inc.; Senior Vice President and Deputy General Counsel, Charles Schwab & Co., Inc. <i>Prior to 6/98</i> , Branch Chief in Enforcement at U.S. Securities and Exchange Commission in San Francisco.
<b>George Pereira</b> 1964	Treasurer, Principal Financial Officer (all trusts).	Senior Vice President and Chief Financial Officer, Charles Schwab Investment Management, Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From 12/99 to 11/04</i> , Senior Vice President, Financial Reporting, Charles Schwab & Co., Inc.

# Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Portfolio terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Notes

## Notes

## Notes

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

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

### Methods for Placing Orders

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

#### Internet<sup>1</sup>

[www.schwab.com](http://www.schwab.com)

#### Schwab by Phone™<sup>2</sup>

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

#### TeleBroker®

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

#### Mail

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

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

### Proxy Voting Policies, Procedures and Results

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

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

## The Schwab Funds Family®

### Stock Funds

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

### Asset Allocation Funds

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

### Bond Funds

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

### Schwab Money Funds

Schwab offers an array of money market funds that seek high current income consistent with safety and liquidity.<sup>3</sup> 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®.

<sup>1</sup> Shares of Sweep Investments™ may not be purchased directly over the Internet.

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

<sup>3</sup> 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 California Municipal Money Fund<sup>TM</sup>

**Annual Report**

December 31, 2005

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# From the Chairman



Charles Schwab  
Chairman

Dear Shareholder,

I founded Schwab over thirty years ago to be a home for serious investors. That mission continues to guide us today as we constantly innovate on behalf of our clients. By continuing to provide the highest quality products and services—at a great price—we remain true to our heritage.

I take particular pride in the Schwab Funds. Founded over 15 years ago, they have grown to include more than 50 funds with over \$140 billion in assets as of this report date. With a variety of investment strategies, Schwab Funds provide a range of innovative investment choices that can serve as a foundation for your asset allocation plan.

Schwab Funds is managed by Charles Schwab Investment Management, Inc., which currently ranks as one of the largest investment managers in the country. Our portfolio managers share a passion for market analysis and use some of the most sophisticated financial models available. I am proud of their depth of experience, which reflects an average tenure of more than 15 years in the investment industry. Furthermore, I am impressed with the commitment that our managers bring to the stewardship of the funds, for you, their shareholders.

We strive every day to warrant the trust you have placed in us; that will never change. 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 letters of the first and last names being capitalized and prominent.

*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.*

# Management's Discussion for the year ended December 31, 2005



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

Dear Shareholder,

I'm pleased to bring you the annual report for your Schwab money fund for the year ended December 31, 2005. Although the period was marked by volatility, our money funds provided competitive yields as well as safety and stability.

I would like to take this opportunity to remind you that Schwab Funds offers a range of position-traded money funds that are available with a variety of minimums and investment strategies to meet your needs. These funds and share classes are available beginning with a minimum initial investment of \$25,000 (\$15,000 for IRA and custodial accounts) and include both taxable and, for clients who are tax sensitive, tax-free investment strategies. To make these products even more convenient, we've recently reduced the subsequent investment minimum requirement from \$5,000 to \$500 on several of our Value Advantage Investments.

We continue to develop and manage Schwab Funds to help you achieve your goals and to provide an uncomplicated way to build a well-diversified portfolio. During the report period covered by this book, Schwab Funds launched seven new funds across varying investment styles and strategies.

In closing, I speak for all of Schwab Funds when I say we want Schwab to be the place where investors can find useful, quality financial products and services to help them succeed.

Thank you for investing in Schwab Funds.

Sincerely,

A handwritten signature in black ink that reads "Evelyn Dilsaver". The signature is fluid and cursive, with a small dot above the 'i' in Dilsaver.

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



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

## The Investment Environment and the Fund

Despite having witnessed a turbulent year in the news, the markets remained in a steady growth mode and ended the one-year report period with positive results. Oil prices hit highs never seen before and the Federal Reserve continued to raise short-term interest rates to curb inflationary pressures, raising the rates eight consecutive times in the one-year report period and bringing the benchmark rate up to 4.25%. The moves had a limited impact on overall economic growth, due primarily to the low level of rates from which the increases began.

Regardless of the concerns of high energy prices, which remained a significant headwind for economic performance throughout the period, corporate earnings remained strong throughout the year. Additionally, with the unemployment rate hovering around 5% and GDP growth around 3.5%, job and income growth remained positive and investors remained optimistic. Productivity gains and more restrictive monetary policy kept a lid on core inflation. The productivity gains, coupled with foreign investors buying large amounts of U.S. government securities, helped to contain increases in long-term interest rates. These conditions caused the dollar to rally, which took pressure off the price of imported goods.

The big news for the past two quarters was the impact of Hurricanes Katrina and Rita. The devastation caused by these storms was particularly heavy with respect to the energy infrastructures in the South. Oil prices rose sharply in the aftermath of the hurricanes, with crude oil peaking above \$71 per barrel in early September, although softening oil demand and quick action by the federal government to release Strategic Petroleum Reserves led to a subsequent decline off that peak. During the fourth quarter, oil had dropped to as low as \$58 a barrel, but then rebounded back to \$64 as of the end of the period. While the full economic effect of the hurricanes remains unknown, the damage appears to be limited to the regions in the hurricanes' path and to the energy infrastructures in those areas.

Another significant event that happened during the report period was the appointment of Ben Bernanke to succeed Alan Greenspan as Chairman of the Federal Reserve Board. Although he had not yet been confirmed into office as of the end of the report period, Bernanke's experience on

the Federal Open Market Committee and his expertise in monetary economics has eased the concerns of the markets and caused investors to expect a smooth transition.

**As noted above, the Fed continued in its tightening mode, raising short-term rates 0.25% at each of its eight meetings this year.** At the end of the one-year report period, the benchmark rate was up to 4.25%. The higher rates translated into higher money fund yields making them more attractive as an investment vehicle. The yields on municipal variable-rate demand notes rose significantly during the year as the Bond Market Association's BMA seven-day municipal index rose by 1.50%. This change caused the yields on the Schwab California Municipal Money Fund to increase for the period.

During the year, the fund's weighted average maturity (WAM) was positioned anywhere from neutral to 15 days longer than the peer group averages. When the opportunity arose, we added commercial paper with maturities of 30-90 days as well as variable-rate demand notes. We feel that both of these asset classes offered the best relative value during the report period.

The combination of rising interest rates, and improved financial circumstances for state and local governments combined to cause a decline in fixed-rate note issuance for 2005. The drop off in note supply was partially offset by an increase in structured variable-rate notes.

**Schwab California Municipal Money Fund.** California's economy continues to strengthen, building on solid growth in employment and exports, a healthy construction sector, and strong growth in personal income. The state added an average of 230,000 payroll jobs from January to November 2005, up 1.6% over the same period in 2004. This compares with a 1.0% year-over-year increase for all of 2004. Nearly a quarter of these jobs however, were in the construction sector. The state also reported strong gains in the leisure and hospitality and professional- and business-services job sectors. The state's average unemployment rate dropped to 5.4% over this eleven-month period, compared to 6.2% in 2004 and 6.8% in 2003. The state Department of Finance is projecting 1.3% growth in payroll jobs for 2006, and 5.8% growth in personal income. California's fiscal 2006 budget was adopted on July 11, 2005 and was balanced with no new taxes or significant borrowing. The plan also fully funded the state's commitment to transportation and began to pay

off prior-year loans to local governments. The budget, however, provided for continued spending in excess of recurring annual revenues and was balanced largely through the use of accumulated reserves. Revenue receipts through December 2005 are running about \$2.4 billion ahead of the original budget forecast, or 6.3%, led by strong individual income and corporation taxes. The Department of Finance is now projecting full year receipts could be nearly \$3.5 billion above budget, which, together with prior year tax amnesty accruals, would result in a general fund balance of over \$7.0 billion at June 30, 2006, or 7.8% of annual expenditures.

On January 10, 2006, Governor Schwarzenegger introduced his spending plan for fiscal 2007 which begins on July 1, 2006. Though it proposes no new taxes, the budget includes an ongoing spending commitment that outstrips fiscal 2007 projected revenues by about \$4.7 billion, which is covered through the use of accumulated reserves. The proposal increases spending for primary and secondary education, repays prior year loans from transportation programs, and accelerates repayment of deficit bonds. The budget, however, would reduce the year-end general fund balance to just \$612 million. If the fiscal year 2007 plan is enacted, California's Legislative Analyst projects recurring annual budget gaps of as much as \$6 billion in future years. The Governor is also proposing a far-reaching capital investment plan that could lead to the issuance of \$68 billion of new general obligation debt over 10-15 years.

California's medium investment-grade credit ratings reflect its ongoing struggles for structural financial balance. The credit quality of its many underlying units of government, including counties, cities, universities, and school districts, varies widely, but has been mostly stable through the last year. Though Moody's and Fitch both upgraded their ratings by a single notch in early July 2005, California's ratings remain among the lowest of the U.S. states. At the end of the report period, the state's ratings were A2 from Moody's, A from Standard & Poor's, and A from Fitch.

Performance and Fund Facts as of 12/31/05

Seven-Day Yields

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

Ticker Symbol	Sweep Shares SWCXX	Value Advantage Shares™ SWKXX
Seven-Day Yield <sup>1</sup>	2.64%	2.84%
Seven-Day Yield—No Waiver <sup>2</sup>	2.47%	2.70%
Seven-Day Effective Yield <sup>1</sup>	2.65%	2.86%
Seven-Day Taxable-Equivalent Effective Yield <sup>1, 3</sup>	4.55%	4.91%

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](http://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	38 days
Credit Quality of Holdings % of portfolio	100% Tier 1
Credit-Enhanced Securities % of portfolio	66%
Minimum Initial Investment <sup>4</sup>	
Sweep Investments*	*
Value Advantage Shares	\$25,000
(\$15,000 for IRA and custodial accounts) <sup>5</sup>	

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.

<sup>1</sup> Fund expenses have been partially absorbed by CSIM and Schwab.

<sup>2</sup> Yield if fund expenses had not been partially absorbed by CSIM and Schwab.

<sup>3</sup> Taxable-equivalent effective yield assumes a 2005 maximum combined federal regular income and California state personal income tax rate of 41.70%. Investment income may be subject to the Alternative Minimum Tax.

<sup>4</sup> Please see prospectus for further detail and eligibility requirements.

<sup>5</sup> Municipal money funds are generally not appropriate investments for IRAs and other tax-deferred accounts. Please consult your tax advisor about your situation.

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



# Fund Expenses (unaudited)

## 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, 2005 and held through December 31, 2005.

**Actual Return** lines in the table below provide information about actual account values and actual expenses. You may use this information, together with the amount you invested, to estimate the expenses that you paid over the period. To do so, simply divide your account value by \$1,000 (for example, an \$8,600 account value ÷ \$1,000 = 8.6), then multiply the result by the number given for your fund 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 <sup>1</sup> (Annualized)	Beginning Account Value at 7/1/05	Ending Account Value (Net of Expenses) at 12/31/05	Expenses Paid During Period <sup>2</sup> 7/1/05–12/31/05
<b>Schwab California Municipal Money Fund™</b>				
<i>Sweep Shares</i>				
Actual Return	0.65%	\$1,000	\$1,010.10	\$3.29
Hypothetical 5% Return	0.65%	\$1,000	\$1,021.93	\$3.31
<i>Value Advantage Shares™</i>				
Actual Return	0.45%	\$1,000	\$1,011.10	\$2.28
Hypothetical 5% Return	0.45%	\$1,000	\$1,022.94	\$2.29

<sup>1</sup> Based on the most recent six-month expense ratio; may differ from the expense ratio provided in Financial Highlights.  
<sup>2</sup> Expenses for each share class are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 184 days of the period, and divided by 365 days of the fiscal year.

# Financial Statements

## Financial Highlights

Sweep Shares	1/1/05– 12/31/05	1/1/04– 2/31/04	1/1/03– 12/31/03	1/1/02– 12/31/02	1/1/01– 12/31/01
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	1.00	1.00	1.00	1.00	1.00
Income from investment operations:					
Net investment income	0.02	0.01	0.00 <sup>1</sup>	0.01	0.02
Less distributions:					
Dividends from net investment income	(0.02)	(0.01)	(0.00) <sup>1</sup>	(0.01)	(0.02)
Net asset value at end of period	1.00	1.00	1.00	1.00	1.00
Total return (%)	1.76	0.59	0.46	0.83	1.99
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.65	0.65	0.65	0.65	0.65
Gross operating expenses	0.82	0.82	0.82	0.82	0.82
Net investment income	1.74	0.58	0.45	0.83	1.98
Net assets, end of period (\$ x 1,000,000)	4,134	4,147	4,169	4,056	3,897
Value Advantage Shares	1/1/05– 12/31/05	1/1/04– 12/31/04	1/1/03– 12/31/03	1/1/02– 12/31/02	1/1/01– 12/31/01
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	1.00	1.00	1.00	1.00	1.00
Income from investment operations:					
Net investment income	0.02	0.01	0.01	0.01	0.02
Less distributions:					
Dividends from net investment income	(0.02)	(0.01)	(0.01)	(0.01)	(0.02)
Net asset value at end of period	1.00	1.00	1.00	1.00	1.00
Total return (%)	1.96	0.79	0.66	1.03	2.19
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.45	0.45	0.45	0.45	0.45
Gross operating expenses	0.59	0.59	0.59	0.59	0.61
Net investment income	1.96	0.78	0.65	1.03	2.11
Net assets, end of period (\$ x 1,000,000)	3,240	2,825	3,061	3,081	2,563

<sup>1</sup> Per-share amount was less than \$0.01.

**Portfolio Holdings** as of December 31, 2005

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](http://www.schwab.com/schwabfunds).

- + Credit-enhanced security
- ▶ Liquidity-enhanced security
- Variable-rate security
- ◆ Delayed-delivery security
- 144A Security; restricted but deemed liquid

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.

<b>Holdings by Category</b>	<b>Cost</b> (\$x1,000)	<b>Value</b> (\$x1,000)
<b>100.1% Municipal Securities</b>	7,380,461	7,380,461
<b>100.1% Total Investments</b>	<b>7,380,461</b>	<b>7,380,461</b>
<b>(0.1)% Other Assets and Liabilities</b>		(6,726)
<b>100.0% Net Assets</b>		<b>7,373,735</b>

<b>Issuer</b> <b>Rate, Maturity Date</b>	<b>Face Amount</b> (\$ x 1,000)	<b>Value</b> (\$ x 1,000)
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<b>Municipal Securities</b>	100.1% of net assets
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**California 98.1%****Alameda Cnty IDA**

+■ RB (Aitchison Family Partnership) Series 1993A 3.51%, 01/07/06	2,520	2,520
+■ RB (JMS Family Partnership) Series 1995A 3.51%, 01/04/06	1,000	1,000
+■ RB (Malmberg Engineering) Series 1999A 3.92%, 01/07/06	2,205	2,205
+■ RB (Scientific Technology) Series 1994A 3.56%, 01/07/06	2,200	2,200

**Anaheim Housing Auth**

+■ M/F Housing RB (Casa Granada Apts) Series 1997A 3.39%, 01/07/06	3,495	3,495
+■ M/F Housing RB (Park Vista Apts) Series 2000D 3.61%, 01/04/06	21,000	21,000
+■ M/F Housing RB (Port Trinidad Apts) Series 1997C 3.39%, 01/07/06	1,940	1,940
+■ M/F Housing Refunding RB (Sage Park) Series 1998A 3.55%, 01/07/06	5,500	5,500

**Anaheim Public Financing Auth**

+▶■ RB (Electric System Distribution Facilities) Series 2002A 3.55%, 01/07/06	9,145	9,145
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**Association of Bay Area Governments**

+▶■ Bonds (Airport Premium Fare-Bart SFO Extension) Series 2002A 1.25%, 01/07/06	9,995	9,995
+■ COP (Harker School Foundation) Series 1998 3.50%, 01/07/06	4,300	4,300
+▶■ Lease RB Series 2003A 4.40%, 01/07/06	1,000	1,000
+■ M/F Housing RB (Artech Building) Series 1999A 3.58%, 01/07/06	3,200	3,200

## Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
■ M/F Housing RB (Crossing Apts) Series 2002A 4.41%, 01/07/06	64,450	64,450	➔■ 3.55%, 01/07/06	8,495	8,495
■ M/F Housing RB (Miramar Apts) Series 2000A 3.55%, 01/07/06	30,000	30,000	➔■ 3.53%, 01/07/06	39,415	39,415
■ M/F Housing RB (Mountain View Apts) Series 1997A 3.60%, 01/07/06	6,025	6,025	■ 3.53%, 01/07/06	39,995	39,995
■ M/F Housing RB (Paragon Apts at the Crossing) Series 2005A 3.58%, 01/07/06	22,000	22,000	➔■ 3.54%, 01/07/06	6,685	6,685
■ RB (Francis Parker School) Series 2005 3.55%, 01/07/06	5,000	5,000	■ 3.54%, 01/07/06	18,745	18,745
■ RB (Public Policy Institute of California) Series 2001A 3.55%, 01/07/06	10,000	10,000	➔■ Economic Recovery Bonds Series 2004C-18 3.50%, 01/04/06	1,000	1,000
<b>Bay Area Toll Auth</b>			■ Economic Recovery Bonds Series 2004C-3 3.72%, 01/03/06	30,115	30,115
➔■ San Francisco Bridge RB Series D 3.53%, 01/07/06	10,125	10,125	■ Economic Recovery Bonds Series 2004C-6 3.75%, 01/03/06	42,950	42,950
<b>California</b>			■ Economic Recovery Bonds Series 2004C-8 3.65%, 01/07/06	11,500	11,500
2005-06 RAN			■ Economic Recovery Bonds Series 2004C-9 3.65%, 01/03/06	3,800	3,800
3.01%, 06/30/06	105,000	105,762	GO Bonds		
3.04%, 06/30/06	25,000	25,178	➔■ 3.53%, 01/07/06	54,605	54,605
3.18%, 06/30/06	20,000	20,127	➔■ 3.55%, 01/07/06	68,560	68,560
3.24%, 06/30/06	20,000	20,121	➔■ 3.53%, 01/07/06	24,665	24,665
GO CP Notes			➔■ 3.54%, 01/07/06	94,540	94,540
■ 2.80%, 01/05/06	33,000	33,000	➔■ 3.55%, 01/07/06	54,585	54,585
■ 2.85%, 01/10/06	68,000	68,000	GO Bonds Series 1999		
■ 2.90%, 01/10/06	19,000	19,000	➔■ 3.53%, 01/07/06	10,835	10,835
■ 2.82%, 01/11/06	15,000	15,000	➔■ 3.55%, 01/07/06	13,675	13,675
■ 2.90%, 01/11/06	6,000	6,000	■ GO Bonds Series 2003C-3 3.51%, 01/07/06	20,000	20,000
■ 2.79%, 01/12/06	43,900	43,900	■ GO Bonds Series 2003C-4 3.50%, 01/07/06	2,400	2,400
■ 2.82%, 01/12/06	5,000	5,000	■ GO Bonds Series 2004A-3 3.75%, 01/07/06	9,000	9,000
■ 3.02%, 01/12/06	24,000	24,000	■ GO Bonds Series 2004A-8 3.45%, 01/07/06	5,000	5,000
■ 2.85%, 01/18/06	20,050	20,050	■ GO Bonds Series 2004B-3 3.62%, 01/07/06	4,600	4,600
■ 2.82%, 01/19/06	52,370	52,370	■ GO Bonds Series 2004B-6 3.51%, 01/07/06	21,300	21,300
■ 3.10%, 02/06/06	37,950	37,950	■ GO Bonds Series 2005-B6 3.15%, 01/03/06	60,000	60,000
Economic Recovery Bonds Series 2004A			■ GO Bonds Series 2005-B7 3.15%, 01/07/06	30,000	30,000
■ 3.53%, 01/04/06	100,000	100,000			
➔■ 3.51%, 01/07/06	13,975	13,975			
➔■ 3.53%, 01/07/06	8,872	8,872			

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 CP Notes			Power Supply RB		
3.02%, 01/12/06	57,000	57,000	Series 2002C-14		
2.78%, 01/17/06	45,000	45,000	3.50%, 01/07/06	2,010	2,010
3.07%, 02/08/06	35,000	35,000	Power Supply RB		
GO Refunding Bonds			Series 2002C-17		
3.53%, 01/07/06	45,325	45,325	3.48%, 01/07/06	9,000	9,000
3.54%, 01/07/06	25,330	25,330	Power Supply RB		
3.53%, 01/07/06	6,000	6,000	Series 2002C-3		
GO Refunding Bonds			3.55%, 01/07/06	17,100	17,100
Series 2005			Power Supply RB		
3.54%, 01/07/06	16,125	16,125	Series 2002C-4		
Various Purpose GO Bonds			3.53%, 01/07/06	3,550	3,550
3.53%, 01/07/06	16,385	16,385	Power Supply RB		
3.54%, 01/07/06	3,280	3,280	Series 2002C-8		
Veterans GO Bonds Series CB			3.45%, 01/07/06	3,000	3,000
3.60%, 01/07/06	9,375	9,375	Power Supply RB		
<b>California Alternative Energy</b>			Series 2005F-2		
<b>Source Financing Auth</b>			3.21%, 01/12/06	25,000	25,000
Cogeneration Facility RB			Power Supply RB		
Series 1993B			Series 2005F-5		
3.39%, 01/07/06	13,360	13,360	3.20%, 01/12/06	25,000	25,000
<b>California Dept of Water</b>			Power Supply RB		
<b>Resources</b>			Series 2005G-3		
Power Supply RB Series 2002A			3.18%, 02/02/06	50,000	50,000
3.53%, 01/07/06	43,015	43,015	Power Supply RB		
3.53%, 01/07/06	19,160	19,160	Series 2005G-5		
Power Supply RB			3.31%, 01/07/06	50,000	50,000
Series 2002B-1			Power Supply RB		
3.70%, 01/07/06	8,800	8,800	Series 2005G-6		
Power Supply RB			3.17%, 02/16/06	25,000	25,000
Series 2002B-3			Power Supply RB		
3.65%, 01/07/06	4,800	4,800	Series 2005G-8		
Power Supply RB			3.18%, 02/16/06	50,000	50,000
Series 2002B-4			Water Refunding RB		
3.75%, 01/07/06	2,500	2,500	(Big Bear Lake) Series 1996		
Power Supply RB			3.53%, 01/07/06	8,445	8,445
Series 2002B-6			<b>California Economic</b>		
3.62%, 01/07/06	1,200	1,200	<b>Development Financing Auth</b>		
Power Supply RB			Airport Facilities RB (Mercury		
Series 2002C-1			Air Group) Series 1998		
3.55%, 01/07/06	5,000	5,000	3.55%, 01/07/06	13,000	13,000
Power Supply RB			IDRB (Calco) Series 1997		
Series 2002C-11			3.49%, 01/07/06	480	480
3.34%, 01/07/06	3,100	3,100	IDRB (Gaiser Tool Company)		
			Series 1997		
			3.51%, 01/07/06	1,545	1,545

## 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)
<b>■</b> IDRB (Lion Raisins) Series 1998 3.55%, 01/05/06	1,055	1,055	Home Mortgage RB Series 2003D <b>➔■</b> 3.55%, 01/04/06	18,360	18,360
<b>■</b> IDRB (Serra Microchassis) Series 1997B 3.80%, 01/07/06	3,500	3,500	<b>➔■</b> 3.55%, 01/07/06 <b>➔■</b> Home Mortgage RB Series 2003H 3.52%, 01/07/06	14,700	14,700
<b>California Educational Facilities Auth</b> <b>■</b> RB (California Institute of Technology) Series 2003A 3.55%, 01/07/06	5,645	5,645	Home Mortgage RB Series 2003K <b>■</b> 3.60%, 01/04/06 <b>■</b> 3.60%, 01/07/06	32,755	32,755
<b>■</b> RB (Chapman University) Series 2000 3.60%, 01/07/06	4,500	4,500	Home Mortgage RB Series 2003M <b>■</b> 3.68%, 01/07/06 <b>■</b> 3.55%, 01/07/06	7,000	7,000
<b>■</b> RB (University of Judaism) Series 1998A 3.59%, 01/07/06	5,100	5,100	<b>■</b> Home Mortgage RB Series 2005A 3.55%, 01/07/06	35,110	35,110
<b>➔■</b> RB (University of San Francisco) Series 1996 3.53%, 01/07/06	8,995	8,995	<b>■</b> Home Mortgage RB Series 2005B 3.60%, 01/07/06	13,000	13,000
<b>■</b> RB (University of Southern California) Series 2003C 3.53%, 01/07/06	10,760	10,760	<b>■</b> Home Mortgage RB Series 2005H 3.34%, 01/03/06	19,820	19,820
<b>➔■</b> Refunding RB (Pepperdine University) Series 2005A 3.53%, 01/07/06	15,835	15,835	<b>■</b> M/F Housing RB III Series 2001G 3.58%, 01/07/06	86,360	86,360
<b>California Health Facilities Finance Auth</b> <b>➔■</b> Hospital RB (Adventist Health System/West) Series 1998A 3.70%, 01/03/06	3,000	3,000	<b>■</b> M/F Housing RB III Series 2002E 3.53%, 01/07/06	96,680	96,680
<b>➔■</b> RB (Kaiser Permanente) Series 1998A 3.54%, 01/07/06	9,995	9,995	<b>➔■</b> M/F Housing RB III Series 2005B 3.52%, 01/07/06	10,000	10,000
<b>California HFA</b> <b>➔■</b> Home Mortgage RB Series 1998J 3.57%, 01/07/06	1,365	1,365	<b>■</b> M/F Housing RB III Series 2002A 3.53%, 01/04/06	39,000	39,000
<b>➔■</b> Home Mortgage RB Series 2001R 3.80%, 01/07/06	1,700	1,700	<b>■</b> M/F Housing RB III Series 2002E 3.53%, 01/07/06	33,055	33,055
<b>➔■</b> Home Mortgage RB Series 2002B 3.80%, 01/03/06	38,125	38,125	<b>➔■</b> M/F Housing RB III Series 2005B 3.52%, 01/07/06	48,950	48,950
<b>➔■</b> Home Mortgage RB Series 2002F 3.68%, 01/07/06	13,000	13,000	<b>■</b> S/F Mortgage Bonds II Series 1997C-4 3.53%, 01/07/06	42,395	42,395
			S/F Mortgage RB Draw Down Series 2004B-1 <b>➔■</b> 3.58%, 01/07/06	300	300
			<b>➔■</b> 3.58%, 01/07/06 S/F Mortgage RB Draw Down Series 2004B-2 <b>➔■</b> 3.45%, 01/04/06	16,500	16,500
			<b>➔■</b> 3.58%, 01/07/06 <b>➔■</b> 3.58%, 01/07/06	41,585	41,585
			<b>■</b> 3.58%, 01/07/06 <b>■</b> 3.58%, 01/07/06	10,495	10,495
			<b>■</b> 3.58%, 01/07/06 <b>■</b> 3.58%, 01/07/06	22,620	22,620
			<b>■</b> 3.58%, 01/07/06 <b>■</b> 3.58%, 01/07/06	37,240	37,240
			<b>■</b> 3.58%, 01/07/06 <b>■</b> 3.58%, 01/07/06	16,685	16,685

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)
<b>California Infrastructure and Economic Development Bank</b>					
+ Bay Area Toll Bridges Seismic Retrofit Revenue Notes Series 2005 Second Lien CP Program 3.10%, 02/08/06	17,400	17,400	+■ Solid Waste Disposal RB (Agrifab) Series 2003 3.55%, 01/07/06	2,900	2,900
+■ IDRB (American-De Rosa Lamp Arts) Series 1999 3.56%, 01/07/06	4,950	4,950	+■ Solid Waste Disposal RB (Alameda Cnty Industries) Series 2000A 3.55%, 01/07/06	3,375	3,375
+■ IDRB (Fairmont Sign Co) Series 2000A 3.68%, 01/07/06	4,250	4,250	+■ Solid Waste Disposal RB (Athens Disposal Co) Series 1995A 3.55%, 01/07/06	8,900	8,900
+■ IDRB (Lafayette Textile Industries) Series 1999 3.56%, 01/07/06	595	595	+■ Solid Waste Disposal RB (Athens Disposal Co) Series 1999A 3.55%, 01/07/06	5,100	5,100
+■ IDRB (Nelson Name Plate Co) Series 1999 3.42%, 01/07/06	2,950	2,950	+■ Solid Waste Disposal RB (Athens Services) Series 2001A 3.55%, 01/04/06	3,700	3,700
+■ IDRB (Roller Bearing Co) Series 1999 3.92%, 01/07/06	2,400	2,400	+■ Solid Waste Disposal RB (Atlas Disposal Industries) Series 1999A 3.55%, 01/07/06	3,000	3,000
+■ RB (California Independent System Operator Corp) Series 2004A 3.55%, 01/07/06	4,200	4,200	+■ Solid Waste Disposal RB (BLT Enterprises of Fremont) Series 2005A 3.65%, 01/07/06	7,280	7,280
+■ RB (SRI International) Series 2003A 3.54%, 01/04/06	4,000	4,000	+■ Solid Waste Disposal RB (BLT Enterprises of Sacramento) Series 1999A 3.55%, 01/07/06	6,500	6,500
<b>California Pollution Control Finance Auth</b>			+■ Solid Waste Disposal RB (Blue Line Transfer) Series 1999A 3.55%, 01/07/06	4,100	4,100
+■ Refunding RB (PG&E Co) Series 1996A 3.56%, 01/07/06	34,115	34,115	+■ Solid Waste Disposal RB (Blue Line Transfer) Series 2001A 3.55%, 01/07/06	4,100	4,100
+■ Resource Recovery RB (Sanger) Series 1990A 3.54%, 01/07/06	19,200	19,200	+■ Solid Waste Disposal RB (Burrtec Waste Group) Series 2004 3.55%, 01/07/06	1,985	1,985
+■ Resource Recovery RB (Wadham Energy) Series 1987B 3.54%, 01/07/06	2,700	2,700	+■ Solid Waste Disposal RB (Burrtec Waste Industries) Series 1997B 3.55%, 01/07/06	3,200	3,200
+■ Solid Waste Disposal RB (Ag Resources III) Series 2004 3.55%, 01/07/06	2,790	2,790			

## 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)
<b>■</b> Solid Waste Disposal RB (CR&R Inc) Series 2000A 3.58%, 01/07/06	2,860	2,860	<b>■</b> Solid Waste Disposal RB (Greenwaste of Tehama) Series 1999A 3.55%, 01/07/06	1,175	1,175
<b>■</b> Solid Waste Disposal RB (CR&R Inc) Series 2002A 3.58%, 01/04/06	3,900	3,900	<b>■</b> Solid Waste Disposal RB (Madera Disposal Systems Inc) Series 1998A 3.55%, 01/04/06	1,800	1,800
<b>■</b> Solid Waste Disposal RB (California Waste Solutions) Series 2002A 3.55%, 01/04/06	3,375	3,375	<b>■</b> Solid Waste Disposal RB (Marborg Industries) Series 2000A 3.55%, 01/07/06	4,170	4,170
<b>■</b> Solid Waste Disposal RB (California Waste Solutions) Series 2004A 3.55%, 01/07/06	8,350	8,350	<b>■</b> Solid Waste Disposal RB (Metropolitan Recycling Corp) Series 2000B 3.60%, 01/04/06	3,190	3,190
<b>■</b> Solid Waste Disposal RB (Cheese and Protein International) Series 2001A 3.58%, 01/07/06	10,000	10,000	<b>■</b> Solid Waste Disposal RB (Mottra Corp) Series 2002A 3.65%, 01/04/06	1,910	1,910
<b>■</b> Solid Waste Disposal RB (Cold Canyon Landfill) Series 1998A 3.55%, 01/04/06	5,845	5,845	<b>■</b> Solid Waste Disposal RB (Napa Recycling and Waste Services) Series 2005A 3.65%, 01/07/06	5,260	5,260
<b>■</b> Solid Waste Disposal RB (Contra Costa Waste Service) Series 1995A 3.55%, 01/07/06	1,700	1,700	<b>■</b> Solid Waste Disposal RB (Norcal Waste System) Series 2001 3.55%, 01/04/06	11,015	11,015
<b>■</b> Solid Waste Disposal RB (EDCO Disposal Corp) Series 1996A 3.55%, 01/07/06	12,345	12,345	<b>■</b> Solid Waste Disposal RB (Norcal Waste System) Series 2002A 3.55%, 01/04/06	6,000	6,000
<b>■</b> Solid Waste Disposal RB (EDCO Disposal Corp) Series 2004A 3.55%, 01/07/06	22,200	22,200	<b>■</b> Solid Waste Disposal RB (Norcal Waste System) Series 2003A 3.55%, 01/07/06	4,000	4,000
<b>■</b> Solid Waste Disposal RB (Escondido Disposal/Jemco Equipment Corp) Series 1998A 3.65%, 01/07/06	7,845	7,845	<b>■</b> Solid Waste Disposal RB (Orange Ave Disposal Co) Series 2002A 3.55%, 01/07/06	6,105	6,105
<b>■</b> Solid Waste Disposal RB (Federal Disposal Service) Series 2001A 3.60%, 01/04/06	1,950	1,950	<b>■</b> Solid Waste Disposal RB (Ratto Group of Companies) Series 2001A 3.55%, 01/07/06	3,715	3,715
<b>■</b> Solid Waste Disposal RB (Greenteam of San Jose) Series 2001A 3.55%, 01/07/06	10,100	10,100	<b>■</b> Solid Waste Disposal RB (Sanco Services) Series 2002A 3.65%, 01/04/06	3,200	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)
<b>■</b> Solid Waste Disposal RB (Santa Clara Valley Disposal) Series 2001A 3.55%, 01/07/06	4,160	4,160	<b>■</b> Lease RB Series 1999A 3.53%, 01/07/06	9,985	9,985
<b>■</b> Solid Waste Disposal RB (Santa Clara Valley Industries) Series 1998A 3.60%, 01/07/06	2,100	2,100	<b>■</b> Lease RB Series 2005E 3.53%, 01/07/06	11,130	11,130
<b>■</b> Solid Waste Disposal RB (Solag Disposal) Series 1997A 3.58%, 01/04/06	2,135	2,135	<b>■</b> Lease Refunding RB (Dept of Corrections and Rehabilitation) Series 2005J 3.40%, 01/07/06	25,000	25,000
<b>■</b> Solid Waste Disposal RB (Specialty Solid Waste and Recycling) Series 2001A 3.60%, 01/04/06	2,280	2,280	<b>■</b> Lease Refunding RB (Dept of Corrections) Series 1993A 3.53%, 01/07/06	3,000	3,000
<b>■</b> Solid Waste Disposal RB (Talco Plastics) Series 1997A 3.56%, 01/07/06	3,275	3,275	<b>■</b> Lease Refunding RB (Dept of Corrections) Series 2004E 3.54%, 01/07/06	7,100	7,100
<b>■</b> Solid Waste Disposal RB (Valley Vista Services) Series 2003A 3.55%, 01/04/06	3,905	3,905	<b>California School Cash Reserve Program Auth</b>		
<b>■</b> Solid Waste Disposal RB (West Valley MRF) Series 1997A 3.65%, 01/07/06	3,260	3,260	<b>■</b> Pool Bonds Series 2005A 2.60%, 07/06/06	54,175	54,552
<b>■</b> Solid Waste Disposal RB (Zanker Road Landfill) Series 1999C 3.60%, 01/07/06	5,420	5,420	<b>California State University</b>		
<b>■</b> Solid Waste RB (CR&R Inc) Series 1995A 3.58%, 01/07/06	3,160	3,160	<b>■</b> Systemwide RB Series 2005C 3.53%, 01/07/06	81,435	81,435
<b>■</b> Solid Waste RB (Greenteam of San Jose) Series 1997A 3.55%, 01/07/06	1,120	1,120	<b>California Statewide Communities Development Auth</b>		
<b>California Public Works Board</b>			<b>■</b> COP (Sutter Health Related Group) 3.53%, 01/07/06	5,000	5,000
<b>■</b> Lease RB (Regents of the University of California) Series 2005C 3.53%, 01/07/06	8,140	8,140	<b>■</b> IDRb (Biocol Investments) Series 1997B 3.65%, 01/07/06	1,405	1,405
<b>■</b> Lease RB (University of California) Series 1997C 3.55%, 01/07/06	10,900	10,900	<b>■</b> IDRb (Cowden Metal Stamping and Tooling) Series 1997A 3.65%, 01/07/06	1,145	1,145
<b>■</b> Lease RB (University of California) Series 2005C 3.53%, 01/07/06	26,740	26,740	<b>■</b> IDRb (Golden Valley Grape Juice and Wine) Series 1998 3.60%, 01/04/06	630	630
			<b>■</b> IDRb (Integrated Rolling Co) Series 1999A 3.42%, 01/07/06	1,300	1,300
			<b>■</b> IDRb (RL Group) Series 1998C 3.60%, 01/04/06	1,485	1,485
			<b>■</b> M/F Housing RB (Agave at Elk Grove Apts) Series 2003DD 3.55%, 01/07/06	15,100	15,100

## 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)
■ M/F Housing RB (Bay Vista at MeadowPark Apts) Series 2003NN-1 3.58%, 01/07/06	15,000	15,000	■ M/F Housing RB (Oakmont of Concord) Series 2002Q 3.55%, 01/07/06	25,000	25,000
■ M/F Housing RB (Bay Vista at MeadowPark Apts) Series 2003NN-2 3.58%, 01/07/06	5,000	5,000	■ M/F Housing RB (Park David Senior Apts) Series 1999D 3.55%, 01/07/06	8,220	8,220
■ M/F Housing RB (Creekside at MeadowPark Apts) Series 2002HH 3.55%, 01/07/06	10,135	10,135	■ M/F Housing RB (Plaza Club Apts) Series 1997A 3.54%, 01/07/06	10,290	10,290
■ M/F Housing RB (Cypress Villa Apts) Series 2000F 3.55%, 01/07/06	4,725	4,725	■ M/F Housing RB (Rancho Santa Fe Village Apts) Series 2004EE 3.46%, 01/07/06	13,000	13,000
■ M/F Housing RB (Dublin Ranch Senior Apts) Series 2003OO 3.58%, 01/07/06	15,090	15,090	■ M/F Housing RB (Sagewood At Stonebridge Estates) Series 2005CC 3.55%, 01/07/06	9,100	9,100
■ M/F Housing RB (Emerald Gardens Apts) Series 2000E 3.55%, 01/07/06	7,320	7,320	■ M/F Housing RB (Silvercrest Residence) Series 2003EEE 3.55%, 01/07/06	23,130	23,130
■ M/F Housing RB (Fairway Family Apts) Series 2003PP 3.58%, 01/07/06	30,000	30,000	■ M/F Housing RB (The Belmont) Series 2005F 3.55%, 01/07/06	10,500	10,500
■ M/F Housing RB (Heritage Oaks Apts) Series 2004YY 3.55%, 01/07/06	7,000	7,000	■ M/F Housing RB (The Crossings Senior Apts-Phase II) Series 2005J 3.58%, 01/07/06	7,425	7,425
■ M/F Housing RB (Kimberly Woods Apts) Series 1995B 3.61%, 01/07/06	13,400	13,400	■ M/F Housing RB (The Fountains At Seacliff Apts) Series 2002Y 3.55%, 01/05/06	12,540	12,540
■ M/F Housing RB (Las Flores Village Apts) Series 2004JJ 3.46%, 01/07/06	13,500	13,500	■ M/F Housing RB (Valley Palms Apts) Series 2002C 3.55%, 01/07/06	12,000	12,000
■ M/F Housing RB (Laurel Park Senior Apts) Series 2002H 3.58%, 01/07/06	5,500	5,500	■ M/F Housing RB (Villas at Hamilton Apts) Series 2001HH 3.55%, 01/07/06	11,440	11,440
■ M/F Housing RB (Los Padres Apts) Series 2003E 3.55%, 01/07/06	10,750	10,750	■ M/F Housing RB (Wilshire Court Apts) Series 2003M 3.55%, 01/07/06	15,000	15,000
■ M/F Housing RB (Marlin Cove Apts) Series 2000V 3.55%, 01/07/06	8,000	8,000	■ M/F Housing RB (Wilshire Court Apts) Series 2004AAA 3.55%, 01/07/06	15,000	15,000
■ M/F Housing RB (Oak Center Towers) Series 2005L 3.55%, 01/07/06	11,450	11,450	■ M/F Housing RB (Woodsong Apts) Series 1997B 3.39%, 01/07/06	3,127	3,127

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)
<b>+</b> ■ M/F Housing RB (Wyndover Apts) Series 2004LL 3.55%, 01/07/06	9,000	9,000	<b>Central Unified SD</b> <b>+</b> ■ GO Refunding Bonds Series 2005 3.53%, 01/07/06	11,855	11,855
<b>+</b> ■ M/F Housing Refunding RB (Crystal View Apts) Series 2004A 3.55%, 01/07/06	7,075	7,075	<b>Clovis Unified SD</b> TRAN Series 2005 2.74%, 07/05/06	19,000	19,118
<b>+</b> ■ RB (Elder Care Alliance) Series 2000 3.53%, 01/07/06	12,560	12,560	<b>Contra Costa Cnty</b> <b>+</b> ■ M/F Mortgage RB (El Cerrito Royale) Series 1987A 3.55%, 01/07/06	2,480	2,480
<b>+</b> ■ RB (Japanese American National Museum) Series 2000A 3.50%, 01/07/06	4,500	4,500	<b>Contra Costa Water District</b> <b>+</b> ■ Refunding RB Series N 3.53%, 01/07/06	10,300	10,300
<b>+</b> ■ RB (Jewish Federation Council of Greater Los Angeles) Series 2000A 3.58%, 01/07/06	2,100	2,100	<b>Davis Community Facilities District No.1992-2</b> <b>+</b> ■ Special Tax Bonds (East Davis Mace Ranch Area II) Series 2000 3.51%, 01/07/06	3,100	3,100
<b>+</b> ■ RB (Laurence School) Series 2003 3.55%, 01/07/06	3,875	3,875	<b>Diamond Bar Public Financing Auth</b> <b>+</b> ■ Lease RB (Community/Senior Center) Series 2002A 3.68%, 01/04/06	5,675	5,675
<b>+</b> ■ RB (National Public Radio) Series 2002 3.54%, 01/04/06	1,365	1,365	<b>Dublin Housing Auth</b> <b>+</b> ■ M/F Housing RB (Park Sierra At Iron Horse Trail) Series 1998A 3.51%, 01/04/06	14,900	14,900
<b>+</b> ■ RB (Painted Turtle) Series 2003 3.55%, 01/07/06	13,650	13,650	<b>East Bay Municipal Utility District</b> <b>+</b> ■ Water System Subordinated RB Series 2005A 3.55%, 01/07/06	5,775	5,775
<b>+</b> ■ Refunding RB (13th and I Associates) Series 1991 3.65%, 01/07/06	3,905	3,905	<b>East Side Union High SD</b> <b>+</b> ■ GO Refunding Bonds Series 2003B 3.53%, 01/07/06	24,010	24,010
TRAN Series 2005A-2 2.62%, 06/30/06	12,500	12,583			
TRAN Series 2005A-3 2.62%, 06/30/06	7,500	7,550			
TRAN Series 2005A-4 2.63%, 06/30/06	27,500	27,681			
TRAN Series 2005A-4 2.62%, 06/30/06	42,500	42,782			
TRAN Series 2005A-5 2.62%, 06/30/06	50,000	50,332			
TRAN Series 2005A-5 2.63%, 06/30/06	19,500	19,628			
<b>Carlsbad</b>					
<b>+</b> ■ M/F Housing Refunding RB (Santa Fe Ranch Apts) Series 1993A 3.49%, 01/07/06	14,400	14,400			

## Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>El Cajon Redevelopment Agency</b>			<b>Golden West Schools Financing Auth</b>		
+■ M/F Housing RB (Park-Mollison and Madison Apts) Series 1998 3.54%, 01/07/06	4,800	4,800	+■ GO RB (Beverly Hills Unified SD) Series 2005 3.53%, 01/07/06	8,920	8,920
<b>El Camino Community College District</b>			<b>Hayward</b>		
+■ GO Bonds Series 2003A 3.52%, 01/07/06	16,100	16,100	+■ M/F Housing RB (Lord Tennyson Apts) Series 2005A 3.46%, 01/07/06	13,915	13,915
<b>Elk Grove Unified SD</b>			+■ M/F Housing RB (Shorewood Apts) Series 1984A 3.51%, 01/07/06	12,100	12,100
2005-06 TRAN 3.00%, 07/06/06	23,000	23,082	<b>Hayward Housing Auth</b>		
<b>Emeryville Redevelopment Agency</b>			+■ M/F Mortgage Refunding RB (Huntwood Terrace Apts) Series 1993A 3.58%, 01/07/06	5,255	5,255
+■ M/F Housing RB (Bay St Apts) Series 2002A 3.57%, 01/07/06	46,215	46,215	<b>Hercules Public Financing Auth</b>		
<b>Escondido</b>			+■ Lease RB Series 2003A 3.55%, 01/07/06	7,000	7,000
+■ M/F Housing RB (Via Roble Apts) Series 2003A 3.55%, 01/07/06	6,900	6,900	<b>Hercules Redevelopment Agency</b>		
<b>Evergreen Elementary SD</b>			+■ IDRB (Pro Media) Series 2000A 3.92%, 01/07/06	2,500	2,500
+■ GO Refunding Bonds Series 2005 3.53%, 01/07/06	16,210	16,210	<b>Huntington Beach</b>		
<b>Fillmore Public Financing Auth</b>			+■ M/F Housing RB (Five Points Seniors) Series 1991A 3.54%, 01/07/06	9,500	9,500
+■ RB (Central City Redevelopment Area) Series 2003A 3.51%, 01/07/06	2,585	2,585	<b>Huntington Park Redevelopment Agency</b>		
<b>Foothill-DeAnza Community College District</b>			+■ M/F Housing RB (Casa Rita Apts) Series 1994A 3.54%, 01/07/06	4,950	4,950
+■ GO Bonds Series A 3.53%, 01/07/06	9,970	9,970	<b>Irvine Assessment District No. 04-20</b>		
<b>Fresno IDA</b>			+■ Limited Obligation Improvement Bonds Series A 3.62%, 01/07/06	5,900	5,900
+■ IDRB (Keiser Corp) Series 1997 3.56%, 01/07/06	1,365	1,365	<b>Irvine Assessment District No. 93-14</b>		
<b>Golden State Tobacco Securitization Corp</b>			+■ Limited Obligation Improvement Bonds Series 2000 3.72%, 01/07/06	17,411	17,411
Enhanced Tobacco Settlement Asset-Backed Bonds Series 2005A					
+■ 3.53%, 01/07/06	36,000	36,000			
+■ 3.57%, 01/07/06	33,190	33,190			

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)
<b>Irvine Assessment District No. 97-16</b>			<b>+■ M/F Housing RB Series 1985K</b>		
<b>+■ Limited Obligation Improvement Bonds (Northwest Irvine) Series 1997</b>			<b>+■ M/F Housing Refunding RB (Tri-City) Series 2001I</b>		
3.62%, 01/07/06	1,600	1,600	3.45%, 01/07/06	852	852
<b>Irvine Ranch Water District</b>			<b>+■■■ Special Tax Bonds (Community Facilities District No. 4-Playa Vista) Series 2003</b>		
<b>+■ Consolidated GO (Improvement Districts No. 140, 240, 105, &amp; 250) Series 1993</b>			<b>3.53%, 01/07/06</b>		
3.62%, 01/07/06	1,300	1,300	<b>TRAN Series 2005</b>		
<b>+■ Sewer Bonds (Improvement District No. 284-Election 1988) Series A</b>			<b>2.68%, 06/30/06</b>		
3.72%, 01/07/06	1,700	1,700	<b>TRAN Series 2005</b>		
<b>Kern Cnty</b>			<b>3.19%, 06/30/06</b>		
<b>2005-06 TRAN</b>			<b>Los Angeles Cnty</b>		
3.02%, 06/30/06	40,660	40,846	<b>2005-06 TRAN Series A</b>		
<b>Long Beach</b>			<b>2.54%, 06/30/06</b>		
<b>+■■■ Harbor Refunding RB Series 2005A</b>			<b>2005-06 TRAN Series A</b>		
3.56%, 01/07/06	3,015	3,015	<b>2.75%, 06/30/06</b>		
<b>Long Beach Harbor</b>			<b>Los Angeles Cnty Capital Asset Leasing Corp</b>		
<b>+■■■ RB Series 2002A</b>			<b>+ Lease Revenue CP Notes</b>		
3.50%, 01/07/06	355	355	<b>3.17%, 01/13/06</b>		
<b>+■■■ Refunding RB Series 2005A</b>			<b>Los Angeles Cnty Metropolitan Transportation Auth</b>		
3.56%, 01/07/06	10,730	10,730	<b>+■■■ Sales Tax RB Series 1997A</b>		
<b>Long Beach Harbor Facilities Corp</b>			<b>3.53%, 01/07/06</b>		
<b>Harbor TECP Series A</b>			<b>Second Subordinate Sales Tax Revenue CP Series A</b>		
▶ 3.10%, 02/08/06	28,750	28,750	<b>+ 3.10%, 02/06/06</b>		
▶ 3.15%, 02/09/06	27,400	27,400	<b>+ 3.15%, 02/07/06</b>		
<b>Los Angeles</b>			<b>+■■■ Sr Sales Tax RB Series 2001A</b>		
<b>+■■■ GO Bonds Series 2004A</b>			<b>3.52%, 01/07/06</b>		
3.53%, 01/07/06	9,000	9,000	<b>+■■■ Sr Sales Tax Refunding RB Series 2001B</b>		
<b>+■■■ GO Refunding Bonds Series 1998A</b>			<b>3.55%, 01/07/06</b>		
3.53%, 01/07/06	4,150	4,150	<b>Los Angeles Community College District</b>		
<b>+■ M/F Housing RB (Beverly Park Apts) Series 1988A</b>			<b>+■■■ GO Refunding Bonds (2001 Election) Series 2005A</b>		
3.55%, 01/07/06	34,000	34,000	<b>3.53%, 01/07/06</b>		
<b>+■ M/F Housing RB (Channel Gateway Apts) Series 1989B</b>			<b>Los Angeles Community Redevelopment Agency</b>		
3.54%, 01/07/06	32,265	32,265	<b>+■■■ Lease RB (Vermont Manchester Social Services) Series 2005</b>		
<b>+■ M/F Housing RB (Fountain Park Phase II) Series 2000B</b>			<b>3.55%, 01/07/06</b>		
3.60%, 01/05/06	14,185	14,185	<b>16,195</b>		

## 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)
<b>+</b> M/F Housing RB (Metropolitan Lofts Apts) Series 2002A 3.58%, 01/05/06	17,750	17,750	<b>+</b> GO Bonds (Election of 2002) Series 2003A 3.54%, 01/07/06	20,790	20,790
<b>+</b> M/F Housing RB (Wilshire Station Apts) Series 2003A 3.76%, 01/03/06	3,500	3,500	GO Bonds (Election of 2004) Series 2005E 4.00%, 07/01/06	6,000	6,037
<b>Los Angeles Dept of Water and Power</b>			<b>+</b> GO Bonds Series 1999C 3.51%, 01/07/06	16,400	16,400
<b>+</b> Power Supply RB Series 2005A-1 3.55%, 01/07/06	58,340	58,340	<b>+</b> GO Refunding Bonds Series 2005A-1 3.54%, 01/07/06	14,565	14,565
<b>+</b> Power System RB Series 2001A 3.55%, 01/07/06	24,750	24,750	<b>+</b> GO Refunding Bonds Series 2005A-2 3.55%, 01/07/06	17,400	17,400
<b>+</b> Power System RB Series 2001A-1 3.54%, 01/07/06	15,000	15,000	<b>Los Angeles Wastewater System</b>		
<b>+</b> Power System RB Series 2005A-2 3.53%, 01/05/06	20,800	20,800	<b>+</b> RB Series 1998A 3.53%, 01/07/06	17,000	17,000
<b>+</b> Power System Revenue CP Notes 3.08%, 02/07/06	8,000	8,000	<b>+</b> Refunding RB Series 2002A 3.53%, 01/07/06	12,245	12,245
<b>+</b> 3.10%, 02/07/06	49,000	49,000	<b>Madera Cnty</b>		
<b>+</b> 3.10%, 02/08/06	30,000	30,000	<b>+</b> Lease RB (Madera Municipal Golf Course Refinancing) Series 1993	2,945	2,945
<b>+</b> 3.13%, 02/08/06	40,000	40,000	3.46%, 01/07/06		
<b>+</b> Water System RB Series 2001A 3.53%, 01/07/06	12,707	12,707	<b>Madera Irrigation Financing Auth</b>		
<b>+</b> Water Works RB Series 1999 3.53%, 01/07/06	22,090	22,090	<b>+</b> Water RB Series 2005A 3.75%, 01/03/06	4,400	4,400
<b>Los Angeles Harbor</b>			<b>Martinez</b>		
<b>+</b> Refunding RB Series 2005 A&B 3.53%, 01/07/06	22,935	22,935	<b>+</b> M/F Housing Refunding RB (Muirwood Garden Apts) Series 2003A	6,800	6,800
<b>Los Angeles Municipal Improvement Corp</b>			3.50%, 01/04/06		
<b>+</b> Lease Revenue TECP Series A-1 2.79%, 01/18/06	5,000	5,000	<b>Mt San Antonio Community College District</b>		
<b>+</b> 3.08%, 02/07/06	19,481	19,481	<b>+</b> GO Bonds (2001 Election) Series 2004B	13,140	13,140
<b>+</b> 3.13%, 02/08/06	5,000	5,000	3.52%, 01/07/06		
<b>Los Angeles Unified SD</b>			<b>Oakland</b>		
<b>+</b> 2005 GO Refunding Bonds Series A-1 3.53%, 01/07/06	8,765	8,765	<b>+</b> Insured RB (180 Harrison Foundation) Series 1999A	4,500	4,500
<b>+</b> 2005 GO Refunding Bonds Series A-2 3.53%, 01/07/06	12,665	12,665	<b>Oceanside</b>		
2005-06 TRAN Series A 2.66%, 10/18/06	50,000	50,613	<b>+</b> M/F Mortgage RB (Riverview Springs Apts) Series 1990A	14,570	14,570
2.94%, 10/18/06	67,185	67,864			

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)
<b>Ohlone Community College District</b>			<b>Pittsburg Redevelopment Agency</b>		
➔■ GO Bonds (Election of 2002) Series B 3.53%, 01/07/06	10,000	10,000	➔■ Subordinate Tax Allocation Bonds (Los Medanos Community Development) Series 2004A 3.75%, 01/07/06	1,700	1,700
<b>Orange Cnty</b>			<b>Pleasant Hill</b>		
■ Apartment Development Refunding RB (Villas Aliento) Series 1998E 3.50%, 01/07/06	4,500	4,500	■ M/F Mortgage RB (Brookside Apts) Series 1988A 3.34%, 01/07/06	4,200	4,200
■ COP (Florence Crittenton Services) Series 1990 3.37%, 01/07/06	4,900	4,900	<b>Pleasanton</b>		
<b>Orange Cnty Local Transportation Auth</b>			■ M/F Housing RB (Busch Senior Housing) Series 2003A 3.55%, 01/07/06	13,360	13,360
■ Sales Tax Revenue CP Notes 3.11%, 02/09/06	29,100	29,100	<b>Port of Oakland</b>		
<b>Orange Cnty Sanitation District</b>			■ CP Series D 3.12%, 02/08/06	62,213	62,213
➔■ COP Series 2003 3.53%, 01/07/06	2,132	2,132	■ M/F Mortgage RB (Brookside Apts) Series 1988A 3.34%, 01/07/06	15,000	15,000
■ Refunding COP Series 2000A 3.62%, 01/07/06	3,500	3,500	■ M/F Mortgage RB (Brookside Apts) Series 1988A 3.34%, 01/07/06	22,995	22,995
■ Refunding COP Series 2000B 3.62%, 01/07/06	7,700	7,700	➔■ RB Series 2002L 3.56%, 01/07/06	13,000	13,000
<b>Palo Alto Unified SD</b>			<b>Rancho Santiago Community College District</b>		
■ GO Bonds (Election of 1995) Series B 3.53%, 01/04/06	6,000	6,000	➔■ GO Bonds (Election of 2002) Series B 3.54%, 01/07/06	10,000	10,000
<b>Petaluma Community Development Commission</b>			<b>Redwood City</b>		
■ M/F Housing RB (Oakmont) Series 1996A 3.58%, 01/07/06	3,350	3,350	■ COP (City Hall) Series 1998 3.55%, 01/07/06	5,125	5,125
<b>Petaluma SD</b>			<b>Richmond</b>		
TRAN Series 2005 2.58%, 07/06/06	4,020	4,048	■ M/F Housing RB (Baycliff Apts) Series 2004A 3.55%, 01/07/06	28,800	28,800
<b>Pinole Redevelopment Agency</b>			<b>Riverside Cnty</b>		
■ M/F Housing RB (East Bluff Apts) Series 1998A 3.60%, 01/07/06	4,959	4,959	■ Transportation Commission CP Notes (Limited Tax Bonds) 3.10%, 02/06/06	10,904	10,904
			<b>Riverside Cnty Housing Auth</b>		
			■ M/F Housing RB (Victoria Springs Apts) Series 1989C 3.54%, 01/07/06	9,000	9,000
			<b>Roseville Joint Union High SD</b>		
			➔■ COP Series 2003 3.55%, 01/07/06	5,935	5,935

## 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)
<b>Sacramento Area Flood Control Agency</b>			<b>San Diego Cnty and SD Pool Program</b>		
+■ Bonds (North Area Local Project Capital Assessment District No. 2) Series 2005 3.53%, 01/07/06	7,465	7,465	TRAN Series 2005A 2.53%, 07/14/06	45,000	45,319
<b>Sacramento Cnty</b>			<b>San Diego Cnty Regional Airport Auth</b>		
2005 TRAN Series A 4.00%, 07/10/06	4,470	4,499	+■ Refunding RB Series 2005 3.56%, 01/07/06	5,910	5,910
+■ Special Facilities Airport RB (Cessna Aircraft Co) Series 1998 3.51%, 01/07/06	3,300	3,300	<b>San Diego Community College District</b>		
<b>Sacramento Cnty Housing Auth</b>			GO Bonds (Election of 2002) Series 2005		
+■ M/F Housing RB (Carlton Plaza Senior Apts) Series 2003E 3.58%, 01/07/06	14,000	14,000	+■ 3.53%, 01/07/06	5,275	5,275
+■ M/F Housing RB (Hastings Park Apts) Series 2004G 3.55%, 01/07/06	16,500	16,500	+■ 3.55%, 01/07/06	25,600	25,600
+■ M/F Housing RB (Hidden Oaks Apts) Series 1999C 3.55%, 01/07/06	6,300	6,300	+■ GO Series 2005 3.53%, 01/07/06	17,495	17,495
+■ M/F Housing Refunding RB (Chesapeake Commons Apts) Series 2001C 3.54%, 01/07/06	28,000	28,000	<b>San Diego Housing Auth</b>		
<b>Sacramento Cnty Sanitation District</b>			+■ M/F Housing RB (Delta Village Apts) Series 2005A 3.54%, 01/07/06	9,000	9,000
+■ RB Series 2000A 3.53%, 01/07/06	6,090	6,090	+■ M/F Housing RB (Hillside Garden Apts) Series 2004B 3.55%, 01/07/06	13,595	13,595
<b>Sacramento Finance Auth</b>			+■ M/F Mortgage Refunding RB (Creekside Villa Apts) Series 1999B 3.54%, 01/07/06	6,000	6,000
+■ Refunding RB (Solid Waste, Redevelopment and Master Lease Program) Series 2005 3.53%, 01/07/06	16,810	16,810	<b>San Diego Unified SD</b>		
<b>Sacramento Housing Auth</b>			2005-2006 TRAN Series A 2.64%, 07/24/06	60,000	60,444
+■ M/F Housing RB (Atrium Court Apts) 2002G 3.55%, 01/07/06	17,200	17,200	+■ GO Bonds Series 2002D 3.52%, 01/07/06	12,280	12,280
+■ M/F Housing RB (St Anton Building Apts) Series 2003I 3.55%, 01/07/06	8,000	8,000	+■ GO Bonds Series 2003E 3.52%, 01/07/06	21,665	21,665
<b>Sacramento Redevelopment Agency</b>			<b>San Francisco Airports Commission</b>		
+■ M/F Housing RB (18th and L Apts) Series 2002E 3.55%, 01/05/06	21,075	21,075	+■ Second Series RB (San Francisco International Airport) Series 18B 3.53%, 01/07/06	16,255	16,255
			+■ Second Series RB (San Francisco International Airport) Series 24A 3.58%, 01/07/06	12,670	12,670
			<b>San Francisco City and Cnty</b>		
			+■ GO Bonds (Laguna Honda Hospital-1999) Series 2005D 3.45%, 01/07/06	3,100	3,100



Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>GO Bonds Series 2005 F&amp;G</b>			<b>M/F Housing RB (Almaden Family Apts) Series 2003D</b>		
3.53%, 01/07/06	5,000	5,000	3.55%, 01/07/06	5,000	5,000
<b>M/F Housing RB (Carter Terrace Apts) Series 2002B</b>			<b>M/F Housing RB (Almaden Lake Village Apts) Series 1997A</b>		
3.54%, 01/07/06	2,700	2,700	3.54%, 01/07/06	20,400	20,400
<b>M/F Housing Refunding RB (City Heights Apts) Series 1997A</b>			<b>M/F Housing RB (Betty Anne Gardens Apts) Series 2002A</b>		
3.61%, 01/04/06	19,800	19,800	3.54%, 01/07/06	7,510	7,510
<b>San Francisco City and Cnty Redevelopment Agency</b>			<b>M/F Housing RB (El Paseo Apts) Series 2002B</b>		
<b>M/F Housing RB (Derek Silva Community) Series 2002D</b>			3.54%, 01/07/06	5,145	5,145
3.54%, 01/07/06	5,900	5,900	<b>M/F Housing RB (Raintree Apts) Series 2005A</b>		
<b>M/F Housing RB (Notre Dame Apts) Series 2000G</b>			3.54%, 01/07/06	10,500	10,500
3.50%, 01/04/06	14,200	14,200	<b>M/F Housing RB (Siena at Renaissance Square Apts) Series 1996A</b>		
<b>M/F Housing RB (Ocean Beach Apts) Series 2001B</b>			3.55%, 01/07/06	21,500	21,500
3.64%, 01/04/06	7,135	7,135	<b>San Jose Financing Auth</b>		
<b>M/F Housing Refunding RB (Fillmore Center) Series 1992A-2</b>			<b>Lease RB (Land Acquisition) Series 2005B</b>		
3.51%, 01/07/06	3,750	3,750	3.55%, 01/07/06	12,845	12,845
<b>San Francisco Cnty Transportation Auth</b>			<b>San Jose Redevelopment Agency</b>		
CP Series A&B			<b>M/F Housing RB (101 San Fernando Apts) Series 1998A</b>		
2.89%, 01/10/06	10,000	10,000	3.50%, 01/04/06	38,000	38,000
3.00%, 01/11/06	12,500	12,500	<b>Tax Allocation Bonds (Merged Area Redevelopment) Series 2005C</b>		
3.10%, 02/09/06	27,500	27,500	3.51%, 01/07/06	16,575	16,575
3.10%, 02/14/06	7,200	7,200	<b>Tax Allocation Bonds (Merged Area Redevelopment) Series 2005D</b>		
<b>San Francisco Unified SD</b>			3.50%, 01/07/06	10,000	10,000
<b>GO Bonds (Election of 2003) Series 2005B</b>			<b>Tax Allocation Refunding Bonds (Merged Area Redevelopment) Series 2005A</b>		
3.53%, 01/07/06	9,810	9,810	3.53%, 01/07/06	16,490	16,490
<b>GO Bonds (Prop A, Election of 2003) Series 2005B</b>			3.54%, 01/07/06	12,695	12,695
3.55%, 01/07/06	2,645	2,645			
<b>San Gabriel Valley Council of Governments</b>					
<b>GAN (Alameda Corridor-East Construction)</b>					
3.10%, 02/09/06	37,400	37,400			
<b>San Jose</b>					
<b>GO Bonds (Libraries, Parks and Public Safety) Series 2002</b>					
3.53%, 01/07/06	11,223	11,223			

## 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)
<b>San Jose-Evergreen Community College District</b>			<b>South Coast Local Education Agencies</b>		
+►■ GO Bonds (Election of 2004) Series A 3.55%, 01/07/06	10,755	10,755	Pooled TRAN Series 2005A 3.22%, 06/30/06	35,000	35,123
<b>San Marcos Redevelopment Agency</b>			Pooled TRAN Series 2005A 3.04%, 06/30/06	15,000	15,067
+■ M/F Housing RB (Grandon Village) Series 2002A 3.46%, 01/07/06	13,500	13,500	<b>South Placer Wastewater Auth</b>		
<b>San Mateo Cnty Transit District</b>			+►■ RB Series B 3.50%, 01/07/06	5,200	5,200
Limited Tax Refunding Bonds Series 2005A			<b>South San Francisco</b>		
+►■ 3.53%, 01/07/06	8,765	8,765	+■ M/F Housing RB (Magnolia Plaza Apts) Series 1987A 3.54%, 01/07/06	5,500	5,500
+►■ 3.54%, 01/07/06	15,755	15,755	<b>Southern California HFA</b>		
<b>Santa Barbara Cnty</b>			■ S/F Mortgage RB Series 2004A 3.53%, 01/07/06	24,500	24,500
2005-2006 TRAN Series A 2.63%, 07/25/06	28,500	28,713	■ S/F Mortgage RB Series 2004B 3.53%, 01/07/06	15,960	15,960
<b>Santa Clara Cnty Housing Auth</b>			<b>Southern California Metropolitan Water District</b>		
+■ M/F Housing RB (Monte Vista Terrace Apts) Series 2005C 3.60%, 01/07/06	7,000	7,000	■ RB Series 2005B-2 3.50%, 01/05/06	6,000	6,000
<b>Santa Fe Springs IDA</b>			■ Refunding RB Series 2001B-1 3.45%, 01/07/06	3,000	3,000
+■ IDRb (Tri-West) Series 1983 3.10%, 01/30/06	4,000	4,000	■ Water RB Series 2001C-2 3.75%, 01/07/06	9,400	9,400
<b>Santa Rosa</b>			<b>Southern California Public Power Auth</b>		
+■ Wastewater Refunding RB Series 2004A 3.55%, 01/07/06	24,000	24,000	+►■ Refunding RB (San Juan Power-Unit 3) Series 2005A 3.55%, 01/07/06	6,250	6,250
<b>Santa Rosa Housing Auth</b>			<b>Stockton</b>		
+■ M/F Housing RB (Quail Run Apts) Series 1997A 3.63%, 01/07/06	8,380	8,380	+■ Special Tax Bonds (Arch Road East Community Facilities District No. 99-02) Series 1999 3.51%, 01/07/06	1,100	1,100
<b>Sierra Joint Community College District</b>			<b>Sunnyvale</b>		
+►■ GO Bonds (School Facilities Improvement District No.1 & 2-Election of 2004) Series A 3.53%, 01/07/06	12,460	12,460	+►■ COP (Government Center Site Acquisition) Series 2001A 3.48%, 01/07/06	7,095	7,095
<b>Sonoma Cnty Junior College District</b>			<b>Sweetwater Union High SD</b>		
GO Bonds (Election of 2002) Series B			+►■ GO Bonds (Election of 2000) Series C 3.53%, 01/07/06	19,020	19,020
+►■ 3.53%, 01/07/06	19,790	19,790			
+►■ 3.53%, 01/07/06	6,420	6,420			

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)
<b>University of California</b>			<b>Puerto Rico 2.0%</b>		
➔■ General RB Series 2003A 3.53%, 01/07/06	17,270	17,270	<b>Puerto Rico</b>		
General RB Series 2005F			➔■ Public Improvement Bonds Series 2000 3.50%, 01/07/06	2,700	2,700
➔■ 3.53%, 01/07/06	11,515	11,515	➔■ Public Improvement Bonds Series 2001A 3.53%, 01/07/06	200	200
➔■ 3.53%, 01/07/06	10,904	10,904	➔■ Public Improvement Bonds Series 2001B 3.54%, 01/07/06	2,295	2,295
➔■ General RB Series G 3.53%, 01/07/06	18,070	18,070	➔■ Public Improvement Refunding Bonds Series 2002A 3.61%, 01/07/06	4,995	4,995
Limited Project RB Series 2005B			➔■ Public Improvement and Refunding Bonds Series 2000 3.51%, 01/07/06	2,835	2,835
➔■ 3.55%, 01/04/06	7,000	7,000	✚ TRAN Series 2006 3.23%, 07/28/06	50,000	50,356
■ 3.54%, 01/07/06	12,200	12,200	<b>Puerto Rico Electric Power Auth</b>		
■ RB (Multiple Purpose) Series K 3.55%, 01/07/06	19,430	19,430	RB Series HH		
➔■ RB (Multiple Purpose) Series O 3.53%, 01/07/06	7,495	7,495	➔■ 3.54%, 01/07/06	6,565	6,565
<b>Ventura Cnty</b>			➔■ 3.54%, 01/07/06	5,000	5,000
TRAN Series 2005-06 2.54%, 07/03/06	50,000	50,357	➔■ RB Series II 3.54%, 01/07/06	7,405	7,405
<b>Victor Valley Community College District</b>			➔■ Refunding RB Series SS 3.54%, 01/07/06	4,045	4,045
➔■ COP Series 1997 3.55%, 01/07/06	50,275	50,275	<b>Puerto Rico Highway and Transportation Auth</b>		
<b>Western Placer Unified SD</b>			➔■ Highway Refunding RB Series BB 3.52%, 01/07/06	1,630	1,630
➔■ COP (School Facilities) Series 2003 3.55%, 01/07/06	8,600	8,600	➔■ RB Series 2000B 3.51%, 01/07/06	4,945	4,945
<b>Westminister Redevelopment Agency</b>			➔■ RB Series G and Subordinated RB Series 2003 3.54%, 01/07/06	9,380	9,380
➔■ M/F Housing RB (Brookhurst Royale Senior Assisted Living) Series 2000A 3.60%, 01/07/06	7,700	7,700	➔■ RB Series Y 3.50%, 01/07/06	1,700	1,700
➔■ Tax Allocation Refunding RB (Commercial Redevelopment Project No.1) Series 1997 3.55%, 01/07/06	1,500	1,500	➔■ Refunding RB Series AA 3.54%, 01/07/06	3,995	3,995
<b>Westminster</b>			Transportation Refunding RB Series L		
➔■ COP (Civic Center Refunding) Series 1998A 3.55%, 01/07/06	3,175	3,175	➔■ 3.52%, 01/07/06	4,640	4,640
		<b>7,231,805</b>	➔■ 3.53%, 01/07/06	12,170	12,170
			➔■ 3.55%, 01/07/06	1,700	1,700

Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Puerto Rico Housing Finance Corp</b>		
+■ Homeownership Mortgage RB Series 2000A 3.53%, 01/07/06	155	155
M/F Mortgage RB Portfolio A Series I		
+■ 3.55%, 01/07/06	3,805	3,805
+■ 3.55%, 01/07/06	2,750	2,750
<b>Puerto Rico Infrastructure Financing Auth</b>		
+■ Special Tax RB Series 1997A 3.50%, 01/07/06	3,290	3,290
+■ Special Tax RB Series 2005A 3.50%, 01/07/06	840	840
Special Tax Refunding RB Series 2005C		
+■ 3.52%, 01/07/06	15	15
+■ 3.54%, 01/07/06	4,700	4,700
<b>Puerto Rico Public Buildings Auth</b>		
+■ Refunding RB Series L 3.54%, 01/07/06	6,545	6,545
		<b>148,656</b>

End of investments.

## Statement of

**Assets and Liabilities**

As of December 31, 2005. All numbers x 1,000 except NAV.

**Assets**

Investments, at value	\$7,380,461
Cash	1,000
Receivables:	
Fund shares sold	14,123
Interest	49,483
Prepaid expenses	+ 133
<b>Total assets</b>	<b>7,445,200</b>

**Liabilities**

Payables:	
Fund shares redeemed	18,911
Investment bought	50,589
Dividends to shareholders	1,389
Investment adviser and administrator fees	132
Transfer agent and shareholder service fees	202
Trustees' fees	13
Accrued expenses	+ 229
<b>Total liabilities</b>	<b>71,465</b>

**Net Assets**

<b>Total assets</b>	7,445,200
<b>Total liabilities</b>	– 71,465
<b>Net assets</b>	<b>\$7,373,735</b>

**Net Assets by Source**

Capital received from investors	7,376,205
Net realized capital losses	(2,470)

**Net Asset Value (NAV) by Share Class**

Share Class	Net Assets	+	Shares Outstanding	=	NAV
Sweep Shares	\$4,134,154		4,136,072		\$1.00
Value Advantage Shares	\$3,239,581		3,240,248		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost for the fund's securities was \$7,380,461. Includes restricted but deemed liquid securities comprised of 144A securities worth \$2,413,318 or 32.7% of the fund's total net assets. During the reporting period, the fund had \$1,525,715 in transactions with other Schwab Funds®.

**Federal Tax Data****Cost basis of portfolio** \$7,380,461**Unused capital losses:**

Expires 12/31 of:	Loss amount:
2008	\$ 955
2011	508
2012	397
2013	+ 610
	<b>\$2,470</b>

**Reclassifications:**

Net realized capital losses	\$ 9
Reclassified as:	
Net investment income not yet distributed	\$ (9)

## Statement of

**Operations**

For January 1, 2005 through December 31, 2005. All numbers x 1,000.

**Investment Income**

Interest	<b>\$170,591</b>
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**Net Realized Gains and Losses**

Net realized losses on investments sold	(619)
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**Expenses**

Investment adviser and administrator fees	25,165
Transfer agent and shareholder service fees:	
Sweep Shares	18,454
Value Advantage Shares	6,608
Trustees' fees	50
Custodian and portfolio accounting fees	545
Professional fees	56
Registration fees	63
Shareholder reports	177
Other expenses	+
	72
Total expenses	51,190
Expense reduction	-
	11,018
<b>Net expenses</b>	<b>40,172</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	170,591
<b>Net expenses</b>	-
	40,172
<b>Net investment income</b>	<b>130,419</b>
<b>Net realized losses</b>	+
	(619)
<b>Increase in net assets from operations</b>	<b>\$129,800</b>

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 \$9,788 from the investment adviser (CSIM) and \$1,230 from the transfer agent and shareholder service agent (Schwab). These reductions reflect a guarantee by CSIM and Schwab to limit the annual operating expenses through April 29, 2006, as follows:

Share Class	% of Average Daily Net Assets
Sweep Shares	0.65
Value Advantage Shares	0.45

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

## Statements of

**Changes in Net Assets**

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

Unless stated, all numbers x 1,000.

**Operations**

	1/1/05–12/31/05	1/1/04–12/31/04
Net investment income	\$130,419	\$47,590
Net realized losses	+ (619)	(431)
<b>Increase in net assets from operations</b>	<b>129,800</b>	<b>47,159</b>

100% of the funds dividends for the current and prior periods are tax-exempt interest dividends.

**Distributions Paid****Dividends from Net Investment Income**

Sweep Shares	71,464	24,386
Value Advantage Shares	+ 58,952	23,164
<b>Total dividends from net investment income</b>	<b>130,416</b>	<b>47,550</b>

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

**Transactions in Fund Shares****Shares Sold**

Sweep Shares	18,372,058	15,986,392
Value Advantage Shares	+ 4,453,975	3,464,257
<b>Total shares sold</b>	<b>22,826,033</b>	<b>19,450,649</b>

**Shares Reinvested**

Sweep Shares	70,262	23,979
Value Advantage Shares	+ 52,187	20,603
<b>Total shares reinvested</b>	<b>122,449</b>	<b>44,582</b>

**Shares Redeemed**

Sweep Shares	(18,455,404)	(16,031,992)
Value Advantage Shares	+ (4,091,191)	(3,720,576)
<b>Total shares redeemed</b>	<b>(22,546,595)</b>	<b>(19,752,568)</b>

Represents shares sold plus shares reinvested, minus shares redeemed.

**Net transactions in fund shares**

**401,887**      **(257,337)**

**Net Assets**

Beginning of period	6,972,464	7,230,192
Total increase or decrease	+ 401,271	(257,728)
<b>End of period</b>	<b>\$7,373,735</b>	<b>\$6,972,464</b>

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 \$— and \$6 at the end of the current and prior period, respectively.

# 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 Investor Money Fund
- 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 using the effective interest rate method. 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, 2005, 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, 2005 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

**PricewaterhouseCoopers LLP**

San Francisco, California

February 14, 2006

# Investment Advisory Agreement Approval

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

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

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

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

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

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

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

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

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

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

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

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

In the course of their deliberations, the trustees did not identify any particular information or factor that was all-important or controlling. Based on the trustees' deliberation and their evaluation of the information described above, the Board, including all of the

Independent Trustees, unanimously approved the interim continuation of the Agreement and concluded that the compensation under the Agreement is fair and reasonable in light of such services and expenses and such other matters as the trustees have considered to be relevant in the exercise of their reasonable judgment.

**Subsequent Continuation, August 2005.** At the August 31, 2005 meeting of the Board, the trustees, including a majority of the Independent Trustees, approved the continuation of the Agreement through June 30, 2006. This approval extended the interim approval of the Agreement by the Board, which had taken place on May 24, 2005 and is discussed above. In connection with the approval of the Agreement, the Board considered additional information provided by CSIM in response to the Board's requests at the May 24, 2005 meeting, as well as reconsidered the information provided and factors considered at prior meetings including, with respect to the Schwab California Municipal Money Fund, commitments by CSIM to reduce the guaranteed overall expense ratio for the Sweep Share Classes of the Schwab California Municipal Money Fund by three basis points between May 1, 2006 and May 1, 2008. The Board concluded that the information provided at the meeting supported continuation of the Agreement. In the course of their deliberations, the trustees did not identify any particular information or factor that was all-important or controlling. Based on the trustees' deliberation and their evaluation of the information described above, the Board, including all of the Independent Trustees, unanimously approved the continuation of the Agreement and concluded that the compensation under the Agreement is fair and reasonable in light of such services and expenses and such other matters as the trustees have considered to be relevant in the exercise of their reasonable judgment.

# Trustees and Officers

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

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

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

Independent Trustees		
Name and Year of Birth	Trustee Since	Main Occupations and Other Directorships and Affiliations
Mariann Byerwalter 1960	2000 (all trusts).	Chairman, JDN Corp. Advisory LLC (real estate). <i>Until 2001:</i> Special Advisor to the President, Stanford University. <i>From 1996-2001:</i> Vice President of Business Affairs, Chief Financial Officer, Stanford University. Ms. Byerwalter is on the Boards of Stanford University, America First Cos. (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, Pacific Life Insurance Company (insurance), Laudus Trust and Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex. <sup>2</sup>

<sup>1</sup> 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.

<sup>2</sup> This includes 10 series of the Laudus Trust and the sole series of the Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex.

## Independent Trustees continued

Name and Year of Birth	Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Donald F. Dorward</b> 1931	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chief Executive Officer, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999</i> : Executive Vice President, Managing Director, Grey Advertising. <i>Until 1996</i> : President, Chief Executive Officer, Allen & Dorward Advertising.
<b>William A. Hasler</b> 1941	2000 (all trusts).	Dean Emeritus of the Haas School of Business, University of California, Berkeley. <i>Until 2/04</i> , Co-Chief Executive Officer, Aphton Corporation (bio-pharmaceuticals). <i>Prior to 8/98</i> , Dean of the Haas School of Business, University of California, Berkeley (higher education). Mr. Hasler is on the Boards of Aphton Corporation (bio-pharmaceuticals), Mission West Properties (commercial real estate), Stratex Networks (network equipment), TOUSA (home building), Genitope Corp. (bio-pharmaceuticals), Laudus Trust and Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex. <sup>3</sup> Non-Executive Chairman, Solectron Corporation (manufacturing).
<b>Robert G. Holmes</b> 1931	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer, Director, Semloh Financial, Inc. (international financial services and investment advisory firm).
<b>Gerald B. Smith</b> 1950	2000 (all trusts).	<i>Since 1990</i> , Chairman and Chief Executive Officer and founder of Smith Graham & Co. (investment advisors). Mr. Smith is on the Board of Cooper Industries (electrical products, tools and hardware); Chairman, Texas Southern University Foundation; Executive Committee and Board Member, MD Anderson Cancer Center; Chairman of the audit committee of Northern Border Partners, M.L.P. (energy).
<b>Donald R. Stephens</b> 1938	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chairman, Chief Executive Officer, North American Trust (real estate investment trust).
<b>Michael W. Wilsey</b> 1943	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer, Wilsey Bennett, Inc. (real estate investment and management, and other investments).

<sup>3</sup> This includes 10 series of the Laudus Trust and the sole series of the Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex.



## Interested Trustees

Name and Year of Birth	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Charles R. Schwab</b> <sup>4</sup> 1937	Chairman, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer and Director, The Charles Schwab Corporation, Charles Schwab & Co., Inc.; Chairman and Director, Charles Schwab Investment Management, Inc., Charles Schwab Bank, N.A.; Chairman and Chief Executive Officer, Schwab (SIS) Holdings Inc. I, Schwab International Holdings, Inc.; Chief Executive Officer and Director, Schwab Holdings, Inc.; Director, U.S. Trust Company, N.A., U.S. Trust Corporation, United States Trust Company of New York. <i>Until 5/03</i> , Co-Chief Executive Officer, The Charles Schwab Corporation. Trustee, Charles and Helen Schwab Foundation; Chairman, All Kinds of Minds Institute (education), Trustee, Stanford University; Chairman and Director, Charles Schwab Foundation; Chairman of the Finance Committee, San Francisco Museum of Modern Art.
<b>Randall W. Merk</b> <sup>4</sup> 1954	Trustee, 2005 (all trusts).	Executive Vice President and President, Asset Management Products & Services, Charles Schwab & Co., Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From 9/02 to 7/04</i> , President and Chief Executive Officer, Charles Schwab Investment Management, Inc. and Executive Vice President, Charles Schwab & Co., Inc. <i>Prior to 9/02</i> , President and Chief Investment Officer, American Century Investment Management; Director, American Century Companies, Inc. <i>Until 6/01</i> , Chief Investment Officer, Fixed Income, American Century Companies, Inc.

## Officers of the Trust

Name and Year of Birth	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
<b>Evelyn Dilsaver</b> 1955	President, Chief Executive Officer (all trusts).	Executive Vice President, President, Director, Charles Schwab Investment Management, Inc. Vice President, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 7/04</i> : Senior Vice President, Asset Management Products & Services Enterprise. <i>Until 6/03</i> : Executive Vice President, Chief Financial Officer, Chief Administrative Officer, U.S. Trust.
<b>Stephen B. Ward</b> 1955	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co.

<sup>4</sup> In addition to their positions with the investment adviser and the distributor, Messrs. Schwab and Merk also own stock of the Charles Schwab Corporation.

## Officers of the Trust continued

Name and Year of Birth	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
<b>Kimon Daifotis</b> 1959	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President and Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Until 6/04</i> : Vice President and Senior Portfolio Manager, Charles Schwab Investment Management, Inc.
<b>Jeffrey Mortimer</b> 1963	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc.; Vice President, Chief Investment Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 5/04</i> : Vice President and Senior Portfolio Manager, Charles Schwab Investment Management, Inc.
<b>Randall Fillmore</b> 1960	Chief Compliance Officer (all trusts).	Senior Vice President, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Chief Compliance Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 9/03</i> : Vice President, Charles Schwab & Co., Inc. and Charles Schwab Investment Management, Inc. <i>Until 2002</i> : Vice President, Internal Audit, Charles Schwab & Co., Inc.
<b>Koji E. Felton</b> 1961	Secretary (all trusts).	Senior Vice President, Chief Counsel and Corporate Secretary, Charles Schwab Investment Management, Inc.; Senior Vice President and Deputy General Counsel, Charles Schwab & Co., Inc. <i>Prior to 6/98</i> , Branch Chief in Enforcement at U.S. Securities and Exchange Commission in San Francisco.
<b>George Pereira</b> 1964	Treasurer, Principal Financial Officer (all trusts).	Senior Vice President and Chief Financial Officer, Charles Schwab Investment Management, Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From 12/99 to 11/04</i> , Senior Vice President, Financial Reporting, Charles Schwab & Co., Inc.

# Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Portfolio terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Notes

## Notes

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

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

### Methods for Placing Orders

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

#### Internet<sup>1</sup>

[www.schwab.com](http://www.schwab.com)

#### Schwab by Phone™<sup>2</sup>

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

#### TeleBroker®

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

#### Mail

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

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

### Proxy Voting Policies, Procedures and Results

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

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

## The Schwab Funds Family®

### Stock Funds

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

### Asset Allocation Funds

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

### Bond Funds

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

### Schwab Money Funds

Schwab offers an array of money market funds that seek high current income consistent with safety and liquidity.<sup>3</sup> 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®.

<sup>1</sup> Shares of Sweep Investments™ may not be purchased directly over the Internet.

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

<sup>3</sup> 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 Taxable Money Funds

## **Annual Report**

December 31, 2005

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 founded Schwab over thirty years ago to be a home for serious investors. That mission continues to guide us today as we constantly innovate on behalf of our clients. By continuing to provide the highest quality products and services—at a great price—we remain true to our heritage.

I take particular pride in the Schwab Funds. Founded over 15 years ago, they have grown to include more than 50 funds with over \$140 billion in assets as of this report date. With a variety of investment strategies, Schwab Funds provide a range of innovative investment choices that can serve as a foundation for your asset allocation plan.

Schwab Funds is managed by Charles Schwab Investment Management, Inc., which currently ranks as one of the largest investment managers in the country. Our portfolio managers share a passion for market analysis and use some of the most sophisticated financial models available. I am proud of their depth of experience, which reflects an average tenure of more than 15 years in the investment industry. Furthermore, I am impressed with the commitment that our managers bring to the stewardship of the funds, for you, their shareholders.

We strive every day to warrant the trust you have placed in us; that will never change. 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 letters of the first and last names being capitalized and prominent.

*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.*

# Management's Discussion for the year ended December 31, 2005



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

Dear Shareholder,

I'm pleased to bring you the annual report for your Schwab money fund for the year ended December 31, 2005. Although the period was marked by volatility, our money funds provided competitive yields as well as safety and stability.

I would like to take this opportunity to remind you that Schwab Funds offers a range of position-traded money funds that are available with a variety of minimums and investment strategies to meet your needs. These funds and share classes are available beginning with a minimum initial investment of \$25,000 (\$15,000 for IRA and custodial accounts) and include both taxable and, for clients who are tax sensitive, tax-free investment strategies. To make these products even more convenient, we've recently reduced the subsequent investment minimum requirement from \$5,000 to \$500 on several of our Value Advantage Investments.

We continue to develop and manage Schwab Funds to help you achieve your goals and to provide an uncomplicated way to build a well-diversified portfolio. During the report period covered by this book, Schwab Funds launched seven new funds across varying investment styles and strategies.

In closing, I speak for all of Schwab Funds when I say we want Schwab to be the place where investors can find useful, quality financial products and services to help them succeed.

Thank you for investing in Schwab Funds.

Sincerely,

A handwritten signature in black ink that reads "Evelyn Dilsaver". The signature is fluid and cursive, with a small dot above the 'i' in 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 Fund

Despite having witnessed a turbulent year in the news, the markets remained in a steady growth mode and ended the one-year report period with positive results. Oil prices hit highs never seen before and the Federal Reserve continued to raise short-term interest rates to curb inflationary pressures, raising the rates eight consecutive times in the one-year report period and bringing the benchmark rate up to 4.25%. The moves had a limited impact on overall economic growth, due primarily to the low level of rates from which the increases began.

Regardless of the concerns of high energy prices, which remained a significant headwind for economic performance throughout the period, corporate earnings remained strong throughout the year. Additionally, with the unemployment rate hovering around 5% and GDP growth around 3.5%, job and income growth remained positive and investors remained optimistic. Productivity gains and more restrictive monetary policy kept a lid on core inflation. The productivity gains, coupled with foreign investors buying large amounts of U.S. government securities, helped to contain increases in long-term interest rates. These conditions caused the dollar to rally, which took pressure off the price of imported goods.

The big news for the past two quarters was the impact of Hurricanes Katrina and Rita. The devastation caused by these storms was particularly heavy with respect to the energy infrastructures in the South. Oil prices rose sharply in the aftermath of the hurricanes, with crude oil peaking above \$71 per barrel in early September, although softening oil demand and quick action by the federal government to release Strategic Petroleum Reserves led to a subsequent decline off that peak. During the fourth quarter, oil had dropped to as low as \$58 a barrel, but then rebounded back to \$64 as of the end of the period. While the full economic effect of the hurricanes remains unknown, the damage appears to be limited to the regions in the hurricanes' path and to the energy infrastructures in those areas.

Another significant event that happened during the report period was the appointment of Ben Bernanke to succeed Alan Greenspan as Chairman of the Federal Reserve Board. Although he had not yet been confirmed into office as of the end of the report period, Bernanke's experience on



**Karen Wiggan**, a vice president of the investment adviser and senior portfolio manager, has day-to-day responsibility for management of the Government Money and U.S. Treasury Money Funds. She joined the firm in 1987 and has worked in fixed income portfolio management since 1991.

the Federal Open Market Committee and his expertise in monetary economics has eased the concerns of the markets and caused investors to expect a smooth transition.

**The Schwab Government Money Fund** took advantage of rising short-term interest rates and continued to increase its holdings of shorter-term discount notes and variable-rate securities. The interest rates on variable-rate securities reset frequently, allowing the fund to capture the rise in market rates. In this economic environment, the fund maintained a shorter weighted average maturity (WAM) to allow its yield to reflect the rising rates. The fund increased its positions in repurchase agreements (repo) as the spread between agency discount notes and repos widened, providing a favorable yield advantage.

**The Schwab U.S. Treasury Money Fund** tracked the rising short-term rates with the 3-month Treasury bill increasing from 2.25% to 4.08% during the one-year period. During the year, the rate of bill issuance remained depressed due to unusually strong tax receipts and a smaller than anticipated budget deficit. Due to the smaller than expected supply, the fund maintained a longer weighted average maturity (WAM) to take advantage of the relatively large gap between shorter- and longer-term rates in the U.S. Treasury bill curve.

**The Schwab Value Advantage Money Fund** was positioned for a continued rise in short-term interest rates by adding to its holdings of variable-rate securities. The interest rates on these types of securities reset frequently, allowing the fund the opportunity to capture a rise in market rates. To further take advantage of the rising-rate environment, the fund kept its weighted average maturity (WAM) relatively short at about 40 days. Keeping the WAM short provides flexibility to adapt and respond to the changes in interest rates. This is a similar strategy to our peers, as shortening the WAM enabled money funds to more quickly reinvest at higher rates.

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

Performance and Fund Facts as of 12/31/05

Seven-Day Yields

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

	Government Money Fund	U.S. Treasury Money Fund	Value Advantage Money Fund		
			Investor Shares	Select Shares*	Institutional Shares
Ticker Symbol	SWGXX	SWUXX	SWVXX	SWBXX	SWAXX
Seven-Day Yield <sup>1</sup>	3.59%	3.30%	3.88%	3.98%	4.09%
Seven-Day Yield–No Waiver <sup>2</sup>	3.52%	3.11%	3.77%	3.77%	3.77%
Seven-Day Effective Yield <sup>1</sup>	3.65%	3.35%	3.95%	4.05%	4.17%

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](http://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	29 days	60 days	47 days
Credit Quality of Holdings % of portfolio	100% Tier 1	100% Tier 1	100% Tier 1
Minimum Initial Investment <sup>3</sup>			
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	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.

<sup>1</sup> Fund expenses have been partially absorbed by CSIM and Schwab.  
<sup>2</sup> Yield if fund expenses had not been partially absorbed by CSIM and Schwab.  
<sup>3</sup> Please see prospectus for further detail and eligibility requirements.  
\* Subject to the eligibility terms and conditions of your Schwab account agreement.

# Fund Expenses (unaudited)

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, 2005 and held through December 31, 2005.

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

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

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

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

	Expense Ratio <sup>1</sup> (Annualized)	Beginning Account Value at 7/1/05	Ending Account Value (Net of Expenses) at 12/31/05	Expenses Paid During Period <sup>2</sup> 7/1/05–12/31/05
<b>Schwab Government Money Fund™</b>				
Actual Return	0.75%	\$1,000	\$1,015.20	\$3.81
Hypothetical 5% Return	0.75%	\$1,000	\$1,021.43	\$3.82
<b>Schwab U.S. Treasury Money Fund™</b>				
Actual Return	0.63%	\$1,000	\$1,014.20	\$3.20
Hypothetical 5% Return	0.63%	\$1,000	\$1,022.03	\$3.21
<b>Schwab Value Advantage Money Fund™</b>				
<i>Investor Shares</i>				
Actual Return	0.45%	\$1,000	\$1,016.90	\$2.29
Hypothetical 5% Return	0.45%	\$1,000	\$1,022.94	\$2.29
<i>Select Shares®</i>				
Actual Return	0.35%	\$1,000	\$1,017.40	\$1.78
Hypothetical 5% Return	0.35%	\$1,000	\$1,023.44	\$1.79
<i>Institutional Shares</i>				
Actual Return	0.24%	\$1,000	\$1,018.00	\$1.22
Hypothetical 5% Return	0.24%	\$1,000	\$1,024.00	\$1.22

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

<sup>2</sup> Expenses for each fund or share class are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 184 days of the period, and divided by 365 days of the fiscal year.



# Schwab Government Money Fund™

## Financial Statements

### Financial Highlights

	1/1/05– 12/31/05	1/1/04– 12/31/04	1/1/03– 12/31/03	1/1/02– 12/31/02	1/1/01– 12/31/01
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	1.00	1.00	1.00	1.00	1.00
Income from investment operations:					
Net investment income	0.03	0.01	0.00 <sup>1</sup>	0.01	0.04
Less distributions:					
Dividends from net investment income	(0.03)	(0.01)	(0.00) <sup>1</sup>	(0.01)	(0.04)
Net asset value at end of period	1.00	1.00	1.00	1.00	1.00
Total return (%)	2.52	0.65	0.48	1.20	3.63
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.75	0.75	0.75	0.75	0.75
Gross operating expenses	0.83	0.83	0.83	0.83	0.84
Net investment income	2.49	0.64	0.49	1.19	3.52
Net assets, end of period (\$ x 1,000,000)	2,471	2,535	2,838	3,092	3,054

<sup>1</sup> Per share amount was less than \$0.01.

**Portfolio Holdings** as of December 31, 2005

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](http://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)
<b>20.7%</b>	<b>U.S. Government Securities</b>	<b>512,341</b>	<b>512,341</b>
<b>12.0%</b>	<b>Variable-Rate Obligations</b>	<b>295,905</b>	<b>295,905</b>
<b>68.1%</b>	<b>Other Investments</b>	<b>1,681,228</b>	<b>1,681,228</b>
<b>100.8%</b>	<b>Total Investments</b>	<b>2,489,474</b>	<b>2,489,474</b>
<b>(0.8)%</b>	<b>Other Assets and Liabilities</b>		(18,891)
<b>100.0%</b>	<b>Net Assets</b>		<b>2,470,583</b>

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

**U.S. Government Securities** 20.7% of net assets**Discount Notes** 18.8%**Fannie Mae**

3.99%, 01/03/06	41,500	41,491
4.01%, 02/08/06	15,000	14,937
4.19%, 02/15/06	25,670	25,537
4.20%, 02/22/06	4,744	4,715
4.25%, 02/22/06	15,000	14,909
4.21%, 02/24/06	12,525	12,447
4.31%, 03/01/06	57,046	56,648
4.48%, 04/03/06	25,137	24,859
4.52%, 06/07/06	10,000	9,807

**Federal Home Loan Bank**

4.25%, 02/22/06	15,000	14,909
4.28%, 03/01/06	30,000	29,792
4.47%, 05/31/06	10,000	9,818

**Freddie Mac**

4.19%, 02/14/06	51,285	51,025
4.24%, 04/18/06	25,000	24,692
4.25%, 04/18/06	9,253	9,138
4.27%, 04/25/06	25,000	24,669
4.30%, 04/25/06	20,000	19,733
4.31%, 04/25/06	20,000	19,733
4.47%, 05/16/06	1,660	1,633
4.51%, 06/06/06	5,000	4,904
4.52%, 06/06/06	10,000	9,808
4.53%, 06/13/06	20,000	19,599
4.56%, 06/20/06	20,000	19,579

**464,382****Coupon Notes** 1.9%**Federal Home Loan Bank**

2.95%, 09/14/06	15,000	14,838
2.23%, 04/21/06	17,000	16,894
2.75%, 05/15/06	16,315	16,227

**47,959**

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

**Variable-Rate Obligations** 12.0% of net assets

**Coupon Notes 12.0%**
**Fannie Mae**

4.21%, 01/07/06	40,000	39,980
4.22%, 01/09/06	25,000	25,000

**Federal Home Loan Bank**

4.18%, 01/03/06	35,000	34,990
4.15%, 02/02/06	40,000	39,986
4.20%, 02/10/06	46,000	45,989
4.36%, 03/13/06	30,000	29,995
3.89%, 03/29/06	30,000	29,991

**Freddie Mac**

4.14%, 02/07/06	50,000	49,974
		<b>295,905</b>

Security	Maturity Amount (\$ x 1,000)	Value (\$ x 1,000)
----------	---------------------------------	-----------------------

**Other Investments** 68.1% of net assets

**Repurchase Agreements 68.1%**
**Bank of America Securities L.L.C.**

Tri-Party Repurchase Agreement  
Collateralized by U.S. Government  
Securities with a value of  
\$236,640

4.30%, issued 12/30/05, due 01/03/06	182,087	182,000
4.35%, issued 12/28/05, due 01/05/06	25,027	25,000
4.61%, issued 12/22/05, due 01/06/06	25,048	25,000

**Bear Stearns & Co., Inc.**

Tri-Party Repurchase Agreement  
Collateralized by U.S. Government  
Securities with a value of  
\$61,547

3.99%, issued 08/31/05, due 01/06/06	25,355	25,000
4.32%, issued 12/21/05, due 01/04/06	35,067	35,000

**Security**

Maturity Amount (\$ x 1,000)	Value (\$ x 1,000)
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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  
\$483,730

4.26%, issued 12/30/05, due 01/03/06	141,295	141,228
4.28%, issued 12/14/05, due 01/06/06	35,096	35,000
4.29%, issued 12/19/05, due 01/06/06	40,086	40,000
4.30%, issued 12/05/05, due 01/06/06	30,079	30,000
4.30%, issued 12/23/05, due 01/06/06	40,067	40,000
4.34%, issued 12/02/05, due 01/06/06	35,148	35,000
4.34%, issued 12/22/05, due 01/03/06	25,045	25,000
4.40%, issued 10/31/05, due 01/06/06	30,246	30,000
4.44%, issued 11/04/05, due 01/06/06	33,256	33,000
4.45%, issued 11/10/05, due 01/06/06	50,352	50,000
4.51%, issued 12/01/05, due 01/06/06	15,068	15,000

**Goldman Sachs & Co.**

Tri-Party Repurchase Agreement  
Collateralized by U.S. Government  
Securities with a value of  
\$448,800

4.33%, issued 12/30/05, due 01/03/06	400,192	400,000
4.40%, issued 10/05/05, due 01/04/06	40,413	40,000

**Morgan Stanley & Co., Inc.**

Tri-Party Repurchase Agreement  
Collateralized by U.S. Government  
Securities with a value of \$71,400

4.30%, issued 12/08/05, due 01/06/06	45,156	45,000
4.32%, issued 11/30/05, due 01/06/06	25,111	25,000

**Portfolio Holdings** continued

Security	Maturity Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>UBS Financial Services, Inc.</b>		
Tri-Party Repurchase Agreement		
Collateralized by U.S. Government		
Securities with a value of \$413,114		
4.00%, issued 10/03/05, due 01/05/06	50,528	50,000
4.01%, issued 10/04/05, due 01/06/06	45,471	45,000
4.05%, issued 10/11/05, due 01/06/06	25,245	25,000
4.09%, issued 10/17/05, due 01/06/06	25,230	25,000
4.20%, issued 11/21/05, due 01/06/06	35,188	35,000
4.29%, issued 11/22/05, due 01/06/06	30,161	30,000
4.29%, issued 12/13/05, due 01/06/06	40,114	40,000
4.31%, issued 11/29/05, due 01/06/06	40,182	40,000
4.40%, issued 12/12/05, due 01/06/06	35,107	35,000
4.47%, issued 11/14/05, due 01/07/06	50,329	50,000
4.57%, issued 12/20/05, due 01/06/06	30,065	30,000
		<b>1,681,228</b>

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**End of investments.**

## Statement of

**Assets and Liabilities**

As of December 31, 2005. All numbers x 1,000 except NAV.

**Assets**

Investments, at value	\$ 808,246
Repurchase agreements, at value	1,681,228
Interest receivable	6,375
Prepaid expenses	+ 77
<b>Total assets</b>	<b>2,495,926</b>

**Liabilities**

Payables:	
Dividends to shareholders	221
Investments bought	24,859
Investment adviser and administrator fees	60
Transfer agent and shareholder service fees	91
Trustees' fees	10
Accrued expenses	+ 102
<b>Total liabilities</b>	<b>25,343</b>

**Net Assets**

<b>Total assets</b>	2,495,926
<b>Total liabilities</b>	- 25,343
<b>Net assets</b>	<b>\$2,470,583</b>

**Net Assets by Source**

Capital received from investors	2,470,916
Net realized capital losses	(333)

**Net Asset Value (NAV)**

<b>Net Assets</b>	<b>÷</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$2,470,583		2,471,695		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost for the fund's securities was \$2,489,474. During the reporting period, the fund had \$30,000 in transactions with other Schwab Funds®.

**Federal Tax Data**

<b>Cost basis of portfolio</b>	\$2,489,474
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**Unused capital losses:**

Expires 12/31 of:	Loss amount:
2006	\$119
2007	184
2008	13
2010	1
2011	+ 16
	<b>\$333</b>

**Reclassifications:**

Net realized capital losses	\$226
Reclassified as:	
Capital received from investors	(\$226)

## Statement of

**Operations**

For January 1, 2005 through December 31, 2005. All numbers x 1,000.

**Investment Income**

Interest	<b>\$80,525</b>
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**Expenses**

Investment adviser and administrator fees	9,008	
Transfer agent and shareholder service fees	11,195	
Trustees' fees	32	
Custodian and portfolio accounting fees	207	
Professional fees	36	
Registration fees	54	
Shareholder reports	95	
Other expenses	+	32
Total expenses	20,659	
Expense reduction	-	2,000
<b>Net expenses</b>	<b>18,659</b>	

**Increase in Net Assets from Operations**

<b>Total investment income</b>	80,525	
<b>Net expenses</b>	-	18,659
<b>Net investment income</b>	<b>61,866</b>	
<b>Increase in net assets from operations</b>	<b>\$61,866</b>	

Unless stated, all numbers x 1,000.

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

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

For the fund's independent trustees only.

This reduction was made by the investment adviser (CSIM). It reflects a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the annual operating expenses through April 29, 2006 to 0.75% of average daily net assets. This limit excludes interest, taxes and certain non-routine expenses.

Statements of

**Changes in Net Assets**

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

**Operations**

	1/1/05–12/31/05	1/1/04–12/31/04
Net investment income	\$61,866	\$17,967
<b>Increase in net assets from operations</b>	<b>61,866</b>	<b>17,967</b>

**Distributions Paid**

Dividends from net investment income	61,866	<b>17,967</b>
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**Transactions in Fund Shares**

Shares sold	8,304,873	8,723,826
Shares reinvested	61,036	17,617
Shares redeemed	+ (8,430,592)	(9,043,706)
<b>Net transactions in fund shares</b>	<b>(64,683)</b>	<b>(302,263)</b>

**Net Assets**

Beginning of period	2,535,266	2,837,529
Total decrease	+ (64,683)	(302,263)
<b>End of period</b>	<b>\$2,470,583</b>	<b>\$2,535,266</b>

Unless stated, all numbers x 1,000.

The tax-basis components of distributions are:

**Current year**

Ordinary income	\$61,866
Long-term capital gains	\$–

**Prior year**

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

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

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

# Schwab U.S. Treasury Money Fund™

## Financial Statements

### Financial Highlights

	1/1/05– 12/31/05	1/1/04– 12/31/04	1/1/03– 12/31/03	1/1/02– 12/31/02	1/1/01– 12/31/01
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	1.00	1.00	1.00	1.00	1.00
Income from investment operations:					
Net investment income	0.02	0.01	0.00 <sup>1</sup>	0.01	0.04
Less distributions:					
Dividends from net investment income	(0.02)	(0.01)	(0.00) <sup>1</sup>	(0.01)	(0.04)
Net asset value at end of period	1.00	1.00	1.00	1.00	1.00
Total return (%)	2.36	0.62	0.49	1.15	3.61
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.64	0.65	0.65	0.65	0.65
Gross operating expenses	0.83	0.82	0.82	0.82	0.84
Net investment income	2.32	0.61	0.49	1.15	3.44
Net assets, end of period (\$ x 1,000,000)	3,574	3,811	4,046	4,323	4,042

<sup>1</sup> Per share amount was less than \$0.01.



**Portfolio Holdings** as of December 31, 2005

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](http://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.

<b>Holdings by Category</b>		<b>Cost</b> (\$x1,000)	<b>Value</b> (\$x1,000)
<b>100.0%</b>	<b>U.S. Government Securities</b>	3,573,889	3,573,889
<b>100.0%</b>	<b>Total Investments</b>	<b>3,573,889</b>	<b>3,573,889</b>
<b>0.0%</b>	<b>Other Assets and Liabilities</b>		506
<b>100.0%</b>	<b>Net Assets</b>		<b>3,574,395</b>

<b>Issuer</b> <b>Rate, Maturity Date</b>	<b>Face Amount</b> (\$ x 1,000)	<b>Value</b> (\$ x 1,000)
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**U.S. Government Securities** 100.0% of net assets**Treasury Bills** 93.9%**U. S. Treasury Bills**

3.54%, 01/05/06	81,516	81,484
3.55%, 01/05/06	27,250	27,239
3.72%, 01/05/06	100,000	99,958
3.40%, 01/12/06	50,000	49,948
3.41%, 01/12/06	22,470	22,447
3.61%, 01/12/06	75,000	74,918
3.62%, 01/12/06	100,000	99,890
3.63%, 01/12/06	50,000	49,945
3.65%, 01/12/06	50,000	49,945
3.69%, 01/12/06	34,285	34,247
3.78%, 01/19/06	50,000	49,906
3.79%, 01/19/06	30,000	29,944
3.82%, 01/19/06	57,385	57,276
3.84%, 01/19/06	13,985	13,958
3.86%, 01/19/06	18,795	18,758
3.84%, 01/26/06	40,000	39,894
3.86%, 01/26/06	35,000	34,907
3.87%, 01/26/06	50,000	49,867
3.88%, 01/26/06	50,000	49,866
3.85%, 02/02/06	146,230	145,734
3.87%, 02/02/06	50,000	49,829
3.91%, 02/02/06	100,000	99,656
3.93%, 02/02/06	35,000	34,879
3.72%, 02/09/06	3,220	3,207
3.75%, 02/09/06	23,415	23,321
3.93%, 02/09/06	275,000	273,840
3.95%, 02/09/06	40,000	39,830
3.74%, 02/16/06	14,410	14,342
3.76%, 02/16/06	20,000	19,906
3.77%, 02/16/06	20,000	19,905
3.93%, 02/16/06	150,000	149,254
3.94%, 02/16/06	150,000	149,251
3.95%, 02/23/06	29,035	28,868
3.99%, 02/23/06	100,000	99,418
3.77%, 03/02/06	40,000	39,753
3.95%, 03/02/06	20,060	19,929
3.96%, 03/02/06	100,000	99,348
3.97%, 03/02/06	50,000	49,672
3.89%, 03/09/06	60,995	60,557
3.90%, 03/09/06	151,350	150,261
3.91%, 03/09/06	100,000	99,279
3.98%, 03/09/06	50,000	49,633

**Portfolio Holdings** continued

<b>Issuer Rate, Maturity Date</b>	<b>Face Value (\$ x 1,000)</b>	<b>Value (\$ x 1,000)</b>
3.87%, 03/16/06	5,940	5,893
3.95%, 03/16/06	40,000	39,679
3.80%, 03/23/06	30,000	29,749
3.92%, 03/23/06	40,000	39,651
3.93%, 03/23/06	38,308	37,972
3.94%, 03/30/06	50,000	49,523
3.95%, 03/30/06	50,000	49,522
3.93%, 04/06/06	40,000	39,594
4.03%, 04/06/06	30,000	29,685
3.99%, 04/13/06	15,000	14,834
4.04%, 04/13/06	18,000	17,798
4.25%, 06/01/06	35,000	34,389
4.29%, 06/08/06	50,000	49,078
4.23%, 06/15/06	150,000	147,154
4.27%, 06/15/06	50,000	49,042
4.28%, 06/22/06	40,000	39,200
4.29%, 06/22/06	30,000	29,398
		<b>3,356,230</b>

**Treasury Notes 6.1%****U.S. Treasury Notes**

1.63%, 02/28/06	72,070	71,805
1.50%, 03/31/06	30,000	29,810
2.00%, 05/15/06	117,005	116,044
		<b>217,659</b>

**End of investments.**

## Statement of

**Assets and Liabilities**

As of December 31, 2005. All numbers x 1,000 except NAV.

**Assets**

Investments, at value	\$3,573,889
Cash	3
Interest receivable	821
Investments sold	39,993
Prepaid expenses	+ 45
<b>Total assets</b>	<b>3,614,751</b>

**Liabilities**

Payables:	
Dividends to shareholders	282
Investments bought	39,775
Investment adviser and administrator fees	48
Transfer agent and shareholder service fees	132
Trustees' fees	10
Accrued expenses	+ 109
<b>Total liabilities</b>	<b>40,356</b>

**Net Assets**

<b>Total assets</b>	3,614,751
<b>Total liabilities</b>	- 40,356
<b>Net assets</b>	<b>\$3,574,395</b>

**Net Assets by Source**

Capital received from investors	3,575,439
Net realized capital losses	(1,044)

**Net Asset Value (NAV)**

Net Assets	÷	Shares Outstanding	=	NAV
\$3,574,395		3,575,559		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost for the fund's securities was \$3,573,889.

**Federal Tax Data**

**Cost basis of portfolio** \$3,573,889

**Unused capital losses:**

Expires 12/31 of:	Loss amount:
2006	\$89
2007	580
2010	66
2011	75
2012	+ 125
	<b>\$935</b>

**Deferred capital losses** \$110

**Capital losses utilized** **\$7**

**Reclassifications:**

Net realized capital losses	\$55
Reclassified as:	
Capital received from investors	(\$55)

## Statement of

**Operations**

For January 1, 2005 through December 31, 2005. All numbers x 1,000.

**Investment Income**

Interest	<b>\$106,200</b>
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**Net Realized Gains and Losses**

Net realized losses on investments sold	(36)
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**Expenses**

Investment adviser and administrator fees	12,854
Transfer agent and shareholder service fees	16,141
Trustees' fees	37
Custodian and portfolio accounting fees	283
Professional fees	39
Registration fees	109
Shareholder reports	95
Other expenses	+ 53
Total expenses	29,611
Expense reduction	- 6,651
<b>Net expenses</b>	<b>22,960</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	106,200
<b>Net expenses</b>	- 22,960
<b>Net investment income</b>	<b>83,240</b>
<b>Net realized losses</b>	+ (36)
<b>Increase in net assets from operations</b>	<b>\$83,204</b>

Unless stated, all numbers x 1,000.

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

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

For the fund's independent trustees only.

This reduction was made by the investment adviser (CSIM). It reflects a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the annual operating expenses through April 29, 2006 to 0.65% of average daily net assets. This limit excludes interest, taxes and certain non-routine expenses.

Statements of

**Changes in Net Assets**

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

**Operations**

	1/1/05–12/31/05	1/1/04–12/31/04
Net investment income	\$83,240	\$25,370
Net realized losses	+ (36)	(192)
<b>Increase in net assets from operations</b>	<b>83,204</b>	<b>25,178</b>

**Distributions Paid**

Dividends from net investment income	<b>83,240</b>	<b>25,370</b>
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**Transactions in Fund Shares**

Shares sold	12,062,775	11,353,793
Shares reinvested	82,101	25,007
Shares redeemed	+ (12,381,488)	(11,613,375)
<b>Net transactions in fund shares</b>	<b>(236,612)</b>	<b>(234,575)</b>

**Net Assets**

Beginning of period	3,811,043	4,045,810
Total decrease	+ (236,648)	(234,767)
<b>End of period</b>	<b>\$3,574,395</b>	<b>\$3,811,043</b>

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 12/31/05 are:

**Current year**

Ordinary income	\$83,240
Long-term capital gains	\$–

**Prior year**

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

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

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

# Schwab Value Advantage Money Fund®

## Financial Statements

### Financial Highlights

Investor Shares	1/1/05– 12/31/05	1/1/04– 12/31/04	1/1/03– 12/31/03	1/1/02– 12/31/02	1/1/01– 12/31/01
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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	0.03	0.01	0.01	0.02	0.04
Less distributions:					
Dividends from net investment income	(0.03)	(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 (%)	2.86	0.98	0.80	1.55	4.05

#### Ratios/Supplemental Data (%)

Ratios to average net assets:					
Net operating expenses	0.45	0.45	0.45	0.45	0.43
Gross operating expenses	0.56	0.56	0.55	0.54	0.56
Net investment income	2.83	0.97	0.81	1.55	3.92
Net assets, end of period (\$ x 1,000,000)	24,112	23,365	28,860	38,728	44,247

Select Shares	1/1/05– 12/31/05	1/1/04– 12/31/04	2/28/03 <sup>1</sup> – 12/31/03
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#### Per-Share Data (\$)

Net asset value at beginning of period	1.00	1.00	1.00
Income from investment operations:			
Net investment income	0.03	0.01	0.01
Less distributions:			
Dividends from net investment income	(0.03)	(0.01)	(0.01)
Net asset value at end of period	1.00	1.00	1.00
Total return (%)	2.96	1.09	0.72 <sup>2</sup>

#### Ratios/Supplemental Data (%)

Ratios to average net assets:			
Net operating expenses	0.35	0.35	0.35 <sup>3</sup>
Gross operating expenses	0.56	0.56	0.55 <sup>3</sup>
Net investment income	3.03	1.10	0.83 <sup>3</sup>
Net assets, end of period (\$ x 1,000,000)	2,325	1,209	1,013

<sup>1</sup> Commencement of operations.

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

Institutional Shares	1/1/05– 12/31/05	1/1/04– 12/31/04	1/1/03– 12/31/03	7/1/02 <sup>1</sup> – 12/31/02
<b>Per-Share Data (\$)</b>				
Net asset value at beginning of period	1.00	1.00	1.00	1.00
Income from investment operations:				
Net investment income	0.03	0.01	0.01	0.01
Less distributions:				
Dividends from net investment income	(0.03)	(0.01)	(0.01)	(0.01)
Net asset value at end of period	1.00	1.00	1.00	1.00
Total return (%)	3.08	1.20	1.01	0.81 <sup>2</sup>
<b>Ratios/Supplemental Data (%)</b>				
Ratios to average net assets:				
Net operating expenses	0.24	0.24	0.24	0.24 <sup>3</sup>
Gross operating expenses	0.56	0.56	0.55	0.55 <sup>3</sup>
Net investment income	3.11	1.20	1.00	1.57 <sup>3</sup>
Net assets, end of period (\$ x 1,000,000)	1,929	1,054	720	521

<sup>1</sup> Commencement of operations.<sup>2</sup> Not annualized.<sup>3</sup> Annualized.

**Portfolio Holdings** as of December 31, 2005

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](http://www.schwab.com/schwabfunds).

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

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

For fixed-rate obligations, the rate shown is the effective yield at the time of purchase, except U.S. Treasury notes, for which the rate shown is the interest rate (the rate established when the obligation was issued). For variable-rate obligations, the rate shown is the rate as of the report date. For variable-rate obligations with scheduled maturities greater than 397 days, the maturity shown is the later of the next interest rate change date or demand date. For variable-rate obligations with scheduled maturities less than 397 days, the maturity shown is the earlier of the next interest rate change date or demand date.

Holdings by Category		Cost (\$x1,000)	Value (\$x1,000)
<b>71.6%</b>	<b>Fixed-Rate Obligations</b>	20,318,570	20,318,570
<b>17.6%</b>	<b>Variable-Rate Obligations</b>	4,990,080	4,990,080
<b>10.6%</b>	<b>Other Investments</b>	2,997,514	2,997,514
<b>99.8%</b>	<b>Total Investments</b>	<b>28,306,164</b>	<b>28,306,164</b>
<b>0.2%</b>	<b>Other Assets and Liabilities</b>		60,309
<b>100.0%</b>	<b>Net Assets</b>		<b>28,366,473</b>

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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**Fixed-Rate Obligations** 71.6% of net assets**Commercial Paper & Other Corporate Obligations** 48.6%

<b>AB Spintab</b>		
4.12%, 01/18/06	73,000	72,860
<b>Alliance &amp; Leicester, PLC, Section 4(2) / 144A</b>		
4.12%, 01/20/06	65,000	64,860
4.32%, 02/21/06	32,000	31,806
4.46%, 03/21/06	45,000	44,565
4.49%, 05/10/06	76,000	74,804
<b>◆ Amstel Funding Corp., Section 4(2) / 144A</b>		
4.35%, 02/22/06	77,846	77,362
4.35%, 02/23/06	17,000	16,892
<b>◆◆ Amsterdam Funding Corp., Section 4(2) / 144A</b>		
4.27%, 01/04/06	203,000	202,928
4.30%, 01/06/06	50,000	49,970
<b>✦ ANZ National Bank (Int'l) Ltd.</b>		
4.09%, 01/13/06	40,000	39,946
4.01%, 02/23/06	50,000	49,710
<b>◆◆ Aquinas Funding, L.L.C., Section 4(2) / 144A</b>		
4.19%, 01/03/06	8,438	8,436
4.33%, 02/13/06	5,000	4,974
4.04%, 02/27/06	21,000	20,868
4.54%, 05/30/06	24,000	23,559
4.60%, 06/05/06	6,000	5,884
4.65%, 06/16/06	12,000	11,748
4.64%, 06/19/06	25,000	24,467
4.65%, 06/22/06	48,000	46,959
<b>◆◆ ASAP Funding Ltd., Section 4(2) / 144A</b>		
4.26%, 01/19/06	100,000	99,788
4.27%, 02/01/06	4,000	3,985
4.30%, 02/02/06	29,000	28,890
4.42%, 03/03/06	57,000	56,578
4.46%, 03/07/06	11,000	10,912
4.47%, 03/10/06	14,500	14,379
<b>◆◆ Atlantic Asset Securitization Corp., Section 4(2) / 144A</b>		
4.18%, 01/04/06	16,000	15,994
4.30%, 01/06/06	116,433	116,364
4.07%, 01/09/06	7,821	7,814
4.21%, 01/10/06	29,000	28,970
4.45%, 03/13/06	15,840	15,703



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)
<b>◆ Atlantis One Funding Corp., Section 4(2) / 144A</b>			4.16%, 01/25/06	30,000	29,918
4.10%, 01/13/06	70,071	69,976	4.29%, 02/13/06	63,000	62,681
3.88%, 01/18/06	137,914	137,665	4.33%, 02/21/06	22,000	21,867
4.12%, 01/19/06	10,000	9,980	4.45%, 03/20/06	10,000	9,905
4.16%, 01/26/06	10,309	10,280	<b>◆◆ Chariot Funding, L.L.C., Section 4(2) / 144A</b>		
3.99%, 02/17/06	195,785	194,784	4.19%, 01/05/06	105,000	104,951
4.00%, 03/01/06	7,000	6,955	4.25%, 01/25/06	28,000	27,921
4.47%, 05/08/06	23,000	22,645	<b>◆ Citigroup Funding, Inc.</b>		
4.52%, 05/17/06	86,000	84,564	4.07%, 01/09/06	242,500	242,283
4.60%, 06/08/06	43,000	42,153	4.29%, 01/09/06	149,000	148,859
4.60%, 06/16/06	109,000	106,743	4.30%, 01/12/06	136,000	135,822
<b>Bank of America Corp.</b>			4.14%, 01/23/06	75,000	74,812
4.25%, 02/10/06	356,000	354,339	4.29%, 01/30/06	72,000	71,753
4.42%, 02/27/06	100,000	99,306	4.41%, 02/21/06	50,000	49,690
4.42%, 02/28/06	8,000	7,944	4.44%, 03/17/06	190,000	188,262
<b>Bank of Ireland, Section 4(2) / 144A</b>			4.46%, 03/20/06	40,000	39,618
4.12%, 01/19/06	145,000	144,705	4.65%, 06/26/06	29,000	28,356
4.57%, 05/23/06	40,000	39,293	<b>◆◆ Concord Minutemen Capital Co., Series A</b>		
<b>◆ Barclays U.S. Funding Corp.</b>			<b>Section 3c7 / 144A</b>		
4.35%, 02/21/06	6,800	6,759	3.75%, 01/06/06	7,000	6,996
<b>◆◆ Barton Capital Corp., Section 4(2) / 144A</b>			4.18%, 01/09/06	13,656	13,643
4.30%, 01/12/06	200,000	199,738	4.11%, 01/10/06	150,000	149,847
4.16%, 01/26/06	42,374	42,253	4.21%, 01/11/06	36,000	35,958
<b>Bear Stearns Companies, Inc.</b>			4.24%, 01/18/06	86,000	85,829
4.04%, 01/04/06	101,000	100,966	3.95%, 03/08/06	8,000	7,943
4.12%, 01/18/06	87,000	86,833	4.45%, 03/13/06	35,018	34,714
<b>◆◆ Beta Finance, Inc., Section 3c7 / 144A</b>			4.25%, 04/07/06	58,000	57,357
4.18%, 01/12/06	43,000	42,945	<b>◆◆ Crown Point Capital Co., L.L.C. Section 3c7 / 144A</b>		
4.15%, 01/24/06	28,000	27,927	3.98%, 01/04/06	50,000	49,984
4.33%, 02/21/06	25,000	24,848	4.20%, 01/12/06	32,000	31,959
4.00%, 03/01/06	41,000	40,737	4.33%, 04/19/06	15,000	14,809
<b>◆◆ Blue Spice, L.L.C., Section 4(2) / 144A</b>			<b>◆ Dakota CP Notes of Citibank Credit Card Issuance</b>		
4.12%, 01/20/06	12,000	11,974	<b>Trust, Section 4 (2) / 144A</b>		
4.13%, 03/28/06	20,000	19,806	4.18%, 01/03/06	25,000	24,994
<b>◆ CBA (Delaware) Finance, Inc.</b>			4.00%, 01/04/06	150,000	149,951
4.08%, 01/09/06	10,750	10,740	4.05%, 01/04/06	8,000	7,997
4.32%, 02/21/06	97,000	96,413	4.01%, 01/05/06	21,000	20,991
<b>◆ CC (USA), Inc., Section 3c7 / 144A</b>			4.10%, 01/11/06	57,000	56,936
4.08%, 01/11/06	7,000	6,992	4.11%, 01/11/06	50,000	49,943
3.85%, 01/13/06	7,000	6,991	4.30%, 01/12/06	50,000	49,935
3.87%, 01/13/06	54,000	53,931	4.31%, 01/12/06	32,000	31,958
3.89%, 01/13/06	5,000	4,994	4.23%, 01/18/06	14,000	13,972
4.08%, 01/13/06	21,195	21,166	4.15%, 01/20/06	133,000	132,712
4.12%, 01/20/06	22,000	21,953	4.49%, 03/28/06	91,500	90,529

## 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)
<b>+ Dexia Delaware L.L.C.</b>			4.46%, 05/03/06	112,000	110,345
4.43%, 03/14/06	30,000	29,737	4.46%, 05/11/06	316,000	311,025
<b>DnB NOR Bank ASA</b>			<b>General Electric Capital Services</b>		
4.07%, 01/13/06	25,000	24,966	3.99%, 03/02/06	150,000	149,023
3.96%, 01/30/06	51,000	50,840	4.72%, 09/22/06	192,000	185,580
4.37%, 03/02/06	16,000	15,885	<b>◆+ Grampian Funding, L.L.C., Section 4(2) / 144A</b>		
<b>◆ Dorada Finance, Inc., Section 3c7 / 144A</b>			4.12%, 01/20/06	8,000	7,983
4.29%, 02/13/06	50,000	49,747	4.46%, 03/22/06	60,000	59,412
4.60%, 06/12/06	79,000	77,404	4.53%, 05/26/06	31,000	30,447
<b>+ Dresdner U.S. Finance, Inc.</b>			<b>+ HBOS Treasury Services, PLC</b>		
4.31%, 01/09/06	55,000	54,948	4.34%, 02/22/06	13,000	12,919
<b>◆ Edison Asset Securitization Corp., L.L.C., Section 4(2) / 144A</b>			4.33%, 02/24/06	89,000	88,428
4.58%, 06/06/06	133,000	130,418	4.34%, 02/27/06	65,000	64,558
<b>◆+ Eiffel Funding, L.L.C., Section 4(2) / 144A</b>			4.43%, 03/14/06	84,000	83,263
4.20%, 01/09/06	25,000	24,977	<b>HSBC U.S.A., Inc.</b>		
<b>◆+ Fairway Finance Co., L.L.C., Section 4(2) / 144A</b>			4.45%, 05/01/06	4,000	3,942
4.12%, 01/13/06	55,023	54,948	<b>Irish Life &amp; Permanent, PLC, Section 4(2) / 144A</b>		
<b>◆+ Falcon Asset Securitization Corp., Section 4(2) / 144A</b>			4.05%, 01/05/06	32,000	31,986
4.23%, 01/09/06	42,287	42,248	4.05%, 01/06/06	42,000	41,977
4.12%, 01/17/06	23,828	23,785	4.12%, 01/18/06	10,000	9,981
4.24%, 01/18/06	55,472	55,362	4.32%, 02/16/06	40,000	39,782
4.22%, 01/19/06	101,766	101,553	<b>+ IXIS Commercial Paper Corp., Section 4(2) / 144A</b>		
<b>◆ Five Finance Inc., Section 3c7 / 144A</b>			4.14%, 01/25/06	150,000	149,591
4.04%, 01/03/06	7,000	6,998	4.26%, 02/16/06	54,000	53,710
4.08%, 01/13/06	10,000	9,987	4.56%, 05/16/06	15,000	14,749
4.11%, 01/17/06	10,000	9,982	4.60%, 06/16/06	40,000	39,172
4.15%, 01/24/06	48,000	47,874	<b>◆+ Jupiter Securitization Corp., Section 4(2) / 144A</b>		
4.16%, 01/24/06	20,000	19,947	4.22%, 01/10/06	101,657	101,551
4.21%, 01/30/06	7,000	6,977	4.19%, 01/11/06	36,000	35,958
4.34%, 04/24/06	15,500	15,294	4.24%, 01/19/06	42,745	42,655
<b>ForeningsSparbanken AB (Swedbank)</b>			<b>◆ K2 (USA), L.L.C., Section 3c7 / 144A</b>		
4.11%, 01/18/06	13,800	13,773	4.20%, 01/10/06	15,000	14,984
4.54%, 05/30/06	195,000	191,421	4.21%, 01/11/06	10,000	9,988
<b>◆ Galaxy Funding, Inc., Section 4(2) / 144A</b>			4.12%, 01/17/06	13,600	13,575
4.10%, 01/11/06	40,000	39,955	4.29%, 02/13/06	9,000	8,954
4.12%, 01/19/06	15,000	14,969	4.34%, 02/22/06	16,800	16,696
4.20%, 01/24/06	11,000	10,971	4.00%, 02/23/06	80,000	79,538
4.33%, 02/21/06	15,000	14,909	4.35%, 02/23/06	10,000	9,937
<b>General Electric Capital Corp.</b>			4.37%, 02/28/06	20,000	19,861
4.04%, 01/04/06	100,000	99,967	4.43%, 03/09/06	4,800	4,761
4.05%, 01/06/06	97,000	96,946	3.95%, 03/13/06	25,800	25,603
4.14%, 02/08/06	146,000	145,371	4.45%, 03/13/06	35,000	34,696
3.99%, 03/02/06	100,000	99,348	4.24%, 04/05/06	10,000	9,892
3.95%, 03/21/06	35,000	34,703	4.25%, 04/05/06	32,800	32,444

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)
<b>+ KBC Financial Products International, Ltd., Section 4(2) / 144A</b>			<b>◆+ Picaros Funding, L.L.C., Section 4(2) / 144A</b>		
4.16%, 01/24/06	50,000	49,869	4.00%, 02/17/06	86,000	85,560
<b>◆+ Lexington Parker Capital Co., L.L.C. Section 4(2) / 144A</b>			4.35%, 02/22/06	14,000	13,913
4.06%, 01/06/06	42,000	41,977	4.18%, 03/30/06	75,000	74,250
4.23%, 02/03/06	10,000	9,962	<b>◆+ Preferred Receivables Funding Corp. Section 4(2) / 144A</b>		
4.00%, 02/14/06	23,000	22,890	3.97%, 02/10/06	150,000	149,352
4.34%, 02/22/06	8,000	7,950	4.37%, 02/28/06	11,567	11,486
<b>◆+ Links Finance, L.L.C., Section 3c7 / 144A</b>			4.60%, 06/12/06	36,000	35,271
4.37%, 02/27/06	34,000	33,768	<b>+ San Paolo IMI U.S. Financial Co.</b>		
4.37%, 02/28/06	11,000	10,923	4.03%, 01/05/06	177,000	176,922
4.39%, 03/01/06	20,000	19,858	<b>+ Santander Central Hispano Finance (Delaware), Inc.</b>		
4.45%, 03/17/06	7,000	6,936	4.00%, 02/24/06	60,000	59,647
<b>◆ Mane Funding Corp., Section 4(2) / 144A</b>			3.96%, 03/15/06	122,000	121,038
4.14%, 01/19/06	7,212	7,197	4.30%, 04/13/06	14,000	13,833
4.20%, 01/23/06	47,124	47,004	<b>◆+ Scaldis Capital Ltd., Section 4(2) / 144A</b>		
4.33%, 02/21/06	147,000	146,109	4.08%, 01/10/06	57,542	57,484
4.45%, 03/16/06	121,000	119,906	4.13%, 01/17/06	175,000	174,682
4.46%, 03/20/06	109,024	107,982	4.14%, 01/20/06	15,281	15,248
<b>◆+ Mont Blanc Capital Corp., Section 4(2) / 144A</b>			4.37%, 02/27/06	102,474	101,773
4.24%, 01/19/06	88,000	87,815	4.41%, 03/01/06	21,366	21,213
4.35%, 02/23/06	71,282	70,831	4.40%, 03/02/06	116,348	115,504
<b>◆+ Nieuw Amsterdam Receivables Corp., Section 4(2) / 144A</b>			4.44%, 03/10/06	54,925	54,470
4.01%, 01/03/06	40,000	39,991	4.46%, 03/20/06	35,000	34,666
3.78%, 01/12/06	30,000	29,966	<b>◆+ Sheffield Receivables Corp., Section 4(2) 144A</b>		
4.11%, 01/13/06	12,000	11,984	4.16%, 01/05/06	88,611	88,570
3.97%, 02/08/06	20,000	19,918	4.19%, 01/09/06	37,000	36,966
4.35%, 02/22/06	23,782	23,634	<b>◆+ Sigma Finance, Inc., Section 3c7 / 144A</b>		
4.04%, 02/27/06	15,000	14,906	4.17%, 01/05/06	95,000	94,956
4.39%, 03/02/06	14,500	14,395	4.06%, 01/10/06	23,000	22,977
4.06%, 03/23/06	14,000	13,875	4.18%, 01/10/06	50,000	49,948
4.13%, 03/23/06	14,512	14,380	3.88%, 01/12/06	15,000	14,982
<b>Northern Rock PLC</b>			4.21%, 02/01/06	6,000	5,979
4.41%, 03/07/06	62,000	61,511	4.22%, 02/03/06	50,000	49,809
<b>◆+ Old Line Funding, L.L.C., Section 4(2) / 144A</b>			4.31%, 02/17/06	42,000	41,766
4.36%, 01/12/06	69,290	69,198	4.34%, 02/21/06	21,000	20,872
<b>◆+ Park Avenue Receivables Corp. L.L.C., Section 4(2) / 144A</b>			4.37%, 02/27/06	68,000	67,535
4.23%, 01/19/06	75,127	74,969	4.39%, 03/01/06	20,000	19,858
<b>◆+ Park Granada, L.L.C., Section 4(2) / 144A</b>			4.13%, 03/27/06	27,000	26,742
4.28%, 01/03/06	60,000	59,986	4.47%, 05/08/06	123,000	121,104
4.21%, 01/26/06	36,000	35,896	<b>Skandinaviska Enskilda Banken AB</b>		
4.28%, 02/07/06	30,000	29,869	4.03%, 03/02/06	108,000	107,288
4.40%, 03/02/06	16,000	15,884	<b>+ Societe Generale North America, Inc.</b>		
			4.35%, 02/21/06	15,600	15,505

## 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)
<b>◆+ Thunder Bay Funding, LLC., Section 4(2) / 144A</b>			<b>Australia &amp; New Zealand Banking Group Ltd.</b>		
4.12%, 01/18/06	47,000	46,909	4.24%, 04/07/06	86,000	86,000
4.16%, 01/23/06	10,581	10,554	<b>Banca Intesa</b>		
4.46%, 03/20/06	45,000	44,570	4.22%, 01/24/06	131,000	131,000
4.47%, 03/20/06	30,519	30,227	<b>Banco Bilbao Vizcaya Argentaria S.A.</b>		
<b>◆+ Ticonderoga Funding, LLC., Section 4(2) / 144A</b>			4.50%, 04/19/06	154,000	154,000
4.27%, 01/09/06	66,328	66,265	<b>Bank of Tokyo-Mitsubishi, Ltd.</b>		
4.37%, 01/27/06	13,000	12,959	4.17%, 01/27/06	100,000	100,000
<b>Toronto Dominion Holdings</b>			4.44%, 03/09/06	14,000	14,000
4.42%, 05/05/06	5,500	5,418	<b>Barclays Bank PLC</b>		
<b>◆+ Tulip Funding Corp., Section 3c7 / 144A</b>			4.18%, 01/04/06	20,000	20,000
4.45%, 04/27/06	67,000	66,057	4.16%, 01/05/06	242,000	242,000
<b>+ UBS Finance (Delaware), Inc.</b>			4.05%, 01/06/06	29,000	29,000
4.14%, 01/26/06	24,900	24,829	4.21%, 01/18/06	17,000	17,000
4.17%, 01/30/06	40,800	40,665	4.22%, 01/19/06	30,000	30,000
<b>◆+ Variable Funding Capital Corp., Section 4(2) / 144A</b>			4.36%, 02/28/06	20,000	20,000
4.29%, 01/13/06	100,000	99,858	<b>BNP Paribas</b>		
<b>+ Westpac Banking Corp., Section 4(2) / 144A</b>			4.30%, 02/17/06	80,000	80,000
4.21%, 02/24/06	122,000	121,240	4.03%, 03/27/06	287,000	287,000
4.61%, 06/13/06	14,000	13,715	4.60%, 06/20/06	231,000	231,000
<b>+ Westpac Trust Securities NZ Ltd., Section 4(2) / 144A</b>			<b>Calyon</b>		
4.28%, 02/09/06	30,000	29,863	4.21%, 01/11/06	190,000	190,000
4.36%, 02/28/06	130,000	129,097	4.12%, 01/17/06	10,000	10,000
<b>◆ Whistlejacket Capital, L.L.C., Section 3c7 / 144A</b>			3.99%, 02/23/06	110,000	110,000
4.13%, 01/20/06	6,567	6,553	<b>Canadian Imperial Bank of Commerce</b>		
4.17%, 01/24/06	6,053	6,037	3.96%, 02/01/06	110,000	110,000
4.07%, 01/30/06	30,258	30,160	<b>Citibank, N.A.</b>		
4.35%, 02/23/06	15,168	15,072	4.36%, 02/28/06	66,000	66,000
4.43%, 03/10/06	6,836	6,779	4.48%, 03/29/06	33,000	33,000
4.45%, 03/14/06	20,000	19,824	<b>Credit Agricole S.A.</b>		
4.47%, 03/20/06	5,179	5,129	4.61%, 06/21/06	30,000	30,000
<b>◆ White Pine Finance, L.L.C., Section 3c7 / 144A</b>			<b>Credit Suisse</b>		
4.33%, 02/17/06	12,993	12,920	4.33%, 01/18/06	49,000	49,000
4.44%, 02/22/06	36,000	35,771	4.25%, 01/26/06	29,000	29,000
4.40%, 03/01/06	35,386	35,133	4.58%, 06/06/06	78,000	78,000
4.41%, 03/01/06	25,376	25,194	4.59%, 06/13/06	34,000	34,000
4.42%, 03/13/06	26,435	26,207	4.60%, 06/20/06	179,000	179,000
<b>◆+ Windmill Funding Corp., Section 4(2) / 144A</b>			<b>DePfa Bank, PLC</b>		
4.30%, 01/11/06	38,000	37,955	4.05%, 01/06/06	10,000	10,000
		<b>13,779,572</b>	4.21%, 01/13/06	30,000	30,000
<b>Certificates of Deposit 20.9%</b>			4.12%, 01/19/06	20,000	20,000
<b>American Express Bank FSB</b>			4.39%, 03/03/06	50,000	50,000
4.44%, 03/14/06	44,000	44,000	<b>Deutsche Bank, AG</b>		
			3.96%, 02/01/06	14,000	14,000
			4.62%, 10/26/06	150,000	150,000

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)
<b>DnB NOR Bank ASA</b>			<b>UBS, AG</b>		
3.81%, 01/20/06	20,000	20,000	3.97%, 02/01/06	42,000	42,000
<b>Dresdner Bank AG</b>			<b>Unicredito Italiano SpA</b>		
4.25%, 01/26/06	169,000	169,000	3.78%, 01/17/06	35,000	35,000
<b>Fortis Bank</b>			4.10%, 01/17/06	350,000	350,000
4.18%, 04/03/06	205,000	205,000	4.11%, 01/19/06	10,000	10,000
<b>+ HBOS Treasury Services, PLC</b>			4.29%, 04/18/06	105,000	105,000
4.38%, 03/10/06	125,000	125,000	<b>Washington Mutual Bank, FA</b>		
4.41%, 05/05/06	35,000	35,000	4.44%, 03/14/06	73,000	73,000
<b>HSBC Bank, USA</b>			4.61%, 06/16/06	29,000	29,000
4.13%, 03/29/06	65,000	65,000	<b>Wells Fargo Bank, N.A.</b>		
4.30%, 04/21/06	56,000	56,000	4.27%, 01/12/06	50,000	50,000
<b>ING Bank N.V.</b>			4.31%, 01/26/06	100,000	99,999
4.11%, 01/20/06	55,000	55,000	<b>Wilmington Trust Co.</b>		
4.46%, 05/08/06	28,000	28,000	4.42%, 03/08/06	22,000	22,000
<b>Landesbank Baden-Wurtemberg</b>					<b>5,942,998</b>
4.32%, 02/17/06	100,000	99,999	<b>Bank Notes 2.1%</b>		
<b>Landesbank Hessen-Thuringen Girozentrale</b>			<b>Bank of America, N.A.</b>		
4.53%, 05/30/06	86,000	86,000	4.19%, 01/11/06	184,000	184,000
<b>Lloyds TSB Bank, PLC</b>			4.25%, 01/27/06	412,000	412,000
3.96%, 02/01/06	50,000	50,000			<b>596,000</b>
<b>Mizuho Corp. Bank, Ltd.</b>					
4.21%, 01/27/06	80,000	80,000			
4.22%, 02/01/06	30,000	30,000			
<b>Nordea Bank Finland, PLC</b>					
4.24%, 04/06/06	265,000	265,000			
4.46%, 05/08/06	87,000	87,000			
4.49%, 05/15/06	33,000	33,000			
<b>Northern Rock, PLC</b>					
4.25%, 01/26/06	50,000	50,000			
<b>Royal Bank of Scotland, PLC</b>					
4.29%, 02/01/06	82,000	82,000			
4.41%, 05/05/06	40,000	40,000			
<b>San Paolo IMI SpA</b>					
4.21%, 01/18/06	125,000	125,000			
4.11%, 01/19/06	17,000	17,000			
4.36%, 03/01/06	10,000	10,000			
<b>Societe Generale</b>					
4.61%, 06/21/06	46,000	46,000			
4.63%, 06/22/06	118,000	118,000			
<b>Toronto Dominion Bank</b>					
4.46%, 03/27/06	255,000	255,000			
<b>U.S. Bank, N.A.</b>					
4.11%, 01/20/06	218,000	218,000			

**Variable-Rate Obligations 17.6% of net assets**
**+ Access Loans for Learning Student Loan Corp.**

Taxable Student Loan RB Series II-A-6		
4.33%, 01/07/06	27,800	27,800
<b>Bank of Ireland, 144A</b>		
4.34%, 01/20/06	40,000	40,000
<b>Bank of New York Co., Inc., 144A</b>		
4.42%, 01/27/06	50,000	50,000
<b>Barclays Bank, PLC</b>		
4.25%, 01/05/06	90,000	89,992
4.30%, 01/10/06	37,000	36,997
4.31%, 01/23/06	300,000	299,968
<b>BNP Paribas</b>		
4.30%, 01/10/06	100,000	99,980
4.31%, 01/17/06	75,000	74,992
<b>Canadian Imperial Bank of Commerce</b>		
4.43%, 01/17/06	100,000	100,000
4.35%, 01/23/06	10,000	10,000

## Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>+ Central Baptist Church of Hixson, Tennessee</b> 4.44%, 01/07/06	13,000	13,000	<b>+ Loanstar Assets Partners II, L.P.</b> 4.46%, 01/07/06	25,000	25,000
<b>+ City of New Britain, Connecticut</b> GO Pension Bonds Series 1998 4.39%, 01/07/06	40,000	40,000	<b>+ Merlot Trust Section 4(2) / 144A</b> Series 2000B 4.53%, 01/07/06	30,000	30,000
<b>+ Columbus, Georgia Development Authority</b> Taxable RB (Jay Leasing, Inc. Project) Series 1997 4.41%, 01/07/06	5,535	5,535	<b>Merrill Lynch &amp; Co., Inc.</b> 4.35%, 01/17/06	75,000	75,000
<b>Commonwealth Bank of Australia, 144A</b> 4.16%, 01/24/06	50,000	50,000	<b>• Metropolitan Life Insurance Co.</b> 4.36%, 01/03/06	100,000	100,000
<b>◆+ Concord Minutemen Capital Co., Series A Section 3c7 / 144A</b> 4.32%, 01/19/06	20,000	19,999	<b>• Monumental Life Insurance Co.</b> 4.30%, 01/01/06	100,000	100,000
<b>Credit Suisse</b> 4.32%, 01/11/06	100,000	100,000	4.39%, 01/01/06	10,000	10,000
<b>Dexia Credit Local</b> 4.32%, 01/26/06	100,000	99,975	4.39%, 01/03/06	100,000	100,000
<b>◆ Dorada Finance, Inc., Section 3c7 / 144A</b> 4.32%, 01/17/06	145,000	144,999	<b>Morgan Stanley</b> 4.30%, 01/03/06	140,000	140,000
<b>◆ Five Finance Inc., Section 3c7 / 144A</b> 4.33%, 01/17/06	50,000	49,996	4.34%, 01/17/06	50,000	50,000
<b>General Electric Capital Corp.</b> 4.47%, 01/17/06	225,000	225,000	<b>+ New Jersey Economic Development Authority</b> Taxable Economic Development Bonds (MSNBC CNBC Project) Series 1997A 4.27%, 01/03/06	15,600	15,600
<b>HSH Nordbank, AG</b> 4.29%, 01/09/06	75,000	74,997	<b>Norddeutsche Landesbank Girozentrale</b> 4.27%, 01/03/06	130,000	129,992
<b>J.P. Morgan Securities, Inc.</b> 4.29%, 01/01/06	100,000	100,000	4.32%, 01/17/06	75,000	74,993
<b>◆+ Lexington Parker Capital Co., L.L.C., Section 4(2) / 144A</b> 4.24%, 01/03/06	175,000	174,994	<b>Nordea AB</b> 4.34%, 02/13/06	80,000	80,000
4.29%, 01/09/06	35,000	34,999	<b>Nordea Bank Finland, PLC</b> 4.34%, 01/17/06	35,000	34,998
4.34%, 01/13/06	73,000	72,998	<b>Royal Bank of Canada</b> 4.39%, 02/10/06	40,000	40,000
<b>◆ Liberty Lighthouse U.S. Capital Co. L.L.C., Section 4(2) / 144A</b> 4.26%, 01/03/06	31,000	31,000	<b>Royal Bank of Scotland, PLC</b> 4.26%, 01/03/06	90,000	89,994
4.29%, 01/09/06	52,000	51,997	4.26%, 01/06/06	140,000	139,990
4.34%, 01/19/06	30,000	30,000	4.32%, 01/27/06	112,000	111,992
4.34%, 01/30/06	40,000	39,998	4.33%, 01/30/06	80,000	79,989
<b>◆+ Links Finance, L.L.C., Section 3c7 / 144A</b> 4.29%, 01/09/06	50,000	49,993	<b>Royal Bank of Scotland, PLC, 144A</b> 4.34%, 01/23/06	20,000	20,000
4.32%, 01/17/06	32,000	31,997	<b>◆+ Sigma Finance, Inc., Section 3c7 / 144A</b> 4.33%, 01/17/06	75,000	74,995
4.35%, 01/17/06	100,000	100,006	4.35%, 01/17/06	46,125	46,125
			<b>Svenska Handelsbanken AB</b> 4.25%, 01/03/06	75,000	74,989

Issuer Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
<b>• The Goldman Sachs Group, Inc.</b>		
4.34%, 01/04/06	10,000	10,000
4.40%, 01/13/06	140,000	140,000
<b>• The Goldman Sachs Group, Inc., 144A</b>		
4.39%, 01/09/06	125,000	125,000
<b>✦ Town of Islip, New York IDA, 144A</b>		
Taxable Adjustable Rate IDRB (Nussdorf Associates/Quality King Distributions, Inc. Facility ) Series 1992		
4.68%, 01/07/06	1,285	1,285
<b>• Travelers Insurance Co.</b>		
4.34%, 01/01/06	25,000	25,000
4.44%, 01/19/06	100,000	100,000
4.43%, 01/30/06	25,000	25,000
<b>◆ Wachovia Asset Securitization, Inc., 144A</b>		
Series 2005-HM1A Class AMM		
4.37%, 01/25/06	33,948	33,948
<b>Washington Mutual Bank, FA</b>		
4.36%, 01/30/06	125,000	125,000
<b>Wells Fargo &amp; Co., 144A</b>		
4.36%, 01/17/06	120,000	120,001
<b>◆ Whistlejacket Capital, L.L.C., Section 3c7 / 144A</b>		
4.28%, 01/09/06	13,000	12,998
4.33%, 01/20/06	17,000	16,998
4.33%, 01/27/06	74,000	73,991
<b>◆ White Pine Finance, L.L.C., Section 3c7 / 144A</b>		
4.26%, 01/09/06	22,000	21,997
4.32%, 01/17/06	42,000	41,995
4.37%, 01/20/06	42,000	42,005
4.33%, 01/25/06	60,000	59,993

**4,990,080**

Security	Maturity Amount (\$ x 1,000)	Value (\$ x 1,000)
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**Other Investments** 10.6% of net assets**Repurchase Agreements 10.6%****Bank of America Securities LLC.**

Tri-Party Repurchase Agreement  
Collateralized by U.S. Government  
Securities with a value of \$324,360  
4.30%, issued 12/30/05,  
due 01/03/06 318,152 318,000

**Bear Stearns & Co. Inc.**

Tri-Party Repurchase Agreement  
Collateralized by U.S. Government  
Securities with a value of \$132,603  
4.28%, issued 12/30/05,  
due 01/03/06 130,062 130,000

**Credit Suisse First Boston L.L.C.**

Tri-Party Repurchase Agreement  
Collateralized by U.S. Government  
Securities with a value of \$525  
4.26%, issued 12/30/05,  
due 01/03/06 514 514

**Goldman Sachs & Co.**

Tri-Party Repurchase Agreement  
Collateralized by U.S. Government  
Securities with a value of \$1,020,000  
4.33%, issued 12/30/05,  
due 01/03/06 1,000,482 1,000,000

**Morgan Stanley & Co. Inc.**

Tri-Party Repurchase Agreement  
Collateralized by U.S. Government  
Securities with a value of \$682,381  
4.28%, issued 12/30/05,  
due 01/03/06 669,318 669,000

**UBS Financial Services, Inc.**

Tri-Party Repurchase Agreement  
Collateralized by U.S. Government  
Securities with a value of \$897,602  
4.29%, issued 12/30/05,  
due 01/03/06 880,419 880,000

**2,997,514****End of investments.**

**Portfolio Holdings** continued

Issuer Rate, Acquisition Date, Maturity Date	Face Amount (\$ x 1,000)	Cost/ Value (\$ x 1,000)
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**At December 31, 2005 portfolio holdings included  
illiquid and/or restricted securities as follows:**

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

4.12%, 10/18/05, 01/20/06	12,000	11,974
4.13%, 09/27/05, 03/28/06	20,000	19,806
		<b>31,780</b>

**Metropolitan Life Insurance Co., 144A**

4.36%, 02/01/05, 01/03/06	100,000	<b>100,000</b>
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**Monumental Life Insurance Co.**

4.39%, 06/10/93, 01/01/06	10,000	10,000
4.30%, 01/12/00, 01/01/06	100,000	100,000
4.39%, 10/10/96, 01/03/06	100,000	100,000
		<b>210,000</b>

**Travelers Insurance Co., 144A**

4.34%, 01/31/05, 01/03/06	25,000	25,000
4.44%, 08/19/05, 01/19/06	100,000	100,000
4.43%, 10/28/05, 01/30/06	25,000	25,000
		<b>150,000</b>

**The Goldman Sachs Group, Inc.**

4.34%, 10/04/05, 01/04/06	10,000	10,000
4.40%, 07/18/05, 01/13/06	140,000	140,000
		<b>150,000</b>

**The Goldman Sachs Group, Inc., 144A**

4.39%, 07/09/04, 01/09/06	125,000	<b>125,000</b>
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## Statement of

**Assets and Liabilities**

As of December 31, 2005. All numbers x 1,000 except NAV.

**Assets**

Investments, at value	\$25,308,650
Repurchase agreements, at value	2,997,514
Receivables:	
Fund shares sold	248,175
Interest	54,803
Prepaid expenses	+ 841
<b>Total assets</b>	<b>28,609,983</b>

**Liabilities**

Payables:	
Fund shares redeemed	226,610
Dividends to shareholders	15,311
Investment adviser and administrator fees	509
Transfer agent and shareholder service fees	458
Trustees' fees	30
Accrued expenses	+ 592
<b>Total liabilities</b>	<b>243,510</b>

**Net Assets**

<b>Total assets</b>	28,609,983
<b>Total liabilities</b>	– 243,510
<b>Net assets</b>	<b>\$28,366,473</b>

**Net Assets by Source**

Capital received from investors	28,366,473
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**Net Asset Value (NAV) by Share Class**

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Investor Shares	\$24,112,102		24,112,313		\$1.00
Select Shares	\$2,325,036		2,325,036		\$1.00
Institutional Shares	\$1,929,335		1,929,336		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost of the fund's securities was \$28,306,164. Includes restricted and/or illiquid securities worth \$766,780, or 2.7% 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 \$11,174,964 or 39.4% of the fund's total net assets.

**Federal Tax Data****Cost basis of portfolio** \$28,306,164**Reclassifications:**

Net realized capital losses	\$103
Reclassified as:	
Capital received from investors	(\$103)

## Statement of

**Operations**

For January 1, 2005 through December 31, 2005. All numbers x 1,000.

**Investment Income**

Interest	<b>\$866,135</b>
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**Expenses**

Investment adviser and administrator fees	86,330	
Transfer agent and shareholder service fees:		
Investor Shares	50,865	
Select Shares	3,788	
Institutional Shares	3,303	
Trustees' fees	114	
Custodian and portfolio accounting fees	2,218	
Professional fees	118	
Registration fees	636	
Shareholder reports	248	
Other expenses	+	232
Total expenses		147,852
Expense reduction	-	34,181
<b>Net expenses</b>		<b>113,671</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	866,135
<b>Net expenses</b>	- 113,671
<b>Net investment income</b>	<b>752,464</b>
<b>Increase in net assets from operations</b>	<b>\$752,464</b>

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 \$29,307 from the investment adviser (CSIM) and \$4,874 from the transfer agent and shareholder service agent (Schwab). These reductions reflect a guarantee by CSIM and Schwab to limit the annual operating expenses through April 29, 2006, as follows:

Share Class	% of Average Daily Net Assets
Investor Shares	0.45
Select Shares	0.35
Institutional Shares	0.24

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

## Statements of

**Changes in Net Assets**

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

**Operations**

	1/1/05–12/31/05	1/1/04–12/31/04
Net investment income	\$752,464	\$275,461
<b>Increase in net assets from operations</b>	<b>752,464</b>	<b>275,461</b>

**Distributions Paid**

Dividends from net investment income		
Investor Shares	653,672	251,075
Select Shares	52,115	12,183
Institutional Shares	+ 46,677	12,203
<b>Total dividends from net investment income</b>	<b>752,464</b>	<b>275,461</b>

**Transactions in Fund Shares****Shares Sold**

Investor Shares	24,443,221	18,381,853
Select Shares	4,581,545	2,590,824
Institutional Shares	+ 4,425,407	2,979,806
<b>Total shares sold</b>	<b>33,450,173</b>	<b>23,952,483</b>

**Shares Reinvested**

Investor Shares	591,999	229,151
Select Shares	46,156	10,546
Institutional Shares	+ 41,389	10,215
<b>Total shares reinvested</b>	<b>679,544</b>	<b>249,912</b>

**Shares Redeemed**

Investor Shares	(24,288,614)	(24,105,952)
Select Shares	(3,511,556)	(2,405,370)
Institutional Shares	+ (3,591,062)	(2,656,903)
<b>Total shares redeemed</b>	<b>(31,391,232)</b>	<b>(29,168,225)</b>

<b>Net transactions in fund shares</b>	<b>2,738,485</b>	<b>(4,965,830)</b>
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**Net Assets**

Beginning of period	25,627,988	30,593,818
Total decrease	+ 2,738,485	(4,965,830)
<b>End of period</b>	<b>\$28,366,473</b>	<b>\$25,627,988</b>

Unless stated, all numbers x 1,000.

The tax-basis components of distributions are:

**Current year**

Ordinary income	\$752,464
Long-term capital gains	\$–

**Prior year**

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

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

Represents shares sold plus shares reinvested, minus shares redeemed.

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

# Financial Notes

## 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 Investor Money Fund

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 using the effective interest rate method. 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 portfolios constituting The Charles Schwab Family of Funds, hereafter referred to as the “Funds”) at December 31, 2005, 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 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, 2005 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

### **PricewaterhouseCoopers LLP**

San Francisco, California  
February 14, 2006

# Investment Advisory Agreement Approval

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

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

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

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

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



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

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

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

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

**Profitability.** With regard to profitability, the trustees considered the compensation flowing to CSIM and its affiliates, directly or indirectly. In this connection, the trustees reviewed management's profitability analyses, together with certain commentary thereon from an independent accounting firm. The trustees also considered any other benefits derived by CSIM from its relationship with the funds, such as whether, by virtue of its management of the Funds, CSIM obtains investment information or

other research resources that aid it in providing advisory services to other clients. The trustees considered whether the varied levels of compensation and profitability under the Agreement and other service agreements were reasonable and justified in light of the quality of all services rendered to each fund by CSIM and its affiliates. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the profitability of CSIM is reasonable and supported interim renewal of the Agreement.

**Economies of Scale.** The trustees considered the existence of any economies of scale and whether those are passed along to a fund's shareholders through a graduated investment advisory fee schedule or other means, including any fee waivers by CSIM and its affiliates. In this regard, and consistent with their consideration of fund expenses, the trustees considered that CSIM and Schwab have previously committed resources to minimize the effects on shareholders of diseconomies of scale during periods when fund assets were relatively small through their contractual expense waivers. For example, such diseconomies of scale may particularly affect newer funds or funds with investment strategies that are from time to time out of favor, but shareholders may benefit from the continued availability of such funds at subsidized expense levels. The trustees also considered CSIM's agreement to contractual investment advisory fee schedules which include lower fees at higher graduated asset levels. With respect to the U.S. Treasury Money Fund, the Board also considered Schwab's agreement that that fund's net operating expenses (excluding interest, taxes and certain non-routine expenses) would not exceed 63 (sixty-three) basis points for the period July 1, 2005 until July 1, 2006. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the funds obtain reasonable benefit from economies of scale.

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

**Subsequent Continuation, August 2005.** At the August 31, 2005 meeting of the Board, the trustees, including a majority of the Independent Trustees, approved the continuation of the Agreement through June 30, 2006. This approval extended the interim approval of the Agreement by the Board, which had taken place on May 24, 2005 and is discussed above. In connection with the approval of the Agreement, the Board considered additional information provided by CSIM in response to the Board's requests at the May 24, 2005 meeting, as well as reconsidered the information provided and factors considered at prior meetings. The Board concluded that the information provided at the meeting supported continuation of the Agreement. In the course of their deliberations, the trustees did not identify any particular information or factor that was all-important or controlling. Based on the trustees' deliberation and their evaluation of the information described above, the Board, including all of the Independent Trustees, unanimously approved the continuation of the Agreement and concluded that the compensation under the Agreement is fair and reasonable in light of such services and expenses and such other matters as the trustees have considered to be relevant in the exercise of their reasonable judgment.

# Trustees and Officers

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

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

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

Independent Trustees		
Name and Year of Birth	Trustee Since	Main Occupations and Other Directorships and Affiliations
Mariann Byerwalter 1960	2000 (all trusts).	Chairman, JDN Corp. Advisory LLC (real estate). <i>Until 2001:</i> Special Advisor to the President, Stanford University. <i>From 1996-2001:</i> Vice President of Business Affairs, Chief Financial Officer, Stanford University. Ms. Byerwalter is on the Boards of Stanford University, America First Cos. (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, Pacific Life Insurance Company (insurance), Laudus Trust and Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex. <sup>2</sup>

<sup>1</sup> 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.

<sup>2</sup> This includes 10 series of the Laudus Trust and the sole series of the Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex.

## Independent Trustees continued

Name and Year of Birth	Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Donald F. Dorward</b> 1931	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chief Executive Officer, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999</i> : Executive Vice President, Managing Director, Grey Advertising. <i>Until 1996</i> : President, Chief Executive Officer, Allen & Dorward Advertising.
<b>William A. Hasler</b> 1941	2000 (all trusts).	Dean Emeritus of the Haas School of Business, University of California, Berkeley. <i>Until 2/04</i> , Co-Chief Executive Officer, Aphton Corporation (bio-pharmaceuticals). <i>Prior to 8/98</i> , Dean of the Haas School of Business, University of California, Berkeley (higher education). Mr. Hasler is on the Boards of Aphton Corporation (bio-pharmaceuticals), Mission West Properties (commercial real estate), Stratex Networks (network equipment), TOUSA (home building), Genitope Corp. (bio-pharmaceuticals), Laudus Trust and Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex. <sup>3</sup> Non-Executive Chairman, Solectron Corporation (manufacturing).
<b>Robert G. Holmes</b> 1931	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer, Director, Semloh Financial, Inc. (international financial services and investment advisory firm).
<b>Gerald B. Smith</b> 1950	2000 (all trusts).	<i>Since 1990</i> , Chairman and Chief Executive Officer and founder of Smith Graham & Co. (investment advisors). Mr. Smith is on the Board of Cooper Industries (electrical products, tools and hardware); Chairman, Texas Southern University Foundation; Executive Committee and Board Member, MD Anderson Cancer Center; Chairman of the audit committee of Northern Border Partners, M.L.P. (energy).
<b>Donald R. Stephens</b> 1938	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chairman, Chief Executive Officer, North American Trust (real estate investment trust).
<b>Michael W. Wilsey</b> 1943	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer, Wilsey Bennett, Inc. (real estate investment and management, and other investments).

<sup>3</sup> This includes 10 series of the Laudus Trust and the sole series of the Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex.

## Interested Trustees

Name and Year of Birth	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Charles R. Schwab</b> <sup>4</sup> 1937	Chairman, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer and Director, The Charles Schwab Corporation, Charles Schwab & Co., Inc.; Chairman and Director, Charles Schwab Investment Management, Inc., Charles Schwab Bank, N.A.; Chairman and Chief Executive Officer, Schwab (SIS) Holdings Inc. I, Schwab International Holdings, Inc.; Chief Executive Officer and Director, Schwab Holdings, Inc.; Director, U.S. Trust Company, N.A., U.S. Trust Corporation, United States Trust Company of New York. <i>Until 5/03</i> , Co-Chief Executive Officer, The Charles Schwab Corporation. Trustee, Charles and Helen Schwab Foundation; Chairman, All Kinds of Minds Institute (education), Trustee, Stanford University; Chairman and Director, Charles Schwab Foundation; Chairman of the Finance Committee, San Francisco Museum of Modern Art.
<b>Randall W. Merk</b> <sup>4</sup> 1954	Trustee, 2005 (all trusts).	Executive Vice President and President, Asset Management Products & Services, Charles Schwab & Co., Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From 9/02 to 7/04</i> , President and Chief Executive Officer, Charles Schwab Investment Management, Inc. and Executive Vice President, Charles Schwab & Co., Inc. <i>Prior to 9/02</i> , President and Chief Investment Officer, American Century Investment Management; Director, American Century Companies, Inc. <i>Until 6/01</i> , Chief Investment Officer, Fixed Income, American Century Companies, Inc.

## Officers of the Trust

Name and Year of Birth	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
<b>Evelyn Dilsaver</b> 1955	President, Chief Executive Officer (all trusts).	Executive Vice President, President, Director, Charles Schwab Investment Management, Inc. Vice President, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 7/04</i> : Senior Vice President, Asset Management Products & Services Enterprise. <i>Until 6/03</i> : Executive Vice President, Chief Financial Officer, Chief Administrative Officer, U.S. Trust.
<b>Stephen B. Ward</b> 1955	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co.

<sup>4</sup> In addition to their positions with the investment adviser and the distributor, Messrs. Schwab and Merk also own stock of the Charles Schwab Corporation.

## Officers of the Trust continued

Name and Year of Birth	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
<b>Kimon Daifotis</b> 1959	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President and Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Until 6/04</i> : Vice President and Senior Portfolio Manager, Charles Schwab Investment Management, Inc.
<b>Jeffrey Mortimer</b> 1963	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc.; Vice President, Chief Investment Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 5/04</i> : Vice President and Senior Portfolio Manager, Charles Schwab Investment Management, Inc.
<b>Randall Fillmore</b> 1960	Chief Compliance Officer (all trusts).	Senior Vice President, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Chief Compliance Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 9/03</i> : Vice President, Charles Schwab & Co., Inc. and Charles Schwab Investment Management, Inc. <i>Until 2002</i> : Vice President, Internal Audit, Charles Schwab & Co., Inc.
<b>Koji E. Felton</b> 1961	Secretary (all trusts).	Senior Vice President, Chief Counsel and Corporate Secretary, Charles Schwab Investment Management, Inc.; Senior Vice President and Deputy General Counsel, Charles Schwab & Co., Inc. <i>Prior to 6/98</i> , Branch Chief in Enforcement at U.S. Securities and Exchange Commission in San Francisco.
<b>George Pereira</b> 1964	Treasurer, Principal Financial Officer (all trusts).	Senior Vice President and Chief Financial Officer, Charles Schwab Investment Management, Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From 12/99 to 11/04</i> , Senior Vice President, Financial Reporting, Charles Schwab & Co., Inc.

# Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Portfolio terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



## Notes

## Notes

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

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

### Methods for Placing Orders

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

#### Internet<sup>1</sup>

[www.schwab.com](http://www.schwab.com)

#### Schwab by Phone™<sup>2</sup>

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

#### TeleBroker®

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

#### Mail

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

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

### Proxy Voting Policies, Procedures and Results

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

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

## The Schwab Funds Family®

### Stock Funds

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

### Asset Allocation Funds

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

### Bond Funds

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

### Schwab Money Funds

Schwab offers an array of money market funds that seek high current income consistent with safety and liquidity.<sup>3</sup> 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®.

<sup>1</sup> Shares of Sweep Investments™ may not be purchased directly over the Internet.

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

<sup>3</sup> 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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MFR31360-01

# Schwab Advisor Cash Reserves<sup>TM</sup>

## **Annual Report**

December 31, 2005

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# From the Chairman



Charles Schwab  
Chairman

Dear Shareholder,

I founded Schwab over thirty years ago to be a home for serious investors. That mission continues to guide us today as we constantly innovate on behalf of our clients. By continuing to provide the highest quality products and services—at a great price—we remain true to our heritage.

I take particular pride in the Schwab Funds. Founded over 15 years ago, they have grown to include more than 50 funds with over \$140 billion in assets as of this report date. With a variety of investment strategies, Schwab Funds provide a range of innovative investment choices that can serve as a foundation for your asset allocation plan.

Schwab Funds is managed by Charles Schwab Investment Management, Inc., which currently ranks as one of the largest investment managers in the country. Our portfolio managers share a passion for market analysis and use some of the most sophisticated financial models available. I am proud of their depth of experience, which reflects an average tenure of more than 15 years in the investment industry. Furthermore, I am impressed with the commitment that our managers bring to the stewardship of the funds, for you, their shareholders.

We strive every day to warrant the trust you have placed in us; that will never change. 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 letters of the first and last names being capitalized and prominent.

*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.*

# Management's Discussion for the year ended December 31, 2005



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

Dear Shareholder,

I'm pleased to bring you the annual report for your Schwab money fund for the year ended December 31, 2005. Although the period was marked by volatility, our money funds provided competitive yields as well as safety and stability.

I would like to take this opportunity to remind you that Schwab Funds offers a range of position-traded money funds that are available with a variety of minimums and investment strategies to meet your needs. These funds and share classes are available beginning with a minimum initial investment of \$25,000 (\$15,000 for IRA and custodial accounts) and include both taxable and, for clients who are tax sensitive, tax-free investment strategies. To make these products even more convenient, we've recently reduced the subsequent investment minimum requirement from \$5,000 to \$500 on several of our Value Advantage Investments.

We continue to develop and manage Schwab Funds to help you achieve your goals and to provide an uncomplicated way to build a well-diversified portfolio. During the report period covered by this book, Schwab Funds launched seven new funds across varying investment styles and strategies.

In closing, I speak for all of Schwab Funds when I say we want Schwab to be the place where investors can find useful, quality financial products and services to help them succeed.

Thank you for investing in Schwab Funds.

Sincerely,

A handwritten signature in black ink that reads "Evelyn Dilsaver". The signature is fluid and cursive, with a small dot above the 'i' in Dilsaver.

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





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



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

## The Investment Environment and the Fund

Despite having witnessed a turbulent year in the news, the markets remained in a steady growth mode and ended the one-year report period with positive results. Oil prices hit highs never seen before and the Federal Reserve continued to raise short-term interest rates to curb inflationary pressures, raising the rates eight consecutive times in the one-year report period and bringing the benchmark rate up to 4.25%. The moves had a limited impact on overall economic growth, due primarily to the low level of rates from which the increases began.

Regardless of the concerns of high energy prices, which remained a significant headwind for economic performance throughout the period, corporate earnings remained strong throughout the year. Additionally, with the unemployment rate hovering around 5% and GDP growth around 3.5%, job and income growth remained positive and investors remained optimistic. Productivity gains and more restrictive monetary policy kept a lid on core inflation. The productivity gains, coupled with foreign investors buying large amounts of U.S. government securities, helped to contain increases in long-term interest rates. These conditions caused the dollar to rally, which took pressure off the price of imported goods.

The big news for the past two quarters was the impact of Hurricanes Katrina and Rita. The devastation caused by these storms was particularly heavy with respect to the energy infrastructures in the South. Oil prices rose sharply in the aftermath of the hurricanes, with crude oil peaking above \$71 per barrel in early September, although softening oil demand and quick action by the federal government to release Strategic Petroleum Reserves led to a subsequent decline off that peak. During the fourth quarter, oil had dropped to as low as \$58 a barrel, but then rebounded back to \$64 as of the end of the period. While the full economic effect of the hurricanes remains unknown, the damage appears to be limited to the regions in the hurricanes' path and to the energy infrastructures in those areas.

Another significant event that happened during the report period was the appointment of Ben Bernanke to succeed Alan Greenspan as Chairman of the Federal Reserve Board. Although he had not yet been confirmed into office as of the end of the report period, Bernanke's experience on

the Federal Open Market Committee and his expertise in monetary economics has eased the concerns of the markets and caused investors to expect a smooth transition.

**Schwab Advisor Cash Reserves** was positioned to take advantage of the likelihood that the Federal Reserve would continue to raise short-term interest rates. As noted above, the Fed continued in its tightening cycle throughout the year, raising short-term interest rates 0.25% at each of its eight meetings. At the end of the one-year report period, the benchmark rate was up to 4.25%. In this economic environment, the fund continually added to its variable-rate holdings, maintaining its holdings at around 15-20% of fund assets during the period. The interest rates on these types of securities reset frequently, allowing us the opportunity to capture a rise in market rates. To further take advantage of the rising-rate environment, we maintained our weighted average maturity (WAM) relatively short, at around 40 days. Keeping the WAM short provided flexibility to adapt and respond to the changes in interest rates.

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

Performance and Fund Facts as of 12/31/05

Seven-Day Yields

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

Ticker Symbol	Sweep Shares SWQXX	Premier Sweep Shares SWZXX
Seven-Day Yield <sup>1</sup>	3.64%	3.74%
Seven-Day Yield–No Waiver <sup>2</sup>	3.44%	3.44%
Seven-Day Effective Yield <sup>1</sup>	3.70%	3.81%

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](http://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	48 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.

<sup>1</sup> Fund expenses have been partially absorbed by CSIM and Schwab.

<sup>2</sup> Yield if fund expenses had not been partially absorbed by CSIM and Schwab.

# Fund Expenses (unaudited)

## 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, 2005 and held through December 31, 2005.

**Actual Return** lines in the table below provide information about actual account values and actual expenses. You may use this information, together with the amount you invested, to estimate the expenses that you paid over the period. To do so, simply divide your account value by \$1,000 (for example, an \$8,600 account value ÷ \$1,000 = 8.6), then multiply the result by the number given for your fund 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 <sup>1</sup> (Annualized)	Beginning Account Value at 7/1/05	Ending Account Value (Net of Expenses) at 12/31/05	Expenses Paid During Period <sup>2</sup> 7/1/05–12/31/05
<b>Schwab Advisor Cash Reserves™</b>				
<i>Sweep Shares</i>				
Actual Return	0.69%	\$1,000	\$1,015.70	\$3.51
Hypothetical 5% Return	0.69%	\$1,000	\$1,021.73	\$3.52
<i>Premier Sweep Shares</i>				
Actual Return	0.59%	\$1,000	\$1,016.20	\$3.00
Hypothetical 5% Return	0.59%	\$1,000	\$1,022.23	\$3.01

<sup>1</sup> Based on the most recent six-month expense ratio; may differ from the expense ratio provided in Financial Highlights.  
<sup>2</sup> Expenses for each share class are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 184 days of the period, and divided by 365 days of the fiscal year.

# Financial Statements

## Financial Highlights

Sweep Shares		1/1/05– 12/31/05	8/19/04 <sup>1</sup> – 12/31/04
<b>Per-Share Data (\$)</b>			
Net asset value at beginning of period		1.00	1.00
Income from investment operations:			
Net investment income		0.03	0.00 <sup>2</sup>
Less distributions:			
Dividends from net investment income		(0.03)	(0.00) <sup>2</sup>
Net asset value at end of period		1.00	1.00
Total return (%)		2.63	0.45 <sup>3</sup>
<b>Ratios/Supplemental Data (%)</b>			
Ratios to average net assets:			
Net operating expenses		0.69	0.69 <sup>4</sup>
Gross operating expenses		0.85	0.85 <sup>4</sup>
Net investment income		2.65	1.30 <sup>4</sup>
Net assets, end of period (\$ x 1,000,000)		1,898	1,271
Premier Sweep Shares		1/1/05– 12/31/05	8/19/04 <sup>1</sup> – 12/31/04
<b>Per-Share Data (\$)</b>			
Net asset value at beginning of period		1.00	1.00
Income from investment operations:			
Net investment income		0.03	0.00 <sup>2</sup>
Less distributions:			
Dividends from net investment income		(0.03)	(0.00) <sup>2</sup>
Net asset value at end of period		1.00	1.00
Total return (%)		2.73	0.48 <sup>3</sup>
<b>Ratios/Supplemental Data (%)</b>			
Ratios to average net assets:			
Net operating expenses		0.59	0.59 <sup>4</sup>
Gross operating expenses		0.85	0.85 <sup>4</sup>
Net investment income		2.75	1.41 <sup>4</sup>
Net assets, end of period (\$ x 1,000,000)		3,728	2,344

<sup>1</sup> Commencement of operations.

<sup>2</sup> Per share amount was less than \$0.01.

<sup>3</sup> Not annualized.

<sup>4</sup> Annualized.

**Portfolio Holdings** as of December 31, 2005

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](http://www.schwab.com/schwabfunds).

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

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

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

Holdings by Category	Cost (\$x1,000)	Value (\$x1,000)
<b>64.0% Fixed-Rate Obligations</b>	3,597,666	3,597,666
<b>14.2% Variable-Rate Obligations</b>	800,398	800,398
<b>21.7% Other Investments</b>	1,221,359	1,221,359
<b>99.9% Total Investments</b>	<b>5,619,423</b>	<b>5,619,423</b>
<b>0.1% Other Assets and Liabilities</b>		6,669
<b>100.0% Net Assets</b>		<b>5,626,092</b>

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

**Fixed-Rate Obligations** 64.0% of net assets**Commercial Paper & Other Corporate Obligations** 47.8%

<b>AB Spintab</b>		
4.21%, 01/20/06	2,000	1,996
<b>Alliance &amp; Leicester, PLC, Section 4(2) / 144A</b>		
3.95%, 03/14/06	2,000	1,984
4.47%, 03/15/06	7,000	6,937
4.49%, 05/10/06	21,000	20,670
4.62%, 06/06/06	13,000	12,745
<b>◆ Amstel Funding Corp., Section 4(2) / 144A</b>		
4.07%, 01/09/06	9,000	8,992
4.35%, 02/22/06	10,000	9,938
4.35%, 02/23/06	6,000	5,962
<b>✦ ANZ (Delaware), Inc.</b>		
4.30%, 04/17/06	41,000	40,492
<b>✦ ANZ National Bank (Int'l) Ltd.</b>		
4.09%, 01/13/06	2,000	1,997
4.01%, 02/23/06	15,000	14,913
<b>◆◆ Aquinas Funding, L.L.C., Section 4(2) / 144A</b>		
4.19%, 01/03/06	1,000	1,000
4.12%, 01/13/06	1,000	999
4.60%, 06/05/06	3,000	2,942
4.61%, 06/13/06	2,000	1,959
4.65%, 06/16/06	13,000	12,727
4.64%, 06/19/06	5,000	4,893
4.65%, 06/22/06	4,000	3,913
<b>◆◆ ASAP Funding Ltd., Section 4(2) / 144A</b>		
4.04%, 01/04/06	2,000	1,999
4.05%, 01/04/06	7,000	6,998
4.21%, 01/09/06	7,000	6,993
4.43%, 02/23/06	16,000	15,897
4.42%, 03/03/06	5,000	4,963
4.46%, 03/07/06	3,000	2,976
<b>◆◆ Atlantic Asset Securitization Corp., Section 4(2) / 144A</b>		
4.18%, 01/04/06	5,000	4,998
4.19%, 01/04/06	11,884	11,880
4.35%, 02/21/06	18,704	18,590
4.45%, 03/13/06	4,000	3,965
<b>◆ Atlantis One Funding Corp., Section 4(2) / 144A</b>		
4.04%, 01/04/06	2,000	1,999
4.10%, 01/13/06	4,000	3,995
4.23%, 01/17/06	27,000	26,950

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
3.88%, 01/18/06	30,000	29,946	4.11%, 01/10/06	2,000	1,998
3.82%, 01/23/06	50,000	49,885	4.21%, 01/11/06	2,000	1,998
4.00%, 03/01/06	10,000	9,936	4.24%, 01/18/06	11,000	10,978
4.03%, 03/22/06	6,000	5,947	3.95%, 03/08/06	15,000	14,894
4.52%, 05/17/06	2,000	1,967	4.25%, 04/07/06	1,000	989
4.63%, 06/22/06	12,000	11,741	<b>♦♦ Crown Point Capital Co., L.L.C. Section 3c7 / 144A</b>		
<b>Bank of America Corp.</b>			3.98%, 01/04/06	30,000	29,990
4.18%, 01/10/06	2,000	1,998	3.82%, 01/18/06	20,000	19,965
4.42%, 02/27/06	12,000	11,917	4.33%, 04/19/06	19,000	18,758
<b>Bank of Ireland, Section 4(2) / 144A</b>			<b>♦ Dakota CP Notes of Citibank Credit Card Issuance Trust, Section 4 (2) / 144A</b>		
4.10%, 01/17/06	13,300	13,276	4.10%, 01/11/06	6,000	5,993
4.33%, 03/13/06	6,000	5,949	4.11%, 01/11/06	11,000	10,988
<b>Bear Stearns Companies, Inc.</b>			4.13%, 01/19/06	4,000	3,992
4.04%, 01/06/06	34,000	33,981	4.32%, 01/19/06	45,000	44,903
4.31%, 04/21/06	2,000	1,974	4.15%, 01/20/06	1,000	998
<b>♦♦ Beta Finance, Inc., Section 3c7 / 144A</b>			4.32%, 01/24/06	49,000	48,865
4.42%, 03/10/06	13,500	13,389	4.49%, 03/28/06	17,000	16,820
<b>♦♦ Blue Spice, L.L.C., Section 4(2) / 144A</b>			<b>+ Dexia Delaware L.L.C.</b>		
4.18%, 01/03/06	4,000	3,999	4.43%, 03/14/06	38,000	37,667
4.13%, 03/28/06	23,000	22,777	<b>DnB NOR Bank ASA</b>		
<b>+ CBA (Delaware) Finance, Inc.</b>			4.57%, 06/01/06	43,000	42,194
4.27%, 02/15/06	17,000	16,910	4.63%, 06/21/06	15,000	14,678
<b>♦ CC (USA), Inc., Section 3c7 / 144A</b>			<b>♦ Dorada Finance, Inc., Section 3c7 / 144A</b>		
3.85%, 01/13/06	3,000	2,996	4.12%, 01/20/06	20,000	19,957
3.87%, 01/13/06	1,000	999	<b>+ Dresdner U.S. Finance, Inc.</b>		
4.12%, 01/20/06	21,000	20,955	4.42%, 02/21/06	10,000	9,938
3.96%, 01/27/06	7,000	6,980	<b>♦ Edison Asset Securitization Corp., L.L.C., Section 4(2) / 144A</b>		
4.01%, 03/01/06	6,000	5,961	4.58%, 06/06/06	41,000	40,204
4.30%, 04/20/06	12,000	11,847	<b>♦♦ Eiffel Funding, L.L.C., Section 4(2) / 144A</b>		
<b>♦♦ Chariot Funding, L.L.C., Section 4(2) / 144A</b>			4.19%, 01/03/06	25,000	24,994
4.19%, 01/09/06	10,000	9,991	4.49%, 03/28/06	2,000	1,979
4.11%, 01/17/06	16,000	15,971	<b>♦♦ Fairway Finance Co., L.L.C., Section 4(2) / 144A</b>		
<b>+ Citigroup Funding, Inc.</b>			4.17%, 01/24/06	5,000	4,987
4.27%, 01/10/06	20,000	19,979	3.97%, 03/13/06	13,000	12,900
4.30%, 01/12/06	5,000	4,993	4.49%, 05/08/06	3,395	3,342
4.27%, 01/13/06	32,000	31,955	4.52%, 05/15/06	1,000	984
4.41%, 02/21/06	10,000	9,938	4.64%, 06/21/06	3,000	2,935
4.38%, 03/03/06	18,000	17,868	<b>♦♦ Falcon Asset Securitization Corp., Section 4(2) / 144A</b>		
4.44%, 03/13/06	1,000	991	4.23%, 01/09/06	50,000	49,953
4.44%, 03/17/06	44,000	43,598	<b>♦ Five Finance Inc., Section 3c7 / 144A</b>		
4.46%, 03/17/06	10,000	9,908	4.04%, 01/03/06	7,000	6,998
4.65%, 06/26/06	35,000	34,223	4.18%, 01/27/06	1,000	997
<b>♦♦ Concord Minutemen Capital Co., Series A Section 3c7 / 144A</b>					
3.75%, 01/06/06	30,000	29,985			
4.07%, 01/09/06	5,544	5,539			

## 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)
4.11%, 03/27/06	10,000	9,905	3.95%, 03/13/06	4,000	3,969
4.31%, 04/19/06	6,000	5,924	4.33%, 04/20/06	10,000	9,872
<b>ForeningsSparbanken AB (Swedbank)</b>			<b>+ KBC Financial Products International, Ltd., Section 4(2) / 144A</b>		
4.29%, 04/19/06	30,000	29,622	4.34%, 02/22/06	26,000	25,839
4.54%, 05/30/06	22,000	21,596	<b>◆+ Kitty Hawk Funding Corp., Section 4(2) / 144A</b>		
<b>◆+ Galaxy Funding, Inc., Section 4(2) / 144A</b>			4.30%, 01/13/06	10,000	9,986
4.09%, 01/13/06	8,000	7,989	<b>◆+ Lexington Parker Capital Co., L.L.C. Section 4(2) / 144A</b>		
4.33%, 02/21/06	15,000	14,909	4.40%, 01/03/06	3,000	2,999
<b>General Electric Capital Corp.</b>			4.06%, 01/06/06	1,000	999
4.04%, 01/04/06	35,000	34,988	4.31%, 01/06/06	1,000	999
4.06%, 01/10/06	40,000	39,960	3.79%, 01/13/06	2,000	1,998
4.07%, 01/12/06	45,000	44,945	3.80%, 01/13/06	18,000	17,978
4.14%, 02/08/06	54,000	53,767	4.17%, 01/24/06	7,000	6,982
3.99%, 03/01/06	20,000	19,872	4.25%, 04/07/06	3,000	2,967
3.95%, 03/21/06	9,000	8,924	<b>◆+ Links Finance, L.L.C., Section 3c7 / 144A</b>		
4.30%, 04/17/06	4,000	3,950	4.37%, 02/27/06	10,000	9,932
4.46%, 05/03/06	12,000	11,823	<b>◆+ Mane Funding Corp., Section 4(2) / 144A</b>		
4.61%, 08/01/06	8,000	7,790	4.31%, 01/18/06	12,000	11,976
4.71%, 09/15/06	8,000	7,740	4.33%, 02/21/06	7,142	7,099
<b>General Electric Capital Services</b>			4.35%, 02/24/06	31,000	30,800
4.04%, 01/05/06	40,000	39,982	<b>◆+ Mont Blanc Capital Corp., Section 4(2) / 144A</b>		
4.19%, 03/10/06	24,000	23,813	4.30%, 01/11/06	3,000	2,996
4.61%, 08/01/06	12,000	11,685	4.35%, 02/23/06	7,000	6,956
4.70%, 09/12/06	9,000	8,712	<b>Morgan Stanley</b>		
<b>◆+ Grampian Funding, LLC., Section 4(2) / 144A</b>			4.29%, 04/12/06	17,000	16,800
4.12%, 01/19/06	6,000	5,988	<b>◆+ Nieuw Amsterdam Receivables Corp., Section 4(2) / 144A</b>		
4.17%, 01/26/06	4,000	3,989	4.28%, 01/05/06	9,000	8,996
4.37%, 03/02/06	6,000	5,957	4.16%, 01/19/06	3,000	2,994
4.46%, 03/22/06	10,000	9,902	4.40%, 03/02/06	4,419	4,387
<b>+ HBOS Treasury Services, PLC</b>			4.45%, 03/13/06	2,000	1,983
4.33%, 02/24/06	7,000	6,955	4.45%, 03/16/06	8,000	7,928
4.41%, 03/08/06	29,000	28,768	4.06%, 03/23/06	9,000	8,919
<b>Irish Life &amp; Permanent, PLC, Section 4(2) / 144A</b>			<b>+ Nordea North America, Inc.</b>		
4.05%, 01/05/06	3,000	2,999	4.42%, 02/28/06	3,000	2,979
4.32%, 02/16/06	11,000	10,940	4.16%, 03/31/06	3,500	3,465
4.45%, 03/14/06	9,000	8,921	4.30%, 04/18/06	33,000	32,587
4.46%, 03/21/06	1,000	990	<b>◆+ Park Granada, L.L.C., Section 4(2) / 144A</b>		
<b>+ IXIS Commercial Paper Corp., Section 4(2) / 144A</b>			4.30%, 02/07/06	21,000	20,908
4.35%, 03/16/06	29,000	28,745	4.40%, 03/02/06	6,000	5,956
<b>◆+ Jupiter Securitization Corp., Section 4(2) / 144A</b>			4.50%, 03/22/06	13,000	12,871
4.29%, 01/05/06	1,190	1,189			
<b>◆ K2 (USA), L.L.C., Section 3c7 / 144A</b>					
4.07%, 01/09/06	1,500	1,499			
4.20%, 01/10/06	8,000	7,992			
4.43%, 03/09/06	32,000	31,739			



Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>◆◆ Picaros Funding, L.L.C., Section 4(2) / 144A</b>		
4.00%, 02/17/06	10,000	9,949
4.35%, 02/22/06	14,000	13,913
4.18%, 03/30/06	4,000	3,960
<b>◆◆ Preferred Receivables Funding Corp. Section 4(2) / 144A</b>		
3.97%, 02/10/06	2,000	1,991
<b>+ San Paolo IMI U.S. Financial Co.</b>		
4.03%, 01/05/06	35,000	34,984
<b>+ Santander Central Hispano Finance (Delaware), Inc.</b>		
4.00%, 02/24/06	18,000	17,894
3.96%, 03/15/06	18,000	17,858
4.30%, 04/13/06	3,000	2,964
<b>◆◆ Scaldis Capital Ltd., Section 4(2) / 144A</b>		
4.05%, 01/06/06	9,040	9,035
4.14%, 01/20/06	14,000	13,970
4.16%, 01/24/06	9,000	8,976
4.26%, 01/25/06	24,000	23,932
4.37%, 02/27/06	53,000	52,637
4.40%, 03/02/06	3,000	2,978
<b>◆◆ Sigma Finance, Inc., Section 3c7 / 144A</b>		
4.07%, 01/12/06	11,500	11,486
4.09%, 01/12/06	10,000	9,988
4.22%, 02/03/06	30,000	29,885
4.27%, 02/10/06	15,000	14,930
4.34%, 02/21/06	6,000	5,964
4.02%, 02/22/06	22,000	21,874
4.41%, 03/03/06	1,000	993
4.31%, 04/25/06	5,000	4,933
<b>Skandinaviska Enskilda Banken AB</b>		
4.03%, 03/02/06	22,000	21,855
4.48%, 05/10/06	30,000	29,529
<b>+ Societe Generale North America, Inc.</b>		
4.17%, 03/28/06	12,000	11,883
<b>The Goldman Sachs Group, Inc.</b>		
4.36%, 01/03/06	15,000	14,996
<b>◆◆ Ticonderoga Funding, L.L.C., Section 4(2) / 144A</b>		
4.33%, 01/23/06	50,243	50,111
<b>◆◆ Triple-A One Funding Corp., Section 4(2) / 144A</b>		
4.29%, 01/05/06	4,036	4,034
4.30%, 01/06/06	1,227	1,226
<b>Westpac Banking Corp., Section 4(2) / 144A</b>		
4.38%, 03/02/06	10,000	9,928
4.62%, 06/16/06	4,000	3,917

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>+ Westpac Trust Securities NZ Ltd., Section 4(2) / 144A</b>		
4.16%, 01/03/06	7,000	6,998
4.28%, 02/09/06	8,000	7,963
4.32%, 02/09/06	15,000	14,930
<b>◆ Whistlejacket Capital, L.L.C., Section 3c7 / 144A</b>		
4.35%, 02/21/06	8,582	8,530
4.35%, 02/22/06	11,063	10,994
4.37%, 02/27/06	2,000	1,986
4.19%, 03/29/06	3,000	2,970
<b>◆ White Pine Finance, L.L.C., Section 3c7 / 144A</b>		
4.30%, 04/18/06	6,000	5,924
4.52%, 05/09/06	9,000	8,859
<b>◆◆ Windmill Funding Corp., Section 4(2) / 144A</b>		
4.30%, 01/11/06	14,000	13,983
		<b>2,689,666</b>

#### Certificates of Deposit 15.3%

<b>American Express Bank FSB</b>		
4.46%, 03/22/06	15,000	15,000
<b>Banca Intesa</b>		
4.22%, 01/24/06	18,000	18,000
<b>Banco Bilbao Vizcaya Argentaria S.A.</b>		
4.50%, 04/19/06	20,000	20,000
<b>Bank of The West</b>		
4.16%, 01/03/06	15,000	15,000
<b>Bank of Tokyo-Mitsubishi, Ltd.</b>		
4.43%, 03/07/06	22,000	22,000
<b>Barclays Bank PLC</b>		
4.05%, 01/06/06	12,000	12,000
4.20%, 01/11/06	9,000	9,000
4.36%, 02/28/06	44,000	44,000
<b>BNP Paribas</b>		
4.30%, 02/17/06	10,000	10,000
4.03%, 03/27/06	2,000	2,000
<b>Canadian Imperial Bank of Commerce</b>		
4.03%, 03/27/06	40,000	40,000
<b>Credit Agricole S.A.</b>		
4.61%, 06/21/06	41,000	41,000
4.63%, 06/22/06	50,000	50,000
<b>Credit Suisse First Boston</b>		
4.25%, 01/03/06	21,000	21,000
4.33%, 01/18/06	10,000	10,000
4.60%, 06/20/06	10,000	10,000

**Portfolio Holdings** continued

12 See *financial notes*.

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)
<b>+ Eagle County, Colorado Housing Facilities Revenue Bond</b>			<b>• The Goldman Sachs Group, Inc.</b>		
(The Tarnes at BC LLC Project B) Series 1999			4.34%, 01/04/06	13,000	13,000
4.44%, 01/07/06	2,000	2,000	4.40%, 01/13/06	30,000	30,000
<b>HSH Nordbank, AG</b>			<b>Washington Mutual Bank, FA</b>		
4.29%, 01/09/06	40,000	39,999	4.36%, 01/30/06	25,000	25,000
<b>◆+ Lexington Parker Capital Co., L.L.C., Section 4(2) / 144A</b>			<b>◆ Whistlejacket Capital, L.L.C., Section 3c7 / 144A</b>		
4.24%, 01/03/06	12,000	12,000	4.28%, 01/09/06	9,000	8,999
4.32%, 01/18/06	25,000	24,999	4.33%, 01/20/06	2,000	2,000
<b>◆ Liberty Lighthouse U.S. Capital Co. L.L.C., Section 4(2) / 144A</b>			<b>◆ White Pine Finance, L.L.C., Section 3c7 / 144A</b>		
4.26%, 01/03/06	19,000	19,000	4.24%, 01/03/06	15,045	15,044
4.34%, 01/30/06	3,000	3,000	4.32%, 01/12/06	2,000	2,000
<b>◆+ Links Finance, L.L.C., Section 3c7 / 144A</b>			4.33%, 01/17/06	1,000	1,000
4.30%, 01/09/06	20,000	19,997	4.37%, 01/20/06	25,000	25,003
4.35%, 01/17/06	13,000	13,001	<b>800,398</b>		
<b>Merrill Lynch &amp; Co., Inc.</b>					
4.35%, 01/17/06	25,000	25,000			
<b>Morgan Stanley</b>					
4.30%, 01/03/06	20,000	20,000			
<b>Norddeutsche Landesbank Girozentrale</b>					
4.32%, 01/17/06	4,000	4,000			
<b>Nordea AB</b>					
4.34%, 01/11/06	25,000	25,000			
<b>Nordea Bank Finland, PLC</b>					
4.34%, 01/17/06	35,000	34,998			
<b>Royal Bank of Scotland, PLC</b>					
4.32%, 01/27/06	15,000	14,999			
4.33%, 01/30/06	28,000	27,996			
<b>Royal Bank of Scotland, PLC, 144A</b>					
4.34%, 01/23/06	20,000	20,000			
<b>◆+ Sigma Finance, Inc., Section 3c7 / 144A</b>					
4.33%, 01/17/06	12,000	11,999			
4.35%, 01/17/06	15,000	15,000			
<b>Societe Generale, 144A</b>					
4.26%, 01/03/06	15,000	15,000			
<b>Svenska Handelsbanken AB</b>					
4.25%, 01/03/06	25,000	24,996			
<b>+ Tenderfoot Seasonal Housing, L.L.C.</b>					
Series B					
4.44%, 01/07/06	2,885	2,885			

**Portfolio Holdings** continued

Security	Maturity Amount (\$ x 1,000)	Value (\$ x 1,000)
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Other Investments 21.7% of net assets

**Repurchase Agreements 21.7%****Bank of America Securities L.L.C.**

Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$816,000 4.30%, issued 12/30/05, due 01/03/06	800,382	800,000
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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 \$1,387 4.26%, issued 12/30/05, due 01/03/06	1,360	1,359
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**Morgan Stanley & Co. Inc.**

Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$430,325 4.28%, issued 12/30/05, due 01/03/06	420,200	420,000
		<b>1,221,359</b>

Issuer Rate, Acquisition Date, Maturity Date	Face Amount (\$ x 1,000)	Cost/ Value (\$ x 1,000)
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At December 31, 2005, portfolio holdings included illiquid and/or restricted securities as follows:

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

4.18%, 11/03/05, 01/03/06	4,000	3,999
4.13%, 09/27/05, 03/28/06	23,000	22,777
		<b>26,776</b>

**The Goldman Sachs Group, Inc.**

4.34%, 10/04/05, 01/04/06	13,000	13,000
4.40%, 07/18/05, 01/13/06	30,000	30,000
		<b>43,000</b>

End of investments.

## Statement of

**Assets and Liabilities**

As of December 31, 2005. All numbers x 1,000 except NAV.

**Assets**

Investments, at value	\$4,398,064
Repurchase agreements, at value	1,221,359
Receivables:	
Interest	7,549
Prepaid expenses	+ 748
<b>Total assets</b>	<b>5,627,720</b>

**Liabilities**

Payables:	
Dividends to shareholders	896
Investment adviser and administrator fees	106
Transfer agent and shareholder service fees	143
Trustees' fees	10
Accrued expenses	+ 473
<b>Total liabilities</b>	<b>1,628</b>

**Net Assets**

<b>Total assets</b>	5,627,720
<b>Total liabilities</b>	- 1,628
<b>Net assets</b>	<b>\$5,626,092</b>

**Net Assets by Source**

Capital received from investors	\$5,626,092
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**Net Asset Value (NAV) by Share Class**

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Sweep Shares	\$1,898,398		1,898,398		\$1.00
Premier Sweep Shares	\$3,727,694		3,727,694		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost of the fund's securities was \$5,619,423. Includes restricted and/or illiquid securities worth \$69,776, or 1.2% of the fund's total net assets. Also, includes other restricted but deemed liquid securities comprised of 144A, section 4(2) and 3c7 securities, worth \$1,948,137 or 34.6% of the fund's total net assets.

**Federal Tax Data**

<b>Cost basis of portfolio</b>	\$5,619,423
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## Statement of

**Operations**

From January 1, 2005 through December 31, 2005. All numbers x 1,000.

**Investment Income**

Interest	<b>\$162,594</b>
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**Expenses**

Investment adviser and administrator fees	17,338	
Transfer agent and shareholder service fees:		
Sweep Shares	7,350	
Premier Sweep Shares	14,556	
Trustees' fees	21	
Custodian and portfolio accounting fees	453	
Professional fees	45	
Registration fees	1,105	
Shareholder reports	308	
Other expenses	+	23
Total expenses	41,199	
Expense reduction	-	10,844
<b>Net expenses</b>		<b>30,355</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	162,594
<b>Net expenses</b>	- 30,355
<b>Net investment income</b>	132,239
<b>Increase in net assets from operations</b>	<b>\$132,239</b>

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 \$7,610 from the investment adviser (CSIM) and \$3,234 from the transfer agent and shareholder service agent (Schwab). These reductions reflect a guarantee by CSIM and Schwab to limit the annual operating expenses through April 29, 2006, as follows:

<b>Share Class</b>	<b>% of Average Daily Net Assets</b>
Sweep Shares	0.69
Premier Sweep Shares	0.59

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

## Statement of

**Changes in Net Assets**

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

**Operations**

	01/01/05–12/31/05	8/19/04–12/31/04
Net investment income	\$132,239	\$12,474
<b>Increase in net assets from operations</b>	<b>132,239</b>	<b>12,474</b>

**Distributions Paid**

Dividends from net investment income		
Sweep Shares	43,265	4,518
Premier Sweep Shares	+ 88,974	7,956
<b>Total dividends from net investment income</b>	<b>132,239</b>	<b>12,474</b>

**Transactions in Fund Shares****Shares Sold**

Sweep Shares	9,538,598	3,294,040
Premier Sweep Shares	+ 22,760,631	6,173,729
<b>Total shares sold</b>	<b>32,299,229</b>	<b>9,467,769</b>

**Shares Reinvested**

Sweep Shares	42,446	4,349
Premier Sweep Shares	+ 87,145	7,749
<b>Total shares reinvested</b>	<b>129,591</b>	<b>12,098</b>

**Shares Redeemed**

Sweep Shares	(8,953,704)	(2,027,331)
Premier Sweep Shares	+ (21,463,885)	(3,837,675)
<b>Total shares redeemed</b>	<b>(30,417,589)</b>	<b>(5,865,006)</b>

<b>Net transactions in fund shares</b>	<b>2,011,231</b>	<b>3,614,861</b>
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**Net Assets**

Beginning of period	3,614,861	—
Total increase	+ 2,011,231	3,614,861
<b>End of period</b>	<b>\$5,626,092</b>	<b>\$3,614,861</b>

Unless stated, all numbers x 1,000.

The tax-basis components of distributions are:

**Current year**

Ordinary income	\$132,239
Long-term capital gains	\$—

**Prior 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 Investor Money Fund

**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 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 using the effective interest rate method. 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 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, 2005, the results of its operations for the year then ended, and the changes in its net assets and the financial highlights for the year then ended and 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 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, 2005 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

**PricewaterhouseCoopers LLP**

San Francisco, California

February 14, 2006

# Investment Advisory Agreement Approval

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

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

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

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

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

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

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

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

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

deliberations, that the profitability of CSIM is reasonable and supported interim renewal of the Agreement.

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

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

**Subsequent Continuation, August 2005.** At the August 31, 2005 meeting of the Board, the trustees, including a majority of the Independent Trustees, approved the continuation of the Agreement through June 30, 2006. This approval extended the interim approval of the Agreement by the Board, which had taken place on May 24, 2005 and is discussed above. In connection with the approval of the Agreement, the Board considered additional information provided by CSIM in response to the Board's requests at the May 24, 2005 meeting, as well as reconsidered the information provided and factors considered at prior meetings. The Board concluded that the information provided at the meeting supported continuation of the Agreement. In the course of their deliberations, the trustees did not identify any particular information or factor that was all-important or controlling. Based on the trustees' deliberation and their evaluation of the information described above, the Board, including all of the Independent Trustees, unanimously approved the continuation of the Agreement and concluded that the compensation under the Agreement is fair and reasonable in light of such services and expenses and such other matters as the trustees have considered to be relevant in the exercise of their reasonable judgment.

# Trustees and Officers

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

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

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

Independent Trustees		
Name and Year of Birth	Trustee Since	Main Occupations and Other Directorships and Affiliations
Mariann Byerwalter 1960	2000 (all trusts).	Chairman, JDN Corp. Advisory LLC (real estate). <i>Until 2001:</i> Special Advisor to the President, Stanford University. <i>From 1996-2001:</i> Vice President of Business Affairs, Chief Financial Officer, Stanford University. Ms. Byerwalter is on the Boards of Stanford University, America First Cos. (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, Pacific Life Insurance Company (insurance), Laudus Trust and Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex. <sup>2</sup>

<sup>1</sup> 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.

<sup>2</sup> This includes 10 series of the Laudus Trust and the sole series of the Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex.

## Independent Trustees continued

Name and Year of Birth	Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Donald F. Dorward</b> 1931	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chief Executive Officer, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999</i> : Executive Vice President, Managing Director, Grey Advertising. <i>Until 1996</i> : President, Chief Executive Officer, Allen & Dorward Advertising.
<b>William A. Hasler</b> 1941	2000 (all trusts).	Dean Emeritus of the Haas School of Business, University of California, Berkeley. <i>Until 2/04</i> , Co-Chief Executive Officer, Aphton Corporation (bio-pharmaceuticals). <i>Prior to 8/98</i> , Dean of the Haas School of Business, University of California, Berkeley (higher education). Mr. Hasler is on the Boards of Aphton Corporation (bio-pharmaceuticals), Mission West Properties (commercial real estate), Stratex Networks (network equipment), TOUSA (home building), Genitope Corp. (bio-pharmaceuticals), Laudus Trust and Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex. <sup>3</sup> Non-Executive Chairman, Solectron Corporation (manufacturing).
<b>Robert G. Holmes</b> 1931	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer, Director, Semloh Financial, Inc. (international financial services and investment advisory firm).
<b>Gerald B. Smith</b> 1950	2000 (all trusts).	<i>Since 1990</i> , Chairman and Chief Executive Officer and founder of Smith Graham & Co. (investment advisors). Mr. Smith is on the Board of Cooper Industries (electrical products, tools and hardware); Chairman, Texas Southern University Foundation; Executive Committee and Board Member, MD Anderson Cancer Center; Chairman of the audit committee of Northern Border Partners, M.L.P. (energy).
<b>Donald R. Stephens</b> 1938	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chairman, Chief Executive Officer, North American Trust (real estate investment trust).
<b>Michael W. Wilsey</b> 1943	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer, Wilsey Bennett, Inc. (real estate investment and management, and other investments).

<sup>3</sup> This includes 10 series of the Laudus Trust and the sole series of the Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex.



## Interested Trustees

Name and Year of Birth	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Charles R. Schwab</b> <sup>4</sup> 1937	Chairman, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer and Director, The Charles Schwab Corporation, Charles Schwab & Co., Inc.; Chairman and Director, Charles Schwab Investment Management, Inc., Charles Schwab Bank, N.A.; Chairman and Chief Executive Officer, Schwab (SIS) Holdings Inc. I, Schwab International Holdings, Inc.; Chief Executive Officer and Director, Schwab Holdings, Inc.; Director, U.S. Trust Company, N.A., U.S. Trust Corporation, United States Trust Company of New York. <i>Until 5/03</i> , Co-Chief Executive Officer, The Charles Schwab Corporation. Trustee, Charles and Helen Schwab Foundation; Chairman, All Kinds of Minds Institute (education), Trustee, Stanford University; Chairman and Director, Charles Schwab Foundation; Chairman of the Finance Committee, San Francisco Museum of Modern Art.
<b>Randall W. Merk</b> <sup>4</sup> 1954	Trustee, 2005 (all trusts).	Executive Vice President and President, Asset Management Products & Services, Charles Schwab & Co., Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From 9/02 to 7/04</i> , President and Chief Executive Officer, Charles Schwab Investment Management, Inc. and Executive Vice President, Charles Schwab & Co., Inc. <i>Prior to 9/02</i> , President and Chief Investment Officer, American Century Investment Management; Director, American Century Companies, Inc. <i>Until 6/01</i> , Chief Investment Officer, Fixed Income, American Century Companies, Inc.

## Officers of the Trust

Name and Year of Birth	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
<b>Evelyn Dilsaver</b> 1955	President, Chief Executive Officer (all trusts).	Executive Vice President, President, Director, Charles Schwab Investment Management, Inc. Vice President, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 7/04</i> : Senior Vice President, Asset Management Products & Services Enterprise. <i>Until 6/03</i> : Executive Vice President, Chief Financial Officer, Chief Administrative Officer, U.S. Trust.
<b>Stephen B. Ward</b> 1955	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co.

<sup>4</sup> In addition to their positions with the investment adviser and the distributor, Messrs. Schwab and Merk also own stock of the Charles Schwab Corporation.

## Officers of the Trust continued

Name and Year of Birth	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
<b>Kimon Daifotis</b> 1959	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President and Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Until 6/04</i> : Vice President and Senior Portfolio Manager, Charles Schwab Investment Management, Inc.
<b>Jeffrey Mortimer</b> 1963	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc.; Vice President, Chief Investment Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 5/04</i> : Vice President and Senior Portfolio Manager, Charles Schwab Investment Management, Inc.
<b>Randall Fillmore</b> 1960	Chief Compliance Officer (all trusts).	Senior Vice President, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Chief Compliance Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 9/03</i> : Vice President, Charles Schwab & Co., Inc. and Charles Schwab Investment Management, Inc. <i>Until 2002</i> : Vice President, Internal Audit, Charles Schwab & Co., Inc.
<b>Koji E. Felton</b> 1961	Secretary (all trusts).	Senior Vice President, Chief Counsel and Corporate Secretary, Charles Schwab Investment Management, Inc.; Senior Vice President and Deputy General Counsel, Charles Schwab & Co., Inc. <i>Prior to 6/98</i> , Branch Chief in Enforcement at U.S. Securities and Exchange Commission in San Francisco.
<b>George Pereira</b> 1964	Treasurer, Principal Financial Officer (all trusts).	Senior Vice President and Chief Financial Officer, Charles Schwab Investment Management, Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From 12/99 to 11/04</i> , Senior Vice President, Financial Reporting, Charles Schwab & Co., Inc.

# Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Portfolio terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Notes

## Notes

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

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

### Methods for Placing Orders

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

#### Internet<sup>1</sup>

[www.schwab.com](http://www.schwab.com)

#### Schwab by Phone™<sup>2</sup>

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

#### TeleBroker®

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

#### Mail

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

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

### Proxy Voting Policies, Procedures and Results

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

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

## The Schwab Funds Family®

### Stock Funds

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

### Asset Allocation Funds

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

### Bond Funds

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

### Schwab Money Funds

Schwab offers an array of money market funds that seek high current income consistent with safety and liquidity.<sup>3</sup> 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®.

<sup>1</sup> Shares of Sweep Investments™ may not be purchased directly over the Internet.

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

<sup>3</sup> 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, 2005

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# From the Chairman



Charles Schwab  
Chairman

Dear Shareholder,

I founded Schwab over thirty years ago to be a home for serious investors. That mission continues to guide us today as we constantly innovate on behalf of our clients. By continuing to provide the highest quality products and services—at a great price—we remain true to our heritage.

I take particular pride in the Schwab Funds. Founded over 15 years ago, they have grown to include more than 50 funds with over \$140 billion in assets as of this report date. With a variety of investment strategies, Schwab Funds provide a range of innovative investment choices that can serve as a foundation for your asset allocation plan.

Schwab Funds is managed by Charles Schwab Investment Management, Inc., which currently ranks as one of the largest investment managers in the country. Our portfolio managers share a passion for market analysis and use some of the most sophisticated financial models available. I am proud of their depth of experience, which reflects an average tenure of more than 15 years in the investment industry. Furthermore, I am impressed with the commitment that our managers bring to the stewardship of the funds, for you, their shareholders.

We strive every day to warrant the trust you have placed in us; that will never change. 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 letters of the first and last names being capitalized and prominent.

*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.*

# Management's Discussion for the year ended December 31, 2005



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

Dear Shareholder,

I'm pleased to bring you the annual report for your Schwab money fund for the year ended December 31, 2005. Although the period was marked by volatility, our money funds provided competitive yields as well as safety and stability.

I would like to take this opportunity to remind you that Schwab Funds offers a range of position-traded money funds that are available with a variety of minimums and investment strategies to meet your needs. These funds and share classes are available beginning with a minimum initial investment of \$25,000 (\$15,000 for IRA and custodial accounts) and include both taxable and, for clients who are tax sensitive, tax-free investment strategies. To make these products even more convenient, we've recently reduced the subsequent investment minimum requirement from \$5,000 to \$500 on several of our Value Advantage Investments.

We continue to develop and manage Schwab Funds to help you achieve your goals and to provide an uncomplicated way to build a well-diversified portfolio. During the report period covered by this book, Schwab Funds launched seven new funds across varying investment styles and strategies.

In closing, I speak for all of Schwab Funds when I say we want Schwab to be the place where investors can find useful, quality financial products and services to help them succeed.

Thank you for investing in Schwab Funds.

Sincerely,

A handwritten signature in black ink that reads "Evelyn Dilsaver". The signature is fluid and cursive, with a small dot above the 'i' in Dilsaver.

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



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



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

## The Investment Environment and the Fund

Despite having witnessed a turbulent year in the news, the markets remained in a steady growth mode and ended the one-year report period with positive results. Oil prices hit highs never seen before and the Federal Reserve continued to raise short-term interest rates to curb inflationary pressures, raising the rates eight consecutive times in the one-year report period and bringing the benchmark rate up to 4.25%. The moves had a limited impact on overall economic growth, due primarily to the low level of rates from which the increases began.

Regardless of the concerns of high energy prices, which remained a significant headwind for economic performance throughout the period, corporate earnings remained strong throughout the year. Additionally, with the unemployment rate hovering around 5% and GDP growth around 3.5%, job and income growth remained positive and investors remained optimistic. Productivity gains and more restrictive monetary policy kept a lid on core inflation. The productivity gains, coupled with foreign investors buying large amounts of U.S. government securities, helped to contain increases in long-term interest rates. These conditions caused the dollar to rally, which took pressure off the price of imported goods.

The big news for the past two quarters was the impact of Hurricanes Katrina and Rita. The devastation caused by these storms was particularly heavy with respect to the energy infrastructures in the South. Oil prices rose sharply in the aftermath of the hurricanes, with crude oil peaking above \$71 per barrel in early September, although softening oil demand and quick action by the federal government to release Strategic Petroleum Reserves led to a subsequent decline off that peak. During the fourth quarter, oil had dropped to as low as \$58 a barrel, but then rebounded back to \$64 as of the end of the period. While the full economic effect of the hurricanes remains unknown, the damage appears to be limited to the regions in the hurricanes' path and to the energy infrastructures in those areas.

Another significant event that happened during the report period was the appointment of Ben Bernanke to succeed Alan Greenspan as Chairman of the Federal Reserve Board. Although he had not yet been confirmed into office as of the end of the report period, Bernanke's experience on

the Federal Open Market Committee and his expertise in monetary economics has eased the concerns of the markets and caused investors to expect a smooth transition.

**Schwab Cash Reserves** was positioned to take advantage of the likelihood that the Federal Reserve would continue to raise short-term interest rates. As noted above, the Fed continued in its tightening cycle throughout the year, raising short-term interest rates 0.25% at each of its eight meetings. At the end of the one-year report period, the benchmark rate was up to 4.25%. In this economic environment, the fund continually added to its variable-rate holdings, maintaining its holdings at around 10-15% of fund assets during the period. The interest rates on these types of securities reset frequently, allowing us the opportunity to capture a rise in market rates. To further take advantage of the rising-rate environment, we maintained our weighted average maturity (WAM) relatively short, at around 40 days. Keeping the WAM short provided flexibility to adapt and respond to the changes in interest rates.

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

Performance and Fund Facts as of 12/31/05 Ticker Symbol: SWSXX

Seven-Day Yields

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

Seven-Day Yield <sup>1</sup>	3.68%
Seven-Day Yield–No Waiver <sup>2</sup>	3.48%
Seven-Day Effective Yield <sup>1</sup>	3.74%

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](http://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	45 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.

<sup>1</sup> Fund expenses have been partially absorbed by CSIM and Schwab.

<sup>2</sup> Yield if fund expenses had not been partially absorbed by CSIM and Schwab.

# Fund Expenses (unaudited)

## 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, 2005 and held through December 31, 2005.

**Actual Return** lines in the table below provide information about actual account values and actual expenses. You may use this information, together with the amount you invested, to estimate the expenses that you paid over the period. To do so, simply divide your account value by \$1,000 (for example, an \$8,600 account value ÷ \$1,000 = 8.6), then multiply the result by the number given for your fund 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 <sup>1</sup> (Annualized)	Beginning Account Value at 7/1/05	Ending Account Value (Net of Expenses) at 12/31/05	Expenses Paid During Period <sup>2</sup> 7/1/05–12/31/05
<b>Schwab Cash Reserves</b>				
Actual Return	0.69%	\$1,000	\$1,015.80	\$3.51
Hypothetical 5% Return	0.69%	\$1,000	\$1,021.73	\$3.52

<sup>1</sup> Based on the most recent six-month expense ratio; may differ from the expense ratio provided in Financial Highlights.  
<sup>2</sup> Expenses for the fund are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 184 days of the period, and divided by 365 days of the fiscal year.



# Financial Statements

## Financial Highlights

	1/1/05– 12/31/05	8/12/04 <sup>1</sup> – 12/31/04
<b>Per-Share Data (\$)</b>		
Net asset value at beginning of period	1.00	1.00
Income from investment operations:		
Net investment income	0.03	0.00 <sup>2</sup>
Less distributions:		
Dividends from net investment income	(0.03)	(0.00) <sup>2</sup>
Net asset value at end of period	1.00	1.00
Total return (%)	2.65	0.46 <sup>3</sup>
<b>Ratios/Supplemental Data (%)</b>		
Ratios to average net assets:		
Net operating expenses	0.69	0.69 <sup>4</sup>
Gross operating expenses	0.92	1.05 <sup>4</sup>
Net investment income	2.90	1.24 <sup>4</sup>
Net assets, end of period (\$ x 1,000,000)	822	140

<sup>1</sup> Commencement of operations.

<sup>2</sup> Per share amount was less than \$0.01.

<sup>3</sup> Not annualized.

<sup>4</sup> Annualized.

**Portfolio Holdings** as of December 31, 2005

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](http://www.schwab.com/schwabfunds).

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

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

For fixed-rate obligations, the rate shown is the effective yield at the time of purchase, except U.S. Treasury notes, for which the rate shown is the interest rate (the rate established when the obligation was issued). For variable-rate obligations, the rate shown is the rate as of the report date. For variable-rate obligations with scheduled maturities greater than 397 days, the maturity shown is the later of the next interest rate change date or demand date. For variable-rate obligations with scheduled maturities less than 397 days, the maturity shown is the earlier of the next interest rate change date or demand date.

Holdings by Category		Cost (\$x1,000)	Value (\$x1,000)
<b>72.0%</b>	<b>Fixed-Rate Obligations</b>	591,715	591,715
<b>9.5%</b>	<b>Variable-Rate Obligations</b>	78,493	78,493
<b>18.4%</b>	<b>Other Investments</b>	150,962	150,962
<b>99.9%</b>	<b>Total Investments</b>	<b>821,170</b>	<b>821,170</b>
<b>0.1%</b>	<b>Other Assets and Liabilities</b>		758
<b>100.0%</b>	<b>Net Assets</b>		<b>821,928</b>

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

**Fixed-Rate Obligations** 72.0% of net assets**Commercial Paper & Other Corporate Obligations 51.0%****AB Spintab**

4.21%, 01/20/06	2,400	2,395
4.40%, 03/03/06	2,000	1,985

**Alliance & Leicester, PLC, Section 4(2) / 144A**

4.14%, 02/06/06	1,500	1,494
4.35%, 02/28/06	1,000	993
4.47%, 03/15/06	1,000	991
4.49%, 05/10/06	2,000	1,969

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

4.07%, 01/09/06	1,000	999
4.35%, 02/22/06	1,000	994
4.48%, 03/22/06	3,000	2,970

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

4.27%, 01/04/06	7,900	7,897
4.30%, 01/06/06	4,000	3,998

**+ ANZ (Delaware) Inc.**

4.45%, 03/15/06	2,318	2,297
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**+ ANZ National Bank (Int'l) Ltd.**

4.09%, 01/13/06	1,000	999
4.01%, 02/23/06	2,000	1,988

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

4.52%, 05/30/06	1,000	982
4.64%, 06/19/06	1,000	979

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

4.21%, 01/09/06	1,000	999
4.42%, 03/03/06	1,000	993
4.46%, 03/07/06	1,000	992
4.47%, 03/10/06	2,000	1,983

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

4.30%, 01/06/06	1,000	999
4.21%, 01/10/06	1,735	1,733
4.35%, 02/21/06	3,000	2,982

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

4.45%, 05/03/06	2,000	1,971
4.47%, 05/08/06	7,000	6,892
4.52%, 05/17/06	1,000	983
4.52%, 05/22/06	2,000	1,965

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)
<b>Bank of America Corp.</b>			<b>◆◆ Crown Point Capital Co., L.L.C.</b>		
4.18%, 01/10/06	11,000	10,989	<b>Section 3c7 / 144A</b>		
4.42%, 02/27/06	19,000	18,868	4.20%, 01/12/06	1,000	999
4.42%, 02/28/06	6,000	5,958	<b>◆ Dakota CP Notes of Citibank Credit Card Issuance Trust, Section 4(2) / 144A</b>		
<b>Bank of Ireland, Section 4(2) / 144A</b>			4.30%, 01/12/06	2,000	1,997
4.52%, 05/23/06	4,000	3,930	4.32%, 01/24/06	1,000	997
4.57%, 05/23/06	1,000	982	4.49%, 03/28/06	1,500	1,484
<b>◆ Barclays U.S. Funding Corp.</b>			<b>◆ Danske Corp.</b>		
4.35%, 02/24/06	2,000	1,987	4.21%, 02/06/06	2,500	2,490
<b>◆◆ Barton Capital Corp., Section 4(2) / 144A</b>			<b>DnB NOR Bank ASA</b>		
4.30%, 01/12/06	4,000	3,995	4.37%, 03/02/06	2,000	1,986
4.16%, 01/26/06	1,000	997	<b>◆ Dorada Finance, Inc., Section 3c7 / 144A</b>		
<b>Bear Stearns Companies, Inc.</b>			4.12%, 01/20/06	2,000	1,996
4.04%, 01/06/06	1,000	999	4.60%, 06/12/06	1,000	980
<b>◆◆ Beta Finance, Inc., Section 3c7 / 144A</b>			<b>◆ Dresdner U.S. Finance, Inc.</b>		
4.18%, 01/12/06	1,000	999	4.31%, 01/09/06	1,500	1,499
4.31%, 02/17/06	2,000	1,989	<b>◆ Edison Asset Securitization Corp., L.L.C., Section 4(2) / 144A</b>		
<b>◆◆ Blue Spice, L.L.C., Section 4(2) / 144A</b>			4.58%, 06/06/06	5,000	4,903
4.08%, 01/12/06	1,500	1,498	<b>◆◆ Eiffel Funding, L.L.C., Section 4(2) / 144A</b>		
4.45%, 03/17/06	1,000	991	4.18%, 01/09/06	3,000	2,997
<b>◆ CBA (Delaware) Finance, Inc.</b>			4.49%, 03/28/06	1,000	989
4.18%, 01/10/06	2,500	2,497	<b>◆◆ Fairway Finance Co., L.L.C., Section 4(2) / 144A</b>		
4.32%, 02/21/06	2,000	1,988	4.30%, 01/11/06	1,325	1,323
<b>◆ CC (USA), Inc., Section 3c7 / 144A</b>			4.52%, 05/15/06	1,915	1,884
4.07%, 01/11/06	1,000	999	<b>◆◆ Falcon Asset Securitization Corp., Section 4(2) / 144A</b>		
4.12%, 01/20/06	2,000	1,996	4.12%, 01/17/06	1,000	998
4.33%, 02/21/06	1,000	994	<b>◆ Five Finance Inc., Section 3c7 / 144A</b>		
4.45%, 03/22/06	1,895	1,876	4.04%, 01/03/06	1,000	1,000
<b>◆◆ Chariot Funding, L.L.C., Section 4(2) / 144A</b>			4.39%, 02/28/06	1,000	993
4.28%, 01/06/06	3,000	2,998	<b>ForeningsSparbanken AB (Swedbank)</b>		
<b>◆ Citigroup Funding, Inc.</b>			4.29%, 04/19/06	4,000	3,950
4.07%, 01/09/06	1,500	1,499	<b>◆ Galaxy Funding, Inc., Section 4(2) / 144A</b>		
4.30%, 01/12/06	2,000	1,997	4.09%, 01/13/06	1,000	999
4.27%, 01/13/06	9,000	8,987	4.20%, 01/24/06	2,000	1,995
4.41%, 02/21/06	1,000	994	<b>General Electric Capital Corp.</b>		
4.37%, 03/01/06	7,000	6,950	4.04%, 01/04/06	5,000	4,998
4.46%, 03/20/06	2,000	1,981	4.05%, 01/06/06	5,000	4,997
<b>◆◆ Clipper Receivables Co., Section 4(2) / 144A</b>			3.95%, 03/22/06	3,000	2,974
4.34%, 01/17/06	1,209	1,207	4.29%, 04/03/06	3,000	2,968
<b>◆◆ Concord Minutemen Capital Co., Series A Section 3c7 / 144A</b>			4.46%, 05/11/06	2,000	1,969
3.75%, 01/06/06	1,000	999			
4.21%, 01/11/06	2,000	1,998			

## 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)
4.51%, 05/15/06	2,000	1,967	4.32%, 02/17/06	4,000	3,978
4.52%, 05/23/06	2,000	1,965	4.45%, 03/16/06	2,000	1,982
4.59%, 06/12/06	2,500	2,449	◆◆ Mont Blanc Capital Corp., Section 4(2) / 144A		
4.65%, 08/02/06	2,000	1,947	4.30%, 01/11/06	4,000	3,995
4.62%, 08/21/06	2,000	1,942	Morgan Stanley		
General Electric Capital Services			4.29%, 04/12/06	5,000	4,941
4.06%, 01/05/06	4,000	3,998	◆◆ Nieuw Amsterdam Receivables Corp., Section 4(2) / 144A		
◆◆ Grampian Funding, LLC., Section 4(2) / 144A			4.35%, 02/24/06	1,000	994
4.01%, 01/04/06	1,000	1,000	4.40%, 03/02/06	1,000	993
4.17%, 01/26/06	1,000	997	4.45%, 03/13/06	1,069	1,060
4.46%, 03/22/06	1,000	990	4.06%, 03/23/06	1,000	991
4.29%, 04/11/06	1,000	988	◆ Nordea North America, Inc.		
◆ HBOS Treasury Services, PLC			4.21%, 01/04/06	1,200	1,200
4.33%, 02/24/06	4,000	3,974	4.22%, 01/13/06	2,049	2,046
4.43%, 03/14/06	1,000	991	4.30%, 04/18/06	1,000	987
4.52%, 06/01/06	4,000	3,926	◆◆ Old Line Funding, L.L.C., Section 4(2) / 144A		
HSBC U.S.A., Inc.			4.36%, 01/12/06	5,000	4,993
4.45%, 05/01/06	1,000	986	◆◆ Park Avenue Receivables Corp. L.L.C., Section 4(2) / 144A		
Irish Life & Permanent, PLC, Section 4(2) / 144A			4.23%, 01/19/06	6,000	5,987
4.22%, 01/31/06	2,000	1,993	◆ Park Granada, L.L.C., Section 4(2) / 144A		
4.45%, 03/14/06	1,000	991	4.30%, 02/07/06	1,000	996
◆ IXIS Commercial Paper Corp., Section 4(2) / 144A			4.40%, 03/02/06	1,000	993
4.26%, 02/16/06	1,000	995	4.47%, 03/16/06	3,000	2,973
4.33%, 02/24/06	1,000	994	◆◆ Picaros Funding, L.L.C., Section 4(2) / 144A		
4.56%, 05/16/06	1,000	983	4.35%, 01/30/06	4,000	3,986
4.52%, 05/31/06	1,000	982	3.97%, 02/17/06	941	936
◆◆ Jupiter Securitization Corp., Section 4(2) / 144A			4.35%, 02/22/06	2,000	1,988
4.19%, 01/11/06	6,000	5,993	◆◆ Preferred Receivables Funding Corp. Section 4(2) / 144A		
◆ K2 (USA), L.L.C., Section 3c7 / 144A			3.97%, 02/10/06	1,000	996
4.31%, 01/09/06	2,000	1,998	◆ San Paolo IMI U.S. Financial Co.		
4.12%, 01/17/06	2,000	1,996	4.03%, 01/05/06	2,000	1,999
3.95%, 03/13/06	1,000	992	◆ Santander Central Hispano Finance (Delaware), Inc.		
◆ KBC Financial Products International, Ltd., Section 4(2) / 144A			4.23%, 01/13/06	1,000	999
4.34%, 02/22/06	3,000	2,981	3.96%, 03/15/06	2,000	1,984
◆◆ Kitty Hawk Funding Corp., Section 4(2) / 144A			4.53%, 06/01/06	1,000	981
4.30%, 01/13/06	8,890	8,877	◆◆ Scaldis Capital Ltd., Section 4(2) / 144A		
◆◆ Lexington Parker Capital Co., L.L.C. Section 4(2) / 144A			4.05%, 01/06/06	2,000	1,999
4.06%, 01/06/06	2,000	1,999	4.14%, 01/20/06	3,000	2,994
3.79%, 01/13/06	2,000	1,998	4.40%, 03/02/06	1,000	993
3.97%, 03/14/06	1,000	992	◆◆ Sheffield Receivables Corp., Section 4(2) / 144A		
◆ Mane Funding Corp., Section 4(2) / 144A			4.19%, 01/09/06	1,000	999
4.14%, 01/19/06	1,000	998	4.16%, 01/23/06	1,011	1,008
4.20%, 01/23/06	3,000	2,992			

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>◆◆ Sigma Finance, Inc., Section 3c7 / 144A</b>		
4.07%, 01/12/06	1,500	1,498
4.21%, 02/01/06	1,365	1,360
4.41%, 03/03/06	1,000	993
<b>Skandinaviska Enskilda Banken AB</b>		
4.17%, 01/05/06	4,000	3,998
<b>◆ Societe Generale North America, Inc.</b>		
4.21%, 02/03/06	1,450	1,444
4.35%, 02/21/06	7,000	6,957
4.17%, 03/28/06	1,000	990
<b>◆ Stadshypotek Delaware, Inc., Section 4(2) / 144A</b>		
4.42%, 02/27/06	3,500	3,476
<b>The Goldman Sachs Group, Inc.</b>		
4.36%, 01/03/06	8,000	7,998
4.50%, 05/23/06	11,000	10,809
<b>◆◆ Thunder Bay Funding, L.L.C., Section 4(2) / 144A</b>		
4.14%, 01/20/06	3,451	3,444
4.29%, 04/10/06	1,399	1,383
<b>◆◆ Ticonderoga Funding, LLC., Section 4(2) / 144A</b>		
4.27%, 01/09/06	4,000	3,996
4.37%, 01/27/06	4,000	3,987
<b>Toronto Dominion Holdings</b>		
4.42%, 05/05/06	3,000	2,955
<b>◆◆ Tulip Funding Corp., Section 4(2) / 144A</b>		
4.30%, 01/03/06	2,000	2,000
<b>◆ UBS Finance (Delaware), Inc.</b>		
3.88%, 01/12/06	3,000	2,997
4.33%, 02/22/06	2,000	1,988
4.35%, 02/22/06	9,400	9,342
4.35%, 02/28/06	1,400	1,390
<b>◆ Westpac Banking Corp., Section 4(2) / 144A</b>		
4.35%, 02/24/06	3,000	2,981
4.61%, 06/13/06	1,000	980
<b>◆ Westpac Trust Securities NZ Ltd., Section 4(2) / 144A</b>		
4.16%, 01/03/06	2,700	2,699
4.32%, 02/09/06	1,000	995
<b>◆ White Pine Finance, L.L.C., Section 3c7 / 144A</b>		
4.35%, 02/22/06	1,000	994
4.28%, 04/10/06	1,000	988
4.65%, 06/12/06	1,839	1,801
<b>◆◆ Windmill Funding Corp., Section 4(2) / 144A</b>		
4.30%, 01/11/06	2,000	1,998
		<b>419,215</b>

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Certificates of Deposit 20.8%</b>		
<b>American Express Bank FSB</b>		
4.44%, 03/14/06	4,000	4,000
<b>Australia &amp; New Zealand Banking Group Ltd.</b>		
4.47%, 03/31/06	4,000	4,000
<b>Bank of Tokyo-Mitsubishi, Ltd.</b>		
4.17%, 01/27/06	3,000	3,000
4.43%, 03/07/06	1,000	1,000
<b>Barclays Bank PLC</b>		
4.18%, 01/04/06	2,000	2,000
4.16%, 01/05/06	5,000	5,000
4.05%, 01/06/06	4,000	4,000
4.21%, 01/18/06	1,000	1,000
<b>BNP Paribas</b>		
3.95%, 01/25/06	1,000	1,000
<b>Canadian Imperial Bank of Commerce</b>		
4.03%, 03/27/06	3,000	3,000
<b>Citibank, N.A.</b>		
4.48%, 03/29/06	12,000	12,000
<b>Credit Agricole S.A.</b>		
4.61%, 06/21/06	6,000	6,000
4.63%, 06/22/06	3,000	3,000
<b>Credit Suisse</b>		
4.25%, 01/03/06	5,000	5,000
4.33%, 01/18/06	11,000	11,000
4.58%, 06/06/06	2,000	2,000
4.60%, 06/20/06	11,000	11,000
<b>DePfa Bank, PLC</b>		
4.12%, 01/19/06	8,000	8,000
<b>Deutsche Bank, AG</b>		
4.62%, 10/26/06	2,000	2,000
<b>Dresdner Bank AG</b>		
4.30%, 01/10/06	4,000	4,000
<b>ING Bank N.V.</b>		
4.46%, 05/08/06	3,000	3,000
<b>Landesbank Baden-Wurttemberg</b>		
4.48%, 03/31/06	7,000	7,000
<b>Landesbank Hessen-Thuringen Girozentrale</b>		
4.53%, 05/30/06	2,000	2,000
<b>San Paolo IMI SpA</b>		
4.11%, 01/19/06	3,000	3,000
<b>Suntrust Bank, Inc.</b>		
4.20%, 02/03/06	4,000	4,000

## Portfolio Holdings continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Toronto Dominion Bank</b>		
4.46%, 03/27/06	15,000	15,000
4.46%, 03/28/06	18,000	18,000
<b>U.S. Bank, N.A.</b>		
4.11%, 01/20/06	6,500	6,500
<b>Unicredito Italiano SpA</b>		
3.78%, 01/17/06	5,000	5,000
<b>Washington Mutual Bank, FA</b>		
4.30%, 01/17/06	5,000	5,000
<b>Wells Fargo Bank, N.A.</b>		
4.29%, 01/10/06	8,000	8,000
4.27%, 01/12/06	2,000	2,000
		<b>170,500</b>

**Bank Notes 0.2%**

<b>Bank of America, N.A.</b>		
4.25%, 01/27/06	2,000	<b>2,000</b>

**Variable-Rate Obligations 9.5% of net assets**

<b>Barclays Bank, PLC</b>		
4.29%, 01/17/06	5,000	4,999
4.31%, 01/17/06	5,000	5,000
4.31%, 01/23/06	5,000	4,999
<b>BNP Paribas</b>		
4.25%, 01/04/06	2,000	1,999
4.30%, 01/10/06	15,000	14,997
<b>Credit Suisse</b>		
4.32%, 01/11/06	5,000	5,000
<b>Dexia Credit Local</b>		
4.32%, 01/26/06	3,000	2,999
<b>HSH Nordbank, AG</b>		
4.29%, 01/09/06	2,000	2,000
<b>◆ Liberty Lighthouse U.S. Capital Co. L.L.C., Section 4(2) / 144A</b>		
4.27%, 01/05/06	2,000	2,000
<b>◆◆ Links Finance, L.L.C., Section 3c7 / 144A</b>		
4.34%, 01/10/06	2,000	2,000
4.32%, 01/17/06	3,000	3,000
<b>Norddeutsche Landesbank Girozentrale</b>		
4.32%, 01/17/06	3,000	3,000

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Nordea Bank Finland, PLC</b>		
4.30%, 01/17/06	5,000	5,000
<b>✦ Roman Catholic Bishop of San Jose, CA</b>		
4.38%, 01/07/06	5,500	5,500
<b>◆◆ Sigma Finance, Inc., Section 3c7 / 144A</b>		
4.33%, 01/17/06	1,000	1,000
<b>✦ Tenderfoot Seasonal Housing, L.L.C.</b>		
Series B		
4.44%, 01/07/06	3,000	3,000
<b>The Goldman Sachs Group, Inc.</b>		
4.33%, 01/03/06	2,000	2,001
• 4.34%, 01/04/06	2,000	2,000
• 4.40%, 01/13/06	1,000	1,000
<b>◆ Whistlejacket Capital, L.L.C., Section 3c7 / 144A</b>		
4.33%, 01/17/06	1,000	1,000
4.33%, 01/20/06	4,000	3,999
<b>◆ White Pine Finance, L.L.C., Section 3c7 / 144A</b>		
4.32%, 01/12/06	1,000	1,000
4.32%, 01/17/06	1,000	1,000
		<b>78,493</b>

Security Maturity Amount  
(\$ x 1,000)

**Other Investments 18.4% of net assets****Repurchase Agreements 18.4%**

<b>Credit Suisse First Boston L.L.C.</b>		
Tri-Party Repurchase Agreement		
Collateralized by U.S. Government		
Securities with a value of \$2,002,		
4.26%, issued 12/30/05,		
due 01/03/06	1,963	1,962
<b>Morgan Stanley &amp; Co., Inc.</b>		
Tri-Party Repurchase Agreement		
Collateralized by U.S. Government		
Securities with a value of \$120,403,		
4.28%, issued 12/30/05,		
due 01/03/06	118,056	118,000

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Statement of

**Assets and Liabilities**

As of December 31, 2005. All numbers x 1,000 except NAV.

**Assets**

Investments, at value	\$670,208
Repurchase agreements, at value	150,962
Interest receivable	957
Prepaid expenses	+ 101
<b>Total assets</b>	<b>822,228</b>

**Liabilities**

Payables:	
Dividends to shareholders	105
Investment adviser and administrator fees	13
Transfer agent and shareholder service fees	31
Trustees' fees	8
Accrued expenses	+ 143
<b>Total liabilities</b>	<b>300</b>

**Net Assets**

<b>Total assets</b>	822,228
<b>Total liabilities</b>	- 300
<b>Net assets</b>	<b>\$821,928</b>

**Net Assets by Source**

Capital received from investors	821,928
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**Net Asset Value (NAV)**

<b>Net Assets</b>	<b>÷</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$821,928		821,928		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost of the fund's securities was \$821,170. Includes illiquid and/or restricted securities worth \$5,489 or 0.7% 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 \$238,386 or 29.0% of the fund's total net assets.

**Federal Tax Data**

<b>Cost basis of portfolio</b>	\$821,170
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## Statement of

**Operations**

From January 1, 2005 through December 31, 2005. All numbers x 1,000.

**Investment Income**

Interest	<b>\$10,708</b>
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**Expenses**

Investment adviser and administrator fees	1,133	
Transfer agent and shareholder service fees	1,341	
Trustees' fees	27	
Custodian and portfolio accounting fees	41	
Professional fees	28	
Registration fees	96	
Shareholder reports	77	
Other expenses	+	9
Total expenses	2,752	
Expense reduction	-	695
<b>Net expenses</b>	<b>2,057</b>	

**Increase in Net Assets from Operations**

<b>Total investment income</b>	10,708
<b>Net expenses</b>	- 2,057
<b>Net investment income</b>	8,651
<b>Increase in net assets from operations</b>	<b>\$8,651</b>

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

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

For the fund's independent trustees only.

This reduction was made by the investment adviser (CSIM). It reflects a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the annual operating expenses of this fund through April 29, 2006, to 0.69% of average daily net assets. This limit excludes interest, taxes and certain non-routine expenses.

## Statement of

**Changes in Net Assets**

For the current and prior report periods. The fund commenced operations on August 12, 2004. All numbers x 1,000.

**Operations**

	1/1/05–12/31/05	08/12/04–12/31/04
Net investment income	\$8,651	\$521
<b>Increase in net assets from operations</b>	<b>8,651</b>	<b>521</b>

**Distributions Paid**

Dividends from net investment income	<b>8,651</b>	<b>521</b>
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**Transactions in Fund Shares**

Shares sold	2,736,029	384,505
Shares reinvested	8,432	510
Shares redeemed	+ (2,063,020)	(244,528)
<b>Net transactions in fund shares</b>	<b>681,441</b>	<b>140,487</b>

**Net Assets**

Beginning of period	140,487	—
Total increase	+ 681,441	140,487
<b>End of period</b>	<b>\$821,928</b>	<b>\$140,487</b>

Unless stated, all numbers x 1,000.

The tax-basis components of distributions are:

**Current year**

Ordinary income	\$8,651
Long-term capital gains	\$—

**Prior 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 Investor Money Fund  
 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 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 using the effective interest rate method. 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, 2005, the results of its operations for the year then ended, and the changes in its net assets and the financial highlights for the year then ended and 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 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, 2005 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

**PricewaterhouseCoopers LLP**

San Francisco, California

February 14, 2006

# Investment Advisory Agreement Approval

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

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

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

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

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

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

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

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

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



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

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

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

**Subsequent Continuation, August 2005.** At the August 31, 2005 meeting of the Board, the trustees, including a majority of the Independent Trustees, approved the continuation of the Agreement through June 30, 2006. This approval extended the interim approval of the Agreement by the Board, which had taken place on May 24, 2005 and is discussed above. In connection with the approval of the Agreement, the Board considered additional information provided by CSIM in response to the Board's requests at the May 24, 2005 meeting, as well as reconsidered the information provided and factors considered at prior meetings. The Board concluded that the information provided at the meeting supported continuation of the Agreement, subject to CSIM's continuing review of expense ratios for the Schwab Cash Reserves. In the course of their deliberations, the trustees did not identify any particular information or factor that was all-important or controlling. Based on the trustees' deliberation and their evaluation of the information described above, the Board, including all of the Independent Trustees, unanimously approved the continuation of the Agreement and concluded that the compensation under the Agreement is fair and reasonable in light of such services and expenses and such other matters as the trustees have considered to be relevant in the exercise of their reasonable judgment.

# Trustees and Officers

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

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

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

Independent Trustees		
Name and Year of Birth	Trustee Since	Main Occupations and Other Directorships and Affiliations
Mariann Byerwalter 1960	2000 (all trusts).	Chairman, JDN Corp. Advisory LLC (real estate). <i>Until 2001:</i> Special Advisor to the President, Stanford University. <i>From 1996-2001:</i> Vice President of Business Affairs, Chief Financial Officer, Stanford University. Ms. Byerwalter is on the Boards of Stanford University, America First Cos. (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, Pacific Life Insurance Company (insurance), Laudus Trust and Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex. <sup>2</sup>

<sup>1</sup> 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.

<sup>2</sup> This includes 10 series of the Laudus Trust and the sole series of the Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex.

## Independent Trustees continued

Name and Year of Birth	Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Donald F. Dorward</b> 1931	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chief Executive Officer, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999</i> : Executive Vice President, Managing Director, Grey Advertising. <i>Until 1996</i> : President, Chief Executive Officer, Allen & Dorward Advertising.
<b>William A. Hasler</b> 1941	2000 (all trusts).	Dean Emeritus of the Haas School of Business, University of California, Berkeley. <i>Until 2/04</i> , Co-Chief Executive Officer, Aphton Corporation (bio-pharmaceuticals). <i>Prior to 8/98</i> , Dean of the Haas School of Business, University of California, Berkeley (higher education). Mr. Hasler is on the Boards of Aphton Corporation (bio-pharmaceuticals), Mission West Properties (commercial real estate), Stratex Networks (network equipment), TOUSA (home building), Genitope Corp. (bio-pharmaceuticals), Laudus Trust and Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex. <sup>3</sup> Non-Executive Chairman, Solectron Corporation (manufacturing).
<b>Robert G. Holmes</b> 1931	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer, Director, Semloh Financial, Inc. (international financial services and investment advisory firm).
<b>Gerald B. Smith</b> 1950	2000 (all trusts).	<i>Since 1990</i> , Chairman and Chief Executive Officer and founder of Smith Graham & Co. (investment advisors). Mr. Smith is on the Board of Cooper Industries (electrical products, tools and hardware); Chairman, Texas Southern University Foundation; Executive Committee and Board Member, MD Anderson Cancer Center; Chairman of the audit committee of Northern Border Partners, M.L.P. (energy).
<b>Donald R. Stephens</b> 1938	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chairman, Chief Executive Officer, North American Trust (real estate investment trust).
<b>Michael W. Wilsey</b> 1943	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer, Wilsey Bennett, Inc. (real estate investment and management, and other investments).

<sup>3</sup> This includes 10 series of the Laudus Trust and the sole series of the Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex.

## Interested Trustees

Name and Year of Birth	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Charles R. Schwab</b> <sup>4</sup> 1937	Chairman, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer and Director, The Charles Schwab Corporation, Charles Schwab & Co., Inc.; Chairman and Director, Charles Schwab Investment Management, Inc., Charles Schwab Bank, N.A.; Chairman and Chief Executive Officer, Schwab (SIS) Holdings Inc. I, Schwab International Holdings, Inc.; Chief Executive Officer and Director, Schwab Holdings, Inc.; Director, U.S. Trust Company, N.A., U.S. Trust Corporation, United States Trust Company of New York. <i>Until 5/03</i> , Co-Chief Executive Officer, The Charles Schwab Corporation. Trustee, Charles and Helen Schwab Foundation; Chairman, All Kinds of Minds Institute (education), Trustee, Stanford University; Chairman and Director, Charles Schwab Foundation; Chairman of the Finance Committee, San Francisco Museum of Modern Art.
<b>Randall W. Merk</b> <sup>4</sup> 1954	Trustee, 2005 (all trusts).	Executive Vice President and President, Asset Management Products & Services, Charles Schwab & Co., Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From 9/02 to 7/04</i> , President and Chief Executive Officer, Charles Schwab Investment Management, Inc. and Executive Vice President, Charles Schwab & Co., Inc. <i>Prior to 9/02</i> , President and Chief Investment Officer, American Century Investment Management; Director, American Century Companies, Inc. <i>Until 6/01</i> , Chief Investment Officer, Fixed Income, American Century Companies, Inc.

## Officers of the Trust

Name and Year of Birth	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
<b>Evelyn Dilsaver</b> 1955	President, Chief Executive Officer (all trusts).	Executive Vice President, President, Director, Charles Schwab Investment Management, Inc. Vice President, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 7/04</i> : Senior Vice President, Asset Management Products & Services Enterprise. <i>Until 6/03</i> : Executive Vice President, Chief Financial Officer, Chief Administrative Officer, U.S. Trust.
<b>Stephen B. Ward</b> 1955	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co.

<sup>4</sup> In addition to their positions with the investment adviser and the distributor, Messrs. Schwab and Merk also own stock of the Charles Schwab Corporation.

## Officers of the Trust continued

Name and Year of Birth	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
<b>Kimon Daifotis</b> 1959	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President and Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Until 6/04</i> : Vice President and Senior Portfolio Manager, Charles Schwab Investment Management, Inc.
<b>Jeffrey Mortimer</b> 1963	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc.; Vice President, Chief Investment Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 5/04</i> : Vice President and Senior Portfolio Manager, Charles Schwab Investment Management, Inc.
<b>Randall Fillmore</b> 1960	Chief Compliance Officer (all trusts).	Senior Vice President, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Chief Compliance Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 9/03</i> : Vice President, Charles Schwab & Co., Inc. and Charles Schwab Investment Management, Inc. <i>Until 2002</i> : Vice President, Internal Audit, Charles Schwab & Co., Inc.
<b>Koji E. Felton</b> 1961	Secretary (all trusts).	Senior Vice President, Chief Counsel and Corporate Secretary, Charles Schwab Investment Management, Inc.; Senior Vice President and Deputy General Counsel, Charles Schwab & Co., Inc. <i>Prior to 6/98</i> , Branch Chief in Enforcement at U.S. Securities and Exchange Commission in San Francisco.
<b>George Pereira</b> 1964	Treasurer, Principal Financial Officer (all trusts).	Senior Vice President and Chief Financial Officer, Charles Schwab Investment Management, Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From 12/99 to 11/04</i> , Senior Vice President, Financial Reporting, Charles Schwab & Co., Inc.

# Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Portfolio terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Notes



## Notes

## Notes

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

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

### Methods for Placing Orders

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

#### Internet<sup>1</sup>

[www.schwab.com](http://www.schwab.com)

#### Schwab by Phone™<sup>2</sup>

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

#### TeleBroker®

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

#### Mail

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

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

### Proxy Voting Policies, Procedures and Results

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

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

## The Schwab Funds Family®

### Stock Funds

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

### Asset Allocation Funds

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

### Bond Funds

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

### Schwab Money Funds

Schwab offers an array of money market funds that seek high current income consistent with safety and liquidity.<sup>3</sup> 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®.

<sup>1</sup> Shares of Sweep Investments™ may not be purchased directly over the Internet.

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

<sup>3</sup> 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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