

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

*(formerly Schwab Retirement Money Fund®)*

**Semiannual Report**

June 30, 2006

*charles* SCHWAB

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Fund investment adviser: Charles Schwab Investment Management, Inc. (CSIM).  
Distributor and transfer agent: Charles Schwab & Co., Inc. (Schwab).

## From the Chairman



Charles Schwab  
Chairman

Dear Shareholder,

I have always believed that money funds are a great way to invest cash between long-term investments. And while no investment is risk free, money funds can also be good choices for investors who want to mitigate the potential fluctuations that may occur in their mostly stock portfolios.

As a result of the Federal Reserve having raised short-term interest rates eight times in the past 12 months (four of which occurred during the six-month period covered in this report), yields on money funds are more attractive than they have been in several years. With their relatively short weighted average maturity (WAM), money funds are typically positioned to capture a rise in market rates more quickly than those fixed income funds with longer maturities.

Here at Schwab, we offer a range of money funds with distinct investment strategies. Our municipal money funds, for example, may be beneficial for those of you in high tax brackets. We also offer money funds for those interested in the added protection provided by a portfolio of U.S. government securities.

In closing, I would like to emphasize that we at Schwab strive every day to warrant the trust you have placed in us. My colleagues and I continue to see opportunities ahead, and we are committed to helping you maximize them.

Thank you for investing with us.

Sincerely,

A handwritten signature in cursive script that reads "Charles Schwab".

*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.*

# Management's Discussion for the six months ended June 30, 2006



**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 semiannual report for your Schwab money fund for the six-month period ended June 30, 2006. Although the report period was marked by volatility, our money funds performed as designed, providing you with current income, stability of capital and convenient access to your money.

I'd like to take this opportunity to remind you that Schwab offers a range of money funds, including our purchased money funds, Schwab Value Advantage Investments®. These funds are designed for investors who have larger balances and don't require frequent access to their cash. They require a minimum initial investment of \$25,000 (\$15,000 for IRA and custodial accounts) and include various taxable and tax-free investment strategies.

Further down the maturity spectrum, our ultrashort bond fund, Schwab YieldPlus™, offers higher yield potential with higher risk than a money fund. Because taxes are always a concern, Schwab also offers two Schwab Tax-Free YieldPlus Funds that can help you manage tax impact and your exposure to the alternative minimum tax (AMT).

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,

*Evelyn Dilsaver*

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

*Please remember that with Schwab YieldPlus and Tax-Free YieldPlus Funds, investment value will fluctuate, and shares, when redeemed, may be worth more or less than original cost. Bond funds are subject to increased loss of principal during periods of rising interest rates.*



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



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

## The Investment Environment and the Funds

After a volatile six months in the domestic markets, equity and fixed income funds ended the period with mixed returns. Several key issues dominated market discussions throughout the period, including slowing economic growth, inflation fears, U.S. Federal Reserve (the Fed) interest rate increases, and volatile crude oil prices.

The markets remained in a steady growth mode over the first quarter of 2006 and ended the period on a positive note. Volatility was up during the second quarter of the year, but remained lower than its historical norm. During the six-month report period, oil prices hit new record highs and the Fed continued to raise short-term interest rates to curb inflationary pressures, boosting its Fed Funds target rate four consecutive times during the six-month period and bringing the benchmark rate up to 5.25%. This was the 17th rate hike over the past two years.

Rising sharply in the second half of the report period, crude oil prices peaked in April at around \$75 per barrel while domestic gasoline prices were above \$3 a gallon. In recent months, crude oil prices climbed back in response to declining crude inventories and geopolitical concerns. Despite the volatility in energy prices, gains in productivity have remained strong and corporate earnings continue to rise. Reasonable valuations, a solid earnings season, and expectations that monetary policy tightening will soon come to an end, helped support the markets. Additionally, job and income growth remained positive, though they slowed during the report period. Moderate inflationary expectations and large foreign capital inflows helped to contain increases in long-term interest rates.

As noted above, the Fed continued its tightening cycle throughout the period, raising its Fed Funds target 0.25% at each of its four meetings. At the end of the six-month report period, the benchmark rate was up to 5.25%. As the Fed raised rates, the yield curve flattened and had brief periods of inversion. Historically, economic slowdowns or recessions have followed the inversion of the yield curve. Nonetheless, higher short-term rates succeeded in moving money fund yields higher, making them a more attractive investment vehicle. Following a strong start to 2006, economic growth has moderated over the past six months.

## Management's Discussion continued

Rising interest rates have led to volatility in the equities markets and have weighed down bond returns. Meanwhile, money market funds enticed investors as the rise in short-term interest rates offered yields that have not been seen in years. The mixed messages that arose from the slowing economy and rising inflation have left investors puzzled about the direction of the Fed policy. The June 29 Federal Open Market Committee (FOMC) policy statement did little to alleviate uncertainty, as the Fed acknowledged slower growth while expressing concern about inflation risks.

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 holdings of variable rate securities. The interest rates on these types of securities reset frequently, allowing us the opportunity to capture a rise in market rates. In addition, we also purchased securities with longer maturities in order to add yield to the portfolios.

To further take advantage of the rising-rate environment, we maintained our weighted average maturity (WAM) in the mid to high 40-day range over the course of the reporting period. Keeping the WAM in this range provided the 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 6/30/06

### 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
<b>Seven-Day Yield</b>	4.67% <sup>1</sup>	4.56%
<b>Seven-Day Yield—No Waiver</b>	4.54% <sup>2</sup>	n/a
<b>Seven-Day Effective Yield</b>	4.78% <sup>1</sup>	4.66%

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
<b>Weighted Average Maturity</b>	45 days	47 days
<b>Credit Quality of Holdings</b> % of portfolio	100% Tier 1	100% Tier 1
<b>Minimum Initial Investment</b> <sup>3</sup>	\$25,000	\$1 <i>Retirement Plan Participants</i> \$2,500 <i>Other Investors</i>

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 January 1, 2006 and held through June 30, 2006.

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

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

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

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

	Expense Ratio <sup>1</sup> (Annualized)	Beginning Account Value at 1/1/06	Ending Account Value (Net of Expenses) at 6/30/06	Expenses Paid During Period <sup>2</sup> 1/1/06–6/30/06
<b>Schwab Retirement Advantage Money Fund™</b>				
Actual Return	0.49%	\$1,000	\$1,021.31	\$2.46
Hypothetical 5% Return	0.49%	\$1,000	\$1,022.36	\$2.46
<b>Schwab Investor Money Fund™</b>				
Actual Return	0.66%	\$1,000	\$1,020.53	\$3.31
Hypothetical 5% Return	0.66%	\$1,000	\$1,021.52	\$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 are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 181 days of the period, and divided by 365 days of the fiscal year.



# Schwab Retirement Advantage Money Fund™

## Financial Statements

### Financial Highlights

	1/1/06– 6/30/06*	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	1.00
Income from investment operations:						
Net investment income	0.02	0.03	0.01	0.01	0.01	0.04
Less distributions:						
Dividends from net investment income	(0.02)	(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	1.00
Total return (%)	2.13 <sup>1</sup>	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 <sup>2</sup>	0.49	0.49	0.50	0.50	0.50
Gross operating expenses	0.63 <sup>2</sup>	0.63	0.63	0.63	0.63	0.66
Net investment income	4.27 <sup>2</sup>	2.75	0.94	0.75	1.46	3.83
Net assets, end of period (\$ x 1,000,000)	672	571	680	766	907	797

\* Unaudited.

<sup>1</sup> Not annualized.

<sup>2</sup> Annualized.

See financial notes. 7

## Schwab Retirement Advantage Money Fund

### Portfolio Holdings as of June 30, 2006 (Unaudited)

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

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be viewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on a fund's most recent Form N-Q is also 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 and the maturity date shown is the next interest rate change date.

Holdings by Category		Cost (\$x1,000)	Value (\$x1,000)
72.4%	<b>Fixed-Rate Obligations</b>	486,774	486,774
13.9%	<b>Variable-Rate Obligations</b>	93,330	93,330
13.3%	<b>Other Investments</b>	89,245	89,245
99.6%	<b>Total Investments</b>	<b>669,349</b>	<b>669,349</b>
0.4%	<b>Other Assets and Liabilities</b>		2,547
100.0%	<b>Net Assets</b>		<b>671,896</b>

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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### Fixed-Rate Obligations 72.4% of net assets

#### Bank Notes 2.7%

<b>Bank of America, N.A.</b>		
5.10%, 07/21/06	1,000	1,000
5.05%, 07/25/06	6,000	6,000
5.08%, 08/04/06	6,000	6,000
5.11%, 08/14/06	5,000	5,000
		<b>18,000</b>

#### Certificates of Deposit 7.7%

<b>Australia &amp; New Zealand Banking Group Ltd.</b>		
5.15%, 10/04/06	3,000	3,000
<b>Barclays Bank PLC</b>		
5.03%, 07/18/06	5,000	5,000
5.12%, 07/25/06	7,000	7,000
4.26%, 04/05/07	5,000	5,000
<b>BNP Paribas</b>		
4.83%, 07/21/06	1,000	1,000
5.09%, 10/03/06	1,000	1,000
<b>Canadian Imperial Bank of Commerce</b>		
5.55%, 12/04/06	1,000	996
<b>Citibank, N.A.</b>		
5.13%, 08/11/06	3,000	3,000
5.13%, 08/17/06	3,000	3,000
5.17%, 08/24/06	5,000	5,000
5.20%, 08/31/06	1,000	1,000
5.40%, 09/20/06	6,000	6,000
<b>Credit Agricole S.A.</b>		
5.03%, 09/29/06	3,000	3,000
<b>Credit Suisse</b>		
4.66%, 07/03/06	3,000	3,000
5.01%, 07/14/06	2,000	2,000
<b>Deutsche Bank, AG</b>		
4.62%, 10/26/06	5,000	5,000
4.85%, 01/26/07	2,000	2,000
5.01%, 02/09/07	1,000	1,000

Schwab Retirement Advantage Money Fund

**Portfolio Holdings** (Unaudited) 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)
5.25%, 03/20/07	5,000	4,994	5.19%, 07/17/06 (b)(c)	2,043	2,038
<b>First Tennessee Bank, N.A.</b>			5.48%, 09/26/06 (b)(c)	2,000	1,974
5.08%, 07/28/06	2,000	2,000	<b>Amsterdam Funding Corp.</b>		
<b>Landesbank Baden- Württemberg</b>			5.18%, 07/18/06 (a)(b)(c)	2,000	1,995
5.49%, 12/20/06	6,000	6,000	5.18%, 07/24/06 (a)(b)(c)	1,000	997
<b>Mitsubishi UFJ Trust &amp; Banking Corp.</b>			5.25%, 09/06/06 (a)(b)(c)	3,000	2,971
5.01%, 09/07/06	2,000	2,000	<b>Aquinas Funding, L.L.C.</b>		
<b>Mizuho Corp. Bank Ltd.</b>			5.39%, 09/18/06 (a)(b)(c)	1,000	988
4.85%, 07/14/06	2,000	2,000	5.25%, 11/20/06 (a)(b)(c)	2,000	1,960
5.29%, 09/13/06	3,000	3,000	<b>ASAP Funding Ltd.</b>		
5.19%, 10/25/06	1,000	1,000	5.11%, 08/01/06 (a)(b)(c)	4,000	3,983
<b>San Paolo IMI SpA</b>			<b>Atlantic Asset Securitization Corp.</b>		
4.62%, 07/06/06	5,000	5,000	5.40%, 08/28/06 (a)(b)(c)	3,000	2,974
<b>Skandinaviska Enskilda Banken AB</b>			<b>Atlantis One Funding Corp.</b>		
5.17%, 07/14/06	6,000	6,000	4.81%, 08/07/06 (b)(c)	4,000	3,981
<b>Toronto Dominion Bank</b>			5.26%, 09/07/06 (b)(c)	3,000	2,971
5.34%, 12/01/06	1,000	1,000	5.03%, 09/28/06 (b)(c)	1,000	988
<b>Unicredito Italiano SpA</b>			5.11%, 10/04/06 (b)(c)	2,000	1,974
5.16%, 08/10/06	2,000	2,000	5.23%, 11/13/06 (b)(c)	4,000	3,924
5.30%, 09/15/06	5,000	5,000	5.30%, 02/02/07 (b)(c)	1,000	969
5.23%, 11/20/06	3,000	3,000	<b>Bank of America Corp.</b>		
5.53%, 12/27/06	1,000	1,000	4.84%, 07/17/06	8,000	7,983
<b>Washington Mutual Bank</b>			5.20%, 09/01/06	11,000	10,903
5.22%, 11/15/06	4,000	4,000	<b>Bank of Ireland</b>		
<b>Wells Fargo Bank</b>			4.86%, 08/09/06 (c)	4,000	3,979
5.20%, 07/28/06	7,000	7,000	<b>Bear Stearns Companies, Inc.</b>		
5.19%, 07/31/06	2,000	2,000	4.88%, 08/14/06	2,000	1,988
<b>Wilmington Trust Co.</b>			5.02%, 09/13/06	4,000	3,960
4.99%, 09/06/06	5,000	5,000	<b>Beta Finance, Inc.</b>		
		118,990	5.10%, 07/12/06 (b)(c)	3,000	2,995
<b>Commercial Paper &amp; Other Corporate Obligations 51.1%</b>			<b>Blue Spice, L.L.C.</b>		
<b>Ab Spintab</b>			5.10%, 08/04/06 (a)(b)(c)(d)	2,000	1,990
5.16%, 07/31/06	4,000	3,983	<b>CBA (Delaware) Finance, Inc.</b>		
<b>Alliance &amp; Leicester, PLC</b>			4.93%, 08/02/06 (a)	2,000	1,991
5.00%, 09/21/06 (c)	4,000	3,956	<b>CC (USA), Inc.</b>		
<b>Amstel Funding Corp.</b>			5.01%, 07/12/06 (b)(c)	1,000	998
5.00%, 07/10/06 (b)(c)	1,000	999	4.88%, 08/15/06 (b)(c)	1,000	994

## Portfolio Holdings (Unaudited) 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)
5.42%, 09/22/06 (b)(c)	2,000	1,975	<b>General Electric Capital Corp.</b>		
5.25%, 11/22/06 (b)(c)	2,000	1,959	4.37%, 07/06/06	9,000	8,995
<b>Citigroup Funding, Inc.</b>			5.00%, 07/17/06	3,000	2,993
5.10%, 08/01/06 (a)	4,000	3,983	4.62%, 08/03/06	2,000	1,992
5.36%, 09/13/06 (a)	3,000	2,967	<b>General Electric Capital Services</b>		
5.03%, 09/21/06 (a)	4,000	3,955	4.65%, 08/02/06	3,000	2,988
<b>Clipper Receivables Co., L.L.C.</b>			4.66%, 08/11/06	1,000	995
5.25%, 07/18/06 (a)(b)(c)	9,000	8,978	4.73%, 09/15/06	2,000	1,981
5.04%, 07/20/06 (a)(b)(c)	1,000	997	<b>Grampian Funding, L.L.C.</b>		
<b>Concord Minutemen Capital Co., Series A</b>			5.02%, 09/19/06 (a)(b)(c)	1,000	989
5.09%, 07/07/06 (a)(b)(c)	4,000	3,997	5.53%, 12/18/06 (a)(b)(c)	3,000	2,924
5.39%, 09/18/06 (a)(b)(c)	1,000	988	<b>HBOS Treasury Services, PLC</b>		
<b>Crown Point Capital Co., L.L.C.</b>			5.03%, 07/18/06 (a)	3,000	2,993
5.30%, 10/20/06 (a)(b)(c)	5,000	4,920	5.05%, 07/19/06 (a)	5,000	4,988
<b>Dakota CP Notes of Citibank Credit Card Issuance Trust</b>			<b>HSBC U.S.A., Inc.</b>		
4.96%, 07/07/06 (b)(c)	2,000	1,998	5.22%, 11/10/06	1,500	1,472
5.26%, 07/24/06 (b)(c)	5,000	4,983	5.22%, 11/13/06	2,000	1,962
5.41%, 09/21/06 (b)(c)	2,000	1,976	<b>HSH Nordbanken, AG</b>		
<b>Danske Corp.</b>			5.06%, 07/26/06	2,000	1,993
5.10%, 07/20/06 (a)(c)	1,000	997	<b>ING (U.S.) Funding, L.L.C.</b>		
<b>Dexia Delaware, L.L.C.</b>			5.09%, 09/18/06 (a)	1,000	989
5.31%, 08/04/06 (a)	6,000	5,970	<b>Irish Life &amp; Permanent, PLC</b>		
<b>Dorada Finance, Inc.</b>			5.31%, 08/21/06 (c)	2,000	1,985
5.42%, 08/31/06 (b)(c)	2,000	1,982	<b>IXIS Commercial Paper Corp.</b>		
5.26%, 09/11/06 (b)(c)	1,000	990	4.98%, 09/08/06 (a)(c)	2,000	1,981
<b>Edison Asset Securitization Corp., L.L.C.</b>			<b>Jupiter Securitization Corp.</b>		
5.24%, 11/14/06 (a)(b)(c)	1,322	1,296	5.08%, 07/07/06 (a)(b)(c)	4,000	3,997
5.34%, 11/28/06 (a)(b)(c)	4,000	3,913	<b>K2 (USA), L.L.C.</b>		
<b>Fairway Finance Co., L.L.C.</b>			4.99%, 09/08/06 (b)(c)	1,000	991
5.58%, 12/21/06 (a)(b)(c)	2,000	1,948	5.02%, 09/12/06 (b)(c)	1,000	990
<b>Five Finance, Inc.</b>			5.39%, 09/18/06 (b)(c)	1,000	988
5.09%, 07/28/06 (b)(c)	2,000	1,992	<b>Lexington Parker Capital Co., L.L.C.</b>		
5.48%, 09/15/06 (b)(c)	1,000	989	5.09%, 07/25/06 (a)(b)(c)	2,000	1,993
<b>Galaxy Funding, Inc.</b>			5.27%, 09/12/06 (a)(b)(c)	1,000	989
5.06%, 07/26/06 (b)(c)	1,000	997	5.42%, 09/19/06 (a)(b)(c)	1,000	988
5.27%, 09/11/06 (b)(c)	3,000	2,969	5.08%, 10/05/06 (a)(b)(c)	2,000	1,974
			5.28%, 11/15/06 (a)(b)(c)	4,000	3,922

## Portfolio Holdings (Unaudited) 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>Mane Funding Corp.</b>			5.25%, 11/20/06 (b)(c)	5,000	4,899
5.16%, 08/17/06 (b)(c)	2,000	1,987	5.34%, 12/01/06 (b)(c)	1,000	978
5.27%, 09/12/06 (b)(c)	7,000	6,926	<b>Societe Generale North America, Inc.</b>		
<b>Merrill Lynch &amp; Co., Inc.</b>			5.00%, 07/11/06 (a)	3,000	2,996
5.27%, 07/05/06	5,000	4,997	5.25%, 11/20/06 (a)	1,000	980
<b>Mont Blanc Capital Corp.</b>			<b>Thunder Bay Funding, L.L.C.</b>		
5.03%, 07/14/06 (a)(b)(c)	4,000	3,993	5.10%, 07/11/06 (a)(b)(c)	3,000	2,996
<b>Morgan Stanley</b>			<b>Ticonderoga Funding, L.L.C.</b>		
5.29%, 07/11/06	3,000	2,996	5.26%, 07/17/06 (a)(b)(c)	2,251	2,246
5.30%, 07/19/06	9,000	8,976	<b>UBS Finance (Delaware), Inc.</b>		
<b>Nationwide Building Society</b>			5.12%, 07/10/06 (a)	8,000	7,990
5.11%, 07/24/06	2,000	1,994	5.29%, 07/13/06 (a)	10,000	9,982
<b>Nieuw Amsterdam Receivables Corp.</b>			5.15%, 07/26/06 (a)	4,000	3,986
4.96%, 07/03/06 (a)(b)(c)	2,000	1,999	<b>Westpac Banking Corp.</b>		
5.11%, 07/10/06 (a)(b)(c)	1,948	1,946	5.43%, 09/29/06 (c)	4,000	3,947
<b>Northern Rock PLC</b>			<b>Whistlejacket Capital, L.L.C.</b>		
5.20%, 08/28/06	2,000	1,983	5.19%, 08/07/06 (b)(c)	1,000	995
<b>Park Avenue Receivables Co., L.L.C.</b>			<b>White Pine Finance, L.L.C.</b>		
5.12%, 07/10/06 (a)(b)(c)	9,000	8,988	5.10%, 08/02/06 (b)(c)	3,000	2,987
5.14%, 07/12/06 (a)(b)(c)	2,000	1,997	5.16%, 08/08/06 (b)(c)	1,000	995
<b>Park Granada, L.L.C.</b>			<b>Windmill Funding Corp.</b>		
4.97%, 07/05/06 (b)(c)	2,000	1,999	5.18%, 07/17/06 (a)(b)(c)	1,300	1,297
5.09%, 07/05/06 (b)(c)	3,000	2,998	5.17%, 08/02/06 (a)(b)(c)	7,000	6,968
<b>Picaros Funding, L.L.C.</b>					<b>343,284</b>
4.81%, 08/03/06 (a)(b)(c)	1,909	1,901	<b>Promissory Notes 0.9%</b>		
5.03%, 09/25/06 (a)(b)(c)	1,000	988	<b>The Goldman Sachs Group, Inc.</b>		
5.04%, 09/25/06 (a)(b)(c)	3,000	2,965	4.98%, 10/30/06 (d)	4,000	4,000
<b>Preferred Receivables Funding Corp.</b>			5.18%, 12/19/06 (d)	2,500	2,500
5.19%, 07/28/06 (a)(b)(c)	2,000	1,992			<b>6,500</b>
<b>Scaldis Capital, Ltd.</b>					
5.12%, 08/09/06 (a)(b)(c)	6,000	5,967			
5.20%, 08/31/06 (a)(b)(c)	6,000	5,948			
5.30%, 09/13/06 (a)(b)(c)	1,367	1,352			
<b>Sigma Finance, Inc.</b>					
5.11%, 07/26/06 (b)(c)	5,000	4,982			
4.98%, 09/05/06 (b)(c)	1,000	991			

## Variable-Rate Obligations 13.9% of net assets

<b>Bear Stearns Companies, Inc.</b>		
5.25%, 07/21/06	1,000	1,000
<b>BMC Special Care Facilities Financing Authority of the City of Montgomery, Alabama</b>		
5.46%, 07/06/06 (a)	1,895	1,895

# Schwab Retirement Advantage Money Fund

## Portfolio Holdings (Unaudited) continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>BNP Paribas</b>		
5.30%, 07/05/06	8,000	7,999
5.11%, 07/10/06	5,000	4,999
5.30%, 08/02/06	5,000	4,999
<b>CC (USA), Inc.</b>		
5.21%, 07/17/06 (b)(c)	6,000	6,002
<b>City of New Britain, Connecticut</b>		
5.38%, 07/06/06 (a)	2,800	2,800
<b>Concord Minutemen Capital Co., Series A</b>		
5.29%, 07/27/06 (a)(b)(c)	5,000	5,000
<b>Five Finance, Inc.</b>		
5.16%, 07/17/06 (b)(c)	1,000	1,000
<b>K2 (USA), L.L.C.</b>		
5.13%, 07/10/06 (b)(c)	3,000	3,000
<b>Liberty Lighthouse U.S. Capital Co., L.L.C.</b>		
5.31%, 08/02/06 (b)(c)	2,000	2,000
<b>Links Finance, L.L.C.</b>		
5.18%, 07/17/06 (b)(c)	6,000	6,000
<b>LoanStar Assets Partners II, L.P.</b>		
5.37%, 07/06/06 (a)	5,000	5,000
<b>New York City IDA</b>		
5.40%, 07/06/06 (a)	155	155
<b>Nordea Bank Finland, PLC</b>		
5.05%, 07/03/06	2,000	2,000
<b>Palm Springs, California</b>		
5.35%, 07/06/06 (a)	8,000	8,000
<b>Royal Bank of Canada</b>		
5.06%, 07/03/06	9,000	8,998
<b>Royal Bank Scotland, PLC</b>		
5.25%, 07/24/06	7,000	6,999
<b>Sigma Finance, Inc.</b>		
5.11%, 07/06/06 (b)(c)	1,000	1,000
5.16%, 07/17/06 (b)(c)	3,000	3,000
<b>Sumitomo Trust &amp; Banking Co.</b>		
5.30%, 07/24/06	5,000	5,000
<b>Wachovia Asset Securitization, Inc.</b>		
5.31%, 07/25/06 (a)(b)(c)	1,484	1,484

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Whistlejacket Capital, L.L.C.</b>		
5.22%, 07/20/06 (b)(c)	2,000	2,000
<b>White Pine Finance, L.L.C.</b>		
5.13%, 07/12/06 (b)(c)	3,000	3,000
		<b>93,330</b>

Other Investments 13.3% of net assets

Security	Maturity Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Repurchase Agreements 13.3%</b>		
<b>Credit Suisse Securities (USA), L.L.C.</b>		
Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$80,833 5.25%, issued 06/30/06, due 07/03/06	79,279	79,245
<b>Deutsche Bank Securities, Inc.</b>		
Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$10,200 5.30%, issued 06/27/06, due 07/05/06	10,012	10,000
		<b>89,245</b>

## End of Investments.

At 6/30/06, the cost of the fund's investments was \$669,349.

Issuer Rate, Acquisition Date, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>At 06/30/06, portfolio holdings included illiquid and/or restricted securities as follows:</b>		
<b>Blue Spice, L.L.C.</b>		
5.10%, 05/02/06, 08/04/06	2,000	1,990
<b>The Goldman Sachs Group Inc.</b>		
4.98%, 02/03/06, 10/30/06	4,000	4,000
5.18%, 03/24/06, 12/19/06	2,500	2,500

**Portfolio Holdings** (Unaudited) continued

- (a) Credit-enhanced security
- (b) Asset-backed security
- (c) Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registrations, normally to qualified institutional buyers. At the period end, the value of these amounted to \$247,866 or 36.9% of net assets.
- (d) Illiquid and/or restricted security

## Schwab Retirement Advantage Money Fund

Statement of

### Assets and Liabilities

As of June 30, 2006; unaudited. All numbers x 1,000 except NAV.

#### Assets

Investments, at cost and value	\$580,104
Repurchase agreements, at cost and value	89,245
Receivables:	
Fund shares sold	6,466
Interest	1,721
Prepaid expenses	+ 56
<b>Total assets</b>	<b>677,592</b>

#### Liabilities

Payables:	
Fund shares redeemed	4,376
Dividends to shareholders	1,276
Investment adviser and administrator fees	14
Transfer agent and shareholder services fees	12
Trustees' fees	3
Accrued expenses	+ 15
<b>Total liabilities</b>	<b>5,696</b>

#### Net Assets

Total assets	677,592
Total liabilities	- 5,696
<b>Net assets</b>	<b>\$671,896</b>

#### Net Assets by Source

Capital received from investors	671,896
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#### Net Asset Value (NAV)

<b>Net Assets</b>	<b>+</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$671,896		671,954		\$1.00



## Schwab Retirement Advantage Money Fund

### Statement of

### Operations

For January 1, 2006 through June 30, 2006; unaudited. All numbers x 1,000.

#### Investment Income

Interest	<b>\$14,444</b>
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#### Expenses

Investment adviser and administrator fees	1,154
Transfer agent and shareholder service fees	668
Trustees' fees	10
Custodian fees	17
Portfolio accounting fees	16
Professional fees	12
Registration fees	27
Shareholder reports	4
Other expenses	+
	3
Total expenses	1,911
Expense reduction	-
	423
<b>Net expenses</b>	<b>1,488</b>

#### Increase in Net Assets from Operations

<b>Total investment income</b>	14,444
<b>Net expenses</b>	-
	1,488
<b>Net investment income</b>	<b>12,956</b>
<b>Increase in net assets from operations</b>	<b>\$12,956</b>

## Schwab Retirement Advantage Money Fund

Statements of

### Changes in Net Assets

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

Figures for current period are unaudited.

#### Operations

	1/1/06-6/30/06	1/1/05-12/31/05
Net investment income	\$12,956	\$17,635
<b>Increase in net assets from operations</b>	<b>12,956</b>	<b>17,635</b>

#### Distributions Paid

Dividends from net investment income	12,956	17,635
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#### Transactions in Fund Shares\*

Shares sold	279,960	328,145
Shares reinvested	11,371	17,297
Shares redeemed	+ (190,495)	(454,550)
<b>Net transactions in fund shares</b>	<b>100,836</b>	<b>(109,108)</b>

#### Net Assets

Beginning of period	571,060	680,168
Total increase or decrease	+ 100,836	(109,108)
<b>End of period</b>	<b>\$671,896</b>	<b>\$571,060</b>

\* Transactions took place at \$1.00 per share; figures for share quantities are the same as for dollars.

# Schwab Investor Money Fund™

## Financial Statements

### Financial Highlights

	1/1/06– 6/30/06*	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	1.00
Income from investment operations:						
Net investment income	0.02	0.03	0.01	0.01	0.01	0.04
Less distributions:						
Dividends from net investment income	(0.02)	(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	1.00
Total return (%)	2.05 <sup>1</sup>	2.63	0.77	0.58	1.30	3.75
<b>Ratios/Supplemental Data (%)</b>						
Ratios to average net assets:						
Net operating expenses	0.66 <sup>2</sup>	0.67	0.66	0.66	0.68	0.70
Gross operating expenses	0.66 <sup>2</sup>	0.67	0.66	0.66	0.68	0.70
Net investment income	4.15 <sup>2</sup>	2.61	0.76	0.58	1.28	3.61
Net assets, end of period (\$ x 1,000,000)	1,002	521	492	578	566	515

\* Unaudited.

<sup>1</sup> Not annualized.

<sup>2</sup> Annualized.

See financial notes. 17

**Portfolio Holdings** as of June 30, 2006 (Unaudited)

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

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be viewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on a fund's most recent Form N-Q is also 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 for 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 and the maturity date shown is the next interest rate change date.

<b>Holdings by Category</b>		<b>Cost</b> (\$x1,000)	<b>Value</b> (\$x1,000)
<b>77.7%</b>	<b>Fixed-Rate Obligations</b>	778,248	778,248
<b>9.2%</b>	<b>Variable-Rate Obligations</b>	91,575	91,575
<b>12.7%</b>	<b>Other Investments</b>	127,453	127,453
<b>99.6%</b>	<b>Total Investments</b>	<b>997,276</b>	<b>997,276</b>
<b>0.4%</b>	<b>Other Assets and Liabilities</b>		4,286
<b>100.0%</b>	<b>Net Assets</b>		<b>1,001,562</b>

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

**Fixed-Rate Obligations 77.7% of net assets****Bank Notes 2.0%**

<b>Bank of America, N.A.</b>		
5.05%, 07/25/06	17,000	17,000
5.08%, 08/04/06	3,000	3,000
		<b>20,000</b>

**Certificates of Deposit 19.2%**

<b>Banca Intesa</b>		
5.49%, 09/29/06	9,000	9,000
<b>Banco Bilbao Vizcaya Argentaria S.A.</b>		
5.20%, 08/11/06	3,000	3,000
5.15%, 08/21/06	10,000	10,000
<b>Bank of Tokyo - Mitsubishi UFJ, Ltd.</b>		
5.16%, 08/01/06	7,000	7,000
<b>Barclays Bank PLC</b>		
5.12%, 08/09/06	2,000	2,000
4.26%, 04/05/07	2,000	2,000
<b>BNP Paribas</b>		
4.83%, 07/21/06	2,000	2,000
4.98%, 07/31/06	2,000	2,000
5.09%, 10/03/06	5,000	5,000
<b>Calyon</b>		
5.27%, 10/10/06	10,000	10,000
<b>Citibank, N.A.</b>		
5.13%, 08/11/06	2,000	2,000
5.13%, 08/15/06	9,000	9,000
5.13%, 08/17/06	1,000	1,000
5.17%, 08/24/06	1,000	1,000
5.20%, 08/31/06	2,000	2,000
5.37%, 09/18/06	1,000	1,000
5.40%, 09/20/06	2,000	2,000
<b>Credit Agricole S.A.</b>		
5.03%, 09/29/06	1,000	1,000
<b>Credit Suisse</b>		
5.01%, 07/14/06	3,000	3,000
5.39%, 08/31/06	11,000	11,000
5.11%, 10/02/06	3,000	3,000

## Portfolio Holdings (Unaudited) continued

Issuer Rate, Maturity Date	Face Value (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Value (\$ x 1,000)	Value (\$ x 1,000)
<b>Deutsche Bank, AG</b>			5.30%, 09/15/06	5,000	5,000
4.62%, 10/26/06	3,000	3,000	5.48%, 12/19/06	3,000	3,000
4.85%, 01/26/07	2,000	2,000	<b>US Bank, N.A.</b>		
5.01%, 02/09/07	1,000	1,000	4.94%, 07/07/06	2,000	2,000
<b>First Tennessee Bank, N.A.</b>			<b>Washington Mutual Bank</b>		
5.08%, 07/28/06	5,000	5,000	5.22%, 11/15/06	6,000	6,000
<b>Landesbank Baden- Wuerttemberg</b>			<b>Wells Fargo Bank, N.A.</b>		
5.46%, 09/26/06	1,000	1,000	5.19%, 07/31/06	8,000	8,000
5.49%, 12/20/06	8,000	8,000			<b>192,000</b>
<b>Mitsubishi UFJ Trust &amp; Banking Corp.</b>			<b>Commercial Paper &amp; Other Corporate Obligations 55.0%</b>		
5.57%, 12/27/06	3,000	3,000	<b>AB Spintab</b>		
<b>Mizuho Corp. Bank Ltd.</b>			4.98%, 07/06/06	2,000	1,999
4.85%, 07/14/06	2,000	2,000	5.15%, 08/04/06	1,200	1,194
5.14%, 08/08/06	1,000	1,000	5.48%, 09/27/06	1,000	987
5.29%, 09/13/06	5,000	5,000	<b>Alliance &amp; Leicester, PLC</b>		
<b>Morgan Stanley Bank</b>			4.85%, 07/13/06 (c)	1,481	1,479
5.28%, 07/26/06	5,000	5,000	5.23%, 09/01/06 (c)	1,000	991
<b>San Paolo IMI SpA</b>			4.99%, 09/06/06 (c)	2,000	1,982
5.07%, 09/29/06	9,000	9,000	<b>Amstel Funding Corp.</b>		
<b>Skandinaviska Enskilda Banken AB</b>			5.18%, 08/14/06 (b)(c)	4,000	3,975
5.17%, 07/14/06	3,000	3,000	5.14%, 08/15/06 (b)(c)	1,000	994
<b>Sumitomo Mitsui Banking Corp.</b>			5.20%, 08/29/06 (b)(c)	3,000	2,975
5.29%, 07/25/06	4,000	4,000	<b>Amsterdam Funding Corp.</b>		
5.47%, 09/27/06	2,000	2,000	5.28%, 07/20/06 (a)(b)(c)	2,000	1,994
<b>Sumitomo Trust &amp; Banking Co.</b>			5.18%, 07/24/06 (a)(b)(c)	1,000	997
5.02%, 09/11/06	4,000	4,000	5.25%, 09/06/06 (a)(b)(c)	4,000	3,961
<b>Svenska Handelsbanken AB</b>			<b>Anglo Irish Bank Corp., PLC</b>		
5.20%, 08/14/06	5,000	5,000	5.19%, 08/29/06 (c)	1,000	992
<b>Toronto Dominion Bank</b>			<b>ANZ (Delaware), Inc.</b>		
5.13%, 08/16/06	3,000	3,000	4.99%, 07/12/06 (a)	1,225	1,223
5.16%, 09/05/06	7,000	7,000	5.23%, 10/19/06 (a)	2,000	1,969
<b>Unicredito Italiano SpA</b>			<b>Aquinas Funding, L.L.C.</b>		
5.24%, 09/08/06	7,000	7,000	5.32%, 07/28/06 (a)(b)(c)	1,000	996
			5.10%, 08/01/06 (a)(b)(c)	2,000	1,991
			5.19%, 08/28/06 (a)(b)(c)	1,000	992
			<b>ASAP Funding Ltd.</b>		
			5.12%, 07/07/06 (a)(b)(c)	4,000	3,997
			5.12%, 08/02/06 (a)(b)(c)	2,000	1,991

See financial notes. 19

## Portfolio Holdings (Unaudited) continued

Issuer Rate, Maturity Date	Face Value (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Value (\$ x 1,000)	Value (\$ x 1,000)
<b>Atlantic Asset Securitization, L.L.C.</b>			5.27%, 09/11/06 (b)(c)	3,000	2,969
5.27%, 07/21/06 (a)(b)(c)	7,000	6,980	5.28%, 09/14/06 (b)(c)	2,000	1,978
5.33%, 09/12/06 (a)(b)(c)	4,000	3,957	<b>Chariot Funding, L.L.C.</b>		
<b>Atlantis One Funding Corp.</b>			5.09%, 07/07/06 (a)(b)(c)	3,000	2,997
5.09%, 08/01/06 (b)(c)	5,000	4,978	5.29%, 07/20/06 (a)(b)(c)	2,000	1,994
5.18%, 08/25/06 (b)(c)	2,000	1,984	<b>Citigroup Funding, Inc.</b>		
5.00%, 09/20/06 (b)(c)	6,000	5,934	5.09%, 07/10/06 (a)	2,000	1,998
5.03%, 09/22/06 (b)(c)	1,000	989	5.12%, 08/02/06 (a)	5,000	4,978
5.03%, 09/28/06 (b)(c)	1,000	988	5.11%, 08/03/06 (a)	3,000	2,986
5.18%, 11/02/06 (b)(c)	1,000	983	5.36%, 09/13/06 (a)	9,000	8,902
5.51%, 12/20/06 (b)(c)	3,000	2,923	5.03%, 09/21/06 (a)	10,000	9,888
<b>Bank of America Corp.</b>			<b>Clipper Receivables Co., L.L.C.</b>		
4.84%, 07/17/06	5,000	4,989	5.25%, 07/18/06 (a)(b)(c)	13,000	12,968
5.09%, 07/17/06	1,900	1,896	5.04%, 07/20/06 (a)(b)(c)	1,000	997
5.20%, 09/01/06	5,000	4,956	5.29%, 07/27/06 (a)(b)(c)	1,000	996
5.28%, 09/13/06	2,000	1,979	<b>Concord Minutemen Capital Co., Series A</b>		
5.50%, 12/18/06	3,000	2,924	5.11%, 07/07/06 (a)(b)(c)	6,000	5,995
<b>Bank of Ireland</b>			5.15%, 07/14/06 (a)(b)(c)	2,000	1,996
4.86%, 08/09/06 (c)	4,000	3,979	5.39%, 09/18/06 (a)(b)(c)	4,000	3,953
<b>Barclays U. S. Funding Corp.</b>			<b>Crown Point Capital Co., L.L.C.</b>		
5.18%, 08/23/06 (a)	6,000	5,955	5.12%, 08/08/06 (a)(b)(c)	2,000	1,989
<b>Bear Stearns Companies, Inc.</b>			5.31%, 09/14/06 (a)(b)(c)	5,000	4,945
5.40%, 09/19/06	10,000	9,881	<b>Dakota CP Notes of Citibank Credit Card Issuance Trust</b>		
5.44%, 09/21/06	1,000	988	4.96%, 07/07/06 (b)(c)	5,000	4,996
<b>Beta Finance Inc.</b>			5.28%, 07/20/06 (b)(c)	5,000	4,986
4.97%, 07/10/06 (b)(c)	2,000	1,998	5.32%, 07/27/06 (b)(c)	1,000	996
<b>Blue Spice, L.L.C.</b>			5.11%, 08/02/06 (b)(c)	7,500	7,466
5.29%, 07/20/06 (a)(b)(c)(d)	2,000	1,994	5.12%, 08/09/06 (b)(c)	5,000	4,973
<b>Cancara Asset Securitization, L.L.C.</b>			5.30%, 09/14/06 (b)(c)	3,000	2,967
5.29%, 07/24/06 (a)(b)(c)	1,000	997	<b>Danske Corp.</b>		
5.20%, 08/11/06 (a)(b)(c)	1,000	994	5.00%, 09/25/06 (a)(c)	2,000	1,977
5.18%, 08/22/06 (a)(b)(c)	5,000	4,963	5.23%, 10/23/06 (a)(c)	7,000	6,887
<b>CBA (Delaware) Finance, Inc.</b>			<b>Deutsche Bank Financial, L.L.C.</b>		
4.93%, 08/02/06 (a)	5,000	4,979	4.95%, 11/10/06 (a)	3,000	2,948
<b>CC (USA), Inc.</b>			<b>Dexia Delaware, L.L.C.</b>		
4.94%, 07/03/06 (b)(c)	2,000	1,999	5.31%, 08/04/06 (a)	9,000	8,955
5.18%, 08/28/06 (b)(c)	2,000	1,984			

**Portfolio Holdings** (Unaudited) continued

Issuer Rate, Maturity Date	Face Value (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Value (\$ x 1,000)	Value (\$ x 1,000)
<b>DnB NOR Bank ASA</b>			<b>HSH Nordbanken AG</b>		
5.33%, 08/02/06	1,200	1,194	5.06%, 07/26/06	1,000	997
5.25%, 11/01/06	1,000	983	5.42%, 09/22/06	2,000	1,975
5.27%, 11/27/06	1,000	979	<b>Irish Life &amp; Permanent, PLC</b>		
<b>Edison Asset Securitization Corp., L.L.C.</b>			4.77%, 07/28/06 (c)	2,000	1,993
5.24%, 11/14/06 (a)(b)(c)	4,000	3,923	<b>IXIS Commercial Paper Corp.</b>		
<b>Falcon Asset Securitization Corp.</b>			4.99%, 07/21/06 (a)(c)	3,100	3,092
5.14%, 07/10/06 (a)(b)(c)	5,000	4,994	5.48%, 10/03/06 (a)(c)	5,000	4,930
5.25%, 07/21/06 (a)(b)(c)	13,000	12,962	<b>K2 (USA), L.L.C.</b>		
<b>Five Finance, Inc.</b>			4.98%, 07/06/06 (b)(c)	1,000	999
5.09%, 07/28/06 (b)(c)	2,000	1,993	5.15%, 08/16/06 (b)(c)	1,000	994
5.21%, 08/18/06 (b)(c)	1,000	993	5.27%, 09/11/06 (b)(c)	2,300	2,276
5.23%, 11/15/06 (b)(c)	1,000	981	5.07%, 09/28/06 (b)(c)	1,000	988
<b>ForeningsSparbanken AB (Swedbank)</b>			<b>Lexington Parker Capital Co., L.L.C.</b>		
5.20%, 08/15/06	1,650	1,639	5.10%, 07/18/06 (a)(b)(c)	1,000	998
4.98%, 08/24/06	1,000	993	5.27%, 09/12/06 (a)(b)(c)	2,000	1,979
5.19%, 10/24/06	1,000	984	5.42%, 09/19/06 (a)(b)(c)	9,000	8,893
<b>Galaxy Funding, Inc.</b>			5.28%, 11/15/06 (a)(b)(c)	4,000	3,922
5.27%, 09/11/06 (b)(c)	2,000	1,979	<b>Links Finance, L.L.C.</b>		
5.48%, 09/27/06 (b)(c)	4,000	3,947	4.97%, 07/06/06 (b)(c)	1,000	999
<b>General Electric Capital Corp.</b>			<b>Mane Funding Corp.</b>		
4.37%, 07/06/06	3,000	2,998	5.15%, 08/17/06 (b)(c)	12,000	11,920
4.99%, 07/12/06	9,000	8,986	5.27%, 09/12/06 (b)(c)	1,002	991
4.95%, 11/07/06	2,000	1,966	<b>Merrill Lynch &amp; Co., Inc.</b>		
<b>General Electric Capital Services</b>			5.27%, 07/06/06	9,000	8,993
4.69%, 09/01/06	3,000	2,977	<b>Morgan Stanley</b>		
4.70%, 09/12/06	3,000	2,972	5.29%, 07/14/06	3,000	2,994
<b>Grampian Funding, L.L.C.</b>			<b>Nieuw Amsterdam Receivables Corp.</b>		
5.02%, 09/19/06 (a)(b)(c)	3,000	2,967	5.03%, 07/17/06 (a)(b)(c)	3,180	3,173
5.27%, 11/17/06 (a)(b)(c)	1,000	980	5.23%, 08/29/06 (a)(b)(c)	1,921	1,905
<b>HBOS Treasury Services, PLC</b>			<b>Nordea North America, Inc.</b>		
5.05%, 07/19/06 (a)	3,000	2,993	4.97%, 07/06/06 (a)	1,100	1,099
5.40%, 09/20/06 (a)	7,250	7,163	5.22%, 09/01/06 (a)	9,000	8,920
<b>HSBC U.S.A., Inc.</b>			<b>Northern Rock PLC</b>		
5.22%, 11/10/06	4,500	4,416	5.20%, 08/28/06	3,000	2,975
			<b>Old Line Funding, L.L.C.</b>		
			5.13%, 07/12/06 (a)(b)(c)	2,318	2,314

## Portfolio Holdings (Unaudited) continued

Issuer Rate, Maturity Date	Face Value (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Value (\$ x 1,000)	Value (\$ x 1,000)
<b>Park Avenue Receivables Co., L.L.C.</b>			5.23%, 11/13/06	6,000	5,886
5.08%, 07/05/06 (a)(b)(c)	11,000	10,994	5.25%, 11/20/06	2,000	1,960
5.14%, 07/12/06 (a)(b)(c)	1,000	998	<b>Svenska Handelsbanken, Inc.</b>		
5.28%, 07/24/06 (a)(b)(c)	4,000	3,987	5.23%, 10/23/06 (a)	5,000	4,919
<b>Park Granada, L.L.C.</b>			<b>Thunder Bay Funding, L.L.C.</b>		
5.09%, 07/05/06 (b)(c)	3,000	2,998	5.10%, 07/11/06 (a)(b)(c)	4,558	4,552
<b>Picaros Funding, L.L.C.</b>			5.40%, 09/20/06 (a)(b)(c)	4,000	3,952
4.97%, 09/01/06 (a)(b)(c)	1,544	1,531	<b>Ticonderoga Funding, L.L.C.</b>		
5.04%, 09/25/06 (a)(b)(c)	1,000	988	5.26%, 07/17/06 (a)(b)(c)	3,000	2,993
5.41%, 09/27/06 (a)(b)(c)	1,000	987	5.27%, 07/19/06 (a)(b)(c)	1,000	997
5.51%, 11/03/06 (a)(b)(c)	5,000	4,906	<b>UBS Finance (Delaware), Inc.</b>		
<b>Preferred Receivables Funding Corp.</b>			4.99%, 07/13/06 (a)	6,000	5,990
5.09%, 07/13/06 (a)(b)(c)	2,000	1,997	5.29%, 07/13/06 (a)	13,000	12,977
5.19%, 07/28/06 (a)(b)(c)	3,000	2,988	<b>Westpac Banking Corp.</b>		
5.33%, 08/01/06 (a)(b)(c)	3,000	2,986	5.18%, 07/24/06 (c)	3,341	3,330
<b>San Paolo IMI U.S. Financial Co.</b>			4.99%, 09/08/06 (c)	5,000	4,953
4.93%, 08/10/06 (a)	1,000	995	5.43%, 09/29/06 (c)	3,000	2,960
<b>Santander Central Hispano Finance (Delaware), Inc.</b>			5.27%, 11/22/06 (c)	2,000	1,959
4.83%, 07/10/06 (a)	1,000	999	<b>Whistlejacket Capital, L.L.C.</b>		
5.20%, 08/15/06 (a)	2,000	1,987	5.19%, 08/07/06 (b)(c)	1,000	995
<b>Scaldis Capital Ltd.</b>			5.27%, 09/11/06 (b)(c)	1,000	990
5.12%, 08/09/06 (a)(b)(c)	3,247	3,229	<b>White Pine Finance, L.L.C.</b>		
5.19%, 08/29/06 (a)(b)(c)	9,276	9,198	5.00%, 07/10/06 (b)(c)	3,000	2,996
5.28%, 09/11/06 (a)(b)(c)	1,000	990	5.10%, 07/17/06 (b)(c)	1,153	1,150
5.46%, 09/25/06 (a)(b)(c)	6,000	5,923	4.99%, 07/25/06 (b)(c)	1,000	997
<b>Sedna Finance, Inc.</b>			5.20%, 10/31/06 (b)(c)	1,000	983
5.27%, 09/08/06 (b)(c)	1,000	990	<b>Windmill Funding Corp.</b>		
<b>Sigma Finance, Inc.</b>			5.17%, 08/02/06 (a)(b)(c)	10,000	9,955
4.95%, 07/06/06 (b)(c)	2,300	2,298			<b>561,248</b>
4.65%, 07/11/06 (b)(c)	5,000	4,994	<b>Promissory Notes 0.5%</b>		
5.41%, 09/26/06 (b)(c)	2,000	1,974	<b>The Goldman Sachs Group, Inc.</b>		
5.29%, 11/28/06 (b)(c)	8,000	7,828	4.98%, 10/30/06 (d)	5,000	5,000
<b>Societe Generale North America, Inc.</b>					
5.00%, 07/11/06 (a)	3,000	2,996			
5.10%, 07/19/06 (a)	2,300	2,294			
5.20%, 08/15/06 (a)	1,900	1,888			

Variable-Rate Obligations 9.2% of net assets

<b>Barclays Bank, PLC</b>		
5.28%, 07/27/06	10,000	9,999
<b>BNP Paribas</b>		
5.08%, 07/06/06	7,000	6,999



**Portfolio Holdings** (Unaudited) continued

Issuer Rate, Maturity Date	Face Value (\$ x 1,000)	Value (\$ x 1,000)
5.11%, 07/10/06	5,000	4,999
5.30%, 08/02/06	11,000	10,998
<b>California Pollution Control Financing Authority</b>		
5.34%, 07/05/06 (a)	1,760	1,760
<b>CC (USA), Inc.</b>		
5.21%, 07/17/06 (b)(c)	3,000	3,001
<b>Columbus, Georgia Development Authority</b>		
5.48%, 07/06/06 (a)	1,625	1,625
<b>Eagle County, Colorado Taxable Housing Facilities</b>		
5.35%, 07/06/06 (a)	1,500	1,500
<b>Liberty Lighthouse U.S. Capital Co., L.L.C.</b>		
5.09%, 07/07/06 (b)(c)	1,000	1,000
5.31%, 08/02/06 (b)(c)	2,000	2,000
<b>Links Finance, L.L.C.</b>		
5.09%, 07/07/06 (b)(c)	4,000	4,000
5.21%, 07/17/06 (b)(c)	1,000	1,000
<b>LP Pinewood SPV, Inc.</b>		
5.35%, 07/06/06 (a)	15,000	15,000
<b>Nordea Bank Finland, PLC</b>		
5.05%, 07/03/06	5,000	5,000
<b>Royal Bank of Canada</b>		
5.06%, 07/03/06	2,000	1,999
<b>Royal Bank of Scotland, PLC</b>		
5.20%, 07/19/06	2,000	2,000
5.25%, 07/24/06	2,000	2,000
5.29%, 07/31/06	6,000	6,000
<b>Sigma Finance, Inc.</b>		
5.16%, 07/17/06 (b)(c)	3,000	3,000
5.20%, 07/17/06 (b)(c)	2,000	2,000
<b>Sumitomo Trust &amp; Banking Co.</b>		
5.30%, 07/24/06	1,000	1,000
<b>Village of Sturtevant, Wisconsin</b>		
5.43%, 07/06/06 (a)	695	695
<b>Whistlejacket Capital, L.L.C.</b>		
5.16%, 07/17/06 (b)(c)	1,000	1,000

Issuer Rate, Maturity Date	Face Value (\$ x 1,000)	Value (\$ x 1,000)
5.22%, 07/20/06 (b)(c)	1,000	1,000
<b>White Pine Finance, L.L.C.</b>		
5.13%, 07/12/06 (b)(c)	2,000	2,000
		<b>91,575</b>

Other Investments 12.7% of net assets

Security	Maturity Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Repurchase Agreements 12.7%</b>		
<b>Bank of America Securities L.L.C.</b>		
Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$102,000 5.28%, issued 06/30/06 due 07/03/06	100,044	100,000
<b>Credit Suisse Securities (USA), L.L.C.</b>		
Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$19,845 5.25%, issued 06/30/06 due 07/03/06	19,461	19,453
<b>Deutsche Bank Securities, Inc.</b>		
Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$8,160 5.30%, issued 06/27/06 due 07/05/06	8,009	8,000
		<b>127,453</b>

**Portfolio Holdings** (Unaudited) continued**End of Investments.**

At 6/30/06, the cost of the fund's investments was \$997,276.

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

5.29%, 06/22/06, 07/20/06	2,000	1,944
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**The Goldman Sachs Group Inc.**

4.98%, 02/03/06, 10/30/06	5,000	5,000
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- (a) Credit-enhanced security.
- (b) Asset-backed security.
- (c) Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registrations, normally to qualified institutional buyers. At the period end, the value of these amounted to \$352,794 or 35.2% of net assets.
- (d) Illiquid and/or restricted security.

## Schwab Investor Money Fund

Statement of

### Assets and Liabilities

As of June 30, 2006; unaudited. All numbers x 1,000 except NAV.

#### Assets

Investments, at cost and value	\$869,823
Repurchase agreements, at cost and value	127,453
Receivables:	
Fund shares sold	7,184
Investments sold	55
Interest	1,777
Prepaid expenses	+ 74
<b>Total assets</b>	<b>1,006,366</b>

#### Liabilities

Payables:	
Fund shares redeemed	2,905
Dividends to shareholders	1,827
Investment adviser and administrator fees	32
Transfer agent and shareholder services fees	21
Trustees' fees	3
Accrued expenses	+ 16
<b>Total liabilities</b>	<b>4,804</b>

#### Net Assets

Total assets	1,006,366
Total liabilities	- 4,804
<b>Net assets</b>	<b>\$1,001,562</b>

#### Net Assets by Source

Capital received from investors	1,001,562
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#### Net Asset Value (NAV)

<b>Net Assets</b>	<b>÷</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$1,001,562		1,001,620		\$1.00

## Schwab Investor Money Fund

Statement of

### Operations

For January 1, 2006 through June 30, 2006; unaudited. All numbers x 1,000.

#### Investment Income

Interest	\$16,966
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#### Expenses

Investment adviser and administrator fees	1,340	
Transfer agent and shareholder service fees	882	
Trustees' fees	10	
Custodian fees	16	
Portfolio accounting fees	15	
Professional fees	5	
Registration fees	37	
Shareholder reports	13	
Other expenses	+	4
<b>Total expenses</b>		<b>2,322</b>

#### Increase in Net Assets from Operations

<b>Total investment income</b>	16,966	
<b>Total expenses</b>	-	2,322
<b>Net investment income</b>		<b>14,644</b>
<b>Increase in net assets from operations</b>		<b>\$14,644</b>

## Schwab Investor Money Fund

Statements of

### Changes in Net Assets

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

Figures for current period are unaudited.

#### Operations

	1/1/06-6/30/06	1/1/05-12/31/05
Net investment income	\$14,644	\$13,258
<b>Increase in net assets from operations</b>	<b>14,644</b>	<b>13,258</b>

#### Distributions Paid

Dividends from net investment income	14,644	13,258
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#### Transactions in Fund Shares\*

Shares sold	843,184	335,633
Shares reinvested	12,481	13,137
Shares redeemed	+ (375,150)	(320,068)
<b>Net transactions in fund shares</b>	<b>480,515</b>	<b>28,702</b>

#### Net Assets

Beginning of period	521,047	492,345
Total increase	+ 480,515	28,702
<b>End of period</b>	<b>\$1,001,562</b>	<b>\$521,047</b>

\* Transactions took place at \$1.00 per share; figures for share quantities are the same as for dollars.

## Financial Notes, unaudited.

Unless stated, all dollar amounts are x 1,000.

### 1. 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 list below shows all the funds in the trust including the funds discussed in this report, which are highlighted:

<b>The Charles Schwab Family of Funds</b>	
(organized October 20, 1989)	
Schwab Money Market Fund	Schwab New York Municipal Money Fund
Schwab Government Money Fund	Schwab New Jersey Municipal Money Fund
Schwab U.S. Treasury Money Fund	Schwab Pennsylvania Municipal Money Fund
Schwab Value Advantage Money Fund	Schwab AMT Tax-Free Money Fund
Schwab Municipal Money Fund	Schwab Massachusetts Municipal Money Fund
Schwab California Municipal Money Fund	<b>Schwab Retirement Advantage Money Fund</b>
	<b>Schwab Investor Money Fund</b>
	Schwab Advisor Cash Reserves
	Schwab Cash Reserves

Schwab Retirement Advantage Money Fund and Schwab Investor Money Fund 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 trustees may issue as many shares as necessary.

### 2. Significant Accounting Policies

The following is a summary of the significant accounting policies the funds use in their operations and in their preparation of financial statements:

#### (a) Security Valuation:

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

#### (b) Portfolio Investments:

**Delayed-Delivery:** 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, 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.

**Repurchase Agreements:** 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.

## **Financial Notes, unaudited (continued).**

Unless stated, all dollar amounts are x 1,000.

### **2. Significant Accounting Policies (continued)**

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.

#### **(c) Security Transactions:**

Security transactions are recorded as of the date the order to buy or sell the security is executed. Realized gains and losses from security transactions are based on the identified costs of the securities involved.

#### **(d) Income, Expenses and Distributions:**

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

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 a trust generally are allocated among the funds in proportion to their average daily net assets.

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.

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 keeps certain assets in segregated accounts, as may be required by securities law.

#### **(e) Borrowing:**

The funds may borrow money from banks and custodians. The funds may obtain temporary bank loans through the trusts to which they 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.

#### **(f) Accounting Estimates:**

The accounting policies described in this report conform with accounting principles generally accepted in the United States of America. Notwithstanding this, shareholders should understand that in order to follow these

**Financial Notes, unaudited (continued).**

Unless stated, all dollar amounts are x 1,000.

**2. Significant Accounting Policies (continued)**

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.

**(g) Indemnification:**

Under the funds' organizational documents, the 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.

**3. Affiliates and Affiliated Transactions**

Charles Schwab Investment Management, Inc. (CSIM or the investment adviser), a wholly owned subsidiary of The Charles Schwab Corporation, serves as the fund's investment adviser and administrator pursuant to an Investment Advisory and Administration Agreement (Advisory Agreement) between it and the trust. Charles Schwab & Co., Inc. ("Schwab") is an affiliate of the investment adviser and is the trust's shareholder services agent and transfer agent.

For its advisory and administrative services to the funds, the investment adviser is entitled to receive an annual fee payable monthly based on the funds average daily net assets described as follows:

<u>Average daily net assets</u>	<u>Retirement Advantage Money Fund</u>	<u>Investor Money Fund</u>
First \$1 billion	0.38%	0.38%
Over \$1 billion	0.35%	0.35%
Over \$10 billion	0.32%	0.32%
Over \$20 billion	0.30%	0.30%
Over \$40 billion	0.27%	0.27%

For its transfer agent and shareholder services, Schwab is entitled to receive an annual fee payable monthly based on the funds' average daily net assets described as follows:

	<u>Transfer Agent Fees</u>	<u>Shareholder Service Fees</u>
Retirement Advantage Money Fund	0.05%	0.17%
Investor Money Fund	0.05%	0.20%



**Financial Notes, unaudited (continued).**

Unless stated, all dollar amounts are x 1,000.

**3. Affiliates and Affiliated Transactions (continued)**

Although these agreements specify certain fees for these services, CSIM and Schwab have made additional agreements with the funds to limit the total expenses charged, excluding interest, taxes and certain non-routine expenses through April 29, 2007, as follows:

Retirement Advantage Money Fund	0.49%
Investor Money Fund	none

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. For the period ended June 30, 2006, each fund's total security transactions with other Schwab Funds were as follows:

Retirement Advantage Money Fund	\$2,000
Investor Money Fund	—

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. There was no interfund borrowing or lending activity for any fund during the period.

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 funds' Statement of Operations.

**4. Federal Income Taxes**

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 realized net 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. As of December 31, 2005, the funds had no undistributed earnings on a tax basis.

The tax-basis components of distributions for the fiscal year ended December 31, 2005 were:

	<b>Retirement Advantage Money Fund</b>	<b>Investor Money Fund</b>
From ordinary income	\$17,635	\$13,258
From long-term capital gains	—	—
From return of capital	—	—

# 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.

The Board, including a majority of the Independent Trustees, considered information specifically relating to its consideration of the continuance of the Agreement at meetings held on May 2, 2006, May 24, 2006 and June 12, 2006, and approved the renewal of the Agreement for an additional one year term at the meeting held on June 12, 2006. The Board’s approval of the Agreement was based on consideration and evaluation of a variety of specific factors discussed at these meetings 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 information considered by the trustees included specific information concerning changes in the nature, extent and quality of services provided by CSIM since the trustees had last considered approval of the Agreement. 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 and their shareholders. 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' shareholders 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 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, when applicable, 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 and the appropriateness of the benchmark used to compare the performance of each fund. The trustees further considered the level of fund performance in the context of its review of fund expenses

and adviser profitability discussed below. Following such evaluation the Board concluded, within the context of its full deliberations, that the performance of the funds supported 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 historical practice of voluntarily waiving 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 different legal, regulatory, compliance and operating features of mutual funds as compared to these other types of accounts. The Board also considered recent actions by CSIM to adjust fund investor eligibility criteria that would result in more shareholders investing in funds (and share classes within funds) that have lower net operating expenses and that are designed to 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. Following such evaluation and based upon CSIM's agreement to implement proposals related to fund investor eligibility, the Board concluded, within the context of its full deliberations, that the expenses of the funds are reasonable and supported 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. The Board also considered information relating to changes to CSIM's cost structure, including cost savings, technology investments and increased operating efficiencies and how these changes affected CSIM's profitability under the Agreement. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the profitability of CSIM is reasonable and supported 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 that include lower fees

at higher graduated asset levels. The Board also considered certain commitments by CSIM and Schwab that are designed to pass along potential economies of scale to fund shareholders. Specifically, the Board considered CSIM and Schwab's commitments, which may be changed only with Board approval: (i) to reduce contractual advisory fees or add breakpoints for certain funds, (ii) to implement, by means of expense limitation agreement, over the next several years additional reductions in net overall expenses for certain funds, and (iii) to implement future net total operating expense reductions for taxable money funds as a group and non-taxable money funds as a group when aggregate assets of such group of funds exceed certain levels. Based on this evaluation, and in consideration of the commitments made by CSIM and Schwab as discussed above, 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 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

The tables below give information about the trustees and officers for The Charles Schwab Family of Funds, which includes the funds covered in this report. The “Fund Complex” includes The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust, Schwab Annuity Portfolios, Laudus Trust, Laudus Variable Insurance Trust, Excelsior Funds, Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust. As of June 30, 2006, the Fund Complex included 98 funds.

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, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served')	Principal Occupations During the Past Five Years	Number of Portfolios in Fund Complex Overseen by the Trustee	Other Directorships
<b>Mariann Byerwalter</b> 1960 Trustee (Trustee of The Charles Schwab Family of Funds since 2000.)	Chairman of JDN Corporate Advisory LLC. <i>From 1996 to 2001</i> , Vice President for Business Affairs and Chief Financial Officer of Stanford University, and <i>in 2001</i> , Special Advisor to the President of Stanford University.	98	<i>Board 1</i> —Director, Redwood Trust, Inc. <i>Board 2</i> —Director, PMI Group, Inc.
<b>Donald F. Dorward</b> 1931 Trustee (Trustee of The Charles Schwab Family of Funds since 1989.)	Chief Executive Officer, Dorward & Associates (corporate management, marketing and communications consulting firm). <i>From 1996-1999</i> , Executive Vice President and Managing Director, Grey Advertising. <i>Prior to 1996</i> , President and Chief Executive Officer, Allen & Dorward Advertising.	57	None.
<b>William A. Hasler</b> 1941 Trustee (Trustee of The Charles Schwab Family of Funds since 2000.)	Retired. Dean Emeritus, Haas School of Business, University of California, Berkeley. <i>Until February 2004</i> , Co-Chief Executive Officer, Aphton Corp. (bio-pharmaceuticals). <i>Prior to August 1998</i> , Dean of the Haas School of Business, University of California, Berkeley (higher education).	98	<i>Board 1</i> —Director, Aphton Corp. <i>Board 2</i> —Director, Mission West Properties <i>Board 3</i> —Director, TOUSA <i>Board 4</i> —Director, Stratex Networks <i>Board 5</i> —Director, Genitope Corp. <i>Board 6</i> —Director & Non-Executive Chairman, Solelectron Corp. <i>Board 7</i> —Director, Ditech Communications Corp.

# **Independent Trustees** continued

Name, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served <sup>1</sup> )	Principal Occupations During the Past Five Years	Number of Portfolios in Fund Complex Overseen by the Trustee	Other Directorships
<b>Robert G. Holmes</b> 1931 Trustee (Trustee of The Charles Schwab Family of Funds since 1989.)	Chairman, Chief Executive Officer and Director, Semloh Financial, Inc. (international financial services and investment advisory firm).	57	None.
<b>Gerald B. Smith</b> 1950 Trustee (Trustee of The Charles Schwab Family of Funds since 2000.)	Chairman and Chief Executive Officer and founder of Smith Graham & Co. (investment advisors).	57	<i>Board 1</i> —Board of Cooper Industries <i>Board 2</i> —Chairman of the Audit Committee of Northern Border Partners, M.L.P.
<b>Donald R. Stephens</b> 1938 Trustee (Trustee of The Charles Schwab Family of Funds since 1989.)	Managing Partner, D.R. Stephens & Company (investments). Prior to 1996, Chairman and Chief Executive Officer of North American Trust (real estate investment trust).	57	None.
<b>Michael W. Wilsey</b> 1943 Trustee (Trustee of The Charles Schwab Family of Funds since 1989.)	Chairman and Chief Executive Officer, Wilsey Bennett, Inc. (real estate investment and management, and other investments).	57	None.

## Interested Trustees

Name, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served <sup>1</sup> )	Principal Occupations During the Past Five Years	Number of Portfolios in Fund Complex Overseen by the Trustee	Other Directorships
<b>Charles R. Schwab<sup>2</sup></b> 1937 Chairman and Trustee (Chairman and Trustee of The Charles Schwab Family of Funds since 1989.)	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 May 2003</i> , Co-Chief Executive Officer, The Charles Schwab Corporation.	57	None.
<b>Randall W. Merk<sup>2</sup></b> 1954 Trustee (Trustee of The Charles Schwab Family of Funds since 2005.)	Executive Vice President and President, Schwab Financial Products, Charles Schwab & Co., Inc.; Director, Charles Schwab Asset Management (Ireland) Limited and Charles Schwab Worldwide Funds PLC. <i>From September 2002 to July 2004</i> , Chief Executive Officer and President, Charles Schwab Investment Management, Inc. and Executive Vice President, Charles Schwab & Co., Inc. <i>Prior to September 2002</i> , President and Chief Investment Officer, American Century Investment Management, and Director, American Century Companies, Inc.	98	None.

## Officers of the Trust

**Name, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served<sup>3</sup>)**

**Principal Occupations During the Past Five Years**

<b>Evelyn Dilsaver</b> 1955 President and Chief Executive Officer (Officer of The Charles Schwab Family of Funds since 2004.)	President, Chief Executive Officer, and Director, Charles Schwab Investment Management, Inc.; Executive Vice President, Charles Schwab & Co., Inc.; President and Chief Executive Officer, Laudus Trust and Laudus Variable Insurance Trust; President, Excelsior Funds Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust; President, Mutual Fund Division, UST Advisers, Inc. <i>From June 2003 to July 2004</i> , Senior Vice President, Asset Management Products and Services, Charles Schwab & Co., Inc. <i>Prior to June 2003</i> , Executive Vice President, Chief Financial Officer, and Chief Administrative Officer, U.S. Trust, a subsidiary of The Charles Schwab Corporation.
<b>Stephen B. Ward</b> 1955 Senior Vice President and Chief Investment Officer (Officer of The Charles Schwab Family of Funds since 1991.)	Director, Senior Vice President and Chief Investment Officer, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Company.
<b>George Pereira</b> 1964 Treasurer and Principal Financial Officer (Officer of The Charles Schwab Family of Funds since 2004.)	Senior Vice President and Chief Financial Officer, Charles Schwab Investment Management, Inc.; Chief Financial Officer, Laudus Trust and Laudus Variable Insurance Trust; Chief Financial Officer and Chief Accounting Officer, Excelsior Funds Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust; Chief Financial Officer, Mutual Fund Division, UST Advisors, Inc. Director, Charles Schwab Worldwide Fund, PLC and Charles Schwab Asset Management (Ireland) Limited. <i>From December 1999 to November 2004</i> , Sr. Vice President, Financial Reporting, Charles Schwab & Co., Inc.
<b>Kimon Daifotis</b> 1959 Senior Vice President and Chief Investment Officer—Fixed Income (Officer of The Charles Schwab Family of Funds since 2004.)	Senior Vice President and Chief Investment Officer—Fixed Income, Charles Schwab Investment Management, Inc. <i>Prior to 2004</i> , Vice President and Sr. Portfolio Manager, Charles Schwab Investment Management, Inc.
<b>Jeffrey Mortimer</b> 1963 Senior Vice President and Chief Investment Officer—Equities (Officer of The Charles Schwab Family of Funds since 2004.)	Senior Vice President and Chief Investment Officer—Equities, Charles Schwab Investment Management, Inc.; Vice President and Chief Investment Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Prior to 2004</i> , Vice President and Sr. Portfolio Manager, Charles Schwab Investment Management, Inc.



## Officers of the Trust continued

Name, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served <sup>3</sup> )	Principal Occupations During the Past Five Years
<b>Randall Fillmore</b> 1960 Chief Compliance Officer and AML Officer (Officer of The Charles Schwab Family of Funds since 2002.)	Senior Vice President and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Senior Vice President Charles Schwab & Co., Inc.; Chief Compliance Officer, Laudus Trust and Laudus Variable Insurance Trust; Chief Compliance Officer, Excelsior Funds Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust. <i>From 2002 to 2003</i> , Vice President, Charles Schwab & Co., Inc., and Charles Schwab Investment Management, Inc. <i>From 2000 to 2002</i> , Vice President, Internal Audit, Charles Schwab & Co., Inc.
<b>Koji E. Felton</b> 1961 Secretary and Chief Legal Officer (Officer of The Charles Schwab Family of Funds since 1998.)	Senior Vice President, Chief Counsel and Corporate Secretary, Charles Schwab Investment Management, Inc.; Senior Vice President and Deputy General Counsel, Charles Schwab & Co., Inc.; Chief Legal Officer, Laudus Trust and Laudus Variable Insurance Trust; Chief Legal Officer, Excelsior Funds Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust. <i>Prior to June 1998</i> , Branch Chief in Enforcement at U.S. Securities and Exchange Commission in San Francisco.

<sup>1</sup> Trustees remain in office until they resign, retire or are removed by shareholder vote. 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> In addition to their employment with the investment adviser and the distributor, Messrs. Schwab and Merk also own stock of The Charles Schwab Corporation. Mr. Schwab and Mr. Merk are Interested Trustees because they are employees of Schwab and/or the adviser.

<sup>3</sup> The President, Treasurer and Secretary hold office until their respective successors are chosen and qualified or until he or she sooner dies, resigns, is removed or becomes disqualified. Each other officer serves at the pleasure of the Board.

# 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 [www.sec.gov](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 [www.sec.gov](http://www.sec.gov).

<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.

## The Schwab Funds Family®

### Stock Funds

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™  
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®

### Asset Allocation Funds

Schwab Viewpoints Fund™  
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 Inflation Protected 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>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.

*charles* SCHWAB

**Investment Adviser**

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

**Funds**

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

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# Schwab Advisor Cash Reserves<sup>TM</sup>

**Semiannual Report**

June 30, 2006

*charles* SCHWAB

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Fund investment adviser: Charles Schwab Investment Management, Inc. (CSIM).  
Distributor and transfer agent: Charles Schwab & Co., Inc. (Schwab).

## From the Chairman



Charles Schwab  
Chairman

Dear Shareholder,

I have always believed that money funds are a great way to invest cash between long-term investments. And while no investment is risk free, money funds can also be good choices for investors who want to mitigate the potential fluctuations that may occur in their mostly stock portfolios.

As a result of the Federal Reserve having raised short-term interest rates eight times in the past 12 months (four of which occurred during the six-month period covered in this report), yields on money funds are more attractive than they have been in several years. With their relatively short weighted average maturity (WAM), money funds are typically positioned to capture a rise in market rates more quickly than those fixed income funds with longer maturities.

Here at Schwab, we offer a range of money funds with distinct investment strategies. Our municipal money funds, for example, may be beneficial for those of you in high tax brackets. We also offer money funds for those interested in the added protection provided by a portfolio of U.S. government securities.

In closing, I would like to emphasize that we at Schwab strive every day to warrant the trust you have placed in us. My colleagues and I continue to see opportunities ahead, and we are committed to helping you maximize them.

Thank you for investing with us.

Sincerely,

A handwritten signature in cursive script that reads "Charles Schwab".

*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.*

# Management's Discussion for the six months ended June 30, 2006



**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 semiannual report for your Schwab money fund for the six-month period ended June 30, 2006. Although the report period was marked by volatility, our money funds performed as designed, providing you with current income, stability of capital and convenient access to your money.

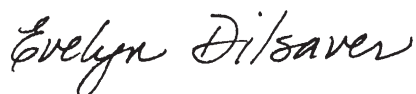
I'd like to take this opportunity to remind you that Schwab offers a range of money funds, including our purchased money funds, Schwab Value Advantage Investments®. These funds are designed for investors who have larger balances and don't require frequent access to their cash. They require a minimum initial investment of \$25,000 (\$15,000 for IRA and custodial accounts) and include various taxable and tax-free investment strategies.

Further down the maturity spectrum, our ultrashort bond fund, Schwab YieldPlus,™ offers higher yield potential with higher risk than a money fund. Because taxes are always a concern, Schwab also offers two Schwab Tax-Free YieldPlus Funds that can help you manage tax impact and your exposure to the alternative minimum tax (AMT).

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,



*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.*

*Please remember that with Schwab YieldPlus and Tax-Free YieldPlus Funds, investment value will fluctuate, and shares, when redeemed, may be worth more or less than original cost. Bond funds are subject to increased loss of principal during periods of rising interest rates.*



**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

After a volatile six months in the domestic markets, equity and fixed income funds ended the period with mixed returns. Several key issues dominated market discussions throughout the period, including slowing economic growth, inflation fears, U.S. Federal Reserve (the Fed) interest rate increases, and volatile crude oil prices.

The markets remained in a steady growth mode over the first quarter of 2006 and ended the period on a positive note. Volatility was up during the second quarter of the year, but remained lower than its historical norm. During the six-month report period, oil prices hit new record highs and the Fed continued to raise short-term interest rates to curb inflationary pressures, boosting its Fed Funds target rate four consecutive times during the six-month period and bringing the benchmark rate up to 5.25%. This was the 17th rate hike over the past two years.

Rising sharply in the second half of the report period, crude oil prices peaked in April at around \$75 per barrel while domestic gasoline prices were above \$3 a gallon. In recent months, crude oil prices climbed back in response to declining crude inventories and geopolitical concerns. Despite the volatility in energy prices, gains in productivity have remained strong and corporate earnings continue to rise. Reasonable valuations, a solid earnings season, and expectations that monetary policy tightening will soon come to an end, helped support the markets. Additionally, job and income growth remained positive, though they slowed during the report period. Moderate inflationary expectations and large foreign capital inflows helped to contain increases in long-term interest rates.

As noted above, the Fed continued its tightening cycle throughout the period, raising its Fed Funds target 0.25% at each of its four meetings. At the end of the six-month report period, the benchmark rate was up to 5.25%. As the Fed raised rates, the yield curve flattened and had brief periods of inversion. Historically, economic slowdowns or recessions have followed the inversion of the yield curve. Nonetheless, higher short-term rates succeeded in moving money fund yields higher, making them a more attractive investment vehicle. Following a strong start to 2006, economic growth has moderated over the past six months.

## Management's Discussion continued

Rising interest rates have led to volatility in the equities markets and have weighed down bond returns. Meanwhile, money market funds enticed investors as the rise in short-term interest rates offered yields that have not been seen in years. The mixed messages that arose from the slowing economy and rising inflation have left investors puzzled about the direction of the Fed policy. The June 29 Federal Open Market Committee (FOMC) policy statement did little to alleviate uncertainty, as the Fed acknowledged slower growth while expressing concern about inflation risks.

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 holdings of variable rate securities. The interest rates on these types of securities reset frequently, allowing us the opportunity to capture a rise in market rates. In addition, we also purchased securities with longer maturities in order to add yield to the portfolio.

To further take advantage of the rising-rate environment, we maintained our weighted average maturity (WAM) in the mid to high 40-day range over the course of the reporting period. Keeping the WAM in this range provided the 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 6/30/06

### 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
<b>Seven-Day Yield<sup>1</sup></b>	4.49%	4.59%
<b>Seven-Day Yield—No Waiver<sup>2</sup></b>	4.36%	4.36%
<b>Seven-Day Effective Yield<sup>1</sup></b>	4.59%	4.69%

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).

<b>Weighted Average Maturity</b>	47 days
<b>Credit Quality of Holdings</b> % of portfolio	100% Tier 1

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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 January 1, 2006 and held through June 30, 2006.

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

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

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

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

	Expense Ratio <sup>1</sup> (Annualized)	Beginning Account Value at 7/1/05	Ending Account Value (Net of Expenses) at 6/30/06	Expenses Paid During Period <sup>2</sup> 7/1/05–6/30/06
<b>Schwab Advisor Cash Reserves™</b>				
<i>Sweep Shares</i>				
Actual Return	0.69%	\$1,000	\$1,020.30	\$3.46
Hypothetical 5% Return	0.69%	\$1,000	\$1,021.37	\$3.46
<i>Premier Sweep Shares</i>				
Actual Return	0.59%	\$1,000	\$1,020.80	\$2.96
Hypothetical 5% Return	0.59%	\$1,000	\$1,021.87	\$2.96

<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 181 days of the period, and divided by 365 days of the fiscal year.



# Financial Statements

## Financial Highlights

Sweep Shares	1/1/06– 6/30/06*	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	1.00
Income from investment operations:			
Net investment income	0.02	0.03	0.00 <sup>2</sup>
Less distributions:			
Dividends from net investment income	(0.02)	(0.03)	(0.00) <sup>2</sup>
Net asset value at end of period	1.00	1.00	1.00
Total return (%)	2.03 <sup>3</sup>	2.63	0.45 <sup>3</sup>
<b>Ratios/Supplemental Data (%)</b>			
Ratios to average net assets:			
Net operating expenses	0.69 <sup>4</sup>	0.69	0.69 <sup>4</sup>
Gross operating expenses	0.84 <sup>4</sup>	0.85	0.85 <sup>4</sup>
Net investment income	4.09 <sup>4</sup>	2.65	1.30 <sup>4</sup>
Net assets, end of period (\$ x 1,000,000)	2,692	1,898	1,271
Premier Sweep Shares	1/1/06– 6/30/06*	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	1.00
Income from investment operations:			
Net investment income	0.02	0.03	0.00 <sup>2</sup>
Less distributions:			
Dividends from net investment income	(0.02)	(0.03)	(0.00) <sup>2</sup>
Net asset value at end of period	1.00	1.00	1.00
Total return (%)	2.08 <sup>3</sup>	2.73	0.48 <sup>3</sup>
<b>Ratios/Supplemental Data (%)</b>			
Ratios to average net assets:			
Net operating expenses	0.59 <sup>4</sup>	0.59	0.59 <sup>4</sup>
Gross operating expenses	0.84 <sup>4</sup>	0.85	0.85 <sup>4</sup>
Net investment income	4.19 <sup>4</sup>	2.75	1.41 <sup>4</sup>
Net assets, end of period (\$ x 1,000,000)	5,492	3,728	2,344

\* Unaudited.

<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.

## Schwab Advisor Cash Reserves

### Portfolio Holdings as of June 30, 2006 (Unaudited)

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

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be viewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on a fund's most recent Form N-Q is also 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 and the maturity date shown is the next interest rate change date.

Holdings by Category	Cost (\$x1,000)	Value (\$x1,000)
<b>77.5% Fixed-Rate Obligations</b>	6,340,396	6,340,396
<b>11.6% Variable-Rate Obligations</b>	951,401	951,401
<b>9.9% Other Investments</b>	807,819	807,819
<b>99.0% Total Investments</b>	<b>8,099,616</b>	<b>8,099,616</b>
<b>1.0% Other Assets and Liabilities</b>		85,073
<b>100.0% Net Assets</b>		<b>8,184,689</b>

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

### Fixed-Rate Obligations 77.5% of net assets

#### Bank Notes 2.7%

<b>Bank of America, N.A.</b>		
4.97%, 07/11/06	30,000	30,000
5.05%, 07/25/06	47,000	47,000
5.10%, 07/25/06	80,000	80,000
5.11%, 08/14/06	55,000	55,000
5.28%, 09/13/06	9,000	9,000
		<b>221,000</b>

#### Certificates of Deposit 22.5%

<b>Banca Intesa</b>		
5.49%, 09/29/06	82,000	82,001
<b>Bank of Tokyo - Mitsubishi UFJ, Ltd.</b>		
5.16%, 08/01/06	27,000	27,000
<b>Barclays Bank PLC</b>		
5.12%, 08/09/06	83,000	83,000
5.13%, 08/17/06	24,000	24,000
<b>BNP Paribas</b>		
4.83%, 07/21/06	20,000	20,000
5.17%, 08/25/06	10,000	10,000
5.21%, 09/05/06	125,000	125,000
5.09%, 10/03/06	50,000	50,000
5.15%, 10/15/06	7,000	7,000
5.15%, 10/16/06	7,000	7,000
<b>Calyon</b>		
4.63%, 07/11/06	64,000	64,000
5.27%, 10/10/06	15,000	15,000
5.17%, 10/18/06	2,700	2,694
<b>Canadian Imperial Bank of Commerce</b>		
5.27%, 10/10/06	66,000	66,000
<b>Citibank, N.A.</b>		
5.13%, 08/11/06	9,000	9,000
5.13%, 08/15/06	37,000	37,000
5.13%, 08/17/06	10,600	10,600
5.17%, 08/24/06	4,000	4,000
5.23%, 09/05/06	20,000	20,000

**Portfolio Holdings** (Unaudited) 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>Credit Suisse</b>			<b>Sumitomo Trust &amp; Banking Co.</b>		
4.66%, 07/03/06	25,000	25,000	5.26%, 11/20/06	32,000	32,000
5.39%, 08/31/06	64,000	64,000	<b>Svenska Handelsbanken AB</b>		
5.11%, 10/02/06	43,000	43,000	5.20%, 08/14/06	53,000	53,000
5.50%, 12/18/06	18,000	18,000	<b>Toronto-Dominion Bank</b>		
<b>Deutsche Bank, AG</b>			5.13%, 08/16/06	83,000	83,000
4.62%, 10/26/06	60,000	60,000	<b>Unicredito Italiano SpA</b>		
4.85%, 01/26/07	16,000	16,000	5.16%, 08/10/06	8,000	8,000
5.01%, 02/09/07	5,000	5,000	5.27%, 09/08/06	70,000	69,998
<b>ING Bank, N.V.</b>			5.23%, 11/20/06	59,000	59,000
5.08%, 07/27/06	23,000	23,000	<b>US Bank, N.A.</b>		
<b>Landesbank Baden-Wuerttemberg</b>			5.18%, 08/28/06	5,000	5,000
4.63%, 07/10/06	15,000	15,000	<b>Washington Mutual Bank</b>		
5.49%, 12/20/06	64,000	64,000	5.22%, 11/15/06	34,000	34,000
<b>Mitsubishi UFJ Trust &amp; Banking Corp.</b>			<b>Wells Fargo Bank, N.A.</b>		
4.97%, 07/05/06	35,000	35,000	5.20%, 07/28/06	73,000	73,000
5.01%, 09/07/06	25,000	25,000	<b>Wilmington Trust Co.</b>		
5.18%, 10/13/06	5,000	5,000	4.99%, 09/06/06	6,000	6,000
5.57%, 12/27/06	3,000	3,000			<b>1,843,293</b>
<b>Mizuho Corp. Bank Ltd.</b>			<b>Commercial Paper &amp; Other Corporate Obligations 51.8%</b>		
4.98%, 07/07/06	3,000	3,000	<b>AB Spintab</b>		
4.85%, 07/14/06	16,000	16,000	5.18%, 08/22/06	29,000	28,786
5.14%, 08/08/06	27,000	27,000	5.18%, 08/30/06	16,000	15,864
5.00%, 09/08/06	20,000	20,000	5.48%, 09/27/06	4,000	3,947
5.29%, 09/13/06	10,000	10,000	<b>Alliance &amp; Leicester, PLC</b>		
<b>Nordea Bank Finland, PLC</b>			4.97%, 07/05/06 (c)	14,000	13,992
4.62%, 08/08/06	2,000	2,000	5.12%, 08/14/06 (c)	1,000	994
<b>San Paolo IMI SpA</b>			5.23%, 09/01/06 (c)	18,000	17,840
5.07%, 09/29/06	66,000	66,000	5.28%, 09/12/06 (c)	10,000	9,894
<b>Skandinaviska Enskilda Banken AB</b>			5.38%, 09/15/06 (c)	10,000	9,888
5.17%, 07/14/06	50,000	50,000	<b>Amstel Funding Corp.</b>		
<b>Societe Generale</b>			5.14%, 07/11/06 (b)(c)	2,000	1,997
4.64%, 07/10/06	63,000	63,000	5.09%, 07/17/06 (b)(c)	1,000	998
4.63%, 07/11/06	30,000	30,000	5.18%, 07/17/06 (b)(c)	6,997	6,981
4.91%, 08/25/06	4,000	4,000	5.09%, 07/26/06 (b)(c)	16,000	15,944
<b>Sumitomo Mitsui Banking Corp.</b>			5.18%, 08/14/06 (b)(c)	1,000	994
5.10%, 07/06/06	28,000	28,000	5.14%, 08/15/06 (b)(c)	24,000	23,848
5.34%, 07/31/06	24,000	24,000	5.18%, 08/21/06 (b)(c)	3,000	2,978
5.47%, 09/27/06	13,000	13,000	5.45%, 09/26/06 (b)(c)	12,000	11,843
			<b>Amsterdam Funding Corp.</b>		
			5.15%, 07/13/06 (a)(b)(c)	6,600	6,589

## Schwab Advisor Cash Reserves

### Portfolio Holdings (Unaudited) 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)
5.18%, 07/24/06 (a)(b)(c)	50,000	49,835	<b>Bank of Ireland</b>		
5.25%, 09/06/06 (a)(b)(c)	19,000	18,817	5.12%, 08/09/06	12,000	11,934
<b>Anglo Irish Bank Corp., PLC</b>			5.17%, 11/01/06	18,000	17,690
5.19%, 08/29/06 (c)	9,000	8,924	<b>Barclays U. S. Funding Corp.</b>		
<b>Aquinas Funding, L.L.C.</b>			5.18%, 08/23/06 (a)	18,000	17,865
5.19%, 08/28/06 (a)(b)(c)	3,000	2,975	<b>Bear Stearns Companies, Inc.</b>		
5.48%, 09/28/06 (a)(b)(c)	5,000	4,933	4.65%, 07/17/06	17,000	16,966
5.16%, 10/10/06 (a)(b)(c)	1,000	986	5.02%, 09/13/06	24,000	23,759
5.53%, 12/20/06 (a)(b)(c)	28,000	27,281	5.42%, 09/20/06	16,000	15,807
<b>ASAP Funding Ltd.</b>			5.33%, 12/04/06	11,000	10,753
5.12%, 07/07/06 (a)(b)(c)	19,000	18,984	<b>Beta Finance, Inc.</b>		
5.13%, 08/01/06 (a)(b)(c)	1,000	996	4.95%, 07/05/06 (b)(c)	9,000	8,995
5.12%, 08/02/06 (a)(b)(c)	32,000	31,856	4.97%, 07/10/06 (b)(c)	9,000	8,989
<b>Atlantic Asset Securitization, L.L.C.</b>			5.48%, 09/28/06 (b)(c)	4,000	3,947
5.12%, 07/24/06 (a)(b)(c)	31,591	31,488	<b>Blue Spice, L.L.C.</b>		
5.14%, 08/15/06 (a)(b)(c)	3,322	3,301	5.29%, 07/20/06 (a)(b)(c)(d)	23,000	22,936
5.23%, 08/31/06 (a)(b)(c)	15,198	15,065	<b>Cancara Asset Securitisation, L.L.C.</b>		
5.47%, 09/21/06 (a)(b)(c)	5,745	5,674	5.01%, 07/13/06 (a)(b)(c)	10,000	9,984
<b>Atlantis One Funding Corp.</b>			5.13%, 08/14/06 (a)(b)(c)	30,000	29,814
4.95%, 07/05/06 (b)(c)	2,000	1,999	5.15%, 08/17/06 (a)(b)(c)	2,000	1,987
5.09%, 08/01/06 (b)(c)	22,000	21,905	5.18%, 08/22/06 (a)(b)(c)	3,107	3,084
4.81%, 08/07/06 (b)(c)	49,000	48,763	5.23%, 09/01/06 (a)(b)(c)	32,000	31,716
5.12%, 08/07/06 (b)(c)	7,000	6,964	5.39%, 09/18/06 (a)(b)(c)	5,000	4,942
4.93%, 08/23/06 (b)(c)	16,855	16,736	<b>CBA (Delaware) Finance, Inc.</b>		
5.19%, 08/28/06 (b)(c)	12,078	11,978	4.93%, 08/02/06 (a)	12,000	11,948
5.23%, 09/01/06 (b)(c)	16,000	15,858	<b>CC (USA), Inc.</b>		
5.03%, 09/28/06 (b)(c)	5,000	4,939	4.94%, 07/03/06 (b)(c)	4,000	3,999
5.16%, 10/12/06 (b)(c)	35,000	34,496	5.05%, 07/21/06 (b)(c)	17,000	16,953
5.18%, 10/13/06 (b)(c)	11,000	10,840	5.19%, 08/23/06 (b)(c)	16,000	15,879
5.50%, 12/18/06 (b)(c)	12,000	11,697	5.18%, 08/28/06 (b)(c)	6,000	5,951
5.51%, 12/20/06 (b)(c)	2,000	1,949	5.19%, 08/29/06 (b)(c)	2,000	1,983
5.56%, 12/27/06 (b)(c)	13,000	12,651	5.27%, 09/11/06 (b)(c)	15,000	14,844
<b>Bank of America Corp.</b>			5.42%, 09/22/06 (b)(c)	20,000	19,754
4.84%, 07/17/06	15,000	14,968	<b>Chariot Funding, L.L.C.</b>		
5.15%, 08/22/06	74,000	73,458	5.08%, 07/07/06 (a)(b)(c)	21,000	20,982
5.17%, 08/24/06	51,000	50,609	<b>Citigroup Funding, Inc.</b>		
5.20%, 09/01/06	4,000	3,965	4.97%, 07/06/06 (a)	2,000	1,999
5.20%, 09/25/06	22,000	21,731	4.98%, 07/07/06 (a)	20,000	19,984
5.50%, 12/18/06	15,000	14,621	5.09%, 07/10/06 (a)	6,000	5,992
			5.00%, 07/12/06 (a)	55,000	54,917

# Schwab Advisor Cash Reserves

## Portfolio Holdings (Unaudited) 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)
5.10%, 08/01/06 (a)	16,000	15,931	<b>Fairway Finance Co., L.L.C.</b>		
5.11%, 08/03/06 (a)	21,000	20,903	5.21%, 09/05/06 (a)(b)(c)	5,000	4,953
5.18%, 08/24/06 (a)	32,000	31,755	<b>Five Finance, Inc.</b>		
5.03%, 09/21/06 (a)	13,000	12,855	5.10%, 08/04/06 (b)(c)	20,000	19,905
<b>Clipper Receivables Co., L.L.C.</b>			5.27%, 08/15/06 (b)(c)	10,000	9,935
5.25%, 07/18/06 (a)(b)(c)	5,000	4,988	5.46%, 09/25/06 (b)(c)	2,000	1,974
5.04%, 07/20/06 (a)(b)(c)	27,000	26,929	5.23%, 11/15/06 (b)(c)	4,000	3,923
<b>Concord Minutemen Capital Co., Series A</b>			<b>ForeningsSparbanken AB (Swedbank), Inc.</b>		
5.15%, 07/14/06 (a)(b)(c)	17,000	16,969	4.70%, 07/19/06	3,000	2,993
5.09%, 07/19/06 (a)(b)(c)	6,000	5,985	4.92%, 08/24/06	6,000	5,957
5.20%, 09/22/06 (a)(b)(c)	42,860	42,355	5.21%, 10/24/06	4,000	3,935
5.12%, 10/06/06 (a)(b)(c)	23,949	23,627	5.22%, 10/24/06	4,000	3,935
<b>Crown Point Capital Co., L.L.C.</b>			<b>Fortis Banque Luxembourg</b>		
5.12%, 08/08/06 (a)(b)(c)	4,000	3,979	4.95%, 07/05/06	11,000	10,994
5.43%, 09/22/06 (a)(b)(c)	37,000	36,543	4.97%, 07/12/06	2,000	1,997
<b>Dakota CP Notes of Citibank Credit Card Issuance Trust</b>			<b>Galaxy Funding, Inc.</b>		
4.96%, 07/07/06 (b)(c)	13,000	12,989	5.06%, 07/26/06 (b)(c)	40,000	39,861
5.09%, 07/07/06 (b)(c)	36,000	35,970	5.15%, 08/16/06 (b)(c)	1,000	994
5.28%, 07/20/06 (b)(c)	6,000	5,983	<b>General Electric Capital Corp.</b>		
5.12%, 08/09/06 (b)(c)	35,000	34,809	5.26%, 07/03/06	200,000	199,942
5.30%, 09/14/06 (b)(c)	38,000	37,586	4.99%, 07/12/06	20,000	19,970
5.31%, 09/14/06 (b)(c)	18,000	17,804	5.00%, 07/17/06	35,000	34,923
<b>Danske Corp.</b>			4.61%, 08/01/06	8,000	7,969
4.98%, 11/21/06 (c)	27,000	26,486	4.71%, 09/15/06	8,000	7,923
5.50%, 12/21/06 (c)	80,000	77,943	<b>General Electric Capital Services</b>		
<b>Dexia Delaware, L.L.C.</b>			4.61%, 08/01/06	12,000	11,954
5.31%, 08/04/06 (a)	80,000	79,601	4.70%, 09/12/06	9,000	8,917
<b>DnB NOR Bank ASA</b>			<b>Grampian Funding, L.L.C.</b>		
4.96%, 07/05/06	4,000	3,998	5.10%, 08/04/06 (a)(b)(c)	6,000	5,971
4.97%, 07/05/06	1,000	999	5.14%, 08/16/06 (a)(b)(c)	2,000	1,987
5.27%, 11/27/06	7,000	6,851	4.93%, 08/23/06 (a)(b)(c)	8,000	7,943
<b>Dorada Finance, Inc.</b>			5.03%, 09/20/06 (a)(b)(c)	14,000	13,845
5.23%, 09/01/06 (b)(c)	10,000	9,911	5.02%, 09/22/06 (a)(b)(c)	2,000	1,977
5.46%, 09/26/06 (b)(c)	25,000	24,675	5.42%, 09/26/06 (a)(b)(c)	6,000	5,922
<b>Dresdner U.S. Finance, Inc.</b>			5.18%, 10/10/06 (a)(b)(c)	2,000	1,972
5.10%, 07/10/06 (a)	6,000	5,992	5.27%, 11/17/06 (a)(b)(c)	1,000	980
<b>Edison Asset Securitization Corp., L.L.C.</b>			5.28%, 11/17/06 (a)(b)(c)	3,000	2,940
5.02%, 07/17/06 (a)(b)(c)	20,000	19,956	5.53%, 12/18/06 (a)(b)(c)	46,000	44,831
5.20%, 09/18/06 (a)(b)(c)	5,848	5,782			

See financial notes. 11

## Schwab Advisor Cash Reserves

### Portfolio Holdings (Unaudited) 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>HBOS Treasury Services, PLC</b>			5.12%, 10/05/06 (a)(b)(c)	2,000	1,973
5.11%, 08/07/06 (a)	33,000	32,829	5.16%, 10/05/06 (a)(b)(c)	4,500	4,440
5.19%, 08/29/06 (a)	14,000	13,883	5.17%, 10/05/06 (a)(b)(c)	3,000	2,960
<b>HSBC U.S.A., Inc.</b>			5.28%, 11/15/06 (a)(b)(c)	16,000	15,686
5.22%, 11/10/06	38,000	37,291	<b>Links Finance, L.L.C.</b>		
5.22%, 11/13/06	3,000	2,943	4.97%, 07/06/06 (b)(c)	3,000	2,998
<b>HSH Nordbanken, AG</b>			5.19%, 08/30/06 (b)(c)	10,000	9,915
5.06%, 07/26/06	3,000	2,990	5.45%, 09/22/06 (b)(c)	9,000	8,888
<b>Irish Life &amp; Permanent, PLC</b>			<b>Mane Funding Corp.</b>		
4.84%, 07/19/06 (c)	4,000	3,991	5.27%, 09/12/06 (b)(c)	50,000	49,473
5.06%, 07/26/06 (c)	1,000	997	5.48%, 09/26/06 (b)(c)	7,000	6,909
5.39%, 08/21/06 (c)	2,750	2,729	<b>Morgan Stanley</b>		
<b>IXIS Commercial Paper Corp.</b>			5.29%, 07/12/06	116,000	115,813
4.98%, 09/08/06 (a)(c)	17,000	16,842	<b>Nieuw Amsterdam Receivables Corp.</b>		
5.48%, 10/03/06 (a)(c)	2,000	1,972	5.17%, 07/10/06 (a)(b)(c)	1,000	999
<b>Jupiter Securitization Corp.</b>			5.06%, 07/24/06 (a)(b)(c)	8,000	7,974
5.21%, 07/31/06 (a)(b)(c)	17,825	17,748	5.18%, 08/24/06 (a)(b)(c)	11,000	10,916
5.18%, 08/22/06 (a)(b)(c)	36,405	36,136	5.39%, 09/19/06 (a)(b)(c)	16,786	16,588
5.39%, 09/20/06 (a)(b)(c)	42,000	41,497	5.47%, 09/20/06 (a)(b)(c)	9,990	9,869
<b>K2 (USA), L.L.C.</b>			<b>Northern Rock PLC</b>		
4.63%, 07/06/06 (b)(c)	2,500	2,498	5.20%, 08/28/06	30,000	29,752
4.98%, 07/06/06 (b)(c)	1,000	999	<b>Park Avenue Receivables Co., L.L.C.</b>		
4.93%, 08/25/06 (b)(c)	12,000	11,912	5.14%, 07/12/06 (a)(b)(c)	2,000	1,997
5.19%, 08/25/06 (b)(c)	5,000	4,961	<b>Park Granada, L.L.C.</b>		
5.27%, 09/11/06 (b)(c)	7,000	6,927	4.97%, 07/05/06 (b)(c)	16,000	15,991
5.02%, 09/12/06 (b)(c)	21,000	20,791	5.09%, 07/05/06 (b)(c)	23,000	22,987
5.39%, 09/18/06 (b)(c)	1,000	988	5.23%, 09/01/06 (b)(c)	7,000	6,938
5.07%, 09/28/06 (b)(c)	1,000	988	<b>Picaros Funding, L.L.C.</b>		
<b>KBC Financial Products International, Ltd.</b>			4.81%, 08/03/06 (a)(b)(c)	6,000	5,974
5.02%, 09/25/06 (a)(c)	1,000	988	4.97%, 09/01/06 (a)(b)(c)	15,000	14,875
5.24%, 11/09/06 (a)(c)	5,000	4,907	5.05%, 09/25/06 (a)(b)(c)	40,000	39,530
<b>Lexington Parker Capital Co., L.L.C.</b>			5.41%, 09/27/06 (a)(b)(c)	11,000	10,857
5.21%, 07/17/06 (a)(b)(c)	36,000	35,917	<b>Preferred Receivables Funding Corp.</b>		
5.22%, 07/21/06 (a)(b)(c)	4,978	4,964	5.09%, 07/13/06 (a)(b)(c)	6,000	5,990
5.27%, 07/21/06 (a)(b)(c)	1,750	1,745	5.33%, 08/01/06 (a)(b)(c)	40,000	39,817
5.12%, 08/07/06 (a)(b)(c)	32,500	32,331	<b>San Paolo IMI U.S. Financial Co.</b>		
5.18%, 08/21/06 (a)(b)(c)	17,000	16,877	4.93%, 08/10/06 (a)	38,500	38,293
5.30%, 09/12/06 (a)(b)(c)	3,000	2,968			
5.40%, 09/18/06 (a)(b)(c)	17,000	16,801			

## Schwab Advisor Cash Reserves

### Portfolio Holdings (Unaudited) 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>Santander Central Hispano Finance (Delaware), Inc.</b>			<b>Societe Generale North America, Inc.</b>		
4.65%, 07/10/06 (a)	2,000	1,998	4.66%, 07/05/06 (a)	7,000	6,996
4.83%, 07/10/06 (a)	1,000	999	5.39%, 08/24/06 (a)	1,925	1,910
5.12%, 10/04/06 (a)	30,000	29,605	5.23%, 11/13/06 (a)	1,000	981
5.18%, 10/04/06 (a)	11,000	10,853	<b>The Goldman Sachs Group, Inc.</b>		
<b>Scaldis Capital Ltd.</b>			4.98%, 11/01/06 (a)(b)(c)	32,721	32,183
4.97%, 07/06/06 (a)(b)(c)	3,000	2,998	<b>Thunder Bay Funding, L.L.C.</b>		
5.06%, 07/25/06 (a)(b)(c)	21,000	20,930	5.42%, 09/21/06 (a)(b)(c)	26,273	25,953
5.13%, 07/25/06 (a)(b)(c)	7,000	6,976	<b>Tulip Funding Corp.</b>		
5.12%, 08/08/06 (a)(b)(c)	9,000	8,952	5.26%, 07/19/06 (a)(b)(c)	3,000	2,992
5.12%, 08/09/06 (a)(b)(c)	7,000	6,962	<b>UBS Finance (Delaware), Inc.</b>		
5.14%, 08/17/06 (a)(b)(c)	10,000	9,934	4.97%, 07/07/06 (a)	4,600	4,596
5.15%, 08/18/06 (a)(b)(c)	1,000	993	5.12%, 07/10/06 (a)	40,000	39,949
5.19%, 08/29/06 (a)(b)(c)	1,000	992	5.12%, 07/11/06 (a)	68,000	67,904
5.28%, 09/11/06 (a)(b)(c)	30,000	29,687	5.29%, 07/13/06 (a)	95,000	94,833
5.30%, 09/13/06 (a)(b)(c)	4,000	3,957	4.93%, 08/10/06 (a)	4,000	3,979
5.45%, 09/25/06 (a)(b)(c)	10,000	9,871	5.18%, 08/21/06 (a)	1,000	993
5.46%, 09/26/06 (a)(b)(c)	37,000	36,519	<b>Variable Funding Capital Corp.</b>		
5.48%, 09/27/06 (a)(b)(c)	15,979	15,768	5.03%, 07/18/06 (a)(b)(c)	97,000	96,772
<b>Sedna Finance, Inc.</b>			5.19%, 07/25/06 (a)(b)(c)	9,000	8,969
5.14%, 07/10/06 (b)(c)	20,000	19,974	<b>Westpac Banking Corp.</b>		
5.27%, 09/08/06 (b)(c)	2,500	2,475	5.18%, 07/21/06	1,200	1,197
<b>Sheffield Receivables Corp.</b>			4.99%, 09/08/06	44,000	43,590
5.14%, 07/24/06 (a)(b)(c)	28,350	28,258	5.27%, 11/22/06	10,000	9,795
5.14%, 08/03/06 (a)(b)(c)	25,000	24,883	<b>Whistlejacket Capital, L.L.C.</b>		
<b>Sigma Finance, Inc.</b>			5.09%, 07/07/06 (b)(c)	7,000	6,994
4.65%, 07/11/06 (b)(c)	3,000	2,996	5.18%, 08/23/06 (b)(c)	11,348	11,263
4.65%, 07/18/06 (b)(c)	6,000	5,987	5.28%, 09/11/06 (b)(c)	1,000	990
5.10%, 08/02/06 (b)(c)	3,000	2,987	<b>White Pine Finance, L.L.C.</b>		
5.18%, 08/25/06 (b)(c)	18,000	17,859	4.97%, 07/06/06 (b)(c)	1,000	999
4.98%, 09/05/06 (b)(c)	5,000	4,955	5.01%, 07/07/06 (b)(c)	1,000	999
5.16%, 10/13/06 (b)(c)	4,000	3,942	5.10%, 07/10/06 (b)(c)	14,445	14,427
5.26%, 11/21/06 (b)(c)	25,000	24,492	4.97%, 07/25/06 (b)(c)	1,000	997
5.29%, 11/28/06 (b)(c)	37,000	36,206	5.13%, 07/25/06 (b)(c)	7,938	7,911
5.34%, 12/01/06 (b)(c)	21,000	20,536	5.12%, 07/27/06 (b)(c)	5,893	5,872
<b>Skandinaviska Enskilda Banken AB</b>			5.10%, 08/02/06 (b)(c)	2,000	1,991
4.97%, 07/10/06	8,000	7,990	5.14%, 08/02/06 (b)(c)	4,031	4,013
			5.15%, 08/10/06 (b)(c)	3,714	3,693
			5.28%, 09/11/06 (b)(c)	7,000	6,927

See financial notes. 13



## Schwab Advisor Cash Reserves

### Portfolio Holdings (Unaudited) continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Windmill Funding Corp.</b>		
5.15%, 07/17/06 (a)(b)(c)	2,000	1,995
5.19%, 07/27/06 (a)(b)(c)	95,000	94,646
		<b>4,209,167</b>

#### Promissory Notes 0.5%

<b>The Goldman Sachs Group, Inc.</b>		
4.98%, 10/30/06 (d)	39,000	39,000
5.30%, 01/11/07 (d)	5,000	5,000
		<b>44,000</b>

#### Variable-Rate Obligations 11.6% of net assets

<b>Bank of Ireland</b>		
5.24%, 07/20/06 (c)	10,000	10,000
<b>Barclays Bank, PLC</b>		
5.28%, 07/27/06	60,000	59,993
<b>Bear Stearns Companies, Inc.</b>		
5.25%, 07/21/06	23,000	23,000
<b>BNP Paribas</b>		
5.07%, 07/05/06	24,000	23,998
5.08%, 07/06/06	10,000	9,998
5.11%, 07/10/06	10,000	9,999
5.30%, 08/02/06	25,000	24,995
<b>Breckenridge Terrace, L.L.C.</b>		
5.40%, 07/06/06 (a)	1,000	1,000
<b>CC (USA), Inc.</b>		
5.21%, 07/17/06 (b)(c)	17,000	17,005
5.33%, 07/25/06 (b)(c)	13,000	13,003
<b>Canadian Imperial Bank of Commerce</b>		
5.28%, 07/24/07	25,000	25,000
<b>Concord Minutemen Capital Co., Series A</b>		
5.29%, 07/27/06 (a)(b)(c)	45,063	45,062
<b>Cook County, IL</b>		
5.37%, 07/05/06 (a)	1,500	1,500
<b>Dorada Finance, Inc.</b>		
5.17%, 07/17/06 (b)(c)	40,000	39,999
<b>Eagle County, CO</b>		
5.40%, 07/06/06 (a)	2,000	2,000
<b>Five Finance, Inc.</b>		
5.27%, 07/25/06 (b)(c)	20,000	19,996

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>K2 (USA), L.L.C.</b>		
5.13%, 07/10/06 (b)(c)	12,000	11,999
5.31%, 07/17/06 (b)(c)	17,000	16,998
<b>Liberty Lighthouse U.S. Capital Co., L.L.C.</b>		
5.06%, 07/03/06 (b)(c)	6,000	5,999
5.11%, 07/10/06 (b)(c)	13,000	12,999
<b>Links Finance, L.L.C.</b>		
5.09%, 07/07/06 (b)(c)	18,000	17,999
5.11%, 07/10/06 (b)(c)	20,000	19,999
5.18%, 07/17/06 (b)(c)	14,000	14,000
5.21%, 07/17/06 (b)(c)	2,000	2,001
5.21%, 07/17/06 (b)(c)	15,000	14,999
<b>Merrill Lynch &amp; Co., Inc.</b>		
5.18%, 07/17/06	25,000	25,000
<b>Morgan Stanley</b>		
5.15%, 07/03/06	20,000	20,000
<b>Nordea Bank Finland, PLC</b>		
5.05%, 07/03/06	23,000	22,999
<b>Nordea Bank AB</b>		
5.15%, 07/11/06 (c)	25,000	25,000
<b>Royal Bank of Canada</b>		
5.06%, 07/03/06	100,000	99,976
<b>Royal Bank of Scotland, PLC</b>		
5.20%, 07/19/06	50,000	49,997
5.25%, 07/24/06	14,000	13,999
5.29%, 07/31/06	28,000	27,999
5.27%, 07/20/07 (c)	20,000	20,000
<b>Sigma Finance, Inc.</b>		
5.20%, 07/17/06 (b)(c)	51,000	51,008
5.16%, 07/17/06 (b)(c)	12,000	12,000
<b>Societe Generale North America, Inc.</b>		
5.08%, 07/03/06 (a)	15,000	15,000
<b>Sumitomo Trust &amp; Banking Co.</b>		
5.21%, 07/14/06	30,000	30,000
5.30%, 07/24/06	2,000	2,000
<b>Svenska Handelsbanken AB</b>		
5.07%, 07/03/06	25,000	24,999
<b>Tenderfoot Seasonal Housing, L.L.C.</b>		
5.40%, 07/06/06 (a)	2,885	2,885



## Schwab Advisor Cash Reserves

### Portfolio Holdings (Unaudited) continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Westpac Banking Corp.</b>		
5.18%, 07/17/06 (c)	25,000	25,000
<b>Whistlejacket Capital, L.L.C.</b>		
5.09%, 07/07/06 (b)(c)	9,000	8,999
5.04%, 07/11/06 (b)(c)	5,000	5,000
5.23%, 07/20/06 (b)(c)	6,000	6,000
<b>White Pine Finance, L.L.C.</b>		
5.13%, 07/10/06 (b)(c)	10,000	9,999
5.13%, 07/12/06 (b)(c)	2,000	2,000
5.15%, 07/17/06 (b)(c)	8,000	8,000
	<b>951,401</b>	

Other Investments 9.9% of net assets

Security	Maturity Amount (\$ x 1,000)	Value (\$ x 1,000)
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### Repurchase Agreements 9.9%

#### Bank of America Securities L.L.C.

Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$714,000		
5.28%, issued 06/30/06, due 07/03/06	700,308	700,000

#### Credit Suisse Securities (USA), L.L.C.

Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$7,980		
5.25%, issued 06/30/06, due 07/03/06	7,823	7,819

#### Morgan Stanley & Co., Inc.

Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$103,480		
5.25%, issued 06/30/06, due 07/03/06	100,044	100,000
	<b>807,819</b>	

Issuer Rate, Acquisition Date Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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### End of Investments.

At 06/30/06, the cost of the fund's investments was \$8,099,616.

At 06/03/06, portfolio holdings included illiquid and/or restricted securities as follows:

#### Blue Spice, L.L.C.

5.29%, 06/22/06, 07/20/06	23,000	<b>22,936</b>
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#### The Goldman Sachs Group, Inc.

4.98%, 02/03/06, 10/30/06	39,000	39,000
5.30%, 04/11/06, 01/11/07	5,000	5,000
		<b>44,000</b>

- (a) Credit-enhanced security.
- (b) Asset-backed security.
- (c) Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registrations, normally to qualified institutional buyers. At the period end, the value of these amounted to \$3,201,180 or 39.1% of net assets.
- (d) Illiquid and/or restricted security

## Schwab Advisor Cash Reserves

Statement of

### Assets and Liabilities

As of June 30, 2006; unaudited. All numbers x 1,000 except NAV.

#### Assets

Investments, at cost and value	\$7,291,797
Repurchase agreements, at cost and value	807,819
Receivables:	
Fund shares sold	364,736
Interest	21,352
Prepaid expenses	+ 864
<b>Total assets</b>	<b>8,486,568</b>

#### Liabilities

Bank Overdraft	49
Payables:	
Dividends to shareholders	15,000
Fund shares redeemed	286,191
Investment adviser and administrator fees	156
Transfer agent and shareholder services fees	260
Trustees' fees	1
Accrued expenses	+ 222
<b>Total liabilities</b>	<b>301,879</b>

#### Net Assets

<b>Total assets</b>	8,486,568
<b>Total liabilities</b>	- 301,879
<b>Net assets</b>	<b>\$8,184,689</b>

#### Net Assets by Source

Capital received from investors	8,184,689
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#### Net Asset Value (NAV) by Share Class

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Sweep Shares	\$2,692,282		2,692,282		\$1.00
Premier Sweep Shares	\$5,492,407		5,492,407		\$1.00

## Schwab Advisor Cash Reserves

### Statement of

### Operations

From January 1, 2006 through June 30, 2006; unaudited. All numbers x 1,000.

#### Investment Income

Interest	<b>\$157,692</b>
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#### Expenses

Investment adviser and administrator fees	11,696
Transfer agent and shareholder service fees:	
Sweep Shares	4,891
Premier Sweep Shares	9,952
Trustees' fees	15
Custodian fees	117
Portfolio accounting fees	68
Professional fees	25
Registration fees	849
Other expenses	+ 18
Total expenses	<u>27,631</u>
Expense reduction	- 7,079
<b>Net expenses</b>	<b><u>20,552</u></b>

#### Increase in Net Assets from Operations

Total investment income	157,692
Net expenses	- 20,552
Net investment income	<u>137,140</u>
<b>Increase in net assets from operations</b>	<b>\$137,140</b>

## Schwab Advisor Cash Reserves

Statement of

### Changes in Net Assets

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

Figures for current period are unaudited.

#### Operations

	1/1/06-6/30/06	1/1/05-12/31/05
Net investment income	\$137,140	\$132,239
<b>Increase in net assets from operations</b>	<b>137,140</b>	<b>132,239</b>

#### Distributions Paid

Dividends from net investment income		
Sweep Shares	44,463	43,265
Premier Sweep Shares	+ 92,677	88,974
<b>Total dividends from net investment income</b>	<b>137,140</b>	<b>132,239</b>

#### Transactions in Fund Shares\*

<b>Shares Sold</b>		
Sweep Shares	7,287,696	9,538,598
Premier Sweep Shares	+ 18,610,186	22,760,631
<b>Total shares sold</b>	<b>25,897,882</b>	<b>32,299,229</b>
<b>Shares Reinvested</b>		
Sweep Shares	39,487	42,446
Premier Sweep Shares	+ 82,146	87,145
<b>Total shares reinvested</b>	<b>121,633</b>	<b>129,591</b>
<b>Shares Redeemed</b>		
Sweep Shares	(6,533,299)	(8,953,704)
Premier Sweep Shares	+ (16,927,619)	(21,463,885)
<b>Total shares redeemed</b>	<b>(23,460,918)</b>	<b>(30,417,589)</b>
<b>Net transactions in fund shares</b>	<b>2,558,597</b>	<b>2,011,231</b>

#### Net Assets

Beginning of period	5,626,092	3,614,861
Total increase	+ 2,558,597	2,011,231
<b>End of period</b>	<b>\$8,184,689</b>	<b>\$5,626,092</b>

\* Transactions took place at \$1.00 per share; figures for share quantities are the same as for dollars.

## Financial Notes, unaudited.

Unless stated, all dollar amounts are x 1,000.

### 1. Business Structure of the Fund

Schwab Advisor Cash Reserves 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 list below shows all the funds in the trust including the fund discussed in this report, which is highlighted:

<b>The Charles Schwab Family of Funds</b>	Schwab New Jersey Municipal Money Fund
(organized October 20, 1989)	Schwab Pennsylvania Municipal Money Fund
Schwab Money Market Fund	Schwab AMT Tax-Free Money Fund
Schwab Government Money Fund	Schwab Massachusetts Municipal Money Fund
Schwab U.S. Treasury Money Fund	Schwab Retirement Advantage Money Fund
Schwab Value Advantage Money Fund	Schwab Investor Money Fund
Schwab Municipal Money Fund	<b>Schwab Advisor Cash Reserves</b>
Schwab California Municipal Money Fund	Schwab Cash Reserves
Schwab New York Municipal Money Fund	

Schwab Advisor Cash Reserves 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 trustees may issue as many shares as necessary.

### 2. Significant Accounting Policies

The following is a summary of the significant accounting policies the fund uses in its operations and in the preparation of financial statements:

#### (a) Security Valuation:

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

#### (b) Portfolio Investments:

**Delayed-Delivery:** 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.

**Repurchase Agreements:** 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.

## Financial Notes, unaudited (continued).

Unless stated, all dollar amounts are x 1,000.

## 2. Significant Accounting Policies (continued)

### (c) Security Transactions:

Security transactions are recorded as of the date the order to buy or sell the security is executed. Realized gains and losses from security transactions are based on the identified costs of the securities involved.

### (d) Income, Expenses and Distributions:

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

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

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

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 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 keeps certain assets in segregated accounts, as may be required by securities law.

### (e) Borrowing:

The fund may borrow money from banks and custodians. The fund may obtain temporary bank loans through the trusts 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.

### (f) Accounting Estimates:

The accounting policies described in this report 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.

### (g) Indemnification:

Under the fund's organizational documents, the 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

**Financial Notes, unaudited (continued).**

Unless stated, all dollar amounts are x 1,000.

**2. Significant Accounting Policies (continued)**

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.

**3. Affiliates and Affiliated Transactions**

Charles Schwab Investment Management, Inc. (CSIM or the investment adviser), a wholly owned subsidiary of The Charles Schwab Corporation, serves as the fund's investment adviser and administrator pursuant to an Investment Advisory and Administration Agreement (Advisory Agreement) between it and the trust. Charles Schwab & Co., Inc. ("Schwab") is an affiliate of the investment adviser and is the trust's shareholder services agent and transfer agent.

For its advisory and administrative services to the fund, the investment adviser is entitled to receive an annual fee payable monthly based on the fund's average daily net assets described as follows:

**Average daily net assets**

First \$1 billion	0.38%
Over \$1 billion	0.35%
Over \$10 billion	0.32%
Over \$20 billion	0.30%
Over \$40 billion	0.27%

For its transfer agent and shareholder services, Schwab is entitled to receive an annual fee payable monthly based on the fund's average daily net assets described as follows:

	<b><u>Transfer Agent Fees</u></b>	<b><u>Shareholder Service Fees</u></b>
Sweep Shares	0.25%	0.20%
Premier Sweep Shares	0.25%	0.20%

Although these agreements specify certain fees for these services, CSIM and Schwab have made additional agreements with the fund to limit the total expenses charged, excluding interest, taxes and certain non-routine expenses as follows:

Sweep Shares	0.69%
Premier Sweep Shares	0.59%

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. For the period ended June 30, 2006, the fund had no security transactions with other Schwab Funds.

**Financial Notes, unaudited (continued).**

Unless stated, all dollar amounts are x 1,000.

**3. Affiliates and Affiliated Transactions (continued)**

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. There was no interfund borrowing or lending activity for the fund during the period.

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.

**4. Federal Income Taxes**

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 realized net capital gains (if any) to its shareholders each year. As long as the fund meets the tax requirements, it is not required to pay federal income tax. As of December 31, 2005, the fund had no undistributed earnings on a tax basis.

The tax-basis components of distributions for the fiscal year ended December 31, 2005 were:

From ordinary income	\$132,239
From long-term capital gains	—
From return of capital	—



# 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.

The Board, including a majority of the Independent Trustees, considered information specifically relating to its consideration of the continuance of the Agreement at meetings held on May 2, 2006, May 24, 2006 and June 12, 2006, and approved the renewal of the Agreement for an additional one year term at the meeting held on June 12, 2006. The Board’s approval of the Agreement was based on consideration and evaluation of a variety of specific factors discussed at these meetings 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 information considered by the trustees included specific information concerning changes in the nature, extent and quality of services provided by CSIM since the trustees had last considered approval of the Agreement. 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 and their shareholders. 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' shareholders 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 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, when applicable, 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 and the appropriateness of the benchmark used to compare the performance of each fund. The trustees further considered the level of fund performance in the context of its review of fund expenses and adviser profitability discussed below. Following such evaluation the Board con-

cluded, within the context of its full deliberations, that the performance of the funds supported 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 historical practice of voluntarily waiving 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 different legal, regulatory, compliance and operating features of mutual funds as compared to these other types of accounts. The Board also considered recent actions by CSIM to adjust fund investor eligibility criteria that would result in more shareholders investing in funds (and share classes within funds) that have lower net operating expenses and that are designed to 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. Following such evaluation and based upon CSIM's agreement to implement proposals related to fund investor eligibility, the Board concluded, within the context of its full deliberations, that the expenses of the funds are reasonable and supported 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. The Board also considered information relating to changes to CSIM's cost structure, including cost savings, technology investments and increased operating efficiencies and how these changes affected CSIM's profitability under the Agreement. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the profitability of CSIM is reasonable and supported 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 that include lower fees at higher graduated asset levels. The Board also considered certain commitments by CSIM and

Schwab that are designed to pass along potential economies of scale to fund shareholders. Specifically, the Board considered CSIM and Schwab's commitments, which may be changed only with Board approval: (i) to reduce contractual advisory fees or add breakpoints for certain funds, (ii) to implement, by means of expense limitation agreement, over the next several years additional reductions in net overall expenses for certain funds, (iii) to reduce administrative "sweep" fees paid to Schwab in connection with money market fund shares that are used for automatic investment of cash held in customer brokerage accounts, and (iv) to implement future net total operating expense reductions for taxable money funds as a group and non-taxable money funds as a group when aggregate assets of such group of funds exceed certain levels. Based on this evaluation, and in consideration of the commitments made by CSIM and Schwab as discussed above, 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 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

The tables below give information about the trustees and officers for The Charles Schwab Family of Funds, which includes the fund covered in this report. The “Fund Complex” includes The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust, Schwab Annuity Portfolios, Laudus Trust, Laudus Variable Insurance Trust, Excelsior Funds, Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust. As of June 30, 2006, the Fund Complex included 98 funds.

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, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served')	Principal Occupations During the Past Five Years	Number of Portfolios in Fund Complex Overseen by the Trustee	Other Directorships
<b>Mariann Byerwalter</b> 1960 Trustee (Trustee of The Charles Schwab Family of Funds since 2000.)	Chairman of JDN Corporate Advisory LLC. <i>From 1996 to 2001</i> , Vice President for Business Affairs and Chief Financial Officer of Stanford University, and <i>in 2001</i> , Special Advisor to the President of Stanford University.	98	<i>Board 1</i> —Director, Redwood Trust, Inc. <i>Board 2</i> —Director, PMI Group, Inc.
<b>Donald F. Dorward</b> 1931 Trustee (Trustee of The Charles Schwab Family of Funds since 1989.)	Chief Executive Officer, Dorward & Associates (corporate management, marketing and communications consulting firm). <i>From 1996-1999</i> , Executive Vice President and Managing Director, Grey Advertising. <i>Prior to 1996</i> , President and Chief Executive Officer, Allen & Dorward Advertising.	57	None.
<b>William A. Hasler</b> 1941 Trustee (Trustee of The Charles Schwab Family of Funds since 2000.)	Retired. Dean Emeritus, Haas School of Business, University of California, Berkeley. <i>Until February 2004</i> , Co-Chief Executive Officer, Apton Corp. (bio-pharmaceuticals). <i>Prior to August 1998</i> , Dean of the Haas School of Business, University of California, Berkeley (higher education).	98	<i>Board 1</i> —Director, Apton Corp. <i>Board 2</i> —Director, Mission West Properties <i>Board 3</i> —Director, TOUSA <i>Board 4</i> —Director, Stratex Networks <i>Board 5</i> —Director, Genitope Corp. <i>Board 6</i> —Director & Non-Executive Chairman, Solelectron Corp. <i>Board 7</i> —Director, Ditech Communications Corp.

# **Independent Trustees** continued

Name, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served <sup>1</sup> )	Principal Occupations During the Past Five Years	Number of Portfolios in Fund Complex Overseen by the Trustee	Other Directorships
<b>Robert G. Holmes</b> 1931 Trustee (Trustee of The Charles Schwab Family of Funds since 1989.)	Chairman, Chief Executive Officer and Director, Semloh Financial, Inc. (international financial services and investment advisory firm).	57	None.
<b>Gerald B. Smith</b> 1950 Trustee (Trustee of The Charles Schwab Family of Funds since 2000.)	Chairman and Chief Executive Officer and founder of Smith Graham & Co. (investment advisors).	57	<i>Board 1</i> —Board of Cooper Industries <i>Board 2</i> —Chairman of the Audit Committee of Northern Border Partners, M.L.P.
<b>Donald R. Stephens</b> 1938 Trustee (Trustee of The Charles Schwab Family of Funds since 1989.)	Managing Partner, D.R. Stephens & Company (investments). Prior to 1996, Chairman and Chief Executive Officer of North American Trust (real estate investment trust).	57	None.
<b>Michael W. Wilsey</b> 1943 Trustee (Trustee of The Charles Schwab Family of Funds since 1989.)	Chairman and Chief Executive Officer, Wilsey Bennett, Inc. (real estate investment and management, and other investments).	57	None.

## Interested Trustees

Name, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served <sup>1</sup> )	Principal Occupations During the Past Five Years	Number of Portfolios in Fund Complex Overseen by the Trustee	Other Directorships
<b>Charles R. Schwab<sup>2</sup></b> 1937 Chairman and Trustee (Chairman and Trustee of The Charles Schwab Family of Funds since 1989.)	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 May 2003</i> , Co-Chief Executive Officer, The Charles Schwab Corporation.	57	None.
<b>Randall W. Merk<sup>2</sup></b> 1954 Trustee (Trustee of The Charles Schwab Family of Funds since 2005.)	Executive Vice President and President, Schwab Financial Products, Charles Schwab & Co., Inc.; Director, Charles Schwab Asset Management (Ireland) Limited and Charles Schwab Worldwide Funds PLC. <i>From September 2002 to July 2004</i> , Chief Executive Officer and President, Charles Schwab Investment Management, Inc. and Executive Vice President, Charles Schwab & Co., Inc. <i>Prior to September 2002</i> , President and Chief Investment Officer, American Century Investment Management, and Director, American Century Companies, Inc.	98	None.

## Officers of the Trust

**Name, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served<sup>3</sup>)**

**Principal Occupations During the Past Five Years**

<b>Evelyn Dilsaver</b> 1955 President and Chief Executive Officer (Officer of The Charles Schwab Family of Funds since 2004.)	President, Chief Executive Officer, and Director, Charles Schwab Investment Management, Inc.; Executive Vice President, Charles Schwab & Co., Inc.; President and Chief Executive Officer, Laudus Trust and Laudus Variable Insurance Trust; President, Excelsior Funds Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust; President, Mutual Fund Division, UST Advisers, Inc. <i>From June 2003 to July 2004</i> , Senior Vice President, Asset Management Products and Services, Charles Schwab & Co., Inc. <i>Prior to June 2003</i> , Executive Vice President, Chief Financial Officer, and Chief Administrative Officer, U.S. Trust, a subsidiary of The Charles Schwab Corporation.
<b>Stephen B. Ward</b> 1955 Senior Vice President and Chief Investment Officer (Officer of The Charles Schwab Family of Funds since 1991.)	Director, Senior Vice President and Chief Investment Officer, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Company.
<b>George Pereira</b> 1964 Treasurer and Principal Financial Officer (Officer of The Charles Schwab Family of Funds since 2004.)	Senior Vice President and Chief Financial Officer, Charles Schwab Investment Management, Inc.; Chief Financial Officer, Laudus Trust and Laudus Variable Insurance Trust; Chief Financial Officer and Chief Accounting Officer, Excelsior Funds Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust; Chief Financial Officer, Mutual Fund Division, UST Advisors, Inc. Director, Charles Schwab Worldwide Fund, PLC and Charles Schwab Asset Management (Ireland) Limited. <i>From December 1999 to November 2004</i> , Sr. Vice President, Financial Reporting, Charles Schwab & Co., Inc.
<b>Kimon Daifotis</b> 1959 Senior Vice President and Chief Investment Officer—Fixed Income (Officer of The Charles Schwab Family of Funds since 2004.)	Senior Vice President and Chief Investment Officer—Fixed Income, Charles Schwab Investment Management, Inc. <i>Prior to 2004</i> , Vice President and Sr. Portfolio Manager, Charles Schwab Investment Management, Inc.
<b>Jeffrey Mortimer</b> 1963 Senior Vice President and Chief Investment Officer—Equities (Officer of The Charles Schwab Family of Funds since 2004.)	Senior Vice President and Chief Investment Officer—Equities, Charles Schwab Investment Management, Inc.; Vice President and Chief Investment Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Prior to 2004</i> , Vice President and Sr. Portfolio Manager, Charles Schwab Investment Management, Inc.

## Officers of the Trust continued

Name, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served <sup>3</sup> )	Principal Occupations During the Past Five Years
<b>Randall Fillmore</b> 1960 Chief Compliance Officer and AML Officer (Officer of The Charles Schwab Family of Funds since 2002.)	Senior Vice President and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Senior Vice President Charles Schwab & Co., Inc.; Chief Compliance Officer, Laudus Trust and Laudus Variable Insurance Trust; Chief Compliance Officer, Excelsior Funds Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust. <i>From 2002 to 2003</i> , Vice President, Charles Schwab & Co., Inc., and Charles Schwab Investment Management, Inc. <i>From 2000 to 2002</i> , Vice President, Internal Audit, Charles Schwab & Co., Inc.
<b>Koji E. Felton</b> 1961 Secretary and Chief Legal Officer (Officer of The Charles Schwab Family of Funds since 1998.)	Senior Vice President, Chief Counsel and Corporate Secretary, Charles Schwab Investment Management, Inc.; Senior Vice President and Deputy General Counsel, Charles Schwab & Co., Inc.; Chief Legal Officer, Laudus Trust and Laudus Variable Insurance Trust; Chief Legal Officer, Excelsior Funds Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust. <i>Prior to June 1998</i> , Branch Chief in Enforcement at U.S. Securities and Exchange Commission in San Francisco.

<sup>1</sup> Trustees remain in office until they resign, retire or are removed by shareholder vote. 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> In addition to their employment with the investment adviser and the distributor, Messrs. Schwab and Merk also own stock of The Charles Schwab Corporation. Mr. Schwab and Mr. Merk are Interested Trustees because they are employees of Schwab and/or the adviser.

<sup>3</sup> The President, Treasurer and Secretary hold office until their respective successors are chosen and qualified or until he or she sooner dies, resigns, is removed or becomes disqualified. Each other officer serves at the pleasure of the Board.



# 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.

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 [www.sec.gov](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 [www.sec.gov](http://www.sec.gov).

<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.

## The Schwab Funds Family®

### Stock Funds

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™  
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®

### Asset Allocation Funds

Schwab Viewpoints Fund™  
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 Inflation Protected 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>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.

*charles* SCHWAB

**Investment Adviser**

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

**Funds**

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

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# Schwab Cash Reserves

**Semiannual Report**

June 30, 2006

*charles* SCHWAB

## In This Report

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Fund investment adviser: Charles Schwab Investment Management, Inc. (CSIM).  
Distributor and transfer agent: Charles Schwab & Co., Inc. (Schwab).

## From the Chairman



Charles Schwab  
Chairman

Dear Shareholder,

I have always believed that money funds are a great way to invest cash between long-term investments. And while no investment is risk free, money funds can also be good choices for investors who want to mitigate the potential fluctuations that may occur in their mostly stock portfolios.

As a result of the Federal Reserve having raised short-term interest rates eight times in the past 12 months (four of which occurred during the six-month period covered in this report), yields on money funds are more attractive than they have been in several years. With their relatively short weighted average maturity (WAM), money funds are typically positioned to capture a rise in market rates more quickly than those fixed income funds with longer maturities.

Here at Schwab, we offer a range of money funds with distinct investment strategies. Our municipal money funds, for example, may be beneficial for those of you in high tax brackets. We also offer money funds for those interested in the added protection provided by a portfolio of U.S. government securities.

In closing, I would like to emphasize that we at Schwab strive every day to warrant the trust you have placed in us. My colleagues and I continue to see opportunities ahead, and we are committed to helping you maximize them.

Thank you for investing with us.

Sincerely,

A handwritten signature in cursive script that reads "Charles Schwab".

*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.*

# Management's Discussion for the six months ended June 30, 2006



**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 semiannual report for your Schwab money fund for the six-month period ended June 30, 2006. Although the report period was marked by volatility, our money funds performed as designed, providing you with current income, stability of capital and convenient access to your money.

I'd like to take this opportunity to remind you that Schwab offers a range of money funds, including our purchased money funds, Schwab Value Advantage Investments®. These funds are designed for investors who have larger balances and don't require frequent access to their cash. They require a minimum initial investment of \$25,000 (\$15,000 for IRA and custodial accounts) and include various taxable and tax-free investment strategies.

Further down the maturity spectrum, our ultrashort bond fund, Schwab YieldPlus,™ offers higher yield potential with higher risk than a money fund. Because taxes are always a concern, Schwab also offers two Schwab Tax-Free YieldPlus Funds that can help you manage tax impact and your exposure to the alternative minimum tax (AMT).

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,

*Evelyn Dilsaver*

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

*Please remember that with Schwab YieldPlus and Tax-Free YieldPlus Funds, investment value will fluctuate, and shares, when redeemed, may be worth more or less than original cost. Bond funds are subject to increased loss of principal during periods of rising interest rates.*





**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

After a volatile six months in the domestic markets, equity and fixed income funds ended the period with mixed returns. Several key issues dominated market discussions throughout the period, including slowing economic growth, inflation fears, U.S. Federal Reserve (the Fed) interest rate increases, and volatile crude oil prices.

The markets remained in a steady growth mode over the first quarter of 2006 and ended the period on a positive note. Volatility was up during the second quarter of the year, but remained lower than its historical norm. During the six-month report period, oil prices hit new record highs and the Fed continued to raise short-term interest rates to curb inflationary pressures, boosting its Fed Funds target rate four consecutive times during the six-month period and bringing the benchmark rate up to 5.25%. This was the 17th rate hike over the past two years.

Rising sharply in the second half of the report period, crude oil prices peaked in April at around \$75 per barrel while domestic gasoline prices were above \$3 a gallon. In recent months, crude oil prices climbed back in response to declining crude inventories and geopolitical concerns. Despite the volatility in energy prices, gains in productivity have remained strong and corporate earnings continue to rise. Reasonable valuations, a solid earnings season, and expectations that monetary policy tightening will soon come to an end, helped support the markets. Additionally, job and income growth remained positive, though they slowed during the report period. Moderate inflationary expectations and large foreign capital inflows helped to contain increases in long-term interest rates.

As noted above, the Fed continued its tightening cycle throughout the period, raising its Fed Funds target 0.25% at each of its four meetings. At the end of the six-month report period, the benchmark rate was up to 5.25%. As the Fed raised rates, the yield curve flattened and had brief periods of inversion. Historically, economic slowdowns or recessions have followed the inversion of the yield curve. Nonetheless, higher short-term rates succeeded in moving money fund yields higher, making them a more attractive investment vehicle. Following a strong start to 2006, economic growth has moderated over the past six months.

## Management's Discussion continued

Rising interest rates have led to volatility in the equities markets and have weighed down bond returns. Meanwhile, money market funds enticed investors as the rise in short-term interest rates offered yields that have not been seen in years. The mixed messages that arose from the slowing economy and rising inflation have left investors puzzled about the direction of the Fed policy. The June 29 Federal Open Market Committee (FOMC) policy statement did little to alleviate uncertainty, as the Fed acknowledged slower growth while expressing concern about inflation risks.

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 holdings of variable rate securities. The interest rates on these types of securities reset frequently, allowing us the opportunity to capture a rise in market rates. In addition, we also purchased securities with longer maturities in order to add yield to the portfolio.

To further take advantage of the rising-rate environment, we maintained our weighted average maturity (WAM) in the mid to high 40-day range over the course of the reporting period. Keeping the WAM in this range provided the 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 6/30/06 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.

<b>Seven-Day Yield<sup>1</sup></b>	4.51%
<b>Seven-Day Yield-No Waiver<sup>2</sup></b>	4.40%
<b>Seven-Day Effective Yield<sup>1</sup></b>	4.61%

**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).

<b>Weighted Average Maturity</b>	47 days
<b>Credit Quality of Holdings</b> % 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 January 1, 2006 and held through June 30, 2006.

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

**Hypothetical Return** lines in the table below provide information

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

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

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

	Expense Ratio <sup>1</sup> (Annualized)	Beginning Account Value at 1/1/06	Ending Account Value (Net of Expenses) at 6/30/06	Expenses Paid During Period <sup>2</sup> 1/1/06–6/30/06
<b>Schwab Cash Reserves</b>				
Actual Return	0.69%	\$1,000	\$1,020.59	\$3.46
Hypothetical 5% Return	0.69%	\$1,000	\$1,021.37	\$3.46

<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 181 days of the period, and divided by 365 days of the fiscal year.

# Financial Statements

## Financial Highlights

	1/1/06– 6/30/06*	1/1/05– 12/31/05	8/12/04¹– 12/31/04
<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	0.03	0.00²
Less distributions:			
Dividends from net investment income	(0.02)	(0.03)	(0.00)²
Net asset value at end of period	1.00	1.00	1.00
Total return (%)	2.06³	2.65	0.46³
<b>Ratios/Supplemental Data (%)</b>			
Ratios to average net assets:			
Net operating expenses	0.69⁴	0.69	0.69⁴
Gross operating expenses	0.81⁴	0.92	1.05⁴
Net investment income	4.34⁴	2.90	1.24⁴
Net assets, end of period (\$ x 1,000,000)	13,398	822	140

\* Unaudited.

¹ Commencement of operations.

² Per share amount was less than \$0.01.

³ Not annualized.

⁴ Annualized.

## Schwab Cash Reserves

### Portfolio Holdings as of June 30, 2006 (Unaudited)

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

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be viewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on a fund's most recent Form N-Q is also 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 and the maturity date shown is the next interest rate change date.

Holdings by Category	Cost (\$ x 1,000)	Value (\$ x 1,000)
<b>80.4% Fixed-Rate Obligations</b>	10,780,890	10,780,890
<b>8.4% Variable-Rate Obligations</b>	1,116,990	1,116,990
<b>10.8% Other Investments</b>	1,440,403	1,440,403
<b>99.6% Total Investments</b>	<b>13,338,283</b>	<b>13,338,283</b>
<b>0.4% Other Assets and Liabilities</b>		59,552
<b>100.0% Net Assets</b>		<b>13,397,835</b>

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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### Fixed-Rate Obligations 80.4% of net assets

#### Bank Notes 2.7%

<b>Bank of America, N.A.</b>		
4.97%, 07/11/06	90,000	90,000
5.09%, 07/21/06	10,000	10,000
5.10%, 07/25/06	60,000	60,000
5.08%, 08/04/06	80,000	80,000
5.11%, 08/14/06	5,000	5,000
5.09%, 08/23/06	100,000	100,000
5.28%, 09/13/06	17,000	17,000
		<b>362,000</b>

#### Certificates of Deposit 22.8%

<b>Banca Intesa</b>		
5.40%, 08/29/06	75,000	75,000
5.49%, 09/29/06	59,000	59,001
<b>Banco Bilbao Vizcaya Argentaria S.A.</b>		
4.96%, 07/11/06	45,000	45,000
<b>Bank of Tokyo - Mitsubishi UFJ, Ltd.</b>		
5.16%, 08/01/06	126,000	126,000
<b>Barclays Bank PLC</b>		
5.03%, 07/18/06	70,000	70,000
5.09%, 07/21/06	30,000	30,000
5.12%, 07/25/06	25,000	25,000
5.12%, 08/09/06	158,000	158,000
<b>Bayerische Hypo- und Vereinsbank AG</b>		
5.08%, 07/12/06	30,000	30,000
<b>BNP Paribas</b>		
5.17%, 08/25/06	65,000	65,000
5.09%, 10/03/06	9,000	9,000
5.15%, 10/16/06	138,000	138,000
<b>Calyon</b>		
4.83%, 08/10/06	12,000	12,000
<b>Citibank, N.A.</b>		
5.12%, 08/10/06	150,000	150,000
5.13%, 08/11/06	53,000	53,000
5.13%, 08/17/06	25,000	25,000
5.17%, 08/24/06	16,000	16,000
5.20%, 08/31/06	5,000	5,000
5.23%, 09/05/06	47,000	47,000
5.37%, 09/18/06	15,000	15,000

## Schwab Cash Reserves

### Portfolio Holdings (Unaudited) 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)
5.40%, 09/20/06	24,000	24,000	<b>Sumitomo Mitsui Banking Corp.</b>		
<b>Credit Agricole S.A.</b>			5.10%, 07/06/06	25,000	25,000
4.63%, 07/05/06	7,000	7,000	5.33%, 07/27/06	19,000	19,000
<b>Credit Suisse</b>			5.31%, 07/28/06	43,000	43,000
4.66%, 07/03/06	3,000	3,000	5.34%, 08/01/06	22,000	22,000
4.96%, 07/05/06	40,000	40,000	<b>Sumitomo Trust &amp; Banking Co.</b>		
5.01%, 07/14/06	50,000	50,000	5.02%, 09/11/06	12,000	12,000
5.04%, 07/24/06	22,000	22,000	5.18%, 10/25/06	24,000	24,000
5.39%, 08/31/06	90,000	90,000	5.24%, 11/06/06	58,000	58,000
5.50%, 12/18/06	65,000	65,000	5.35%, 12/05/06	8,000	8,000
<b>DePfa Bank, PLC</b>			<b>Toronto-Dominion Bank</b>		
4.80%, 08/02/06	5,000	5,000	4.97%, 07/10/06	35,000	35,000
<b>Deutsche Bank, AG</b>			5.16%, 09/05/06	46,000	46,000
4.62%, 10/26/06	2,000	2,000	5.16%, 10/13/06	25,000	25,000
5.22%, 10/26/06	95,000	95,000	5.34%, 12/01/06	41,000	41,000
4.85%, 01/26/07	6,000	6,000	<b>Unicredito Italiano SpA</b>		
5.01%, 02/09/07	2,000	2,000	5.16%, 08/10/06	10,000	9,999
5.25%, 03/20/07	15,000	14,981	5.18%, 08/24/06	50,000	50,000
<b>First Tennessee Bank, N.A.</b>			5.24%, 09/08/06	69,000	69,000
5.18%, 08/28/06	22,000	22,000	5.23%, 11/17/06	40,000	40,000
<b>HBOS Treasury Services, PLC</b>			5.48%, 12/19/06	16,000	16,000
4.96%, 07/11/06 (a)	25,000	25,000	5.53%, 12/27/06	40,000	40,000
<b>HSH Nordbank, AG</b>			<b>US Bank, N.A.</b>		
5.27%, 09/13/06	2,000	2,000	4.94%, 07/07/06	33,000	33,000
<b>ING Bank, N.V.</b>			5.18%, 08/28/06	55,000	55,000
5.08%, 07/27/06	143,000	143,000	<b>Washington Mutual Bank</b>		
<b>Landesbank Baden-Wuerttemberg</b>			5.08%, 07/07/06	20,000	20,000
5.49%, 12/20/06	133,000	133,000	5.09%, 07/07/06	20,000	20,000
<b>Mitsubishi UFJ Trust &amp; Banking Corp.</b>			5.35%, 12/04/06	34,000	33,991
4.97%, 07/05/06	15,000	15,000	5.37%, 12/04/06	25,000	24,992
5.29%, 11/27/06	2,000	2,000	<b>Wells Fargo Bank, N.A.</b>		
5.36%, 12/11/06	50,000	50,000	5.19%, 07/31/06	154,000	154,000
5.50%, 12/19/06	35,000	35,000	<b>Wilmington Trust Co.</b>		
5.57%, 12/27/06	32,000	32,000	4.92%, 08/03/06	2,000	2,000
<b>Mizuho Corp. Bank Ltd.</b>			4.81%, 08/07/06	3,000	3,000
4.98%, 07/07/06	21,000	21,000			<b>3,199,964</b>
5.05%, 07/17/06	25,000	25,000	<b>Commercial Paper &amp; Other Corporate Obligations 54.9%</b>		
5.14%, 08/08/06	72,000	72,000	<b>AB Spintab</b>		
5.17%, 08/08/06	10,000	10,000	4.98%, 07/06/06	2,300	2,298
<b>San Paolo IMI SpA</b>			5.11%, 08/04/06	1,000	995
5.09%, 08/25/06	89,000	89,000	5.18%, 08/30/06	73,000	72,378
5.07%, 09/29/06	11,000	11,000	5.48%, 09/27/06	5,000	4,934
<b>Societe Generale</b>					
4.63%, 07/11/06	5,000	5,000			

See financial notes. 9

## Schwab Cash Reserves

### Portfolio Holdings (Unaudited) 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>Alliance &amp; Leicester, PLC</b>			5.40%, 09/08/06 (a)(b)(c)	30,000	29,694
4.97%, 07/05/06 (c)	9,000	8,995	<b>Atlantic Asset Securitization, L.L.C.</b>		
4.99%, 07/13/06 (c)	1,000	998	5.08%, 07/10/06 (a)(b)(c)	26,000	25,967
4.80%, 07/20/06 (c)	4,000	3,990	5.12%, 08/07/06 (a)(b)(c)	40,522	40,312
5.11%, 08/03/06 (c)	65,000	64,700	5.29%, 09/11/06 (a)(b)(c)	21,000	20,781
5.20%, 09/01/06 (c)	5,000	4,956	5.33%, 09/12/06 (a)(b)(c)	16,000	15,830
4.99%, 09/06/06 (c)	2,000	1,982	<b>Atlantis One Funding Corp.</b>		
5.38%, 09/15/06 (c)	2,000	1,978	4.95%, 07/05/06 (b)(c)	6,000	5,997
5.31%, 10/25/06 (c)	4,000	3,933	5.03%, 07/19/06 (b)(c)	26,000	25,935
<b>Amstel Funding Corp.</b>			5.10%, 07/21/06 (b)(c)	24,000	23,933
5.00%, 07/10/06 (b)(c)	10,000	9,988	4.81%, 08/07/06 (b)(c)	2,000	1,990
5.00%, 07/11/06 (b)(c)	6,750	6,741	5.12%, 08/07/06 (b)(c)	49,000	48,746
5.09%, 07/17/06 (b)(c)	20,000	19,955	5.19%, 08/28/06 (b)(c)	13,000	12,893
5.10%, 07/19/06 (b)(c)	25,000	24,937	5.26%, 09/07/06 (b)(c)	3,000	2,971
5.09%, 07/26/06 (b)(c)	36,059	35,933	5.00%, 09/20/06 (b)(c)	15,000	14,835
5.19%, 08/28/06 (b)(c)	13,800	13,686	5.16%, 10/12/06 (b)(c)	64,355	63,429
5.19%, 08/29/06 (b)(c)	6,672	6,616	5.21%, 10/27/06 (b)(c)	91,000	89,488
5.48%, 09/26/06 (b)(c)	15,000	14,804	5.50%, 12/18/06 (b)(c)	15,000	14,621
5.45%, 09/27/06 (b)(c)	2,035	2,008	5.51%, 12/20/06 (b)(c)	30,000	29,232
<b>Amsterdam Funding Corp.</b>			<b>Bank of America Corp.</b>		
5.28%, 07/20/06 (a)(b)(c)	20,000	19,945	4.84%, 07/17/06	2,000	1,996
5.18%, 07/25/06 (a)(b)(c)	15,120	15,068	5.15%, 08/22/06	180,000	178,681
5.17%, 08/02/06 (a)(b)(c)	40,000	39,818	5.17%, 08/24/06	12,000	11,908
<b>Anglo Irish Bank Corp., PLC</b>			5.20%, 09/01/06	14,000	13,876
5.14%, 07/28/06 (c)	15,000	14,943	5.27%, 09/08/06	40,000	39,601
<b>ANZ (Delaware), Inc.</b>			5.43%, 09/25/06	20,000	19,744
5.23%, 10/19/06 (a)	23,000	22,642	5.50%, 12/18/06	18,000	17,546
<b>ANZ National (Int) Ltd.</b>			<b>Bank of Ireland</b>		
5.53%, 12/21/06 (a)	37,000	36,044	4.86%, 08/09/06 (c)	3,000	2,985
<b>Aquinas Funding, L.L.C.</b>			<b>Barclays US Funding Corp.</b>		
5.01%, 07/13/06 (a)(b)(c)	18,000	17,970	4.96%, 07/10/06 (a)	15,000	14,982
5.32%, 07/28/06 (a)(b)(c)	13,000	12,948	5.03%, 07/19/06 (a)	2,000	1,995
5.09%, 08/01/06 (a)(b)(c)	20,000	19,914	5.18%, 08/23/06 (a)	13,000	12,902
5.10%, 08/01/06 (a)(b)(c)	3,000	2,987	<b>Bear Stearns Companies, Inc.</b>		
5.19%, 08/28/06 (a)(b)(c)	3,000	2,975	4.96%, 07/05/06	15,000	14,992
5.19%, 08/29/06 (a)(b)(c)	1,000	992	5.09%, 08/21/06	40,000	39,717
5.53%, 12/20/06 (a)(b)(c)	3,000	2,923	5.39%, 08/28/06	68,000	67,415
<b>ASAP Funding Ltd.</b>			5.02%, 09/13/06	13,000	12,869
4.98%, 07/05/06 (a)(b)(c)	10,000	9,995	5.00%, 09/14/06	5,000	4,949
5.01%, 07/06/06 (a)(b)(c)	18,000	17,988	5.33%, 12/04/06	12,000	11,730
5.06%, 07/14/06 (a)(b)(c)	7,000	6,987	<b>Beta Finance, Inc.</b>		
5.13%, 08/01/06 (a)(b)(c)	5,000	4,978	4.95%, 07/05/06 (b)(c)	1,000	999
5.12%, 08/02/06 (a)(b)(c)	3,000	2,987	4.96%, 07/06/06 (b)(c)	8,000	7,995
5.33%, 09/06/06 (a)(b)(c)	11,000	10,892			



## Schwab Cash Reserves

### Portfolio Holdings (Unaudited) 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)
5.04%, 07/20/06 (b)(c)	9,000	8,976	5.18%, 08/24/06 (a)(b)(c)	42,000	41,678
5.05%, 07/24/06 (b)(c)	13,000	12,959	<b>Crown Point Capital Co., L.L.C.</b>		
<b>Blue Spice, L.L.C.</b>			5.00%, 07/11/06 (a)(b)(c)	1,000	999
5.23%, 09/05/06 (a)(b)(c)(d)	38,000	37,641	5.04%, 07/19/06 (a)(b)(c)	71,000	70,823
<b>Calyon North America, Inc.</b>			5.06%, 07/19/06 (a)(b)(c)	1,000	998
5.30%, 11/07/06 (a)	77,000	75,571	5.04%, 07/20/06 (a)(b)(c)	35,369	35,276
<b>Cancara Asset Securitization, L.L.C.</b>			5.43%, 09/22/06 (a)(b)(c)	49,000	48,394
5.08%, 07/05/06 (a)(b)(c)	51,350	51,321	5.20%, 10/20/06 (a)(b)(c)	60,000	59,062
5.08%, 07/06/06 (a)(b)(c)	30,000	29,979	5.30%, 10/20/06 (a)(b)(c)	1,000	984
5.29%, 07/24/06 (a)(b)(c)	10,063	10,029	<b>Dakota CP Notes of Citibank</b>		
5.20%, 09/01/06 (a)(b)(c)	22,295	22,098	<b>Credit Card Issuance Trust</b>		
<b>CBA (Delaware) Finance, Inc.</b>			4.96%, 07/06/06 (b)(c)	10,000	9,993
4.97%, 08/02/06 (a)	7,993	7,958	4.96%, 07/07/06 (b)(c)	35,000	34,971
4.98%, 08/31/06 (a)	12,000	11,901	5.09%, 07/07/06 (b)(c)	9,000	8,992
<b>CC (USA), Inc.</b>			5.08%, 07/24/06 (b)(c)	100,000	99,679
4.94%, 07/03/06 (b)(c)	3,000	2,999	5.32%, 07/27/06 (b)(c)	6,000	5,977
4.97%, 07/07/06 (b)(c)	22,000	21,982	5.24%, 09/07/06 (b)(c)	19,000	18,814
5.01%, 07/12/06 (b)(c)	29,000	28,956	5.30%, 09/14/06 (b)(c)	7,000	6,924
5.04%, 07/21/06 (b)(c)	10,000	9,972	5.31%, 09/14/06 (b)(c)	22,000	21,760
4.88%, 08/15/06 (b)(c)	3,500	3,479	5.41%, 09/21/06 (b)(c)	64,000	63,223
5.19%, 08/29/06 (b)(c)	7,000	6,941	<b>Danske Corp.</b>		
5.30%, 09/15/06 (b)(c)	8,000	7,912	4.97%, 07/13/06 (a)(c)	20,000	19,967
<b>Chariot Funding, L.L.C.</b>			5.18%, 08/24/06 (a)(c)	2,150	2,134
5.09%, 07/07/06 (a)(b)(c)	4,525	4,521	5.00%, 09/25/06 (a)(c)	3,000	2,965
<b>Citigroup Funding, Inc.</b>			5.23%, 10/23/06 (a)(c)	57,000	56,079
4.97%, 07/06/06 (a)	58,000	57,960	5.50%, 12/21/06 (a)(c)	105,000	102,301
5.03%, 07/13/06 (a)	36,000	35,940	<b>Depfa Bank, PLC</b>		
5.03%, 07/14/06 (a)	69,000	68,876	5.03%, 07/13/06 (c)	14,000	13,977
5.12%, 07/26/06 (a)	21,000	20,926	<b>Deutsche Bank Financial, L.L.C.</b>		
5.11%, 08/03/06 (a)	156,000	155,279	4.95%, 11/10/06 (a)	11,000	10,808
5.09%, 08/21/06 (a)	39,000	38,724	<b>Dexia Delaware, L.L.C.</b>		
5.03%, 09/21/06 (a)	7,000	6,922	5.31%, 08/04/06 (a)	30,000	29,850
<b>Clipper Receivables Co., L.L.C.</b>			<b>DnB NOR Bank ASA</b>		
5.25%, 07/18/06 (a)(b)(c)	46,500	46,385	4.96%, 07/05/06	22,000	21,988
5.03%, 07/20/06 (a)(b)(c)	85,000	84,777	5.04%, 07/19/06	39,000	38,903
<b>Concord Minutemen Capital Co., Series A</b>			5.08%, 08/18/06	1,000	993
5.09%, 07/07/06 (a)(b)(c)	6,000	5,995	5.25%, 11/01/06	39,000	38,320
5.00%, 07/10/06 (a)(b)(c)	7,275	7,266	5.22%, 11/06/06	25,000	24,548
5.09%, 07/10/06 (a)(b)(c)	40,000	39,950	5.27%, 11/27/06	10,000	9,788
4.94%, 07/11/06 (a)(b)(c)	7,650	7,640	<b>Dorada Finance, Inc.</b>		
5.10%, 07/21/06 (a)(b)(c)	8,000	7,978	4.97%, 07/06/06 (b)(c)	5,000	4,997
			5.09%, 07/31/06 (b)(c)	38,000	37,841
			5.26%, 09/11/06 (b)(c)	6,000	5,938
			<b>Dresdner U.S. Finance, Inc.</b>		
			5.10%, 07/10/06 (a)	48,000	47,939

See financial notes. 11

## Schwab Cash Reserves

### Portfolio Holdings (Unaudited) 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>Edison Asset Securitization Corp., L.L.C.</b>			<b>HBOS Treasury Services, PLC</b>		
5.10%, 07/25/06 (a)(b)(c)	32,000	31,892	5.03%, 07/18/06 (a)	37,000	36,913
5.33%, 11/28/06 (a)(b)(c)	38,000	37,177	5.03%, 07/18/06 (a)	9,000	8,979
5.34%, 11/28/06 (a)(b)(c)	31,209	30,533	5.08%, 08/02/06 (a)	16,000	15,929
<b>Fairway Finance Co., L.L.C.</b>			5.11%, 08/07/06 (a)	34,000	33,824
5.03%, 07/17/06 (a)(b)(c)	40,000	39,912	5.11%, 08/08/06 (a)	1,000	995
<b>Falcon Asset Securitization Corp.</b>			5.19%, 08/29/06 (a)	13,000	12,891
5.25%, 07/21/06 (a)(b)(c)	47,000	46,863	<b>HSH Nordbanken AG</b>		
<b>Five Finance, Inc.</b>			5.06%, 07/26/06	21,000	20,927
4.99%, 07/10/06 (b)(c)	7,000	6,991	5.45%, 09/29/06	16,000	15,785
5.02%, 07/14/06 (b)(c)	12,000	11,979	<b>Irish Life &amp; Permanent, PLC</b>		
5.09%, 07/28/06 (b)(c)	17,000	16,936	5.05%, 07/26/06 (c)	10,700	10,663
<b>ForeningsSparbanken AB (Swedbank)</b>			5.06%, 07/26/06 (c)	4,000	3,986
4.89%, 08/14/06	2,500	2,485	5.08%, 07/26/06 (c)	14,000	13,951
4.98%, 08/24/06	6,000	5,956	5.10%, 07/26/06 (c)	9,000	8,969
<b>Fortis Banque Luxembourg</b>			4.77%, 07/28/06 (c)	3,000	2,990
4.95%, 07/05/06	3,000	2,998	5.36%, 12/08/06 (c)	8,000	7,814
4.97%, 07/12/06	3,000	2,996	5.53%, 12/14/06 (c)	10,000	9,752
<b>Galaxy Funding, Inc.</b>			<b>IXIS Commercial Paper Corp.</b>		
5.10%, 07/21/06 (b)(c)	15,000	14,958	4.99%, 07/21/06 (a)(c)	2,000	1,995
5.06%, 07/26/06 (b)(c)	36,000	35,875	5.08%, 08/16/06 (a)(c)	2,475	2,459
5.39%, 08/24/06 (b)(c)	36,000	35,712	5.02%, 10/03/06 (a)(c)	7,000	6,911
<b>General Electric Capital Corp.</b>			<b>Jupiter Securitization Corp.</b>		
5.26%, 07/03/06	150,000	149,956	5.08%, 07/06/06 (a)(b)(c)	76,446	76,392
4.98%, 07/12/06	85,000	84,872	5.21%, 07/31/06 (a)(b)(c)	55,000	54,763
4.99%, 07/12/06	1,000	999	<b>K2 (USA), L.L.C.</b>		
5.00%, 07/17/06	110,000	109,759	4.96%, 07/05/06 (b)(c)	10,000	9,995
5.10%, 07/21/06	28,000	27,921	4.98%, 07/06/06 (b)(c)	1,000	999
4.65%, 08/02/06	2,000	1,992	5.06%, 07/25/06 (b)(c)	5,000	4,983
4.62%, 08/21/06	2,000	1,987	4.81%, 08/04/06 (b)(c)	1,000	996
5.26%, 09/07/06	105,000	103,971	5.19%, 08/25/06 (b)(c)	1,500	1,488
5.22%, 11/06/06	13,000	12,765	5.27%, 09/07/06 (b)(c)	2,000	1,980
<b>Grampian Funding, L.L.C.</b>			5.27%, 09/11/06 (b)(c)	17,000	16,823
5.10%, 08/04/06 (a)(b)(c)	15,000	14,929	5.01%, 09/12/06 (b)(c)	2,500	2,475
5.11%, 08/07/06 (a)(b)(c)	1,000	995	5.02%, 09/12/06 (b)(c)	2,000	1,980
4.92%, 08/08/06 (a)(b)(c)	1,000	995	5.47%, 09/25/06 (b)(c)	5,000	4,936
5.03%, 09/20/06 (a)(b)(c)	1,000	989	5.07%, 09/28/06 (b)(c)	1,000	988
5.16%, 10/18/06 (a)(b)(c)	20,000	19,695	5.17%, 10/16/06 (b)(c)	18,000	17,731
5.23%, 10/24/06 (a)(b)(c)	32,000	31,479	5.24%, 10/27/06 (b)(c)	18,000	17,699
5.27%, 11/17/06 (a)(b)(c)	2,000	1,960	<b>KBC Financial Products International, Ltd.</b>		
5.53%, 12/18/06 (a)(b)(c)	36,000	35,085	5.04%, 07/20/06 (a)(c)	10,000	9,974
			5.01%, 08/01/06 (a)(c)	1,000	996
			5.22%, 09/01/06 (a)(c)	14,000	13,876

## Schwab Cash Reserves

### Portfolio Holdings (Unaudited) 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)
5.01%, 09/25/06 (c)	5,000	4,942	<b>Nordea North America, Inc.</b>		
<b>Lexington Parker Capital Co., L.L.C.</b>			4.97%, 07/06/06 (a)	5,000	4,997
5.27%, 07/21/06 (a)(b)(c)	1,000	997	<b>Northern Rock, PLC</b>		
5.09%, 07/25/06 (a)(b)(c)	4,000	3,987	5.20%, 08/28/06	3,000	2,975
5.18%, 08/21/06 (a)(b)(c)	33,644	33,400	5.19%, 08/30/06	48,000	47,590
5.27%, 09/12/06 (a)(b)(c)	44,000	43,536	<b>Old Line Funding, L.L.C.</b>		
5.30%, 09/12/06 (a)(b)(c)	2,000	1,979	5.18%, 08/21/06 (a)(b)(c)	48,632	48,280
5.40%, 09/18/06 (a)(b)(c)	29,000	28,661	<b>Park Avenue Receivables Co., L.L.C.</b>		
5.11%, 10/05/06 (a)(b)(c)	35,000	34,535	5.08%, 07/07/06 (a)(b)(c)	20,000	19,983
5.16%, 10/05/06 (a)(b)(c)	10,500	10,359	5.14%, 07/12/06 (a)(b)(c)	35,000	34,945
5.17%, 10/20/06 (a)(b)(c)	7,000	6,891	<b>Park Granada, L.L.C.</b>		
5.23%, 11/15/06 (a)(b)(c)	2,000	1,961	4.97%, 07/05/06 (b)(c)	10,000	9,995
5.28%, 11/15/06 (a)(b)(c)	62,000	60,785	5.24%, 09/06/06 (b)(c)	62,000	61,403
<b>Links Finance, L.L.C.</b>			5.22%, 11/10/06 (b)(c)	1,000	981
4.97%, 07/06/06 (b)(c)	5,000	4,997	<b>Picaros Funding, L.L.C.</b>		
5.19%, 08/30/06 (b)(c)	26,000	25,778	5.11%, 07/21/06 (a)(b)(c)	4,000	3,989
<b>Mane Funding Corp.</b>			4.81%, 08/03/06 (a)(b)(c)	5,000	4,978
4.97%, 07/06/06 (b)(c)	1,252	1,251	5.09%, 08/03/06 (a)(b)(c)	6,000	5,972
5.09%, 08/01/06 (b)(c)	1,000	996	5.46%, 09/08/06 (a)(b)(c)	1,500	1,484
5.17%, 08/17/06 (b)(c)	24,882	24,716	5.28%, 09/13/06 (a)(b)(c)	5,000	4,946
5.19%, 08/28/06 (b)(c)	9,000	8,926	5.05%, 09/25/06 (a)(b)(c)	7,000	6,918
5.20%, 08/29/06 (b)(c)	29,367	29,120	5.41%, 09/27/06 (a)(b)(c)	6,000	5,922
5.27%, 09/12/06 (b)(c)	19,000	18,800	5.17%, 10/13/06 (a)(b)(c)	36,000	35,476
5.48%, 09/26/06 (b)(c)	37,000	36,517	5.31%, 11/03/06 (a)(b)(c)	8,000	7,856
<b>Mont Blanc Capital Corp.</b>			<b>Preferred Receivables Funding Corp.</b>		
4.98%, 07/10/06 (a)(b)(c)	12,000	11,985	5.09%, 07/13/06 (a)(b)(c)	65,511	65,401
5.08%, 07/10/06 (a)(b)(c)	25,000	24,969	5.19%, 07/28/06 (a)(b)(c)	45,328	45,153
5.03%, 07/14/06 (a)(b)(c)	14,000	13,975	5.16%, 10/12/06 (a)(b)(c)	36,138	35,618
<b>Morgan Stanley</b>			<b>Santander Central Hispano Finance (Delaware), Inc.</b>		
5.29%, 07/12/06	21,000	20,966	5.01%, 09/14/06 (a)	3,000	2,969
5.29%, 07/14/06	50,000	49,905	<b>Scaldis Capital Ltd.</b>		
5.30%, 07/19/06	25,000	24,934	4.97%, 07/06/06 (a)(b)(c)	8,985	8,979
<b>Nieuw Amsterdam Receivables Corp.</b>			5.03%, 07/13/06 (a)(b)(c)	25,319	25,277
4.97%, 07/06/06 (a)(b)(c)	7,192	7,187	5.06%, 07/25/06 (a)(b)(c)	9,451	9,420
5.11%, 07/10/06 (a)(b)(c)	1,000	999	5.12%, 08/08/06 (a)(b)(c)	7,000	6,963
5.03%, 07/17/06 (a)(b)(c)	11,000	10,976	5.15%, 08/18/06 (a)(b)(c)	39,000	38,736
5.06%, 07/24/06 (a)(b)(c)	6,000	5,981	5.18%, 08/21/06 (a)(b)(c)	12,243	12,154
5.11%, 07/24/06 (a)(b)(c)	1,431	1,426	5.18%, 08/23/06 (a)(b)(c)	7,000	6,947
5.08%, 07/25/06 (a)(b)(c)	8,229	8,201	5.18%, 08/24/06 (a)(b)(c)	13,000	12,900
5.11%, 07/25/06 (a)(b)(c)	13,915	13,868	5.19%, 08/25/06 (a)(b)(c)	6,417	6,367
5.18%, 08/24/06 (a)(b)(c)	16,000	15,877	5.19%, 08/29/06 (a)(b)(c)	11,000	10,908
5.47%, 09/20/06 (a)(b)(c)	5,000	4,939	5.28%, 09/11/06 (a)(b)(c)	15,011	14,855
5.37%, 12/11/06 (a)(b)(c)	14,840	14,489			

See financial notes. 13

## Schwab Cash Reserves

### Portfolio Holdings (Unaudited) 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)
5.28%, 09/12/06 (a)(b)(c)	23,944	23,691	<b>Variable Funding Capital Corp.</b>		
5.30%, 09/13/06 (a)(b)(c)	50,000	49,462	4.96%, 07/06/06 (a)(b)(c)	25,000	24,983
<b>Sedna Finance, Inc.</b>			4.98%, 07/07/06 (a)(b)(c)	13,000	12,989
5.03%, 07/13/06 (b)(c)	15,000	14,975	5.03%, 07/18/06 (a)(b)(c)	39,000	38,908
<b>Sheffield Receivables Corp.</b>			5.19%, 07/25/06 (a)(b)(c)	18,000	17,938
5.24%, 07/19/06 (a)(b)(c)	40,000	39,896	<b>Westpac Banking Corp.</b>		
5.14%, 07/24/06 (a)(b)(c)	15,000	14,951	5.10%, 07/21/06 (c)	7,400	7,379
5.33%, 08/02/06 (a)(b)(c)	36,000	35,830	5.27%, 11/22/06 (c)	13,000	12,733
<b>Sigma Finance, Inc.</b>			5.55%, 12/14/06 (c)	50,000	48,754
4.95%, 07/06/06 (b)(c)	1,000	999	<b>Westpac Trust Securities NZ Ltd.</b>		
5.04%, 07/20/06 (b)(c)	17,000	16,955	5.03%, 07/24/06 (a)(c)	30,000	29,905
5.11%, 07/26/06 (b)(c)	20,000	19,930	<b>Whistlejacket Capital, L.L.C.</b>		
5.09%, 07/28/06 (b)(c)	80,000	79,699	5.13%, 07/25/06 (b)(c)	15,053	15,002
5.10%, 08/02/06 (b)(c)	57,000	56,745	5.13%, 07/27/06 (b)(c)	2,839	2,829
4.92%, 08/09/06 (b)(c)	3,000	2,984	4.88%, 08/15/06 (b)(c)	1,000	994
5.09%, 08/22/06 (b)(c)	8,000	7,942	5.26%, 09/08/06 (b)(c)	5,000	4,950
5.18%, 08/25/06 (b)(c)	7,000	6,945	5.28%, 09/11/06 (b)(c)	1,000	990
5.28%, 09/15/06 (b)(c)	7,000	6,923	5.48%, 09/27/06 (b)(c)	8,000	7,894
5.16%, 10/13/06 (b)(c)	12,000	11,826	<b>White Pine Finance, L.L.C.</b>		
5.29%, 11/28/06 (b)(c)	2,000	1,957	4.97%, 07/05/06 (b)(c)	6,000	5,997
<b>Skandinaviska Enskilda Banken AB</b>			4.97%, 07/06/06 (b)(c)	2,000	1,999
4.97%, 07/10/06	24,000	23,971	5.00%, 07/10/06 (b)(c)	1,000	999
5.11%, 07/26/06	1,055	1,051	5.01%, 07/10/06 (b)(c)	16,000	15,980
<b>Societe Generale North America, Inc.</b>			4.97%, 07/25/06 (b)(c)	1,000	997
5.00%, 07/11/06 (a)	50,000	49,931	4.99%, 07/25/06 (b)(c)	1,000	997
5.09%, 08/22/06 (a)	2,300	2,283	5.12%, 07/27/06 (b)(c)	37,000	36,865
5.18%, 08/23/06 (a)	1,500	1,489	5.11%, 08/02/06 (b)(c)	15,000	14,933
5.22%, 11/13/06 (a)	8,000	7,847	5.19%, 08/25/06 (b)(c)	10,000	9,922
<b>Svenska Handelsbanken, Inc.</b>			5.28%, 09/11/06 (b)(c)	3,000	2,969
5.23%, 10/23/06 (a)	65,000	63,950	<b>Windmill Funding Corp.</b>		
<b>Thunder Bay Funding, L.L.C.</b>			5.28%, 07/20/06 (a)(b)(c)	25,000	24,931
5.08%, 07/05/06 (a)(b)(c)	22,000	21,988	5.18%, 07/26/06 (a)(b)(c)	42,952	42,798
5.03%, 07/17/06 (a)(b)(c)	23,000	22,949	5.19%, 07/27/06 (a)(b)(c)	14,000	13,948
5.42%, 09/18/06 (a)(b)(c)	9,632	9,519	5.17%, 08/02/06 (a)(b)(c)	20,000	19,909
5.42%, 09/22/06 (a)(b)(c)	48,237	47,642			<b>7,216,926</b>
<b>UBS Finance (Delaware), Inc.</b>			<b>Promissory Notes 0.0%</b>		
4.95%, 07/07/06 (a)	9,000	8,993	<b>The Goldman Sachs Group, Inc.</b>		
5.12%, 07/11/06 (a)	11,000	10,984	4.98%, 10/30/06 (d)	2,000	2,000
4.99%, 07/13/06 (a)	62,000	61,898			
5.08%, 08/18/06 (a)	3,750	3,725			
5.09%, 08/22/06 (a)	12,000	11,913			
4.98%, 09/05/06 (a)	1,000	991			

## Schwab Cash Reserves

### Portfolio Holdings (Unaudited) 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>Variable-Rate Obligations 8.4% of net assets</b>			<b>Mulberry - Brighton Park Apartments, L.L.C.</b>		
<b>Barclays Bank, PLC</b>			5.32%, 07/06/06 (a)	6,550	6,550
5.24%, 07/24/06	5,000	4,999	<b>Nordea Bank Finland, PLC</b>		
5.28%, 07/27/06	8,000	7,999	5.05%, 07/03/06	13,000	12,999
<b>Bear Stearns Companies, Inc.</b>			<b>Physician Solutions, L.L.C.</b>		
5.25%, 07/21/06	1,000	1,000	5.37%, 07/06/06 (a)	2,000	2,000
<b>BNP Paribas</b>			<b>Roman Catholic Bishop of San Jose (CA)</b>		
5.07%, 07/05/06	2,000	2,000	5.35%, 07/06/06 (a)	5,500	5,500
5.08%, 07/06/06	133,000	132,979	<b>Royal Bank of Canada</b>		
5.11%, 07/10/06	15,000	14,999	5.06%, 07/03/06	5,000	4,999
5.30%, 08/02/06	100,000	99,980	<b>Royal Bank of Scotland, PLC</b>		
<b>CC (USA), Inc.</b>			5.20%, 07/19/06	15,000	14,999
5.21%, 07/17/06 (b)(c)	27,000	27,007	5.25%, 07/24/06	17,000	16,998
5.33%, 07/25/06 (b)(c)	13,000	13,003	<b>Sigma Finance, Inc.</b>		
<b>Dexia Credit Local</b>			5.16%, 07/17/06 (b)(c)	1,000	1,000
5.09%, 07/10/06	100,000	99,976	5.20%, 07/17/06 (b)(c)	108,000	108,022
5.26%, 07/26/06	3,000	3,000	<b>Sumitomo Trust &amp; Banking Co.</b>		
<b>Five Finance, Inc.</b>			5.30%, 07/24/06	6,000	6,000
5.27%, 07/25/06 (b)(c)	20,000	19,996	<b>Tenderfoot Seasonal Housing, L.L.C.</b>		
<b>Intesa Bank Ireland, PLC</b>			5.40%, 07/06/06 (a)	3,000	3,000
5.33%, 07/25/06 (c)	70,000	70,000	<b>The Goldman Sachs Group, Inc.</b>		
<b>J.P. Morgan Securities, Inc.</b>			5.15%, 07/03/06	2,000	2,000
5.15%, 07/03/06 (c)	100,000	100,000	<b>Westpac Banking Corp.</b>		
<b>K2 (USA), L.L.C.</b>			5.08%, 07/05/06	10,000	10,000
5.30%, 07/17/06 (b)(c)	50,000	49,995	<b>Whistlejacket Capital, L.L.C.</b>		
<b>Liberty Lighthouse U.S. Capital Co., L.L.C.</b>			5.13%, 07/11/06 (b)(c)	15,000	14,999
5.06%, 07/03/06 (b)(c)	2,000	2,000	5.16%, 07/17/06 (b)(c)	1,000	1,000
5.09%, 07/05/06 (b)(c)	2,000	2,000	5.22%, 07/20/06 (b)(c)	4,000	4,000
5.11%, 07/10/06 (b)(c)	1,000	1,000	<b>White Pine Finance, L.L.C.</b>		
<b>Links Finance, L.L.C.</b>			5.13%, 07/10/06 (b)(c)	60,000	59,991
5.09%, 07/07/06 (b)(c)	4,000	4,000	5.13%, 07/12/06 (b)(c)	1,000	1,000
5.15%, 07/10/06 (b)(c)	2,000	2,000	5.15%, 07/17/06 (b)(c)	1,000	1,000
5.15%, 07/17/06 (b)(c)	3,000	3,000			<b>1,116,990</b>
5.21%, 07/17/06 (b)(c)	3,000	3,000			
5.21%, 07/17/06 (b)(c)	2,000	2,000			
<b>Merrill Lynch &amp; Co., Inc.</b>					
5.15%, 07/14/06	125,000	125,000			
5.32%, 07/27/06	50,000	50,000			

See financial notes. 15

## Schwab Cash Reserves

### Portfolio Holdings (Unaudited) continued

Security	Maturity Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Acquisition Date Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Other Investments 10.8% of net assets			At 06/30/06, portfolio holdings included illiquid and/or restricted securities as follows:		
<b>Repurchase Agreements 10.8%</b>			<b>Blue Spice, L.L.C.</b>		
<b>Bank of America Securities L.L.C.</b>			5.23%, 06/01/06, 09/05/06	38,000	37,641
Tri-Party Repurchase Agreement			<b>The Goldman Sachs Group, Inc.</b>		
Collateralized by U.S. Government			4.98%, 02/03/06, 10/30/06	2,000	2,000
Securities with a value of			(a) Credit-enhanced security.		
\$918,000			(b) Asset-backed security.		
5.28%, issued 06/30/06,			(c) Securities exempt from registration under Rule		
due 07/03/06	900,396	900,000	144A of the Securities Act of 1933. These securi-		
			ties may be resold in transactions exempt from		
			registrations, normally to qualified institutional buy-		
			ers. At the period end, the value of these		
			amounted to \$5,341,289 or 39.9% of net assets.		
			(d) Illiquid and/or restricted security.		
<b>Credit Suisse Securities (USA) L.L.C.</b>					
Tri-Party Repurchase Agreement					
Collateralized by U.S. Government					
Securities with a value of					
\$58,552					
5.25%, issued 06/30/06,					
due 07/03/06	57,428	57,403			
<b>Morgan Stanley &amp; Co., Inc.</b>					
Tri-Party Repurchase Agreement					
Collateralized by U.S. Government					
Securities with a value of					
\$103,181					
5.25%, issued 06/30/06,					
due 07/03/06	100,044	100,000			
<b>The Goldman Sachs Group, Inc.</b>					
Tri-Party Repurchase Agreement					
Collateralized by U.S. Government					
Securities with a value of					
\$390,660					
5.28%, issued 06/30/06,					
due 07/03/06	383,168	383,000			
		<u>1,440,403</u>			

### End of Investments.

At 06/30/06, the cost of the fund's investments was \$13,338,283.

## Schwab Cash Reserves

Statement of

### Assets and Liabilities

As of June 30, 2006; unaudited. All numbers x 1,000 except NAV.

#### Assets

Investments, at cost and value	\$11,897,880
Repurchase agreements, at cost and value	1,440,403
Receivables:	
Fund shares sold	300,754
Interest	26,892
Prepaid expenses	+ 1,023
<b>Total assets</b>	<b>13,666,952</b>

#### Liabilities

Payables:	
Fund shares redeemed	173,493
Investments bought	70,000
Dividends to shareholders	24,798
Investment adviser and administrator fees	259
Transfer agent and shareholder services fees	496
Accrued expenses	+ 71
<b>Total liabilities</b>	<b>269,117</b>

#### Net Assets

<b>Total assets</b>	13,666,952
<b>Total liabilities</b>	- 269,117
<b>Net assets</b>	<b>\$13,397,835</b>

#### Net Assets by Source

Capital received from investors	13,397,835
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#### Net Asset Value (NAV)

<b>Net Assets</b>	÷	<b>Shares Outstanding</b>	=	<b>NAV</b>
\$13,397,835		13,397,835		\$1.00

## Schwab Cash Reserves

### Statement of

### Operations

From January 1, 2006 through June 30, 2006; unaudited. All numbers x 1,000.

#### Investment Income

Interest	<b>\$145,303</b>
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#### Expenses

Investment adviser and administrator fees	10,134
Transfer agent and shareholder service fees	13,012
Trustees' fees	10
Custodian fees	24
Portfolio accounting fees	16
Professional fees	28
Registration fees	129
Shareholder reports	34
Other expenses	+ 8
Total expenses	23,395
Expense reduction	- 3,444
<b>Net expenses</b>	<b>19,951</b>

#### Increase in Net Assets from Operations

Total investment income	145,303
Net expenses	- 19,951
<b>Net investment income</b>	<b>125,352</b>
<b>Increase in net assets from operations</b>	<b>\$125,352</b>



## Schwab Cash Reserves

Statement of

### Changes in Net Assets

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

Figures for current period are unaudited.

#### Operations

	1/1/06-6/30/06	1/1/05-12/31/05
Net investment income	\$125,352	\$8,651
<b>Increase in net assets from operations</b>	<b>125,352</b>	<b>8,651</b>

#### Distributions Paid

Dividends from net investment income	<b>125,352</b>	<b>8,651</b>
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#### Transactions in Fund Shares\*

Shares sold	26,340,182	2,736,029
Shares reinvested	100,458	8,432
Shares redeemed	+ (13,864,733)	(2,063,020)
<b>Net transactions in fund shares</b>	<b>12,575,907</b>	<b>681,441</b>

#### Net Assets

Beginning of period	821,928	140,487
Total increase	+ 12,575,907	681,441
<b>End of period</b>	<b>\$13,397,835</b>	<b>\$821,928</b>

\* Transactions took place at \$1.00 per share; figures for share quantities are the same as for dollars.

See financial notes. 19

**Financial Notes, unaudited.**

Unless stated, all dollar amounts are x 1,000.

**1. Business Structure of the Fund**

Schwab Cash Reserves 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 list below shows all the funds in the trust including the fund discussed in this report, which 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 AMT Tax-Free Money Fund

Schwab Massachusetts Municipal Money Fund

Schwab Retirement Advantage Money Fund

Schwab Investor Money Fund

Schwab Advisor Cash Reserves

**Schwab Cash Reserves**

Schwab Cash Reserves 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 trustees may issue as many shares as necessary.

**2. Significant Accounting Policies**

The following is a summary of the significant accounting policies the fund uses in its operations and in the preparation of financial statements:

**(a) Security Valuation:**

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

**(b) Portfolio Investments:**

**Delayed-Delivery:** 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.

**Repurchase Agreements:** 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.

## Financial Notes, unaudited (continued).

Unless stated, all dollar amounts are x 1,000.

## 2. Significant Accounting Policies (continued)

### (c) Security Transactions:

Security transactions are recorded as of the date the order to buy or sell the security is executed. Realized gains and losses from security transactions are based on the identified costs of the securities involved.

### (d) Income, Expenses and Distributions:

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

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

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 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 keeps certain assets in segregated accounts, as may be required by securities law.

### (e) Borrowing:

The fund may borrow money from banks and custodians. The fund may obtain temporary bank loans through the trusts 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.

### (f) Accounting Estimates:

The accounting policies described in this report 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.

### (g) Indemnification:

Under the fund's organizational documents, the 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

**Financial Notes, unaudited (continued).**

Unless stated, all dollar amounts are x 1,000.

**2. Significant Accounting Policies (continued)**

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.

**3. Affiliates and Affiliated Transactions**

Charles Schwab Investment Management, Inc. (CSIM or the investment adviser), a wholly owned subsidiary of The Charles Schwab Corporation, serves as the fund's investment adviser and administrator pursuant to an Investment Advisory and Administration Agreement (Advisory Agreement) between it and the trust. Charles Schwab & Co., Inc. ("Schwab") is an affiliate of the investment adviser and is the trust's shareholder services agent and transfer agent.

For its advisory and administrative services to the fund, the investment adviser is entitled to receive an annual fee payable monthly based on the fund's average daily net assets described as follows:

**Average daily net assets**

First \$1 billion	0.38%
Over \$1 billion	0.35%
Over \$10 billion	0.32%
Over \$20 billion	0.30%
Over \$40 billion	0.27%

For its transfer agent and shareholder services, Schwab is entitled to receive an annual fee payable monthly based on the fund's average daily net assets described as follows:

**Transfer Agent Fees**

0.25%

**Shareholder Service Fees**

0.20%

Although these agreements specify certain fees for these services, CSIM and Schwab have made additional agreements with the fund to limit the total expenses charged, excluding interest, taxes and certain non-routine expenses to 0.69%.

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. For the period ended June 30, 2006, the fund had no security transactions with other Schwab Funds.

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. There was no interfund borrowing or lending activity for the fund during the period.

**Financial Notes, unaudited (continued).**

Unless stated, all dollar amounts are x 1,000.

**3. Affiliates and Affiliated Transactions (continued)**

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.

**4. Federal Income Taxes**

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 realized net capital gains (if any) to its shareholders each year. As long as the fund meets the tax requirements, it is not required to pay federal income tax. As of December 31, 2005, the fund had no undistributed earnings on a tax basis.

The tax-basis components of distributions for the fiscal year ended December 31, 2005 were:

From ordinary income	\$8,651
From long-term capital gains	—
From return of capital	—

# 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.

The Board, including a majority of the Independent Trustees, considered information specifically relating to its consideration of the continuance of the Agreement at meetings held on May 2, 2006, May 24, 2006 and June 12, 2006, and approved the renewal of the Agreement for an additional one year term at the meeting held on June 12, 2006. The Board’s approval of the Agreement was based on consideration and evaluation of a variety of specific factors discussed at these meetings 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 information considered by the trustees included specific information concerning changes in the nature, extent and quality of services provided by CSIM since the trustees had last considered approval of the Agreement. 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 and their shareholders. 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' shareholders 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 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, when applicable, 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 and the appropriateness of the benchmark used to compare the performance of each fund. The trustees further considered the level of fund performance in the context of its review of fund expenses and adviser profitability discussed below. Following

such evaluation the Board concluded, within the context of its full deliberations, that the performance of the funds supported 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 historical practice of voluntarily waiving 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 different legal, regulatory, compliance and operating features of mutual funds as compared to these other types of accounts. The Board also considered recent actions by CSIM to adjust fund investor eligibility criteria that would result in more shareholders investing in funds (and share classes within funds) that have lower net operating expenses and that are designed to 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. Following such evaluation and based upon CSIM's agreement to implement proposals related to fund investor eligibility, the Board concluded, within the context of its full deliberations, that the expenses of the funds are reasonable and supported 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. The Board also considered information relating to changes to CSIM's cost structure, including cost savings, technology investments and increased operating efficiencies and how these changes affected CSIM's profitability under the Agreement. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the profitability of CSIM is reasonable and supported 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 that include lower fees at higher graduated asset levels. The Board also

considered certain commitments by CSIM and Schwab that are designed to pass along potential economies of scale to fund shareholders. Specifically, the Board considered CSIM and Schwab's commitments, which may be changed only with Board approval: (i) to reduce contractual advisory fees or add breakpoints for certain funds, (ii) to implement, by means of expense limitation agreement, over the next several years additional reductions in net overall expenses for certain funds, (iii) to reduce administrative "sweep" fees paid to Schwab in connection with money market fund shares that are used for automatic investment of cash held in customer brokerage accounts, and (iv) to implement future net total operating expense reductions for taxable money funds as a group and non-taxable money funds as a group when aggregate assets of such group of funds exceed certain levels. Based on this evaluation, and in consideration of the commitments made by CSIM and Schwab as discussed above, 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 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

The tables below give information about the trustees and officers for The Charles Schwab Family of Funds, which includes the fund covered in this report. The “Fund Complex” includes The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust, Schwab Annuity Portfolios, Laudus Trust, Laudus Variable Insurance Trust, Excelsior Funds, Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust. As of June 30, 2006, the Fund Complex included 98 funds.

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, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served')	Principal Occupations During the Past Five Years	Number of Portfolios in Fund Complex Overseen by the Trustee	Other Directorships
<b>Mariann Byerwalter</b> 1960 Trustee (Trustee of The Charles Schwab Family of Funds since 2000.)	Chairman of JDN Corporate Advisory LLC. <i>From 1996 to 2001</i> , Vice President for Business Affairs and Chief Financial Officer of Stanford University, and <i>in 2001</i> , Special Advisor to the President of Stanford University.	98	<i>Board 1</i> —Director, Redwood Trust, Inc. <i>Board 2</i> —Director, PMI Group, Inc.
<b>Donald F. Dorward</b> 1931 Trustee (Trustee of The Charles Schwab Family of Funds since 1989.)	Chief Executive Officer, Dorward & Associates (corporate management, marketing and communications consulting firm). <i>From 1996-1999</i> , Executive Vice President and Managing Director, Grey Advertising. <i>Prior to 1996</i> , President and Chief Executive Officer, Allen & Dorward Advertising.	57	None.
<b>William A. Hasler</b> 1941 Trustee (Trustee of The Charles Schwab Family of Funds since 2000.)	Retired. Dean Emeritus, Haas School of Business, University of California, Berkeley. <i>Until February 2004</i> , Co-Chief Executive Officer, Aphton Corp. (bio-pharmaceuticals). <i>Prior to August 1998</i> , Dean of the Haas School of Business, University of California, Berkeley (higher education).	98	<i>Board 1</i> —Director, Aphton Corp. <i>Board 2</i> —Director, Mission West Properties <i>Board 3</i> —Director, TOUSA <i>Board 4</i> —Director, Stratex Networks <i>Board 5</i> —Director, Genitope Corp. <i>Board 6</i> —Director & Non-Executive Chairman, Solelectron Corp. <i>Board 7</i> —Director, Ditech Communications Corp.

# Independent Trustees continued

Name, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served <sup>1</sup> )	Principal Occupations During the Past Five Years	Number of Portfolios in Fund Complex Overseen by the Trustee	Other Directorships
<b>Robert G. Holmes</b> 1931 Trustee (Trustee of The Charles Schwab Family of Funds since 1989.)	Chairman, Chief Executive Officer and Director, Semloh Financial, Inc. (international financial services and investment advisory firm).	57	None.
<b>Gerald B. Smith</b> 1950 Trustee (Trustee of The Charles Schwab Family of Funds since 2000.)	Chairman and Chief Executive Officer and founder of Smith Graham & Co. (investment advisors).	57	<i>Board 1</i> —Board of Cooper Industries <i>Board 2</i> —Chairman of the Audit Committee of Northern Border Partners, M.L.P.
<b>Donald R. Stephens</b> 1938 Trustee (Trustee of The Charles Schwab Family of Funds since 1989.)	Managing Partner, D.R. Stephens & Company (investments). Prior to 1996, Chairman and Chief Executive Officer of North American Trust (real estate investment trust).	57	None.
<b>Michael W. Wilsey</b> 1943 Trustee (Trustee of The Charles Schwab Family of Funds since 1989.)	Chairman and Chief Executive Officer, Wilsey Bennett, Inc. (real estate investment and management, and other investments).	57	None.

## Interested Trustees

Name, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served <sup>1</sup> )	Principal Occupations During the Past Five Years	Number of Portfolios in Fund Complex Overseen by the Trustee	Other Directorships
<b>Charles R. Schwab<sup>2</sup></b> 1937 Chairman and Trustee (Chairman and Trustee of The Charles Schwab Family of Funds since 1989.)	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 May 2003</i> , Co-Chief Executive Officer, The Charles Schwab Corporation.	57	None.
<b>Randall W. Merk<sup>2</sup></b> 1954 Trustee (Trustee of The Charles Schwab Family of Funds since 2005.)	Executive Vice President and President, Schwab Financial Products, Charles Schwab & Co., Inc.; Director, Charles Schwab Asset Management (Ireland) Limited and Charles Schwab Worldwide Funds PLC. <i>From September 2002 to July 2004</i> , Chief Executive Officer and President, Charles Schwab Investment Management, Inc. and Executive Vice President, Charles Schwab & Co., Inc. <i>Prior to September 2002</i> , President and Chief Investment Officer, American Century Investment Management, and Director, American Century Companies, Inc.	98	None.

## Officers of the Trust

**Name, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served<sup>3</sup>)**

**Principal Occupations During the Past Five Years**

<b>Evelyn Dilsaver</b> 1955 President and Chief Executive Officer (Officer of The Charles Schwab Family of Funds since 2004.)	President, Chief Executive Officer, and Director, Charles Schwab Investment Management, Inc.; Executive Vice President, Charles Schwab & Co., Inc.; President and Chief Executive Officer, Laudus Trust and Laudus Variable Insurance Trust; President, Excelsior Funds Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust; President, Mutual Fund Division, UST Advisers, Inc. <i>From June 2003 to July 2004</i> , Senior Vice President, Asset Management Products and Services, Charles Schwab & Co., Inc. <i>Prior to June 2003</i> , Executive Vice President, Chief Financial Officer, and Chief Administrative Officer, U.S. Trust, a subsidiary of The Charles Schwab Corporation.
<b>Stephen B. Ward</b> 1955 Senior Vice President and Chief Investment Officer (Officer of The Charles Schwab Family of Funds since 1991.)	Director, Senior Vice President and Chief Investment Officer, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Company.
<b>George Pereira</b> 1964 Treasurer and Principal Financial Officer (Officer of The Charles Schwab Family of Funds since 2004.)	Senior Vice President and Chief Financial Officer, Charles Schwab Investment Management, Inc.; Chief Financial Officer, Laudus Trust and Laudus Variable Insurance Trust; Chief Financial Officer and Chief Accounting Officer, Excelsior Funds Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust; Chief Financial Officer, Mutual Fund Division, UST Advisors, Inc. Director, Charles Schwab Worldwide Fund, PLC and Charles Schwab Asset Management (Ireland) Limited. <i>From December 1999 to November 2004</i> , Sr. Vice President, Financial Reporting, Charles Schwab & Co., Inc.
<b>Kimon Daifotis</b> 1959 Senior Vice President and Chief Investment Officer—Fixed Income (Officer of The Charles Schwab Family of Funds since 2004.)	Senior Vice President and Chief Investment Officer—Fixed Income, Charles Schwab Investment Management, Inc. <i>Prior to 2004</i> , Vice President and Sr. Portfolio Manager, Charles Schwab Investment Management, Inc.
<b>Jeffrey Mortimer</b> 1963 Senior Vice President and Chief Investment Officer—Equities (Officer of The Charles Schwab Family of Funds since 2004.)	Senior Vice President and Chief Investment Officer—Equities, Charles Schwab Investment Management, Inc.; Vice President and Chief Investment Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Prior to 2004</i> , Vice President and Sr. Portfolio Manager, Charles Schwab Investment Management, Inc.

## Officers of the Trust continued

Name, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served <sup>3</sup> )	Principal Occupations During the Past Five Years
<b>Randall Fillmore</b> 1960 Chief Compliance Officer and AML Officer (Officer of The Charles Schwab Family of Funds since 2002.)	Senior Vice President and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Senior Vice President Charles Schwab & Co., Inc.; Chief Compliance Officer, Laudus Trust and Laudus Variable Insurance Trust; Chief Compliance Officer, Excelsior Funds Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust. <i>From 2002 to 2003</i> , Vice President, Charles Schwab & Co., Inc., and Charles Schwab Investment Management, Inc. <i>From 2000 to 2002</i> , Vice President, Internal Audit, Charles Schwab & Co., Inc.
<b>Koji E. Felton</b> 1961 Secretary and Chief Legal Officer (Officer of The Charles Schwab Family of Funds since 1998.)	Senior Vice President, Chief Counsel and Corporate Secretary, Charles Schwab Investment Management, Inc.; Senior Vice President and Deputy General Counsel, Charles Schwab & Co., Inc.; Chief Legal Officer, Laudus Trust and Laudus Variable Insurance Trust; Chief Legal Officer, Excelsior Funds Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust. <i>Prior to June 1998</i> , Branch Chief in Enforcement at U.S. Securities and Exchange Commission in San Francisco.

<sup>1</sup> Trustees remain in office until they resign, retire or are removed by shareholder vote. 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> In addition to their employment with the investment adviser and the distributor, Messrs. Schwab and Merk also own stock of The Charles Schwab Corporation. Mr. Schwab and Mr. Merk are Interested Trustees because they are employees of Schwab and/or the adviser.

<sup>3</sup> The President, Treasurer and Secretary hold office until their respective successors are chosen and qualified or until he or she sooner dies, resigns, is removed or becomes disqualified. Each other officer serves at the pleasure of the Board.

# 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 [www.sec.gov](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 [www.sec.gov](http://www.sec.gov).

<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.

## The Schwab Funds Family®

### Stock Funds

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™  
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®

### Asset Allocation Funds

Schwab Viewpoints Fund™  
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 Inflation Protected 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>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.

*charles* SCHWAB

**Investment Adviser**

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

**Funds**

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

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unless preceded or accompanied by a current prospectus.

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MFR32958-01

# Schwab Taxable Money Funds

## Semiannual Report

June 30, 2006

Schwab Government  
Money Fund™

Schwab U.S. Treasury  
Money Fund™

Schwab Value Advantage  
Money Fund®

*charles* SCHWAB

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Fund investment adviser: Charles Schwab Investment Management, Inc. (CSIM).  
Distributor and transfer agent: Charles Schwab & Co., Inc. (Schwab).

## From the Chairman



Charles Schwab  
Chairman

Dear Shareholder,

I have always believed that money funds are a great way to invest cash between long-term investments. And while no investment is risk free, money funds can also be good choices for investors who want to mitigate the potential fluctuations that may occur in their mostly stock portfolios.

As a result of the Federal Reserve having raised short-term interest rates eight times in the past 12 months (four of which occurred during the six-month period covered in this report), yields on money funds are more attractive than they have been in several years. With their relatively short weighted average maturity (WAM), money funds are typically positioned to capture a rise in market rates more quickly than those fixed income funds with longer maturities.

Here at Schwab, we offer a range of money funds with distinct investment strategies. Our municipal money funds, for example, may be beneficial for those of you in high tax brackets. We also offer money funds for those interested in the added protection provided by a portfolio of U.S. government securities.

In closing, I would like to emphasize that we at Schwab strive every day to warrant the trust you have placed in us. My colleagues and I continue to see opportunities ahead, and we are committed to helping you maximize them.

Thank you for investing with us.

Sincerely,

A handwritten signature in cursive script that reads "Charles Schwab".

*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.*

# Management's Discussion for the six months ended June 30, 2006



**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 semiannual report for your Schwab money fund for the six-month period ended June 30, 2006. Although the report period was marked by volatility, our money funds performed as designed, providing you with current income, stability of capital and convenient access to your money.

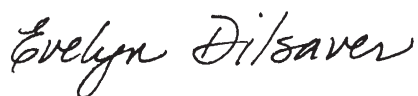
I'd like to take this opportunity to remind you that Schwab offers a range of money funds, including our purchased money funds, Schwab Value Advantage Investments®. These funds are designed for investors who have larger balances and don't require frequent access to their cash. They require a minimum initial investment of \$25,000 (\$15,000 for IRA and custodial accounts) and include various taxable and tax-free investment strategies.

Further down the maturity spectrum, our ultrashort bond fund, Schwab YieldPlus™, offers higher yield potential with higher risk than a money fund. Because taxes are always a concern, Schwab also offers two Schwab Tax-Free YieldPlus Funds that can help you manage tax impact and your exposure to the alternative minimum tax (AMT).

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,



*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.*

*Please remember that with Schwab YieldPlus and Tax-Free YieldPlus Funds, investment value will fluctuate, and shares, when redeemed, may be worth more or less than original cost. Bond funds are subject to increased loss of principal during periods of rising interest rates.*





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



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

## The Investment Environment and the Funds

After a volatile six months in the domestic markets, equity and fixed income funds ended the period with mixed returns. Several key issues dominated market discussions throughout the period, including slowing economic growth, inflation fears, U.S. Federal Reserve (the Fed) interest rate increases, and volatile crude oil prices.

The markets remained in a steady growth mode over the first quarter of 2006 and ended the period on a positive note. Volatility was up during the second quarter of the year, but remained lower than its historical norm. During the six-month report period, oil prices hit new record highs and the Fed continued to raise short-term interest rates to curb inflationary pressures, boosting its Fed Funds target rate four consecutive times during the six-month period and bringing the benchmark rate up to 5.25%. This was the 17th rate hike over the past two years.

Rising sharply in the second half of the report period, crude oil prices peaked in April at around \$75 per barrel while domestic gasoline prices were above \$3 a gallon. In recent months, crude oil prices climbed back in response to declining crude inventories and geopolitical concerns. Despite the volatility in energy prices, gains in productivity have remained strong and corporate earnings continue to rise. Reasonable valuations, a solid earnings season, and expectations that monetary policy tightening will soon come to an end, helped support the markets. Additionally, job and income growth remained positive, though they slowed during the report period. Moderate inflationary expectations and large foreign capital inflows helped to contain increases in long-term interest rates.

As noted above, the Fed continued its tightening cycle throughout the period, raising its Fed Funds target 0.25% at each of its four meetings. As the Fed raised rates, the yield curve flattened and had brief periods of inversion. Historically, economic slowdowns or recessions have followed the inversion of the yield curve. Following a strong start to 2006, economic growth has moderated over the past six months.

Rising interest rates have led to volatility in the equities markets and have weighed down bond returns. Meanwhile, money market funds enticed investors as the rise in short-term interest rates offered yields that have not been seen in years. The mixed messages that arose from the slowing



**Karen Wiggan**, a vice president of the investment adviser and senior portfolio manager, has overall 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.

economy and rising inflation have left investors puzzled about the direction of the Fed policy. The June 29 Federal Open Market Committee (FOMC) policy statement did little to alleviate uncertainty, as the Fed acknowledged slower growth while expressing concern about inflation risks.

**The Schwab Government Money Fund** continued to maintain a shorter weighted average maturity (WAM) by focusing on short-term discount notes and repurchase agreements (repo), balanced with selective extensions into longer-dated maturities. A shorter WAM allowed its yield to more quickly reflect rising rates. During the six-month report period, the supply of agency discount notes continued to decline due to a reduced demand for short-term funding from the various government sponsored enterprises (GSE's). In this market environment, the fund tended to favor repurchase agreements as the spread between these securities and discount notes remained wide, providing a favorable yield advantage.

**The Schwab U.S. Treasury Money Fund** took advantage of the rising short-term rates, with the 3-month T-bill increasing from 4.02% to 4.98% during the six-month report 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 issuance, Treasury bill yields remained volatile. The fund maintained a longer than average weighted average maturity (WAM) to take advantage of the volatility in the 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. In addition, securities with longer maturities were purchased for the fund in order to add yield to the portfolio. To further take advantage of the rising-rate environment, the fund kept its weighted average maturity (WAM) in the mid to high 40-day range. Keeping the WAM in this range provided the 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 6/30/06

### 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
<b>Seven-Day Yield<sup>1</sup></b>	4.38%	4.18%	4.74%	4.84%	4.95%
<b>Seven-Day Yield—No Waiver<sup>2</sup></b>	4.30%	3.99%	4.64%	4.64%	4.64%
<b>Seven-Day Effective Yield<sup>1</sup></b>	4.48%	4.27%	4.85%	4.96%	5.07%

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
<b>Weighted Average Maturity</b>	15 days	66 days	47 days
<b>Credit Quality of Holdings</b> % of portfolio	100% Tier 1	100% Tier 1	100% Tier 1
<b>Minimum Initial Investment<sup>3</sup></b>			
<i>Sweep Investments</i> *	*	*	n/a
<i>Investor Shares</i> (\$15,000 for IRA and custodial accounts)	n/a	n/a	\$25,000
<i>Select Shares</i>	n/a	n/a	\$1,000,000
<i>Institutional Shares</i>	n/a	n/a	\$3,000,000

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

Portfolio holdings may have changed since the report date.

<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 January 1, 2006 and held through June 30, 2006.

**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 1/1/06	Ending Account Value (Net of Expenses) at 6/30/06	Expenses Paid During Period <sup>2</sup> 1/1/06–6/30/06
<b>Schwab Government Money Fund™</b>				
Actual Return	0.75%	\$1,000	\$1,019.84	\$3.76
Hypothetical 5% Return	0.75%	\$1,000	\$1,021.08	\$3.76
<b>Schwab U.S. Treasury Money Fund™</b>				
Actual Return	0.63%	\$1,000	\$1,019.01	\$3.15
Hypothetical 5% Return	0.63%	\$1,000	\$1,021.67	\$3.16
<b>Schwab Value Advantage Money Fund™</b>				
<i>Investor Shares</i>				
Actual Return	0.45%	\$1,000	\$1,021.56	\$2.26
Hypothetical 5% Return	0.45%	\$1,000	\$1,022.56	\$2.26
<i>Select Shares®</i>				
Actual Return	0.35%	\$1,000	\$1,022.07	\$1.75
Hypothetical 5% Return	0.35%	\$1,000	\$1,023.06	\$1.76
<i>Institutional Shares</i>				
Actual Return	0.24%	\$1,000	\$1,022.62	\$1.20
Hypothetical 5% Return	0.24%	\$1,000	\$1,023.60	\$1.20

<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 181 days of the period, and divided by 365 days of the fiscal year.

# Schwab Government Money Fund™

## Financial Statements

### Financial Highlights

	1/1/06– 6/30/06*	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	1.00
Income from investment operations:						
Net investment income	0.02	0.03	0.01	0.00 <sup>1</sup>	0.01	0.04
Less distributions:						
Dividends from net investment income	(0.02)	(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	1.00
Total return (%)	1.98 <sup>2</sup>	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 <sup>3</sup>	0.75	0.75	0.75	0.75	0.75
Gross operating expenses	0.83 <sup>3</sup>	0.83	0.83	0.83	0.83	0.84
Net investment income	3.97 <sup>3</sup>	2.49	0.64	0.49	1.19	3.52
Net assets, end of period (\$ x 1,000,000)	2,684	2,471	2,535	2,838	3,092	3,054

\* Unaudited.

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

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

See financial notes. 7

## Schwab Government Money Fund

### Portfolio Holdings as of June 30, 2006 (Unaudited)

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

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be viewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on a fund's most recent Form N-Q is also 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 and the maturity date shown is the next interest rate change date.

Holdings by Category	Cost (\$ x 1,000)	Value (\$ x 1,000)
<b>19.6% Federal Agencies Securities</b>	525,091	525,091
<b>81.0% Other Investments</b>	2,175,275	2,175,275
<b>100.6% Total Investments</b>	<b>2,700,366</b>	<b>2,700,366</b>
<b>(0.6)% Other Assets and Liabilities</b>		(16,251)
<b>100.0% Net Assets</b>		<b>2,684,115</b>

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

### Federal Agencies Securities 19.6% of net assets

#### Fixed-Rate Discount Notes 10.1%

<b>Fannie Mae</b>		
4.91%, 07/03/06	88,470	88,446
5.20%, 07/26/06	9,711	9,676
5.05%, 08/01/06	30,050	29,921
5.14%, 09/01/06	40,000	39,652
5.38%, 10/02/06	55,000	54,262
5.51%, 04/27/07	9,594	9,173
<b>Federal Home Loan Bank</b>		
5.16%, 07/14/06	34,486	34,422
<b>Freddie Mac</b>		
5.20%, 08/01/06	5,013	4,991
		<b>270,543</b>

#### Fixed Rate Coupon Notes 1.8%

<b>Fannie Mae</b>		
5.16%, 01/19/07	15,000	14,793
<b>Federal Home Loan Bank</b>		
4.50%, 09/14/06	15,000	14,953
<b>Freddie Mac</b>		
5.19%, 03/16/07	10,000	9,830
4.48%, 07/09/07	10,000	10,000
		<b>49,576</b>

#### Variable-Rate Coupon Notes 7.7%

<b>Fannie Mae</b>		
5.01%, 07/07/06	40,000	39,995
<b>Federal Home Loan Bank</b>		
5.17%, 07/21/06	45,000	45,000
5.04%, 08/02/06	40,000	39,998
5.38%, 09/29/06	30,000	29,996
<b>Freddie Mac</b>		
5.01%, 08/07/06	50,000	49,983
		<b>204,972</b>

## Schwab Government Money Fund

### Portfolio Holdings (Unaudited) continued

Security	Maturity Amount (\$ x 1,000)	Value (\$ x 1,000)
----------	---------------------------------	-----------------------

Other Investments 81.0% of net assets

#### Repurchase Agreements 81.0%

##### Bank of America Securities L.L.C.

Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$329,460		
5.11%, issued 06/14/06, due 07/05/06	10,030	10,000
5.07%, issued 06/05/06, due 07/06/06	35,153	35,000
5.11%, issued 06/15/06, due 07/06/06	12,036	12,000
4.95%, issued 04/06/06, due 07/07/06	30,380	30,000
4.95%, issued 04/07/06, due 07/07/06	23,288	23,000
4.96%, issued 04/10/06, due 07/07/06	30,364	30,000
4.97%, issued 04/12/06, due 07/07/06	30,356	30,000
5.06%, issued 06/01/06, due 07/07/06	20,101	20,000
5.10%, issued 05/30/06, due 07/07/06	40,215	40,000
5.11%, issued 05/31/06, due 07/07/06	20,105	20,000
5.11%, issued 06/08/06, due 07/07/06	40,165	40,000
5.11%, issued 06/15/06, due 07/07/06	13,041	13,000
5.13%, issued 05/26/06, due 07/07/06	20,120	20,000

##### Bear Stearns & Co., Inc.

Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$221,341		
5.28%, issued 06/30/06, due 07/03/06	217,095	217,000

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 \$482,764		
5.25%, issued 06/30/06, due 07/03/06	218,370	218,275
4.86%, issued 03/07/06, due 07/05/06	25,405	25,000
5.00%, issued 04/17/06, due 07/07/06	25,281	25,000
5.06%, issued 04/21/06, due 07/07/06	20,216	20,000
5.17%, issued 05/10/06, due 07/07/06	20,167	20,000
5.18%, issued 05/05/06, due 07/07/06	20,181	20,000
5.18%, issued 05/17/06, due 07/07/06	20,147	20,000
5.19%, issued 05/09/06, due 07/07/06	25,213	25,000
5.19%, issued 05/11/06, due 07/07/06	25,205	25,000
5.23%, issued 05/26/06, due 07/07/06	25,153	25,000
5.30%, issued 06/06/06, due 07/07/06	25,114	25,000
5.53%, issued 06/26/06, due 07/07/06	25,042	25,000

##### Deutsche Bank Securities, Inc.

Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$316,200		
5.00%, issued 04/19/06, due 07/07/06	30,329	30,000
5.06%, issued 05/02/06, due 07/07/06	25,232	25,000
5.10%, issued 05/18/06, due 07/07/06	20,142	20,000
5.22%, issued 05/22/06, due 07/07/06	25,167	25,000
5.30%, issued 06/27/06, due 07/07/06	50,074	50,000

# Schwab Government Money Fund

## Portfolio Holdings (Unaudited) continued

Security	Maturity Amount (\$ x 1,000)	Value (\$ x 1,000)	Security	Maturity Amount (\$ x 1,000)	Value (\$ x 1,000)
5.31%, issued 06/13/06, due 07/07/06	30,106	30,000	4.73%, issued 01/30/06, due 07/07/06	15,311	15,000
5.31%, issued 06/23/06, due 07/07/06	40,083	40,000	4.74%, issued 02/01/06, due 07/07/06	20,411	20,000
5.34%, issued 06/27/06, due 07/07/06	25,037	25,000	4.85%, issued 02/13/06, due 07/07/06	15,291	15,000
5.40%, issued 06/27/06, due 07/07/06	20,030	20,000	4.85%, issued 02/14/06, due 07/07/06	20,385	20,000
5.49%, issued 06/22/06, due 07/07/06	25,057	25,000	4.90%, issued 02/27/06, due 07/07/06	15,265	15,000
5.50%, issued 06/23/06, due 07/07/06	20,043	20,000	4.91%, issued 03/03/06, due 07/07/06	20,344	20,000
<b>Goldman Sachs &amp; Co.</b>			5.00%, issued 03/30/06, due 07/07/06	25,344	25,000
Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$236,640			5.05%, issued 06/02/06, due 07/07/06	50,245	50,000
5.28%, issued 06/30/06, due 07/03/06	217,223	217,000	5.08%, issued 04/03/06, due 07/07/06	20,268	20,000
4.96%, issued 03/16/06, due 07/07/06	15,234	15,000	5.15%, issued 05/24/06, due 07/07/06	40,252	40,000
<b>Morgan Stanley &amp; Co., Inc.</b>			5.18%, issued 05/04/06, due 07/07/06	10,092	10,000
Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$56,100			5.20%, issued 04/27/06, due 07/07/06	13,133	13,000
4.94%, issued 04/05/06, due 07/06/06	30,379	30,000	5.21%, issued 05/19/06, due 07/07/06	25,177	25,000
5.01%, issued 03/24/06, due 07/07/06	25,365	25,000	5.26%, issued 06/09/06, due 07/07/06	30,123	30,000
<b>UBS Financial Services, Inc.</b>			5.28%, issued 06/06/06, due 07/07/06	10,045	10,000
Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$576,352			5.29%, issued 06/20/06, due 07/07/06	20,050	20,000
4.61%, issued 01/03/06, due 07/03/06	20,464	20,000	5.30%, issued 06/01/06, due 07/07/06	20,106	20,000
4.59%, issued 01/04/06, due 07/05/06	25,580	25,000	5.30%, issued 06/12/06, due 07/07/06	30,110	30,000
4.70%, issued 01/26/06, due 07/07/06	25,529	25,000	5.31%, issued 06/23/06, due 07/07/06	25,052	25,000
			5.33%, issued 06/26/06, due 07/07/06	30,049	30,000



## Schwab Government Money Fund

### Portfolio Holdings (Unaudited) continued

Security	Maturity Amount (\$ x 1,000)	Value (\$ x 1,000)
5.35%, issued 06/14/06, due 07/07/06	30,103	30,000
5.42%, issued 06/15/06, due 07/07/06	12,040	12,000
		<u>2,175,275</u>

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#### End of Investments.

At 06/30/06, the cost of the fund's investments was \$2,700,366.

## Schwab Government Money Fund

Statement of

### Assets and Liabilities

As of June 30, 2006; unaudited. All numbers x 1,000 except NAV.

#### Assets

Investments, at cost and value	\$525,091
Repurchase agreements, at cost and value	2,175,275
Receivables:	
Fund shares sold	60,560
Interest	12,684
Prepaid expenses	+ 189
<b>Total assets</b>	<b>2,773,799</b>

#### Liabilities

Payables:	
Dividends to shareholders	4,809
Investments bought	54,262
Fund shares redeemed	30,370
Investment adviser and administrator fees	61
Transfer agent and shareholder services fees	99
Trustees' fees	5
Accrued expenses	+ 78
<b>Total liabilities</b>	<b>89,684</b>

#### Net Assets

<b>Total assets</b>	2,773,799
<b>Total liabilities</b>	- 89,684
<b>Net assets</b>	<b>\$2,684,115</b>

#### Net Assets by Source

Capital received from investors	2,684,448
Net realized capital losses	(333)

#### Net Asset Value (NAV)

<b>Net Assets</b>	<b>÷</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$2,684,115		2,685,227		\$1.00

## Schwab Government Money Fund

### Statement of

### Operations

For January 1, 2006 through June 30, 2006; unaudited. All numbers x 1,000 except NAV.

#### Investment Income

Interest	<b>\$58,857</b>
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#### Expenses

Investment adviser and administrator fees	4,512
Transfer agent and shareholder service fees	5,610
Trustees' fees	12
Custodian fees	51
Portfolio accounting fees	35
Professional fees	15
Registration fees	70
Shareholder reports	69
Other expenses	+ 10
Total expenses	10,384
Expense reduction	- 1,034
<b>Net expenses</b>	<b>9,350</b>

#### Increase in Net Assets from Operations

Total investment income	58,857
Net expenses	- 9,350
<b>Net investment income</b>	<b>49,507</b>
<b>Increase in net assets from operations</b>	<b>\$49,507</b>

## Schwab Government Money Fund

Statements of

### Changes in Net Assets

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

Figures for current period are unaudited.

#### Operations

	1/1/06-6/30/06	1/1/05-12/31/06
Net investment income	\$49,507	\$61,866
<b>Increase in net assets from operations</b>	<b>49,507</b>	<b>61,866</b>

#### Distributions Paid

Dividends from net investment income	<b>49,507</b>	<b>61,866</b>
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#### Transactions in Fund Shares\*

Shares sold	5,276,689	8,304,873
Shares reinvested	44,554	61,036
Shares redeemed	+ (5,107,711)	(8,430,592)
<b>Net transactions in fund shares</b>	<b>213,532</b>	<b>(64,683)</b>

#### Net Assets

Beginning of period	2,470,583	2,535,266
Total increase or decrease	+ 213,532	(64,683)
<b>End of period</b>	<b>\$2,684,115</b>	<b>\$2,470,583</b>

\* Transactions took place at \$1.00 per share; figures for share quantities are the same as for dollars.

# Schwab U.S. Treasury Money Fund™

## Financial Statements

### Financial Highlights

	1/1/06– 6/30/06*	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	1.00
Income from investment operations:						
Net investment income	0.02	0.02	0.01	0.00 <sup>1</sup>	0.01	0.04
Less distributions:						
Dividends from net investment income	(0.02)	(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	1.00
Total return (%)	1.90 <sup>2</sup>	2.36	0.62	0.49	1.15	3.61
<b>Ratios/Supplemental Data (%)</b>						
Ratios to average net assets:						
Net operating expenses	0.63 <sup>3</sup>	0.64	0.65	0.65	0.65	0.65
Gross operating expenses	0.82 <sup>3</sup>	0.83	0.82	0.82	0.82	0.84
Net investment income	3.80 <sup>3</sup>	2.32	0.61	0.49	1.15	3.44
Net assets, end of period (\$ x 1,000,000)	3,469	3,574	3,811	4,046	4,323	4,042

\* Unaudited.

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

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

See financial notes. 15

## Schwab U.S. Treasury Money Fund

### Portfolio Holdings as of June 30, 2006 (Unaudited)

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

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be viewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on a fund's most recent Form N-Q is also 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 and the maturity date shown is the next interest rate change date.

Holdings by Category	Cost (\$ x 1,000)	Value (\$ x 1,000)
<b>101.3% U.S. Government Securities</b>	3,515,067	3,515,067
<b>101.3% Total Investments</b>	<b>3,515,067</b>	<b>3,515,067</b>
<b>(1.3)% Other Assets and Liabilities</b>		(46,234)
<b>100.0% Net Assets</b>		<b>3,468,833</b>

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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### U.S. Government Securities 101.3% of net assets

#### Treasury Bills 87.3%

<b>U.S. Treasury Bills</b>		
4.35%, 07/06/06	32,390	32,371
4.59%, 07/06/06	35,780	35,757
4.62%, 07/06/06	35,000	34,978
4.71%, 07/06/06	257,825	257,657
4.73%, 07/06/06	30,000	29,980
4.24%, 07/13/06	35,000	34,951
4.45%, 07/13/06	50,000	49,926
4.50%, 07/20/06	18,365	18,322
4.53%, 07/20/06	52,940	52,814
4.66%, 07/20/06	40,000	39,903
4.45%, 07/27/06	20,000	19,937
4.50%, 07/27/06	35,000	34,889
4.51%, 07/27/06	25,000	24,920
4.59%, 07/27/06	15,650	15,599
4.66%, 07/27/06	45,010	44,859
4.74%, 08/03/06	9,655	9,614
4.59%, 08/10/06	1,365	1,358
4.61%, 08/10/06	16,675	16,592
4.76%, 08/10/06	77,170	76,766
4.77%, 08/10/06	50,000	49,738
4.78%, 08/10/06	1,145	1,139
4.81%, 08/10/06	37,365	37,167
4.76%, 08/17/06	12,740	12,662
4.78%, 08/17/06	170,000	168,953
4.81%, 08/17/06	75,000	74,534
4.79%, 08/24/06	100,000	99,293
4.80%, 08/24/06	100,000	99,289
4.79%, 08/31/06	150,000	148,797
4.80%, 08/31/06	50,000	49,598
4.82%, 09/07/06	50,000	49,550
4.84%, 09/07/06	30,420	30,146
4.71%, 09/14/06	14,000	13,866
4.75%, 09/14/06	40,000	39,613
4.82%, 09/14/06	100,000	99,008
4.85%, 09/14/06	6,635	6,569
4.73%, 09/21/06	40,000	39,580
4.84%, 09/21/06	85,000	84,077
4.90%, 09/21/06	100,000	98,898
4.91%, 09/21/06	1,320	1,305

## Schwab U.S. Treasury Money Fund

### Portfolio Holdings (Unaudited) continued

Issuer Rate, Maturity Date	Face Value (\$ x 1,000)	Value (\$ x 1,000)
4.75%, 09/28/06	6,090	6,020
4.77%, 09/28/06	3,090	3,054
4.85%, 09/28/06	40,005	39,533
4.86%, 09/28/06	53,045	52,418
4.88%, 09/28/06	37,290	36,846
4.95%, 09/28/06	130,000	128,428
4.96%, 09/28/06	45,000	44,455
4.78%, 10/05/06	40,000	39,502
4.80%, 10/05/06	115,000	113,562
4.81%, 10/12/06	40,000	39,463
5.03%, 10/12/06	40,000	39,433
4.93%, 11/02/06	50,000	49,172
4.90%, 11/09/06	14,610	14,356
4.91%, 11/09/06	40,000	39,303
4.92%, 11/09/06	30,000	29,476
4.92%, 11/16/06	25,000	24,540
4.95%, 11/16/06	25,000	24,537
4.93%, 11/30/06	50,000	48,985
4.93%, 11/30/06	50,000	48,984
4.96%, 11/30/06	25,000	24,490
4.97%, 11/30/06	30,000	29,386
5.01%, 12/14/06	30,000	29,324
5.05%, 12/14/06	25,000	24,432
5.15%, 12/14/06	11,600	11,331
5.18%, 12/21/06	30,000	29,272
5.20%, 12/28/06	25,000	24,367
		<b>3,029,644</b>

### Treasury Notes 14.0%

<b>U.S. Treasury Notes</b>		
7.00%, 07/15/06	258,660	258,895
2.75%, 07/31/06	42,735	42,663
2.38%, 08/15/06	90,000	89,737
2.63%, 11/15/06	80,000	79,259
2.88%, 11/30/06	15,000	14,869
		<b>485,423</b>

### End of Investments.

At 6/30/06, the cost of the fund's investments was \$3,515,067.

## Schwab U.S. Treasury Money Fund

Statement of

### Assets and Liabilities

As of June 30, 2006; unaudited. All numbers x 1,000 except NAV.

#### Assets

Investments, at cost and value	\$3,515,067
Receivables:	
Fund shares sold	78,778
Interest	9,870
Prepaid expenses	+ 64
<b>Total assets</b>	<b>3,603,779</b>

#### Liabilities

Payables:	
Fund shares redeemed	128,675
Dividends to shareholders	6,015
Investment adviser and administrator fees	49
Transfer agent and shareholder services fees	130
Trustees' fees	5
Accrued expenses	+ 72
<b>Total liabilities</b>	<b>134,946</b>

#### Net Assets

<b>Total assets</b>	3,603,779
<b>Total liabilities</b>	- 134,946
<b>Net assets</b>	<b>\$3,468,833</b>

#### Net Assets by Source

Capital received from investors	3,469,951
Net realized capital losses	(1,118)

#### Net Asset Value (NAV)

<b>Net Assets</b>	<b>÷</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$3,468,833		3,470,071		\$1.00



## Schwab U.S. Treasury Money Fund

### Statement of

### Operations

For January 1, 2006 through June 30, 2006; unaudited. All numbers x 1,000 except NAV.

#### Investment Income

Interest	\$75,251
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#### Net Realized Gains and Losses

Net realized losses on investments sold	(74)
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#### Expenses

Investment adviser and administrator fees	6,092
Transfer agent and shareholder service fees	7,642
Trustees' fees	14
Custodian fees	72
Portfolio accounting fees	45
Professional fees	17
Registration fees	47
Shareholder reports	46
Other expenses	+ 17
Total expenses	13,992
Expense reduction	- 3,293
<b>Net expenses</b>	<b>10,699</b>

#### Increase in Net Assets from Operations

Total investment income	75,251
Net expenses	- 10,699
<b>Net investment income</b>	<b>64,552</b>
Net realized losses	+ (74)
<b>Increase in net assets from operations</b>	<b>\$64,478</b>

## Schwab U.S. Treasury Money Fund

Statements of

### Changes in Net Assets

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

Figures for current period are unaudited.

#### Operations

	1/1/06-6/30/06	1/1/05-12/31/06
Net investment income	\$64,552	\$83,240
Net realized losses	+ (74)	(36)
<b>Increase in net assets from operations</b>	<b>64,478</b>	<b>83,204</b>

#### Distributions Paid

Dividends from net investment income	<b>64,552</b>	<b>83,240</b>
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#### Transactions in Fund Shares\*

Shares sold	6,854,399	12,062,775
Shares reinvested	58,351	82,101
Shares redeemed	+ (7,018,238)	(12,381,488)
<b>Net transactions in fund shares</b>	<b>(105,488)</b>	<b>(236,612)</b>

#### Net Assets

Beginning of period	3,574,395	3,811,043
Total decrease	+ (105,562)	(236,648)
<b>End of period</b>	<b>\$3,468,833</b>	<b>\$3,574,395</b>

\*Transactions took place at \$1.00 per share; figures for share quantities are the same as for dollars.

# Schwab Value Advantage Money Fund™

## Financial Statements

### Financial Highlights

Investor Shares	1/1/06– 6/30/06*	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
Per-Share Data (\$)						
Net asset value at beginning of period	1.00	1.00	1.00	1.00	1.00	1.00
Income from investment operations:						
Net investment income	0.02	0.03	0.01	0.01	0.02	0.04
Less distributions:						
Dividends from net investment income	(0.02)	(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	1.00
Total return (%)	2.16 <sup>2</sup>	2.86	0.98	0.80	1.55	4.05
Ratios/Supplemental Data (%)						
Ratios to average net assets:						
Net operating expenses	0.45 <sup>3</sup>	0.45	0.45	0.45	0.45	0.43
Gross operating expenses	0.56 <sup>3</sup>	0.56	0.56	0.55	0.54	0.56
Net investment income	4.32 <sup>3</sup>	2.83	0.97	0.81	1.55	3.92
Net assets, end of period (\$ x 1,000,000)	29,250	24,112	23,365	28,860	38,728	44,247
Select Shares	1/1/06– 6/30/06*	1/1/05– 12/31/05	1/1/04– 12/31/04	2/28/03 <sup>1</sup> – 12/31/03		
Per-Share Data (\$)						
Net asset value at beginning of period	1.00	1.00	1.00	1.00		
Income from investment operations:						
Net investment income	0.02	0.03	0.01	0.01		
Less distributions:						
Dividends from net investment income	(0.02)	(0.03)	(0.01)	(0.01)		
Net asset value at end of period	1.00	1.00	1.00	1.00		
Total return (%)	2.21 <sup>2</sup>	2.96	1.09	0.72 <sup>2</sup>		
Ratios/Supplemental Data (%)						
Ratios to average net assets:						
Net operating expenses	0.35 <sup>3</sup>	0.35	0.35	0.35 <sup>3</sup>		
Gross operating expenses	0.56 <sup>3</sup>	0.56	0.56	0.55 <sup>3</sup>		
Net investment income	4.43 <sup>3</sup>	3.03	1.10	0.83 <sup>3</sup>		
Net assets, end of period (\$ x 1,000,000)	3,473	2,325	1,209	1,013		

\* Unaudited.

<sup>1</sup> Commencement of operations.

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

See financial notes. 21

Schwab Value Advantage Money Fund

Institutional Shares	1/1/06– 6/30/06*	1/1/05– 12/31/05	1/1/04– 12/31/04	1/1/03– 12/31/03	7/1/02¹– 12/31/02
<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	0.03	0.01	0.01	0.01
Less distributions:					
Dividends from net investment income	(0.02)	(0.03)	(0.01)	(0.01)	(0.01)
Net asset value at end of period	1.00	1.00	1.00	1.00	1.00
Total return (%)	2.26²	3.08	1.20	1.01	0.81²
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.24³	0.24	0.24	0.24	0.24³
Gross operating expenses	0.56³	0.56	0.56	0.55	0.55³
Net investment income	4.54³	3.11	1.20	1.00	1.57³
Net assets, end of period (\$ x 1,000,000)	2,880	1,929	1,054	720	521

\* Unaudited.

¹ Commencement of operations.

² Not annualized.

³ Annualized.

22 See financial notes.

## Schwab Value Advantage Money Fund

### Portfolio Holdings as of June 30, 2006 (Unaudited)

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

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be viewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on a fund's most recent Form N-Q is also 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 and the maturity date shown is the next interest rate change date.

Holdings by Category	Cost (\$x1,000)	Value (\$x1,000)
<b>78.1% Fixed-Rate Obligations</b>	27,784,315	27,784,315
<b>13.0% Variable-Rate Obligations</b>	4,624,274	4,624,274
<b>8.6% Other Investments</b>	3,074,190	3,074,190
<b>99.7% Total Investments</b>	<b>35,482,779</b>	<b>35,482,779</b>
<b>0.3% Other Assets and Liabilities</b>		119,240
<b>100.0% Net Assets</b>		<b>35,602,019</b>

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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### Fixed-Rate Obligations 78.1% of net assets

#### Bank Notes 2.7%

<b>Bank of America, N.A.</b>		
4.97%, 07/11/06	118,000	118,000
5.09%, 07/21/06	150,000	150,000
5.05%, 07/25/06	307,000	307,000
5.12%, 07/27/06	100,000	100,000
5.08%, 08/04/06	196,000	196,000
5.23%, 09/05/06	95,000	95,000
		<b>966,000</b>

#### Certificates of Deposit 21.9%

##### Australia & New Zealand

<b>Banking Group Ltd.</b>		
5.15%, 10/04/06	87,000	87,000

<b>Banca Intesa</b>		
5.49%, 09/29/06	350,000	350,004

<b>Banco Bilbao Vizcaya Argentaria S.A.</b>		
5.20%, 08/11/06	355,000	355,000

<b>Bank of Tokyo - Mitsubishi UFJ, Ltd.</b>		
5.16%, 08/01/06	265,000	265,000

<b>Barclays Bank PLC</b>		
5.12%, 08/09/06	105,000	105,000
5.18%, 08/24/06	64,000	64,000

<b>BNP Paribas</b>		
4.63%, 07/10/06	30,000	30,000
4.83%, 07/21/06	201,000	201,000
4.98%, 07/31/06	150,000	150,000
5.09%, 10/03/06	133,000	133,000
5.26%, 11/02/06	120,000	119,963

<b>Calyon</b>		
5.05%, 08/10/06	77,000	77,000
5.27%, 11/27/06	65,000	65,000

<b>Canadian Imperial Bank of Commerce</b>		
5.08%, 08/24/06	116,000	116,001

<b>Citibank, N.A.</b>		
5.13%, 08/15/06	255,000	255,000
5.13%, 08/17/06	59,000	59,000
5.17%, 08/24/06	164,000	164,000
5.20%, 08/31/06	23,000	23,000
5.23%, 09/05/06	25,000	25,000

See financial notes. 23

## Portfolio Holdings (Unaudited) 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)
5.37%, 09/18/06	74,000	74,000	<b>San Paolo IMI SpA</b>		
5.40%, 09/20/06	115,000	115,000	4.62%, 07/06/06	118,000	118,000
<b>Credit Agricole S.A.</b>			4.63%, 07/06/06	100,000	100,000
5.03%, 09/29/06	117,000	117,001	<b>Skandinaviska Enskilda Banken AB</b>		
<b>Credit Suisse</b>			5.17%, 07/14/06	100,000	100,000
4.66%, 07/03/06	10,000	10,000	<b>Societe Generale</b>		
5.09%, 08/24/06	116,000	116,000	4.63%, 07/11/06	45,000	45,000
5.39%, 08/31/06	278,000	278,000	4.96%, 07/20/06	100,000	99,983
5.11%, 10/02/06	123,000	123,000	<b>Sumitomo Mitsui Banking Corp.</b>		
5.23%, 11/13/06	110,000	110,000	5.10%, 07/06/06	147,000	147,000
<b>DePfa Bank, PLC</b>			5.29%, 07/25/06	132,000	132,000
5.16%, 08/02/06	70,000	70,000	<b>Sumitomo Trust &amp; Banking Co.</b>		
<b>Deutsche Bank, AG</b>			5.13%, 10/05/06	113,000	113,000
4.63%, 07/14/06	160,000	160,000	5.35%, 12/05/06	10,000	10,000
4.96%, 07/24/06	79,000	78,985	<b>Svenska Handelsbanken AB</b>		
4.62%, 10/26/06	150,000	150,000	5.20%, 08/14/06	145,000	145,000
4.85%, 01/26/07	80,000	80,000	<b>Toronto Dominion Bank</b>		
5.01%, 02/09/07	41,000	41,000	5.13%, 08/16/06	49,000	49,000
<b>First Tennessee Bank, N.A.</b>			5.11%, 10/05/06	300,000	300,000
5.08%, 07/28/06	46,000	46,000	5.34%, 12/01/06	33,000	33,000
<b>HSH Nordbank, AG</b>			<b>Unicredito Italiano SpA</b>		
5.27%, 09/13/06	48,000	48,000	5.03%, 07/21/06	43,000	43,000
<b>ING Bank, N.V.</b>			5.12%, 08/10/06	118,000	118,000
5.08%, 07/27/06	146,000	146,000	5.24%, 09/08/06	254,000	254,000
<b>Landesbank Baden-Wuerttemberg</b>			5.30%, 09/15/06	100,000	100,000
4.63%, 07/10/06	190,000	190,000	5.23%, 11/17/06	32,000	32,000
5.46%, 09/26/06	5,000	5,000	5.23%, 11/20/06	38,000	38,000
5.49%, 12/20/06	155,000	155,000	5.48%, 12/19/06	46,000	46,000
<b>Mitsubishi UFJ Trust &amp; Banking Corp.</b>			<b>Washington Mutual Bank</b>		
5.01%, 09/07/06	23,000	23,000	5.22%, 11/15/06	228,000	228,000
5.18%, 10/13/06	50,000	50,000	5.37%, 12/04/06	15,000	14,995
5.20%, 10/19/06	50,000	50,000	<b>Wells Fargo Bank, N.A.</b>		
5.19%, 10/27/06	60,000	60,000	5.19%, 07/31/06	35,000	35,000
5.27%, 11/20/06	50,000	50,000	<b>Wilmington Trust Co.</b>		
5.29%, 11/27/06	48,000	48,000	5.19%, 10/13/06	32,000	32,000
5.50%, 12/19/06	15,000	15,000			<b>7,795,932</b>
<b>Mizuho Corp. Bank Ltd.</b>			<b>Commercial Paper &amp; Other Corporate Obligations 52.6%</b>		
4.85%, 07/14/06	15,000	15,000	<b>AB Spintab</b>		
5.12%, 08/04/06	65,000	65,000	5.16%, 07/31/06	146,700	146,074
5.14%, 08/08/06	105,000	105,000	5.16%, 08/07/06	55,000	54,711
5.29%, 09/13/06	65,000	65,000	5.48%, 09/27/06	10,000	9,868
5.19%, 10/25/06	90,000	90,000	<b>Alliance &amp; Leicester, PLC</b>		
<b>Morgan Stanley Bank</b>			5.11%, 08/03/06 (c)	5,000	4,977
5.28%, 07/26/06	70,000	70,000			

Schwab Value Advantage Money Fund

**Portfolio Holdings** (Unaudited) 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)
4.88%, 08/10/06 (c)	48,000	47,746	<b>Atlantis One Funding Corp.</b>		
5.20%, 09/01/06 (c)	55,000	54,514	5.29%, 07/25/06 (b)(c)	100,000	99,649
5.23%, 09/01/06 (c)	21,000	20,813	5.26%, 09/07/06 (b)(c)	66,000	65,353
4.99%, 09/06/06 (c)	46,515	46,093	5.00%, 09/20/06 (b)(c)	206,000	203,738
5.28%, 09/12/06 (c)	25,000	24,736	5.03%, 09/28/06 (b)(c)	4,000	3,952
5.00%, 09/21/06 (c)	38,000	37,578	5.21%, 10/27/06 (b)(c)	55,000	54,086
<b>Amstel Funding Corp.</b>			5.25%, 11/20/06 (b)(c)	150,000	146,977
5.00%, 07/10/06 (b)(c)	12,000	11,985	5.27%, 11/27/06 (b)(c)	66,808	65,389
5.09%, 07/17/06 (b)(c)	62,000	61,861	5.50%, 12/18/06 (b)(c)	129,000	125,744
5.18%, 08/21/06 (b)(c)	141,554	140,529	5.30%, 02/02/07 (b)(c)	49,000	47,502
5.20%, 08/29/06 (b)(c)	92,010	91,236	<b>Bank of America Corp.</b>		
5.38%, 09/15/06 (b)(c)	36,000	35,597	4.84%, 07/17/06	290,000	289,389
5.48%, 09/26/06 (b)(c)	10,000	9,869	4.92%, 08/24/06	107,000	106,230
<b>Amsterdam Funding Corp.</b>			5.17%, 08/24/06	97,000	96,257
5.18%, 07/24/06 (a)(b)(c)	150,000	149,506	5.20%, 09/01/06	110,000	109,028
5.19%, 07/25/06 (a)(b)(c)	60,000	59,794	5.27%, 09/08/06	15,000	14,850
5.23%, 09/05/06 (a)(b)(c)	86,600	85,782	5.28%, 09/13/06	15,000	14,839
5.25%, 09/06/06 (a)(b)(c)	100,000	99,036	5.43%, 09/25/06	250,000	246,805
<b>Anglo Irish Bank Corp., PLC</b>			5.27%, 11/28/06	100,000	97,862
5.14%, 07/28/06 (c)	25,000	24,905	5.50%, 12/18/06	14,000	13,647
5.20%, 08/29/06 (c)	15,000	14,874	<b>Bank of Ireland</b>		
<b>Aquinas Funding, L.L.C.</b>			5.17%, 11/01/06 (c)	5,651	5,554
5.27%, 07/21/06 (a)(b)(c)	45,000	44,869	<b>Barclays U. S. Funding Corp.</b>		
5.09%, 08/01/06 (a)(b)(c)	20,000	19,914	5.03%, 07/19/06 (a)	178,000	177,558
5.19%, 08/28/06 (a)(b)(c)	22,000	21,819	<b>Bear Stearns Companies, Inc.</b>		
5.19%, 08/29/06 (a)(b)(c)	24,000	23,799	5.39%, 08/28/06	134,000	132,847
5.45%, 09/18/06 (a)(b)(c)	19,000	18,776	5.00%, 09/14/06	124,000	122,739
5.42%, 09/20/06 (a)(b)(c)	30,000	29,639	5.42%, 09/20/06	77,000	76,073
<b>ASAP Funding Ltd.</b>			5.11%, 10/03/06	75,000	74,025
4.97%, 07/07/06 (a)(b)(c)	15,000	14,988	<b>Beta Finance, Inc.</b>		
5.12%, 07/07/06 (a)(b)(c)	74,000	73,937	4.97%, 07/10/06 (b)(c)	39,000	38,952
5.04%, 07/13/06 (a)(b)(c)	11,000	10,982	5.04%, 07/21/06 (b)(c)	27,000	26,925
5.13%, 08/01/06 (a)(b)(c)	34,000	33,852	5.48%, 09/28/06 (b)(c)	96,000	94,718
5.12%, 08/02/06 (a)(b)(c)	16,000	15,928	<b>Blue Spice, L.L.C.</b>		
5.13%, 08/03/06 (a)(b)(c)	82,000	81,620	5.10%, 08/04/06 (a)(b)(c)(d)	4,000	3,981
<b>Atlantic Asset Securitization, L.L.C.</b>			5.17%, 10/25/06 (a)(b)(c)(d)	140,000	137,726
5.27%, 07/21/06 (a)(b)(c)	43,221	43,095	<b>Cancara Asset Securitization, L.L.C.</b>		
5.14%, 08/08/06 (a)(b)(c)	20,000	19,893	5.26%, 07/07/06 (a)(b)(c)	125,808	125,698
5.14%, 08/15/06 (a)(b)(c)	40,000	39,746	5.03%, 07/18/06 (a)(b)(c)	19,000	18,955
5.29%, 09/11/06 (a)(b)(c)	29,686	29,376	5.29%, 07/24/06 (a)(b)(c)	33,000	32,889
5.33%, 09/12/06 (a)(b)(c)	13,000	12,861	5.13%, 08/11/06 (a)(b)(c)	142,000	141,181
5.46%, 09/15/06 (a)(b)(c)	28,917	28,588	5.15%, 08/17/06 (a)(b)(c)	12,000	11,920
5.47%, 09/21/06 (a)(b)(c)	50,000	49,385	5.23%, 09/01/06 (a)(b)(c)	4,485	4,445
			5.28%, 09/12/06 (a)(b)(c)	20,549	20,332

See financial notes. 25

Schwab Value Advantage Money Fund

**Portfolio Holdings** (Unaudited) 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>Dakota CP Notes of Citibank</b>		
4.93%, 08/02/06 (a)	3,000	2,987	<b>Credit Card Issuance Trust</b>		
<b>CC (USA), Inc.</b>			4.96%, 07/06/06 (b)(c)	42,000	41,971
5.10%, 07/17/06 (b)(c)	25,000	24,944	4.96%, 07/07/06 (b)(c)	45,000	44,963
5.03%, 07/20/06 (b)(c)	37,000	36,903	5.28%, 07/20/06 (b)(c)	15,000	14,958
5.31%, 07/27/06 (b)(c)	33,000	32,874	5.27%, 07/21/06 (b)(c)	48,000	47,860
5.00%, 08/03/06 (b)(c)	10,000	9,955	5.26%, 07/24/06 (b)(c)	90,000	89,699
4.88%, 08/15/06 (b)(c)	4,500	4,473	5.11%, 08/02/06 (b)(c)	75,000	74,663
5.19%, 08/29/06 (b)(c)	29,000	28,757	5.32%, 08/02/06 (b)(c)	115,000	114,459
5.27%, 09/11/06 (b)(c)	65,000	64,324	5.18%, 08/03/06 (b)(c)	59,065	58,787
5.31%, 09/15/06 (b)(c)	60,000	59,336	5.12%, 08/09/06 (b)(c)	50,000	49,726
5.42%, 09/22/06 (b)(c)	14,000	13,827	5.24%, 09/07/06 (b)(c)	35,000	34,658
5.17%, 10/25/06 (b)(c)	50,000	49,188	5.31%, 09/14/06 (b)(c)	72,000	71,214
<b>Citigroup Funding, Inc.</b>			5.41%, 09/21/06 (b)(c)	186,000	183,742
5.12%, 07/26/06 (a)	181,000	180,365	<b>Danske Corp.</b>		
5.10%, 08/01/06 (a)	130,000	129,437	5.17%, 10/31/06 (a)(c)	36,000	35,385
5.12%, 08/02/06 (a)	95,000	94,574	5.28%, 12/04/06 (a)(c)	25,000	24,443
5.36%, 09/13/06 (a)	188,000	185,956	<b>Dexia Delaware, L.L.C.</b>		
5.42%, 09/19/06 (a)	150,000	148,218	5.31%, 08/04/06 (a)	100,000	99,501
5.03%, 09/21/06 (a)	166,000	164,143	<b>DnB NOR Bank ASA</b>		
<b>Clipper Receivables Co., L.L.C.</b>			4.96%, 07/05/06	3,000	2,998
5.25%, 07/18/06 (a)(b)(c)	95,000	94,765	5.27%, 11/27/06	3,000	2,936
5.04%, 07/20/06 (a)(b)(c)	137,629	137,268	<b>Dorada Finance, Inc.</b>		
5.03%, 07/20/06 (a)(b)(c)	6,637	6,620	5.09%, 07/31/06 (b)(c)	9,000	8,962
5.28%, 07/27/06 (a)(b)(c)	191,528	190,802	5.42%, 08/31/06 (b)(c)	33,000	32,700
5.31%, 07/27/06 (a)(b)(c)	50,000	49,809	5.42%, 09/22/06 (b)(c)	23,000	22,717
<b>Concord Minutemen Capital Co., Series A</b>			<b>Edison Asset Securitization Corp., L.L.C.</b>		
5.11%, 07/07/06 (a)(b)(c)	30,160	30,134	5.02%, 07/17/06 (a)(b)(c)	100,000	99,780
5.00%, 07/10/06 (a)(b)(c)	147,000	146,818	5.33%, 11/28/06 (a)(b)(c)	48,000	46,961
5.09%, 07/10/06 (a)(b)(c)	26,047	26,014	<b>Fairway Finance Co., L.L.C.</b>		
4.67%, 07/11/06 (a)(b)(c)	47,421	47,361	5.21%, 09/05/06 (a)(b)(c)	1,000	991
4.89%, 08/14/06 (a)(b)(c)	14,000	13,918	<b>Falcon Asset Securitization Corp.</b>		
5.27%, 09/12/06 (a)(b)(c)	131,403	130,017	5.08%, 07/07/06 (a)(b)(c)	142,688	142,568
5.27%, 11/20/06 (a)(b)(c)	27,000	26,454	5.26%, 07/20/06 (a)(b)(c)	21,120	21,062
<b>Crown Point Capital Co., L.L.C.</b>			5.26%, 07/21/06 (a)(b)(c)	41,475	41,354
5.00%, 07/10/06 (a)(b)(c)	25,623	25,591	5.29%, 07/24/06 (a)(b)(c)	101,479	101,138
4.68%, 07/18/06 (a)(b)(c)	100,000	99,784	5.31%, 07/25/06 (a)(b)(c)	75,000	74,736
5.10%, 07/18/06 (a)(b)(c)	10,000	9,976	<b>Five Finance, Inc.</b>		
5.12%, 08/07/06 (a)(b)(c)	54,152	53,871	5.09%, 07/28/06 (b)(c)	32,000	31,880
5.12%, 08/08/06 (a)(b)(c)	60,000	59,680	5.17%, 08/14/06 (b)(c)	43,000	42,731
5.31%, 09/14/06 (a)(b)(c)	87,508	86,553	5.27%, 08/15/06 (b)(c)	45,000	44,706
5.39%, 09/15/06 (a)(b)(c)	31,894	31,536	5.48%, 09/15/06 (b)(c)	7,000	6,920
5.43%, 09/22/06 (a)(b)(c)	4,000	3,951	5.17%, 10/26/06 (b)(c)	35,000	34,427
5.20%, 10/20/06 (a)(b)(c)	65,000	63,984	5.23%, 11/15/06 (b)(c)	4,000	3,923



## Portfolio Holdings (Unaudited) 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>ForeningsSparbanken AB (Swedbank, Inc.)</b>			<b>IXIS Commercial Paper Corp.</b>		
4.89%, 08/14/06	75,000	74,563	5.48%, 10/03/06 (a)(c)	50,000	49,295
4.92%, 08/24/06	35,000	34,748	<b>Jupiter Securitization Corp.</b>		
<b>Fortis Banque Luxembourg</b>			5.08%, 07/07/06 (a)(b)(c)	121,570	121,467
4.97%, 07/12/06	66,000	65,901	<b>K2 (USA), L.L.C.</b>		
<b>Galaxy Funding, Inc.</b>			4.98%, 07/06/06 (b)(c)	47,000	46,968
5.09%, 07/31/06 (b)(c)	20,000	19,916	5.25%, 07/17/06 (b)(c)	13,000	12,970
5.30%, 08/17/06 (b)(c)	7,000	6,952	4.93%, 08/25/06 (b)(c)	64,300	63,827
5.27%, 09/11/06 (b)(c)	25,000	24,740	4.99%, 09/08/06 (b)(c)	24,000	23,776
5.28%, 09/13/06 (b)(c)	40,000	39,572	5.01%, 09/12/06 (b)(c)	62,000	61,385
5.48%, 09/27/06 (b)(c)	16,000	15,789	5.38%, 09/13/06 (b)(c)	9,000	8,902
<b>General Electric Capital Corp.</b>			5.47%, 09/25/06 (b)(c)	3,400	3,356
5.26%, 07/03/06	800,000	799,766	<b>KBC Financial Products International, Ltd.</b>		
5.00%, 07/17/06	195,000	194,572	5.01%, 08/01/06 (a)(c)	74,000	73,686
5.29%, 02/02/07	44,000	42,656	5.22%, 09/01/06 (a)(c)	6,000	5,947
<b>General Electric Capital Services</b>			5.02%, 09/25/06 (a)(c)	60,000	59,298
4.72%, 09/22/06	192,000	189,981	5.24%, 11/09/06 (a)(c)	6,000	5,889
5.22%, 11/07/06	100,000	98,180	<b>Lexington Parker Capital Co., L.L.C.</b>		
<b>Grampian Funding, L.L.C.</b>			4.97%, 07/07/06 (a)(b)(c)	25,321	25,300
5.11%, 08/07/06 (a)(b)(c)	5,000	4,974	5.18%, 07/13/06 (a)(b)(c)	20,000	19,966
4.93%, 08/23/06 (a)(b)(c)	25,000	24,823	5.12%, 08/07/06 (a)(b)(c)	62,500	62,176
5.01%, 09/12/06 (a)(b)(c)	9,000	8,911	5.27%, 09/12/06 (a)(b)(c)	33,000	32,652
5.02%, 09/19/06 (a)(b)(c)	61,000	60,336	5.30%, 09/12/06 (a)(b)(c)	97,422	96,389
5.42%, 09/26/06 (a)(b)(c)	88,000	86,863	5.40%, 09/18/06 (a)(b)(c)	94,371	93,267
5.46%, 09/26/06 (a)(b)(c)	6,800	6,712	5.42%, 09/19/06 (a)(b)(c)	18,000	17,786
5.28%, 11/17/06 (a)(b)(c)	59,000	57,827	5.12%, 10/05/06 (a)(b)(c)	4,000	3,947
5.50%, 12/13/06 (a)(b)(c)	14,000	13,657	5.23%, 11/15/06 (a)(b)(c)	17,000	16,671
<b>HBOS Treasury Services, PLC</b>			5.27%, 11/15/06 (a)(b)(c)	20,000	19,609
5.08%, 08/02/06 (a)	134,000	133,403	5.28%, 11/15/06 (a)(b)(c)	21,000	20,588
5.11%, 08/07/06 (a)	45,000	44,767	5.33%, 11/15/06 (a)(b)(c)	25,000	24,505
5.19%, 08/29/06 (a)	50,000	49,580	<b>Links Finance, L.L.C.</b>		
5.45%, 09/25/06 (a)	5,000	4,936	4.97%, 07/06/06 (b)(c)	21,000	20,986
5.47%, 09/29/06 (a)	135,000	133,181	5.27%, 07/21/06 (b)(c)	25,000	24,927
<b>HSBC U.S.A., Inc.</b>			5.19%, 08/30/06 (b)(c)	29,000	28,753
5.22%, 11/10/06	86,000	84,397	<b>Mane Funding Corp.</b>		
5.22%, 11/13/06	33,000	32,371	5.09%, 08/01/06 (b)(c)	49,423	49,209
5.58%, 12/28/06	70,000	68,101	5.19%, 08/28/06 (b)(c)	21,393	21,217
<b>HSH Nordbanken, AG</b>			5.27%, 09/12/06 (b)(c)	48,000	47,494
5.31%, 09/13/06	83,000	82,106	5.45%, 09/25/06 (b)(c)	117,000	115,496
<b>Irish Life &amp; Permanent, PLC</b>			5.48%, 09/26/06 (b)(c)	65,000	64,152
4.84%, 07/19/06 (c)	39,000	38,908	<b>Mont Blanc Capital Corp.</b>		
5.08%, 07/26/06 (c)	2,000	1,993	5.04%, 07/20/06 (a)(b)(c)	12,343	12,311
5.31%, 08/21/06 (c)	23,250	23,077	5.26%, 07/20/06 (a)(b)(c)	50,000	49,862
5.36%, 12/08/06 (c)	50,000	48,840			

See financial notes. 27

## Portfolio Holdings (Unaudited) 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>Nieuw Amsterdam Receivables Corp.</b>			5.26%, 07/20/06 (a)(b)(c)	112,000	111,690
5.09%, 07/05/06 (a)(b)(c)	6,403	6,399	<b>San Paolo I M I U.S. Financial Co.</b>		
5.17%, 07/10/06 (a)(b)(c)	28,000	27,964	4.93%, 08/10/06 (a)	105,000	104,436
5.06%, 07/24/06 (a)(b)(c)	10,000	9,968	<b>Santander Central Hispano Finance (Delaware), Inc.</b>		
5.11%, 07/24/06 (a)(b)(c)	50,000	49,839	4.83%, 07/10/06 (a)	12,000	11,986
5.11%, 07/25/06 (a)(b)(c)	23,000	22,923	5.01%, 09/14/06 (a)	47,000	46,521
4.86%, 07/31/06 (a)(b)(c)	23,704	23,610	5.18%, 10/04/06 (a)	93,504	92,258
5.23%, 08/29/06 (a)(b)(c)	12,000	11,899	<b>Scaldis Capital Ltd.</b>		
5.38%, 09/15/06 (a)(b)(c)	22,000	21,754	5.25%, 07/20/06 (a)(b)(c)	169,000	168,534
5.47%, 09/25/06 (a)(b)(c)	4,000	3,948	5.13%, 07/25/06 (a)(b)(c)	13,631	13,585
5.04%, 09/27/06 (a)(b)(c)	30,792	30,422	5.12%, 08/08/06 (a)(b)(c)	47,000	46,749
5.37%, 12/11/06 (a)(b)(c)	16,000	15,621	5.18%, 08/24/06 (a)(b)(c)	32,476	32,227
<b>Nordea North America, Inc.</b>			5.20%, 08/29/06 (a)(b)(c)	40,823	40,480
5.22%, 09/01/06 (a)	26,000	25,769	5.19%, 08/29/06 (a)(b)(c)	32,000	31,731
5.44%, 09/08/06 (a)	5,100	5,047	5.20%, 08/31/06 (a)(b)(c)	5,000	4,956
<b>Northern Rock PLC</b>			5.30%, 09/13/06 (a)(b)(c)	100,000	98,925
5.20%, 08/28/06	10,545	10,458	5.30%, 09/15/06 (a)(b)(c)	24,569	24,298
5.36%, 09/15/06	100,000	98,883	5.37%, 09/15/06 (a)(b)(c)	167,921	166,042
<b>Park Avenue Receivables Co., L.L.C.</b>			5.46%, 09/26/06 (a)(b)(c)	80,000	78,960
5.08%, 07/06/06 (a)(b)(c)	51,225	51,189	<b>Sedna Finance, Inc.</b>		
5.14%, 07/12/06 (a)(b)(c)	4,000	3,994	5.39%, 08/01/06 (b)(c)	40,000	39,815
5.26%, 07/21/06 (a)(b)(c)	101,461	101,166	5.27%, 09/08/06 (b)(c)	7,000	6,930
5.28%, 07/24/06 (a)(b)(c)	29,000	28,903	<b>Sheffield Receivables Corp.</b>		
<b>Park Granada, L.L.C.</b>			5.14%, 07/24/06 (a)(b)(c)	134,000	133,563
4.97%, 07/05/06 (b)(c)	10,000	9,995	<b>Sigma Finance, Inc.</b>		
4.98%, 07/06/06 (b)(c)	30,000	29,979	4.82%, 07/06/06 (b)(c)	9,700	9,694
5.12%, 08/10/06 (b)(c)	40,000	39,776	4.65%, 07/18/06 (b)(c)	94,000	93,799
5.23%, 09/01/06 (b)(c)	150,000	148,667	5.18%, 08/25/06 (b)(c)	198,000	196,454
5.24%, 09/06/06 (b)(c)	3,000	2,971	4.94%, 08/31/06 (b)(c)	50,000	49,592
5.22%, 11/03/06 (b)(c)	30,000	29,470	5.28%, 09/15/06 (b)(c)	9,000	8,901
5.22%, 11/10/06 (b)(c)	6,000	5,888	5.25%, 11/20/06 (b)(c)	95,000	93,085
<b>Picaros Funding, L.L.C.</b>			5.28%, 11/27/06 (b)(c)	100,000	97,875
4.97%, 09/01/06 (a)(b)(c)	25,000	24,791	5.29%, 11/28/06 (b)(c)	42,000	41,099
5.44%, 09/08/06 (a)(b)(c)	7,000	6,928	5.34%, 12/01/06 (b)(c)	3,000	2,934
5.28%, 09/13/06 (a)(b)(c)	5,000	4,946	5.37%, 12/06/06 (b)(c)	40,000	39,083
5.05%, 09/25/06 (a)(b)(c)	95,503	94,381	<b>Skandinaviska Enskilda Banken AB</b>		
5.41%, 09/27/06 (a)(b)(c)	3,000	2,961	4.97%, 07/10/06	3,000	2,996
<b>Preferred Receivables Funding Corp.</b>			<b>Societe Generale North America, Inc.</b>		
5.31%, 07/26/06 (a)(b)(c)	136,166	135,667	4.66%, 07/05/06 (a)	160,000	159,919
5.28%, 09/13/06 (a)(b)(c)	81,829	80,953	5.00%, 07/11/06 (a)	126,000	125,827
<b>Ranger Funding Co., L.L.C.</b>			5.09%, 08/22/06 (a)	23,000	22,834
5.08%, 07/06/06 (a)(b)(c)	142,442	142,342			

Schwab Value Advantage Money Fund

**Portfolio Holdings** (Unaudited) continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Stadshypotek Delaware, Inc.</b>		
5.08%, 07/25/06 (a)(c)	17,150	17,093
<b>Thunder Bay Funding, L.L.C.</b>		
5.27%, 07/20/06 (a)(b)(c)	18,076	18,026
5.42%, 09/22/06 (a)(b)(c)	16,000	15,803
<b>Ticonderoga Funding, L.L.C.</b>		
5.08%, 07/07/06 (a)(b)(c)	35,616	35,586
5.26%, 07/17/06 (a)(b)(c)	50,000	49,884
5.29%, 07/25/06 (a)(b)(c)	7,000	6,975
<b>Tulip Funding Corp.</b>		
5.27%, 07/12/06 (a)(b)(c)	61,000	60,902
5.26%, 07/19/06 (a)(b)(c)	50,000	49,869
<b>UBS Finance (Delaware), Inc.</b>		
5.27%, 07/03/06 (a)	150,000	149,956
5.12%, 07/10/06 (a)	100,000	99,873
5.12%, 07/11/06 (a)	40,000	39,943
4.99%, 07/13/06 (a)	7,000	6,988
5.29%, 07/13/06 (a)	449,000	448,211
5.15%, 07/26/06 (a)	311,000	309,895
<b>Variable Funding Capital Corp.</b>		
5.01%, 07/11/06 (a)(b)(c)	100,000	99,862
5.03%, 07/18/06 (a)(b)(c)	30,000	29,930
<b>Westpac Banking Corp.</b>		
4.99%, 09/08/06 (c)	130,000	128,788
<b>WestpacTrust Securities NZ Ltd.</b>		
5.20%, 08/31/06 (a)(c)	100,000	99,131
<b>Whistlejacket Capital, L.L.C.</b>		
5.09%, 07/07/06 (b)(c)	13,007	12,996
4.88%, 08/15/06 (b)(c)	12,000	11,929
5.26%, 09/08/06 (b)(c)	15,000	14,851
5.27%, 09/11/06 (b)(c)	12,000	11,875
5.28%, 09/11/06 (b)(c)	9,000	8,906
5.38%, 09/11/06 (b)(c)	14,000	13,851
5.48%, 09/27/06 (b)(c)	10,000	9,868
<b>White Pine Finance, L.L.C.</b>		
5.13%, 07/20/06 (b)(c)	45,366	45,244
4.97%, 07/25/06 (b)(c)	2,000	1,993
4.99%, 07/25/06 (b)(c)	7,000	6,977
5.09%, 07/31/06 (b)(c)	32,000	31,866
5.16%, 08/08/06 (b)(c)	10,928	10,869
5.23%, 09/01/06 (b)(c)	5,000	4,956
5.27%, 09/08/06 (b)(c)	29,000	28,711
5.28%, 09/11/06 (b)(c)	36,766	36,383

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Windmill Funding Corp.</b>		
5.17%, 08/02/06 (a)(b)(c)	23,000	22,895
5.21%, 08/14/06 (a)(b)(c)	49,280	48,969
		<b>18,725,883</b>

**Promissory Notes 0.9%**

<b>The Goldman Sachs Group, Inc.</b>		
4.98%, 10/30/06 (d)	220,000	220,000
5.18%, 12/19/06 (d)	22,500	22,500
5.32%, 01/05/07 (d)	54,000	54,000
		<b>296,500</b>

**Variable-Rate Obligations 13.0% of net assets**

<b>Access Loans for Learning</b>		
<b>Student Loan Corp.</b>		
5.38%, 07/06/06 (a)	27,800	27,800
<b>Bank of Ireland</b>		
5.24%, 07/20/07 (c)	40,000	40,000
<b>Bank of New York Co., Inc.</b>		
5.40%, 07/27/07 (c)	50,000	50,000
<b>Barclays Bank, PLC</b>		
5.07%, 07/05/06	90,000	90,000
5.24%, 07/24/06	90,000	89,993
5.28%, 07/27/06	197,000	196,976
<b>BNP Paribas</b>		
5.08%, 07/06/06	40,000	39,994
5.11%, 07/10/06	100,000	99,991
5.30%, 08/02/06	400,000	399,921
<b>Canadian Imperial</b>		
<b>Bank of Commerce</b>		
5.28%, 07/17/06	100,000	100,000
5.28%, 07/24/06	10,000	10,000
<b>CC (USA), Inc.</b>		
5.21%, 07/17/06 (b)(c)	21,000	21,006
<b>Central Baptist Church of</b>		
<b>Hixson, Tennessee</b>		
5.46%, 07/06/06 (a)	13,000	13,000
<b>City of New Britain, Connecticut</b>		
5.38%, 07/06/06 (a)	40,000	40,000
<b>Columbus, Georgia</b>		
<b>Development Authority</b>		
5.48%, 07/06/06 (a)	5,190	5,190
<b>Commonwealth Bank of Australia</b>		
5.29%, 07/24/06 (c)	50,000	50,000

See financial notes. 29

**Portfolio Holdings** (Unaudited) 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>Concord Minutemen Capital Co., Series A</b>			<b>Nordea Bank AB</b>		
5.29%, 07/27/06 (a)(b)(c)	50,000	49,999	5.13%, 07/10/06 (c)	50,000	50,000
<b>Dexia Credit Local</b>			5.15%, 07/11/06 (c)	80,000	80,000
5.26%, 07/26/06	100,000	99,989	<b>Royal Bank of Canada</b>		
<b>Five Finance, Inc.</b>			5.06%, 07/03/06	32,000	31,992
5.16%, 07/17/06 (b)(c)	50,000	49,999	5.20%, 07/10/06	40,000	40,000
<b>General Electric Capital Corp.</b>			<b>Royal Bank of Scotland, PLC</b>		
5.35%, 07/17/06	225,000	225,000	5.20%, 07/19/06	10,000	9,999
<b>Goldman Sachs Group, Inc.</b>			5.25%, 07/24/06	110,000	109,989
5.20%, 07/10/06 (c)	125,000	125,000	5.29%, 07/31/06	80,000	79,997
<b>J.P. Morgan Securities, Inc.</b>			5.27%, 07/21/07 (c)	20,000	20,000
5.15%, 07/03/06 (c)	100,000	100,000	<b>Sigma Finance, Inc.</b>		
<b>K2 (USA), L.L.C.</b>			5.16%, 07/17/06 (b)(c)	75,000	74,999
5.13%, 07/10/06 (b)(c)	50,000	49,997	5.20%, 07/17/06 (b)(c)	48,000	48,010
5.30%, 07/17/06 (b)(c)	81,000	80,992	<b>Sumitomo Trust &amp; Banking Co.</b>		
<b>Liberty Lighthouse U.S. Capital Co., L.L.C.</b>			5.15%, 07/07/06	100,000	100,000
5.06%, 07/03/06 (b)(c)	17,000	16,998	5.21%, 07/14/06	20,000	20,000
5.09%, 07/07/06 (b)(c)	52,000	51,999	5.30%, 07/24/06	36,000	36,000
5.11%, 07/10/06 (b)(c)	16,000	15,999	<b>Svenska Handelsbanken AB</b>		
5.31%, 08/02/06 (b)(c)	55,000	54,994	5.07%, 07/03/06	75,000	74,996
<b>Links Finance, L.L.C.</b>			<b>Town of Islip, New York IDA</b>		
5.09%, 07/07/06 (b)(c)	24,000	23,998	5.65%, 07/06/06 (a)	1,285	1,285
5.11%, 07/10/06 (b)(c)	50,000	49,997	<b>Travelers Insurance Co.</b>		
5.21%, 07/17/06 (b)(c)	138,000	138,020	5.16%, 07/03/06 (d)	25,000	25,000
5.18%, 07/17/06 (b)(c)	100,000	100,002	5.32%, 07/19/06 (d)	100,000	100,000
5.15%, 07/17/06 (b)(c)	32,000	31,999	5.39%, 07/28/06 (d)	25,000	25,000
<b>Loanstar Assets Partners II, L.P.</b>			<b>Wachovia Asset Securitization Issuance, L.L.C.</b>		
5.37%, 07/06/06 (a)	25,000	25,000	2005 HEMMI - Class A		
<b>Merlot 2000 B</b>			5.31%, 07/25/06 (a)(b)(c)	26,266	26,266
5.50%, 07/05/06 (a)(c)	30,000	30,000	<b>Wells Fargo &amp; Co.</b>		
<b>Merrill Lynch &amp; Co., Inc.</b>			5.19%, 07/17/06 (c)	120,000	120,002
5.18%, 07/17/06	75,000	75,000	<b>Westpac Banking Corp.</b>		
5.32%, 07/27/06	50,000	50,000	5.18%, 07/17/06 (c)	75,000	75,000
<b>Metropolitan Life Insurance Co.</b>			<b>Whistlejacket Capital, L.L.C.</b>		
5.16%, 07/03/06 (d)	100,000	100,000	5.09%, 07/07/06 (b)(c)	13,000	12,999
<b>Monumental Life Insurance Co.</b>			5.22%, 07/20/06 (b)(c)	17,000	16,999
5.17%, 07/03/06 (d)	100,000	100,000	5.29%, 07/27/06 (b)(c)	74,000	73,996
5.21%, 07/03/06 (d)	100,000	100,000	<b>White Pine Finance, L.L.C.</b>		
5.26%, 07/03/06 (d)	10,000	10,000	5.08%, 07/07/06 (b)(c)	22,000	22,000
<b>Morgan Stanley</b>			5.13%, 07/10/06 (b)(c)	30,000	29,996
5.15%, 07/03/06	140,000	140,000	5.15%, 07/17/06 (b)(c)	82,000	81,999
<b>New Jersey Economic Development Authority</b>			5.28%, 07/25/06 (b)(c)	60,000	59,997
5.11%, 07/03/06 (a)	8,900	8,900			<b>4,624,274</b>

## Schwab Value Advantage Money Fund

### Portfolio Holdings (Unaudited) continued

Security	Maturity Amount (\$ x 1,000)	Value (\$ x 1,000)
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Other Investments 8.6% of net assets

#### Repurchase Agreements 8.6%

##### Bank of America Securities L.L.C.

Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$479,400 5.28%, issued 06/30/06, due 07/03/06	470,207	470,000
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##### Bear Stearns & Co., Inc.

Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$510,001 5.28%, issued 06/30/06, due 07/03/06	500,220	500,000
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##### Credit Suisse Securities (USA), L.L.C.

Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$4,274 5.25%, issued 06/30/06, due 07/03/06	4,192	4,190
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##### Goldman Sachs & Co.

Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$816,000 5.28%, issued 06/30/06, due 07/03/06	800,352	800,000
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##### Morgan Stanley & Co., Inc.

Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$103,709 5.25%, issued 06/30/06, due 07/03/06	102,257	100,000
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Security	Maturity Amount (\$ x 1,000)	Value (\$ x 1,000)
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##### UBS Financial Services, Inc.

Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$1,224,003 5.28%, issued 06/30/06, due 07/03/06	1,200,528	1,200,000
		<b>3,074,190</b>

#### End of Investments.

At 06/30/06, the cost of the fund's investments was \$35,482,779.

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

##### Blue Spice, L.L.C.

5.10%, 05/02/06, 08/04/06	4,000	3,981
5.17%, 04/25/06, 10/25/06	140,000	137,726
		<b>141,707</b>

##### Metropolitan Life Insurance Co.

5.16%, 02/01/06, 07/03/06	100,000	100,000
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##### Monumental Life Insurance Co.

5.26%, 06/10/93, 07/03/06	10,000	10,000
5.17%, 10/09/96, 07/03/06	100,000	100,000
5.21%, 01/12/00, 07/03/06	100,000	100,000
		<b>210,000</b>

##### The Goldman Sachs Group, Inc.

4.98%, 02/03/06, 10/30/06	220,000	220,000
5.18%, 03/24/06, 12/19/06	22,500	22,500
5.32%, 04/13/06, 01/05/07	54,000	54,000
		<b>296,500</b>

##### Travelers Insurance Co.

5.32%, 08/19/05, 07/19/06	100,000	100,000
5.39%, 10/28/05, 07/28/06	25,000	25,000
5.16%, 01/31/06, 07/03/07	25,000	25,000
		<b>150,000</b>

- (a) Credit-enhanced security.
- (b) Asset-backed security.
- (c) Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registrations, normally to qualified institutional buyers. At the period end, the value of these amounted to \$14,202,720 or 39.9% of net assets.
- (d) Illiquid and/or restricted security.

## Schwab Value Advantage Money Fund

Statement of

### Assets and Liabilities

As of June 30, 2006; unaudited. All numbers x 1,000 except NAV.

#### Assets

Investments, at cost and value	\$32,408,589
Repurchase agreements, at cost and value	3,074,190
Receivables:	
Receivable for investment sold	1,075
Fund shares sold	300,088
Interest	94,939
Prepaid expenses	+ 1,205
<b>Total assets</b>	<b>35,880,086</b>

#### Liabilities

Payables:	
Fund shares redeemed	208,003
Dividends to shareholders	68,311
Investment adviser and administrator fees	644
Transfer agent and shareholder services fees	569
Trustees' fees	13
Accrued expenses	+ 527
<b>Total liabilities</b>	<b>278,067</b>

#### Net Assets

<b>Total assets</b>	35,880,086
<b>Total liabilities</b>	- 278,067
<b>Net assets</b>	<b>\$35,602,019</b>

#### Net Assets by Source

Capital received from investors	35,602,018
Net realized capital gains	1

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

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Investor Shares	\$29,249,807		29,250,017		\$1.00
Select Shares	\$3,472,579		3,472,579		\$1.00
Institutional Shares	\$2,879,633		2,879,634		\$1.00

## Schwab Value Advantage Money Fund

### Statement of

### Operations

For January 1, 2006 through June 30, 2006; unaudited. All numbers x 1,000.

#### Investment Income

Interest	<b>\$750,105</b>
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#### Net Realized Gains and Losses

Net realized gains on investments sold	1
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#### Expenses

Investment adviser and administrator fees	50,799
Transfer agent and shareholder service fees:	
Investor Shares	28,634
Select Shares	3,245
Institutional Shares	2,719
Trustees' fees	48
Custodian fees	668
Portfolio accounting fees	302
Professional fees	53
Registration fees	631
Shareholder reports	128
Other expenses	+ 215
Total expenses	87,442
Custodian credits	- 5
Expense reduction	- 20,738
<b>Net expenses</b>	<b>66,699</b>

#### Increase in Net Assets from Operations

Total investment income	750,105
Net expenses	- 66,699
Net investment income	<b>683,406</b>
Net realized gains	+ 1
<b>Increase in net assets from operations</b>	<b>\$683,407</b>



## Schwab Value Advantage Money Fund

Statements of

### Changes in Net Assets

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

Figures for current period are unaudited.

#### Operations

	1/1/06-6/30/06	1/1/05-12/31/06
Net investment income	\$683,406	\$752,464
Net realized gains	+ 1	—
<b>Increase in net assets from operations</b>	<b>683,407</b>	<b>752,464</b>

#### Distributions Paid

Dividends from net investment income		
Investor Shares	562,001	653,672
Select Shares	65,333	52,115
Institutional Shares	+ 56,072	46,677
<b>Total dividends from net investment income</b>	<b>683,406</b>	<b>752,464</b>

#### Transactions in Fund Shares\*

<b>Shares Sold</b>		
Investor Shares	20,508,369	24,443,221
Select Shares	4,304,430	4,581,545
Institutional Shares	+ 4,801,062	4,425,407
<b>Total shares sold</b>	<b>29,613,861</b>	<b>33,450,173</b>
<b>Shares Reinvested</b>		
Investor Shares	459,826	591,999
Select Shares	52,567	46,156
Institutional Shares	+ 45,582	41,389
<b>Total shares reinvested</b>	<b>557,975</b>	<b>679,544</b>
<b>Shares Redeemed</b>		
Investor Shares	(15,830,491)	(24,288,614)
Select Shares	(3,209,454)	(3,511,556)
Institutional Shares	+ (3,896,346)	(3,591,062)
<b>Total shares redeemed</b>	<b>(22,936,291)</b>	<b>(31,391,232)</b>
<b>Net transactions in fund shares</b>	<b>7,235,545</b>	<b>2,738,485</b>

#### Net Assets

Beginning of period	28,366,473	25,627,988
Total increase	+ 7,235,546	2,738,485
<b>End of period</b>	<b>\$35,602,019</b>	<b>\$28,366,473</b>

\* Transactions took place at \$1.00 per share; figures for share quantities are the same as for dollars.

See financial notes. 35

**Financial Notes, unaudited.**

Unless stated, all dollar amounts are x 1,000.

**1. 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 list below shows all the funds in the trust including the funds discussed in this report, which 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 AMT Tax-Free Money Fund

Schwab Massachusetts Municipal Money Fund

Schwab Retirement Advantage Money Fund

Schwab Investor Money Fund

Schwab Advisor Cash Reserves

Schwab Cash Reserves

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. 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 trustees may issue as many shares as necessary.

**2. Significant Accounting Policies**

The following is a summary of the significant accounting policies the funds use in their operations and in their preparation of financial statements:

**(a) Security Valuation:**

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

**(b) Portfolio Investments:**

**Delayed-Delivery:** 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, 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.

**Repurchase Agreements:** 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

## **Financial Notes, unaudited (continued).**

Unless stated, all dollar amounts are x 1,000.

### **2. Significant Accounting Policies (continued)**

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.

#### **(c) Security Transactions:**

Security transactions are recorded as of the date the order to buy or sell the security is executed. Realized gains and losses from security transactions are based on the identified costs of the securities involved.

#### **(d) Income, Expenses and Distributions:**

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

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

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

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.

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 keeps certain assets in segregated accounts, as may be required by securities law.

#### **(e) Borrowing:**

The funds may borrow money from banks and custodians. The funds may obtain temporary bank loans through the trusts to which they 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.

**Financial Notes, unaudited (continued).**

Unless stated, all dollar amounts are x 1,000.

**2. Significant Accounting Policies (continued)****(f) Accounting Estimates:**

The accounting policies described in this report 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.

**(g) Indemnification:**

Under the funds' organizational documents, the 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.

**3. Affiliates and Affiliated Transactions**

Charles Schwab Investment Management, Inc. (CSIM or the investment adviser), a wholly owned subsidiary of The Charles Schwab Corporation, serves as each fund's investment adviser and administrator pursuant to an Investment Advisory and Administration Agreement (Advisory Agreement) between it and the trust. Charles Schwab & Co., Inc. ("Schwab") is an affiliate of the investment adviser and is the trust's shareholder services agent and transfer agent.

For its advisory and administrative services to the funds, the investment adviser is entitled to receive an annual fee payable monthly based on the funds' average daily net assets described as follows:

<u>Average daily net assets</u>	<u>Government Money Fund</u>	<u>U.S. Treasury Money Fund</u>	<u>Value Advantage Money Fund</u>
First \$1 billion	0.38%	0.38%	0.38%
Over \$1 billion	0.35%	0.35%	0.35%
Over \$10 billion	0.32%	0.32%	0.32%
Over \$20 billion	0.30%	0.30%	0.30%
Over \$40 billion	0.27%	0.27%	0.27%

For its transfer agent and shareholder services, Schwab is entitled to receive an annual fee payable monthly based on the funds' average daily net assets described as follows:

	<u>Transfer Agent Fees</u>	<u>Shareholder Service Fees</u>
Government Money Fund	0.25%	0.20%
U.S. Treasury Money Fund	0.25%	0.20%
Value Advantage Money Fund	0.05%	0.17%

**Financial Notes, unaudited (continued).**

Unless stated, all dollar amounts are x 1,000.

**3. Affiliates and Affiliated Transactions (continued)**

Although these agreements specify certain fees for these services, CSIM and Schwab have made additional agreements with the funds to limit the total expenses charged, excluding interest, taxes and certain non-routine expenses through April 29, 2007, as follows:

Government Money Fund	0.75%
U.S. Treasury Money Fund	0.63%*

\*Prior to April 30, 2006, the limit was 0.65%.

	<u>Investor Shares</u>	<u>Select Shares</u>	<u>Institutional Shares</u>
Value Advantage Money Fund	0.45%	0.35%	0.24%

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. For the period ended June 30, 2006, each fund's total security transactions with other Schwab Funds were as follows:

Government Money Fund	\$—
U.S. Treasury Money Fund	—
Value Advantage Money Fund	202,570

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. There was no interfund borrowing or lending activity for any fund during the period.

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 funds' Statement of Operations.

**4. Federal Income Taxes**

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 realized net capital gains (if any) to their respective shareholders each year. The net investment income and realized capital gains and losses may differ for financial statement and tax purposes primarily due to differing treatments of losses on wash sales and market discount. As long as a fund meets the tax requirements, it is not required to pay federal income tax. As of December 31, 2005, the funds had no undistributed earnings on a tax basis.

**Financial Notes, unaudited (continued).**

Unless stated, all dollar amounts are x 1,000.

**4. Federal Income Taxes (continued)**

As of December 31, 2005, the following funds had capital loss carry forwards available to offset future net capital gains before the expiration dates:

<u>Expire</u>	<u>Government Money Fund</u>	<u>U.S. Treasury Money Fund</u>	<u>Value Advantage Money Fund</u>
2006	\$119	\$89	—
2007	184	580	—
2008	13	—	—
2010	1	66	—
2011	16	75	—
2012	—	125	—
<b>Total</b>	<b>\$333</b>	<b>\$935</b>	<b>\$—</b>

The funds deferred capital losses occurring after December 31, 2005 to the next fiscal year ending at December 31, 2006. The aggregate amounts of these deferred losses are:

	<u>Government Money Fund</u>	<u>U.S. Treasury Money Fund</u>	<u>Value Advantage Money Fund</u>
Deferred capital losses	—	\$110	—
Capital losses utilized		7	

The tax-basis components of distributions for the fiscal year ended December 31, 2005 were:

From ordinary income	\$61,866	\$83,240	\$752,464
From long-term capital gains	—	—	—
From return of capital	—	—	—

The permanent book and tax basis differences may result in reclassifications between capital account and other accounts as required. The adjustments will have no impact on net assets or the results of operations. As of December 31, 2005, the funds made the following reclassifications:

	<u>Government Money Fund</u>	<u>U.S. Treasury Money Fund</u>	<u>Value Advantage Money Fund</u>
Capital received from investors	(\$226)	(\$55)	(\$103)
Net investment income not yet distributed	—	—	—
Long term capital gains	\$226	\$55	\$103

# 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, Schwab U.S. Treasury Money Fund and 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.

The Board, including a majority of the Independent Trustees, considered information specifically relating to its consideration of the continuance of the Agreement at meetings held on May 2, 2006, May 24, 2006 and June 12, 2006, and approved the renewal of the Agreement for an additional one year term at the meeting held on June 12, 2006. The Board’s approval of the Agreement was based on consideration and evaluation of a variety of specific factors discussed at these meetings 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 information considered by the trustees included specific information concerning changes in the nature, extent and quality of services provided by CSIM since the trustees had last considered approval of the Agreement. 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 and their shareholders. 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' shareholders 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 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, when applicable, 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 and the appropriateness of the benchmark used to compare the performance of each fund. The trustees further considered the level of fund performance in the context of its review of fund expenses

and adviser profitability discussed below. Following such evaluation the Board concluded, within the context of its full deliberations, that the performance of the funds supported 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 historical practice of voluntarily waiving 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 different legal, regulatory, compliance and operating features of mutual funds as compared to these other types of accounts. The Board also considered recent actions by CSIM to adjust fund investor eligibility criteria that would result in more shareholders investing in funds (and share classes within funds) that have lower net operating expenses and that are designed to 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. Following such evaluation and based upon CSIM's agreement to implement proposals related to fund investor eligibility, the Board concluded, within the context of its full deliberations, that the expenses of the funds are reasonable and supported 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. The Board also considered information relating to changes to CSIM's cost structure, including cost savings, technology investments and increased operating efficiencies and how these changes affected CSIM's profitability under the Agreement. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the profitability of CSIM is reasonable and supported 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 that include lower fees at higher graduated asset levels. The Board also considered certain commitments by CSIM and Schwab

that are designed to pass along potential economies of scale to fund shareholders. Specifically, the Board considered CSIM and Schwab's commitments, which may be changed only with Board approval: (i) to reduce contractual advisory fees or add break-points for certain funds, (ii) to implement, by means of expense limitation agreement, over the next several years additional reductions in net overall expenses for certain funds, (iii) to reduce administrative "sweep" fees paid to Schwab in connection with money market fund shares that are used for automatic investment of cash held in customer brokerage accounts, and (iv) to implement future net total operating expense reductions for taxable money funds as a group and non-taxable money funds as a group when aggregate assets of such group of funds exceed certain levels. Based on this evaluation, and in consideration of the commitments made by CSIM and Schwab as discussed above, 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 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

The tables below give information about the trustees and officers for The Charles Schwab Family of Funds, which includes the funds covered in this report. The “Fund Complex” includes The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust, Schwab Annuity Portfolios, Laudus Trust, Laudus Variable Insurance Trust, Excelsior Funds, Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust. As of June 30, 2006, the Fund Complex included 98 funds.

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, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served')	Principal Occupations During the Past Five Years	Number of Portfolios in Fund Complex Overseen by the Trustee	Other Directorships
<b>Mariann Byerwalter</b> 1960 Trustee (Trustee of The Charles Schwab Family of Funds since 2000.)	Chairman of JDN Corporate Advisory LLC. <i>From 1996 to 2001</i> , Vice President for Business Affairs and Chief Financial Officer of Stanford University, and <i>in 2001</i> , Special Advisor to the President of Stanford University.	98	<i>Board 1</i> —Director, Redwood Trust, Inc. <i>Board 2</i> —Director, PMI Group, Inc.
<b>Donald F. Dorward</b> 1931 Trustee (Trustee of The Charles Schwab Family of Funds since 1989.)	Chief Executive Officer, Dorward & Associates (corporate management, marketing and communications consulting firm). <i>From 1996-1999</i> , Executive Vice President and Managing Director, Grey Advertising. <i>Prior to 1996</i> , President and Chief Executive Officer, Allen & Dorward Advertising.	57	None.
<b>William A. Hasler</b> 1941 Trustee (Trustee of The Charles Schwab Family of Funds since 2000.)	Retired. Dean Emeritus, Haas School of Business, University of California, Berkeley. <i>Until February 2004</i> , Co-Chief Executive Officer, Apton Corp. (bio-pharmaceuticals). <i>Prior to August 1998</i> , Dean of the Haas School of Business, University of California, Berkeley (higher education).	98	<i>Board 1</i> —Director, Apton Corp. <i>Board 2</i> —Director, Mission West Properties <i>Board 3</i> —Director, TOUSA <i>Board 4</i> —Director, Stratex Networks <i>Board 5</i> —Director, Genitope Corp. <i>Board 6</i> —Director & Non-Executive Chairman, Solelectron Corp. <i>Board 7</i> —Director, Ditech Communications Corp.

# **Independent Trustees** continued

Name, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served <sup>1</sup> )	Principal Occupations During the Past Five Years	Number of Portfolios in Fund Complex Overseen by the Trustee	Other Directorships
<b>Robert G. Holmes</b> 1931 Trustee (Trustee of The Charles Schwab Family of Funds since 1989.)	Chairman, Chief Executive Officer and Director, Semloh Financial, Inc. (international financial services and investment advisory firm).	57	None.
<b>Gerald B. Smith</b> 1950 Trustee (Trustee of The Charles Schwab Family of Funds since 2000.)	Chairman and Chief Executive Officer and founder of Smith Graham & Co. (investment advisors).	57	<i>Board 1</i> —Board of Cooper Industries <i>Board 2</i> —Chairman of the Audit Committee of Northern Border Partners, M.L.P.
<b>Donald R. Stephens</b> 1938 Trustee (Trustee of The Charles Schwab Family of Funds since 1989.)	Managing Partner, D.R. Stephens & Company (investments). Prior to 1996, Chairman and Chief Executive Officer of North American Trust (real estate investment trust).	57	None.
<b>Michael W. Wilsey</b> 1943 Trustee (Trustee of The Charles Schwab Family of Funds since 1989.)	Chairman and Chief Executive Officer, Wilsey Bennett, Inc. (real estate investment and management, and other investments).	57	None.

## Interested Trustees

Name, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served <sup>1</sup> )	Principal Occupations During the Past Five Years	Number of Portfolios in Fund Complex Overseen by the Trustee	Other Directorships
<b>Charles R. Schwab<sup>2</sup></b> 1937 Chairman and Trustee (Chairman and Trustee of The Charles Schwab Family of Funds since 1989.)	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 May 2003</i> , Co-Chief Executive Officer, The Charles Schwab Corporation.	57	None.
<b>Randall W. Merk<sup>2</sup></b> 1954 Trustee (Trustee of The Charles Schwab Family of Funds since 2005.)	Executive Vice President and President, Schwab Financial Products, Charles Schwab & Co., Inc.; Director, Charles Schwab Asset Management (Ireland) Limited and Charles Schwab Worldwide Funds PLC. <i>From September 2002 to July 2004</i> , Chief Executive Officer and President, Charles Schwab Investment Management, Inc. and Executive Vice President, Charles Schwab & Co., Inc. <i>Prior to September 2002</i> , President and Chief Investment Officer, American Century Investment Management, and Director, American Century Companies, Inc.	98	None.

## Officers of the Trust

**Name, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served<sup>3</sup>)**

**Principal Occupations During the Past Five Years**

<b>Evelyn Dilsaver</b> 1955 President and Chief Executive Officer (Officer of The Charles Schwab Family of Funds since 2004.)	President, Chief Executive Officer, and Director, Charles Schwab Investment Management, Inc.; Executive Vice President, Charles Schwab & Co., Inc.; President and Chief Executive Officer, Laudus Trust and Laudus Variable Insurance Trust; President, Excelsior Funds Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust; President, Mutual Fund Division, UST Advisers, Inc. <i>From June 2003 to July 2004</i> , Senior Vice President, Asset Management Products and Services, Charles Schwab & Co., Inc. <i>Prior to June 2003</i> , Executive Vice President, Chief Financial Officer, and Chief Administrative Officer, U.S. Trust, a subsidiary of The Charles Schwab Corporation.
<b>Stephen B. Ward</b> 1955 Senior Vice President and Chief Investment Officer (Officer of The Charles Schwab Family of Funds since 1991.)	Director, Senior Vice President and Chief Investment Officer, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Company.
<b>George Pereira</b> 1964 Treasurer and Principal Financial Officer (Officer of The Charles Schwab Family of Funds since 2004.)	Senior Vice President and Chief Financial Officer, Charles Schwab Investment Management, Inc.; Chief Financial Officer, Laudus Trust and Laudus Variable Insurance Trust; Chief Financial Officer and Chief Accounting Officer, Excelsior Funds Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust; Chief Financial Officer, Mutual Fund Division, UST Advisors, Inc. Director, Charles Schwab Worldwide Fund, PLC and Charles Schwab Asset Management (Ireland) Limited. <i>From December 1999 to November 2004</i> , Sr. Vice President, Financial Reporting, Charles Schwab & Co., Inc.
<b>Kimon Daifotis</b> 1959 Senior Vice President and Chief Investment Officer—Fixed Income (Officer of The Charles Schwab Family of Funds since 2004.)	Senior Vice President and Chief Investment Officer—Fixed Income, Charles Schwab Investment Management, Inc. <i>Prior to 2004</i> , Vice President and Sr. Portfolio Manager, Charles Schwab Investment Management, Inc.
<b>Jeffrey Mortimer</b> 1963 Senior Vice President and Chief Investment Officer—Equities (Officer of The Charles Schwab Family of Funds since 2004.)	Senior Vice President and Chief Investment Officer—Equities, Charles Schwab Investment Management, Inc.; Vice President and Chief Investment Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Prior to 2004</i> , Vice President and Sr. Portfolio Manager, Charles Schwab Investment Management, Inc.

## Officers of the Trust continued

Name, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served <sup>3</sup> )	Principal Occupations During the Past Five Years
<b>Randall Fillmore</b> 1960 Chief Compliance Officer and AML Officer (Officer of The Charles Schwab Family of Funds since 2002.)	Senior Vice President and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Senior Vice President Charles Schwab & Co., Inc.; Chief Compliance Officer, Laudus Trust and Laudus Variable Insurance Trust; Chief Compliance Officer, Excelsior Funds Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust. <i>From 2002 to 2003</i> , Vice President, Charles Schwab & Co., Inc., and Charles Schwab Investment Management, Inc. <i>From 2000 to 2002</i> , Vice President, Internal Audit, Charles Schwab & Co., Inc.
<b>Koji E. Felton</b> 1961 Secretary and Chief Legal Officer (Officer of The Charles Schwab Family of Funds since 1998.)	Senior Vice President, Chief Counsel and Corporate Secretary, Charles Schwab Investment Management, Inc.; Senior Vice President and Deputy General Counsel, Charles Schwab & Co., Inc.; Chief Legal Officer, Laudus Trust and Laudus Variable Insurance Trust; Chief Legal Officer, Excelsior Funds Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust. <i>Prior to June 1998</i> , Branch Chief in Enforcement at U.S. Securities and Exchange Commission in San Francisco.

<sup>1</sup> Trustees remain in office until they resign, retire or are removed by shareholder vote. 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> In addition to their employment with the investment adviser and the distributor, Messrs. Schwab and Merk also own stock of The Charles Schwab Corporation. Mr. Schwab and Mr. Merk are Interested Trustees because they are employees of Schwab and/or the adviser.

<sup>3</sup> The President, Treasurer and Secretary hold office until their respective successors are chosen and qualified or until he or she sooner dies, resigns, is removed or becomes disqualified. Each other officer serves at the pleasure of the Board.

# 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 [www.sec.gov](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 [www.sec.gov](http://www.sec.gov).

<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.

## The Schwab Funds Family®

### Stock Funds

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™  
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®

### Asset Allocation Funds

Schwab Viewpoints Fund™  
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 Inflation Protected 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>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.

*charles* SCHWAB

**Investment Adviser**

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

**Funds**

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

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MFR32957-01

# Schwab Municipal Money Fund™

**Semiannual Report**

June 30, 2006

*charles* SCHWAB

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Fund investment adviser: Charles Schwab Investment Management, Inc. (CSIM).  
Distributor and transfer agent: Charles Schwab & Co., Inc. (Schwab).

## From the Chairman



Charles Schwab  
Chairman

Dear Shareholder,

I have always believed that money funds are a great way to invest cash between long-term investments. And while no investment is risk free, money funds can also be good choices for investors who want to mitigate the potential fluctuations that may occur in their mostly stock portfolios.

As a result of the Federal Reserve having raised short-term interest rates eight times in the past 12 months (four of which occurred during the six-month period covered in this report), yields on money funds are more attractive than they have been in several years. With their relatively short weighted average maturity (WAM), money funds are typically positioned to capture a rise in market rates more quickly than those fixed income funds with longer maturities.

Here at Schwab, we offer a range of money funds with distinct investment strategies. Our municipal money funds, for example, may be beneficial for those of you in high tax brackets. We also offer money funds for those interested in the added protection provided by a portfolio of U.S. government securities.

In closing, I would like to emphasize that we at Schwab strive every day to warrant the trust you have placed in us. My colleagues and I continue to see opportunities ahead, and we are committed to helping you maximize them.

Thank you for investing with us.

Sincerely,

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

*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.*

# Management's Discussion for the six months ended June 30, 2006



**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 semiannual report for your Schwab money fund for the six-month period ended June 30, 2006. Although the report period was marked by volatility, our money funds performed as designed, providing you with current income, stability of capital and convenient access to your money.

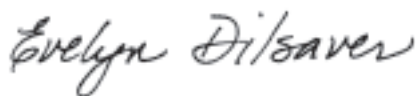
I'd like to take this opportunity to remind you that Schwab offers a range of money funds, including our purchased money funds, Schwab Value Advantage Investments®. These funds are designed for investors who have larger balances and don't require frequent access to their cash. They require a minimum initial investment of \$25,000 (\$15,000 for IRA and custodial accounts) and include various taxable and tax-free investment strategies.

Further down the maturity spectrum, our ultrashort bond fund, Schwab YieldPlus™, offers higher yield potential with higher risk than a money fund. Because taxes are always a concern, Schwab also offers two Schwab Tax-Free YieldPlus Funds that can help you manage tax impact and your exposure to the alternative minimum tax (AMT).

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,



*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.*

*Please remember that with Schwab YieldPlus and Tax-Free YieldPlus Funds, investment value will fluctuate, and shares, when redeemed, may be worth more or less than original cost. Bond funds are subject to increased loss of principal during periods of rising interest rates.*





**Kevin Shaughnessy, CFA**, a vice president of the investment adviser and senior portfolio manager, is responsible for the 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

After a volatile six months in the domestic markets, equity and fixed income funds ended the period with mixed returns. Several key issues dominated market discussions throughout the period, including slowing economic growth, inflation fears, U.S. Federal Reserve (the Fed) interest rate increases, and volatile crude oil prices.

The markets remained in a steady growth mode over the first quarter of 2006 and ended the period on a positive note. Volatility was up during the second quarter of the year, but remained lower than its historical norm. During the six-month report period, oil prices hit new record highs and the Fed continued to raise short-term interest rates to curb inflationary pressures, boosting its Fed Funds target rate four consecutive times during the six-month period and bringing the benchmark rate up to 5.25%. This was the 17th rate hike over the past two years.

Rising sharply in the second half of the report period, crude oil prices peaked in April at around \$75 per barrel while domestic gasoline prices were above \$3 a gallon. In recent months, crude oil prices climbed back in response to declining crude inventories and geopolitical concerns. Despite the volatility in energy prices, gains in productivity have remained strong and corporate earnings continue to rise. Reasonable valuations, a solid earnings season, and expectations that monetary policy tightening will soon come to an end, helped support the markets. Additionally, job and income growth remained positive, though they slowed during the report period. Moderate inflationary expectations and large foreign capital inflows helped to contain increases in long-term interest rates.

As noted above, the Fed continued its tightening cycle throughout the period, raising its Fed Funds target 0.25% at each of its four meetings. As the Fed raised rates, the yield curve flattened and had brief periods of inversion. Historically, economic slowdowns or recessions have followed the inversion of the yield curve. Following a strong start to 2006, economic growth has moderated over the past six months.

Rising interest rates have led to volatility in the equities markets and have weighed down bond returns. Meanwhile, money market funds enticed investors as the rise in short-term interest rates offered yields that had not been seen in years. The mixed messages that arose from the slowing economy and rising inflation left investors puzzled about the direction of the Fed policy. The June 29 Federal Open Market Committee (FOMC) policy statement did little to alleviate uncertainty, as the Fed acknowledged slower growth while expressing concern about inflation risks.

The yields on municipal variable-rate demand notes rose significantly during the period as the yield of the Bond Market Association's BMA seven-day Municipal Index rose by 104 basis points. This change caused the yields on the Schwab Municipal Money Fund to increase for the period.

Given the rising interest rate environment, the fund overweighted non-AMT variable-rate notes, offering positive yield spread versus the BMA index. To further take advantage of the rising-rate environment, the fund maintained its relatively short weighted average maturity (WAM). Keeping the WAM short provided the flexibility to adapt and respond to the changes in interest rates by enabling management to more quickly reinvest at higher rates.

The combination of rising interest rates and improved financial circumstances for state and local governments caused a decline in fixed-rate note issuance for the period. 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 6/30/06

### 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
<b>Seven-Day Yield<sup>1</sup></b>	3.16%	3.35%	3.45%	3.56%
<b>Seven-Day Yield—No Waiver<sup>2</sup></b>	2.99%	3.22%	3.22%	3.22%
<b>Seven-Day Effective Yield<sup>1</sup></b>	3.21%	3.41%	3.51%	3.62%
<b>Seven-Day Taxable-Equivalent Effective Yield<sup>1,3</sup></b>	4.94%	5.25%	5.40%	5.57%

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

<b>Weighted Average Maturity</b>	34 days
<b>Credit Quality of Holdings</b> % of portfolio	100% Tier 1
<b>Credit-Enhanced Securities</b> % of portfolio	73%
<b>Minimum Initial Investment<sup>4</sup></b>	
<i>Sweep Investments™</i>	*
<i>Value Advantage Shares</i> (\$15,000 for IRA and custodial accounts) <sup>5</sup>	\$25,000
<i>Select Shares</i>	\$1,000,000
<i>Institutional Shares</i>	\$3,000,000

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

Portfolio holdings may have changed since the report date.

<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 2006 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 January 1, 2006 and held through June 30, 2006.

**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 1/1/06	Ending Account Value (Net of Expenses) at 6/30/06	Expenses Paid During Period <sup>2</sup> 1/1/06–6/30/06
<b>Schwab Municipal Money Fund™</b>				
<i>Sweep Shares</i>				
Actual Return	0.65%	\$1,000	\$1,013.10	\$3.24
Hypothetical 5% Return	0.65%	\$1,000	\$1,021.57	\$3.26
<i>Value Advantage Shares™</i>				
Actual Return	0.45%	\$1,000	\$1,014.10	\$2.25
Hypothetical 5% Return	0.45%	\$1,000	\$1,022.56	\$2.26
<i>Select Shares®</i>				
Actual Return	0.35%	\$1,000	\$1,014.60	\$1.75
Hypothetical 5% Return	0.35%	\$1,000	\$1,023.06	\$1.76
<i>Institutional Shares</i>				
Actual Return	0.24%	\$1,000	\$1,015.20	\$1.20
Hypothetical 5% Return	0.24%	\$1,000	\$1,023.60	\$1.20

<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 181 days of the period, and divided by 365 days of the fiscal year.

## Financial Statements

### Financial Highlights

Sweep Shares	1/1/06– 6/30/06*	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	1.00
Income from investment operations:						
Net investment income	0.01	0.02	0.01	(0.00) <sup>1</sup>	0.01	0.02
Less distributions:						
Dividends from net investment income	(0.01)	(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	1.00
Total return (%)	1.31 <sup>2</sup>	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 <sup>3</sup>	0.65	0.66	0.66	0.66	0.66
Gross operating expenses	0.81 <sup>3</sup>	0.82	0.81	0.81	0.82	0.83
Net investment income	2.62 <sup>3</sup>	1.77	0.60	0.46	0.90	2.21
Net assets, end of period (\$ x 1,000,000)	7,045	7,467	7,563	7,494	7,435	7,265
<b>Value Advantage Shares</b>						
	1/1/06– 6/30/06*	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	1.00
Income from investment operations:						
Net investment income	0.01	0.02	0.01	0.01	0.01	0.02
Less distributions:						
Dividends from net investment income	(0.01)	(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	1.00
Total return (%)	1.41 <sup>2</sup>	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 <sup>3</sup>	0.45	0.45	0.45	0.45	0.45
Gross operating expenses	0.58 <sup>3</sup>	0.59	0.58	0.58	0.59	0.61
Net investment income	2.82 <sup>3</sup>	1.97	0.80	0.68	1.11	2.35
Net assets, end of period (\$ x 1,000,000)	2,988	3,007	3,245	3,901	4,480	3,778

\* Unaudited.

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

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

## Schwab Municipal Money Fund

Select Shares	1/1/06– 6/30/06*	1/1/05– 12/31/05	1/1/04– 12/31/04	6/2/03¹– 12/31/03
<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	0.01	0.02	0.01	(0.00)²
Less distributions:				
Dividends from net investment income	(0.01)	(0.02)	(0.01)	(0.00)²
Net asset value at end of period	1.00	1.00	1.00	1.00
Total return (%)	1.46³	2.10	0.92	0.39³
<b>Ratios/Supplemental Data (%)</b>				
Ratios to average net assets:				
Net operating expenses	0.35⁴	0.35	0.35	0.35⁴
Gross operating expenses	0.58⁴	0.59	0.58	0.58⁴
Net investment income	2.92⁴	2.11	0.93	0.68⁴
Net assets, end of period (\$ x 1,000,000)	1,076	966	727	474
<b>Institutional Shares</b>				
	1/1/06– 6/30/06*	1/1/05– 12/31/05	1/1/04– 12/31/04	6/2/03¹– 12/31/03
<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	0.02	0.02	0.01	(0.00)²
Less distributions:				
Dividends from net investment income	(0.02)	(0.02)	(0.01)	(0.00)²
Net asset value at end of period	1.00	1.00	1.00	1.00
Total return (%)	1.52³	2.21	1.03	0.45³
<b>Ratios/Supplemental Data (%)</b>				
Ratios to average net assets:				
Net operating expenses	0.24⁴	0.24	0.24	0.24⁴
Gross operating expenses	0.58⁴	0.59	0.58	0.58⁴
Net investment income	3.03⁴	2.20	1.08	0.80⁴
Net assets, end of period (\$ x 1,000,000)	1,911	1,783	1,459	718

\* Unaudited.

¹ Commencement of operations.

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

³ Not annualized.

⁴ Annualized.

8 See financial notes.

## Schwab Municipal Money Fund

### Portfolio Holdings as of June 30, 2006, (Unaudited)

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

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be viewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on a fund's most recent Form N-Q is also 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. For variable-rate obligations, the rate shown is the rate as of the report date and the maturity date shown is the next interest rate change date.

Holdings by Category		Cost (\$x1,000)	Value (\$x1,000)
101.1%	<b>Municipal Securities</b>	13,159,639	13,159,639
101.1%	<b>Total Investments</b>	<b>13,159,639</b>	<b>13,159,639</b>
(1.1)%	<b>Other Assets and Liabilities</b>		(139,368)
100.0%	<b>Net Assets</b>		<b>13,020,271</b>

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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### Municipal Securities 101.1% of net assets

#### Alabama 1.5%

##### Alabama Municipal Funding Corp

Municipal Funding Notes Master

Series 2006A

3.99%, 07/06/06 (a)(b) 19,410 19,410

##### Bessemer Medical Clinic Board

RB Series 1990A

4.01%, 07/06/06 (a)(b)(c)(d) 10,865 10,865

##### Birmingham Public Educational Building Auth

Student Housing RB

Series 2005A

3.98%, 07/06/06 (a)(b) 6,415 6,415

##### Birmingham Special Care Facilities Financing Auth

Health Care Facility RB (Eastern

Health System) Series 2003A

3.98%, 07/06/06 (a)(b) 35,650 35,650

##### Birmingham Water and Sewer Board

RB Series 2006A

4.01%, 07/06/06 (a)(b)(c)(d) 29,235 29,235

##### Daphne Utilities Board

Water, Gas and Sewer Refunding

RB Series 2000

3.99%, 07/06/06 (a)(b)(c) 7,135 7,135

##### Decatur IDB

Exempt Facilities Refunding RB

(Nucor Steel Decatur)

Series 2003A

4.05%, 07/05/06 (a) 17,000 17,000

##### Dothan IDB

IDRB (Baxley Blowpipe)

Series 1997

4.82%, 07/06/06 (a)(b) 100 100

##### Hoover Board of Education

Capital Outlay TAN

Series 2001

4.01%, 07/06/06 (a)(b)(c)(d) 14,810 14,810

##### Indian Springs Village

RB (Joseph Bruno Montessori

Academy) Series 1999

4.10%, 07/05/06 (a)(b) 1,120 1,120

# Schwab Municipal Money Fund

## Portfolio Holdings (Unaudited) 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 Downtown Redevelopment Auth</b>					
Bonds (Southern Poverty Law Center) Series 2000 4.13%, 07/06/06 (a)	15,000	15,000	Marine Terminal Refunding RB (Exxon Pipeline Co) Series 1993C 3.88%, 07/03/06 (a)	6,000	6,000
<b>Montgomery IDB</b>					<b>47,485</b>
Pollution Control and Solid Waste Disposal Refunding RB (General Electric Co) Series 2005 3.93%, 07/03/06 (a)	9,500	9,500	<b>Arizona 1.0%</b>		
<b>Scottsboro</b>			<b>Arizona School Facilities Board</b>		
School Warrants Series 1997 3.98%, 07/06/06 (a)(b)	3,430	3,430	COP Series 2005A 2&3 4.01%, 07/06/06 (a)(b)(c)	9,890	9,890
<b>Stevenson IDB</b>			State School Trust RB Series 2004A 3.97%, 07/06/06 (a)(b)(c)	25,080	25,080
Environmental Improvement RB (Mead Corp) Series 1997 4.04%, 07/05/06 (a)(b)	17,300	17,300	<b>Deer Valley Unified SD No.97</b>		
<b>Tuscaloosa Cnty</b>			School Improvement Bonds (Project of 2004) Series 2005A 4.00%, 07/01/06 (b)	10,000	10,001
IDRB (Knight Specialties) Series 1998 4.10%, 07/05/06 (a)(b)	830	830	<b>Downtown Phoenix Hotel Corp</b>		
		<b>187,800</b>	Subordinate RB Series 2005B 4.01%, 07/05/06 (a)(b)(c)(d)	21,360	21,360
<b>Alaska 0.4%</b>			<b>Maricopa Cnty IDA</b>		
<b>Alaska Housing Finance Corp</b>			M/F Mortgage Refunding RB (San Fernando Apts) Series 2004 4.02%, 07/06/06 (a)(b)	7,750	7,750
General Housing Purpose Bonds Series 2005B 4.00%, 07/06/06 (a)(b)(c)(d)	5,015	5,015	<b>Phoenix Civic Improvement Corp</b>		
General Mortgage RB Series 2002A 4.01%, 07/06/06 (a)(c)(d)	5,995	5,995	Subordinated Excise Tax RB (Airport Improvements) Series 1995 4.01%, 07/05/06 (a)(b)	1,000	1,000
Mortgage RB Series 1999A2 4.04%, 07/06/06 (a)(c)(d)	4,975	4,975	Subordinated Excise Tax RB (Civic Expansion) Series 2005A 4.01%, 07/06/06 (a)(b)(c)(d)	4,675	4,675
<b>Valdez</b>			Subordinated Excise Tax RB Series 2005A 4.00%, 07/06/06 (a)(b)(c)(d)	5,980	5,980
Marine Terminal Refunding RB (Exxon Pipeline Co) Series 1993A 3.88%, 07/03/06 (a)	13,700	13,700	<b>Phoenix IDA</b>		
Marine Terminal Refunding RB (Exxon Pipeline Co) Series 1993B 3.88%, 07/03/06 (a)	11,800	11,800	Government Office Lease Refunding RB (Capitol Mall LLC) Series 2005 4.01%, 07/06/06 (a)(b)(c)(d)	4,155	4,155



Schwab Municipal Money Fund

Portfolio Holdings (Unaudited) continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
S/F Mortgage Draw-Down RB Series 2005A 4.05%, 07/06/06 (a)(c)(d)	10,160	10,160
<b>Salt River Pima-Maricopa Indian Community</b> Bonds Series 2005 4.00%, 07/06/06 (a)(b)	4,900	4,900
<b>Tempe</b> Transit Excise Tax Revenue Obligations Series 2006 3.99%, 07/05/06 (a)(c)	15,000	15,000
<b>Yavapai Cnty IDA</b> Hospital RB (Yavapai Regional Medical Center) Series 1997B 3.97%, 07/06/06 (a)(b)(c)	13,950	13,950
		<b>133,901</b>

Arkansas 0.1%

<b>Arkansas Development Finance Auth</b> IDRB (C&C Holding Co) Series 1998 4.10%, 07/06/06 (a)(b)	700	700
<b>Independence Cnty</b> IDRB (Townsend) Series 1996 4.02%, 07/05/06 (a)(b)	9,000	9,000
<b>University of Arkansas Board of Trustees</b> Various Facilities RB (UAMS Campus) Series 2006 4.00%, 07/06/06 (a)(b)(c)(d)	7,300	7,300
		<b>17,000</b>

California 3.2%

<b>Access Loans For Learning Student Loan Corp</b> Student Loan Program RB Series II-A2 4.02%, 07/06/06 (a)(b)	20,000	20,000
Student Loan Program RB Series II-A3 4.03%, 07/06/06 (a)(b)	23,700	23,700
Student Loan Program RB Sr Series II-A8 3.78%, 06/01/07 (a)(b)	33,300	33,300

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>California</b> Economic Recovery Bonds Series 2004C3 3.90%, 07/03/06 (a)(c)	18,000	18,000
Economic Recovery Bonds Series 2004C4 3.93%, 07/03/06 (a)(c)	16,300	16,300
Economic Recovery Bonds Series 2004C9 3.91%, 07/03/06 (a)(b)	2,000	2,000
Various Purpose GO Bonds 4.00%, 07/06/06 (a)(b)(c)(d)	110	110
<b>California Dept of Water Resources</b> Power Supply RB Series 2002B1 3.93%, 07/03/06 (a)(b)	42,515	42,515
Power Supply RB Series 2002B2 4.00%, 07/03/06 (a)(b)	59,615	59,615
Power Supply RB Series 2005F5 4.00%, 07/03/06 (a)(b)	23,000	23,000
Power Supply RB Series 2002C17 3.95%, 07/06/06 (a)(b)	1,000	1,000
<b>California Health Facilities Finance Auth</b> Hospital RB (Adventist Health System/West) Series 1998A 3.93%, 07/03/06 (a)(b)(c)	3,000	3,000
Hospital RB (Adventist Health Systems/West) Series 1998B 3.93%, 07/03/06 (a)(b)(c)(e)	2,000	2,000
RB (Kaiser Permanente) Series 2006C 3.95%, 07/05/06 (a)	12,000	12,000
<b>California HFA</b> Home Mortgage RB Series 2002J 4.04%, 07/03/06 (a)(b)(c)	38,715	38,715
M/F Housing RB III Series 2002E 4.00%, 07/05/06 (a)(c)	2,465	2,465

See financial notes. 11

Schwab Municipal Money Fund

Portfolio Holdings (Unaudited) 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>Irvine</b>			<b>Broomfield Urban Renewal Auth</b>		
Assessment District No.03-19 Limited Obligation Improvement Series A 3.91%, 07/03/06 (a)(b)	3,000	3,000	Tax Increment RB (Broomfield Event Center) Series 2005 3.99%, 07/06/06 (a)(b)	13,785	13,785
<b>Los Angeles</b>			<b>Centerra Metropolitan District No.1</b>		
2006 TRAN 3.73%, 06/29/07	73,000	73,523	RB Series 2004 4.00%, 07/06/06 (a)(b)	10,000	10,000
<b>Menlo Park Community Development Agency</b>			<b>Colorado</b>		
Tax Allocation Refunding Bonds (Las Pulgas Community Development) Series 2006 3.99%, 07/03/06 (a)(b)(c)	13,400	13,400	General Fund TRAN Series 2006A 3.78%, 06/27/07	125,000	125,855
<b>Pittsburg Redevelopment Agency</b>			<b>Colorado HFA</b>		
Subordinate Tax Allocation Bonds (Los Medanos Community Development) Series 2004A 3.99%, 07/03/06 (a)(b)(c)	13,150	13,150	Economic Development RB (Pemracs) Series 2000A 4.11%, 07/06/06 (a)(b)	2,825	2,825
<b>San Gabriel Valley Council of Governments</b>			<b>Colorado Student Loan Auth</b>		
Alameda Corridor-East Construction Project Grant Anticipation Notes 3.54%, 10/05/06 (b)	15,600	15,600	Sr Bonds Series 1990A 4.05%, 07/05/06 (a)(b)(c)	14,400	14,400
<b>San Mateo Cnty Transit District</b>			Sr Lien RB Series 1999A2 4.01%, 07/05/06 (a)(b)(c)	3,400	3,400
Limited Tax Refunding Bonds Series 2005B 3.97%, 07/06/06 (a)(b)(c)(d)	3,000	3,000	<b>Denver City and Cnty</b>		
		<b>419,393</b>	Airport System Refunding RB Series 2000B 4.03%, 07/05/06 (a)(b)(c)	14,900	14,900
<b>Colorado 2.5%</b>			Airport System RB Series 2005A 4.01%, 07/06/06 (a)(b)(c)(d)	37,610	37,610
<b>Adams Cnty</b>			GO Bonds (Justice System Facilities and Zoo) Series 2005 4.01%, 07/06/06 (a)(c)(d)	9,335	9,335
Mortgage RB (Platte Valley Medical Center) Series 2005 4.01%, 07/06/06 (a)(b)(c)	14,250	14,250	<b>Jefferson Cnty SD</b>		
<b>Arapahoe Cnty</b>			GO Bonds (SD No.R-1) Series 2004 3.45%, 07/06/06 (a)(b)(c)(d)	4,975	4,975
Refunding IDRB (Denver Jetcenter) Series 1997 3.65%, 07/03/06 (a)(b)	3,500	3,500	<b>Lowry Economic Development Auth</b>		
<b>Arvada</b>			IDRB Series 2002B 3.97%, 07/05/06 (a)(b)	14,140	14,140
Water Enterprise RB Series 2001 3.55%, 07/03/06 (a)(b)(c)	3,900	3,900	Refunding RB Series 2002A 3.97%, 07/05/06 (a)(b)	10,870	10,870

# Schwab Municipal Money Fund

## Portfolio Holdings (Unaudited) continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Park Creek Metropolitan District</b>		
Jr Subordinate Limited Property Tax Supported RB Series 2005 4.01%, 07/06/06 (a)(c)(d)	13,250	13,250
<b>Thompson SD R2-J</b>		
GO Bonds Series 2005 4.01%, 07/06/06 (a)(b)(c)	4,200	4,200
<b>University of Colorado Hospital Auth</b>		
RB Series 2006B 4.02%, 07/06/06 (a)(b)(c)	16,500	16,500
<b>Westminster Economic Development Auth</b>		
Tax Increment RB (Westminster Plaza) Series 1997A 4.11%, 07/06/06 (a)(b)	6,145	6,145
		<b>323,840</b>

### Connecticut 0.2%

<b>Connecticut</b>		
GO Refunding Bonds Series 2005B 3.99%, 07/06/06 (a)(b)(c)(d)	27,465	27,465
<b>Connecticut HFA</b>		
Housing Draw Down Bonds Series 2004B 4.02%, 07/06/06 (a)(b)(c)(d)	185	185
S/F Mortgage Draw Down RB Series 2004B 4.02%, 07/06/06 (a)(b)(c)(d)	3,050	3,050
		<b>30,700</b>

### Delaware 0.3%

<b>New Castle Cnty</b>		
Airport Facility RB (Flightsafety International) Series 2002 4.01%, 07/06/06 (a)(b)	16,600	16,600
M/F Rental Housing RB (Fairfield English Village) Series 2005 4.02%, 07/06/06 (a)(b)	8,500	8,500

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Sussex Cnty</b>		
IDRB (Perdue-Agrirecycle) Series 2000 4.04%, 07/05/06 (a)(b)	5,300	5,300
RB (Baywood) Series 1997A 4.19%, 07/05/06 (a)(b)	2,400	2,400
<b>Wilmington</b>		
GO Bonds Series 2006B 4.00%, 07/06/06 (a)(b)(c)	8,000	8,000
		<b>40,800</b>

### District of Columbia 1.1%

<b>District of Columbia</b>		
COP Series 2006 4.01%, 07/06/06 (a)(b)(c)	11,390	11,390
RB (American Psychological Association) Series 2003 4.05%, 07/06/06 (a)(b)	2,660	2,660
RB (St Coletta Special Education Public Charter School) Series 2005 4.00%, 07/06/06 (a)(b)	4,150	4,150
<b>District of Columbia Water and Sewer Auth</b>		
Public Utility RB Series 1998 4.01%, 07/06/06 (a)(b)(c)	7,205	7,205
<b>Metropolitan Washington Airports Auth</b>		
Refunding RB Series 2002C 4.05%, 07/05/06 (a)(b)(c)	1,800	1,800
Airport System RB Series 2005A 4.04%, 07/06/06 (a)(b)(c)(d)	14,995	14,995
Airport System RB Series 2006A 4.04%, 07/06/06 (a)(b)(c)(d)	12,000	12,000
RB Series 2001A 4.05%, 07/06/06 (a)(b)(c)(d)	5,870	5,870
Refunding RB Series 2004D 4.05%, 07/06/06 (a)(b)(c)(d)	2,750	2,750
Flexible Term PFC Revenue Notes Series D 3.60%, 07/14/06 (b)	30,000	30,000

See financial notes. 13

# Schwab Municipal Money Fund

## Portfolio Holdings (Unaudited) continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Flexible Term PFC Revenue Notes Series B 3.60%, 07/26/06 (b)	22,500	22,500
Flexible Term PFC Revenue Notes Series C 3.58%, 08/10/06 (b)	23,000	23,000
		<b>138,320</b>

### Florida 8.1%

#### Alachua Cnty Health Facilities Auth

RB (Shands Hospital-University of Florida) Series 1992R 4.00%, 07/06/06 (a)(b)(c)(d)	10,715	10,715
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#### Brevard Cnty Health Facilities Auth

RB (Wuesthoff Health Systems) Series 2004 3.99%, 07/05/06 (a)(b)	14,200	14,200
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#### Brevard Cnty HFA

M/F Housing Refunding RB (Shore View Apts) Series 1995 4.05%, 07/06/06 (a)(b)	1,900	1,900
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#### Broward Cnty Educational Facilities Auth

RB (Nova Southeastern University) Series 2000A 3.99%, 07/05/06 (a)(b)	10,115	10,115
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#### Broward Cnty HFA

M/F Housing RB (Landings of Inverrary Apts) Series 1985 3.98%, 07/05/06 (a)(b)	7,500	7,500
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M/F Housing RB (Sanctuary Apts) Series 1985 3.98%, 07/05/06 (a)(b)	9,000	9,000
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M/F Housing RB (Sawgrass Pines Apts) Series 1993A 4.03%, 07/06/06 (a)(b)	7,000	7,000
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M/F Housing RB (Southern Pointe) Series 1997 3.97%, 07/06/06 (a)(b)	7,750	7,750
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M/F Housing Refunding RB (Island Club Apts) Series 2001A 3.97%, 07/06/06 (a)(b)	3,000	3,000
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Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Broward Cnty SD</b> School Board COP Series 2005B 4.00%, 07/06/06 (a)(b)(c)	4,460	4,460

#### Charlotte Cnty

Refunding RB Series 2003B 4.00%, 07/06/06 (a)(b)(c)	5,600	5,600
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#### Charlotte Cnty HFA

M/F Housing RB (Murdock Circle Apts) Series 2000 4.06%, 07/05/06 (a)(b)	3,200	3,200
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#### Clay Cnty Utility Auth

RB Series 2003A 4.00%, 07/06/06 (a)(b)	9,565	9,565
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#### Collier Cnty IDA

Educational Facilities RB (Community School of Naples) Series 2002 4.00%, 07/06/06 (a)(b)	4,500	4,500
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#### Dade Cnty IDA

IDRB (Michael-Ann Russell Jewish Community Center) Series 1997 3.99%, 07/05/06 (a)(b)	3,785	3,785
IDRB (South Florida Stadium Corp) Series 1985C 3.94%, 07/05/06 (a)(b)	1,050	1,050

#### Davie

RB (United Jewish Community of Broward Cnty) Series 2003 4.00%, 07/06/06 (a)(b)	10,535	10,535
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#### Escambia HFA

S/F Mortgage RB Series 2001A 4.09%, 07/06/06 (a)(b)(c)(d)	90	90
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#### Eustis

RB Installment 1997A 3.99%, 07/05/06 (a)(b)	3,260	3,260
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#### Florida

RB (Dept of Environmental Protection-Florida Forever) Series 2003A 4.01%, 07/06/06 (a)(b)(c)	6,740	6,740
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#### Florida Board of Education

Lottery RB Series 2002C 4.01%, 07/06/06 (a)(b)(c)(d)	33,625	33,625
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Schwab Municipal Money Fund

**Portfolio Holdings** (Unaudited) 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)
Lottery RB Series 2005A 4.01%, 07/06/06 (a)(b)(c)(d)	13,215	13,215	M/F Mortgage Refunding RB (Victoria Park Apts) Series 2002J1 3.97%, 07/06/06 (a)(b)	5,370	5,370
3.45%, 08/03/06 (a)(b)(c)(d)	1,185	1,185			
<b>Florida Dept of Environmental Protection</b>			<b>Florida Higher Educational Facilities Financing Auth</b>		
Forever RB Series 2005B 4.01%, 07/06/06 (a)(b)(c)	20,320	20,320	Educational Facilities RB (Flagler College Inc) Series 2005 3.99%, 07/05/06 (a)(b)	9,400	9,400
<b>Florida Dept of Transportation</b>			RB (Southeastern University, Inc) Series 2005 3.98%, 07/06/06 (a)(b)	13,000	13,000
Turnpike RB Series 2000A 4.01%, 07/06/06 (a)(b)(c)(d)	4,000	4,000	<b>Florida Local Government Finance Commission</b>		
<b>Florida Development Finance Corp</b>			Pooled TECP Series 1994A 3.59%, 07/11/06 (b)	20,455	20,455
IDRB (Sunshine State Christian Homes, Inc) Series 1999A3 4.04%, 07/05/06 (a)(b)	1,120	1,120	3.57%, 08/04/06 (b)	21,735	21,735
IDRB Enterprise Bond Program (Pioneer-Ram) Series 1998A3 4.09%, 07/05/06 (a)(b)	780	780	3.57%, 08/07/06 (b)	20,000	20,000
<b>Florida HFA</b>			3.58%, 08/14/06 (b)	49,189	49,189
Housing RB (Ashley Lake Park II) Series 1989J 4.01%, 07/05/06 (a)(b)	16,000	16,000	<b>Gainesville</b>		
Housing RB (Caribbean Key Apts) Series 1996F 4.01%, 07/05/06 (a)(b)	300	300	IDRB (Lifesouth Community Blood Centers) Series 1999 3.99%, 07/05/06 (a)(b)	5,220	5,220
M/F Mortgage RB (Clarcona Groves Apts) Series 2005A 4.03%, 07/05/06 (a)(b)	4,250	4,250	RB Series 2005A 4.00%, 07/06/06 (a)(b)(c)	5,000	5,000
M/F Mortgage RB (Pinnacle Pointe Apts) Series 2003N 4.03%, 07/05/06 (a)(b)	7,335	7,335	<b>Greater Orlando Aviation Auth</b>		
M/F Mortgage RB (Wexford Apts) Series 2003P 4.03%, 07/05/06 (a)(b)	8,035	8,035	Airport Facilities RB Series 2002E 4.05%, 07/05/06 (a)(b)(c)	88,415	88,415
M/F Mortgage Refunding RB (Monterey Lake Apts) Series 2005C 3.97%, 07/05/06 (a)(b)	7,325	7,325	<b>Gulf Breeze</b>		
M/F Mortgage Refunding RB (Tuscany Pointe Apts) Series 2005D 3.98%, 07/06/06 (a)(b)	12,090	12,090	Local Government Loan Program RB Series 1985C 3.98%, 07/06/06 (a)(b)(c)	2,710	2,710
			Local Government Loan Program RB Series 1985E 3.98%, 07/06/06 (a)(b)(c)	5,465	5,465
			<b>Halifax Hospital Medical Center</b>		
			RB (Florida Health Care Plan) Series 1998 3.98%, 07/05/06 (a)(b)	5,200	5,200

See financial notes. 15

Schwab Municipal Money Fund

**Portfolio Holdings** (Unaudited) 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>Highlands Cnty Health Facilities Auth</b>			Refunding RB (YMCA of Florida First Coast) Series 2003 4.00%, 07/06/06 (a)(b)	4,700	4,700
Hospital RB Series 2003D & 2006C 4.02%, 07/06/06 (a)(b)(c)	3,450	3,450	Special Facility Airport RB (Holland Sheltair Aviation Group) Series 2004A1 4.05%, 07/06/06 (a)(b)	3,970	3,970
<b>Hillsborough Cnty Aviation Auth</b>			<b>Jacksonville Health Facilities Auth</b>		
Airport Facilities Subordinated TECP Series B 3.62%, 07/11/06 (b)	15,300	15,300	Hospital RB Series 2003A 4.02%, 07/03/06 (a)(b)	6,000	6,000
3.68%, 08/03/06 (b)	37,200	37,200	RB (River Garden/The Coves) Series 1994 4.03%, 07/06/06 (a)(b)	3,110	3,110
<b>Hillsborough Cnty Educational Facilities Auth</b>			<b>Lake Shore Hospital Auth</b>		
RB (University of Tampa) Series 2000 4.05%, 07/06/06 (a)(b)	5,300	5,300	Health Facility RB (Lake Shore Hospital) Series 1991 3.99%, 07/06/06 (a)(b)	2,900	2,900
<b>Hillsborough Cnty HFA</b>			<b>Manatee Cnty HFA</b>		
M/F Housing RB (Claymore Crossing Apts) Series 2005 4.02%, 07/05/06 (a)(b)	1,000	1,000	M/F Housing RB (Sabal Palm Harbor Apts) Series 2000A 4.06%, 07/05/06 (a)(b)	4,200	4,200
<b>Hillsborough Cnty IDA</b>			M/F Housing RB (La Mirada Gardens) Series 2002A 4.06%, 07/06/06 (a)(b)	4,000	4,000
Educational Facilities RB (Berkeley Preparatory School, Inc) Series 1999 3.99%, 07/05/06 (a)(b)	4,415	4,415	<b>Miami Health Facilities Auth</b>		
IDRB (University Community Hospital) Series 1994 4.01%, 07/06/06 (a)(b)(c)(d)	11,470	11,470	Refunding RB (Miami Jewish Home and Hospital for the Aged, Inc) Series 2005 3.99%, 07/05/06 (a)(b)	7,600	7,600
RB (Independent Day School) Series 2000 4.05%, 07/06/06 (a)(b)	700	700	<b>Miami-Dade Cnty</b>		
RB (Tampa Metropolitan Area YMCA) Series 2000 4.05%, 07/06/06 (a)(b)	7,600	7,600	Aviation RB (Miami International Airport) Series 2002 4.04%, 07/06/06 (a)(b)(c)(d)	5,370	5,370
<b>Jacksonville Aviation Auth</b>			Solid Waste System RB Series 2005 4.01%, 07/06/06 (a)(b)(c)(d)	10,905	10,905
Refunding RB Series 2005 4.03%, 07/05/06 (a)(b)(c)	4,000	4,000	<b>Miami-Dade Cnty IDA</b>		
<b>Jacksonville Economic Development Commission</b>			RB (Belen Jesuit Preparatory School) Series 1999 3.99%, 07/05/06 (a)(b)	6,355	6,355
Educational Facilities RB (Episcopal High School) Series 2002 4.00%, 07/05/06 (a)(b)	5,400	5,400	RB (Gulliver Schools) Series 2000 4.05%, 07/06/06 (a)(b)	3,800	3,800
RB (Bolles School) Series 1999A 3.98%, 07/06/06 (a)(b)	1,500	1,500			

Schwab Municipal Money Fund

Portfolio Holdings (Unaudited) 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>New College of Florida Development Corp</b>			COP Series 2006B		
Master Lease Program COP			4.01%, 07/06/06 (a)(b)(c)	3,000	3,000
Series 2006			<b>Orlando and Orange Cnty Expressway Auth</b>		
3.99%, 07/05/06 (a)(b)	19,000	19,000	RB Series 2005D		
<b>Okeechobee Cnty</b>			3.96%, 07/06/06 (a)(b)(c)	14,000	14,000
Exempt Facility RB			<b>Orlando Utilities Commission</b>		
(Okeechobee Landfill)			Water and Electric RB		
Series 1999			Series 2002B		
4.03%, 07/06/06 (a)(b)	15,000	15,000	3.97%, 07/05/06 (a)(c)	5,100	5,100
<b>Orange Cnty HFA</b>			<b>Palm Beach Cnty</b>		
M/F Guaranteed Mortgage			Airport RB (Galaxy Aviation)		
Refunding RB (Sundown			Series 2000A		
Associates II) Series 1989A			4.04%, 07/05/06 (a)(b)	7,595	7,595
4.01%, 07/05/06 (a)(b)	4,600	4,600	IDBR (South Florida Blood		
M/F Housing RB (Alta			Banks) Series 2002		
Westgate Apts)			3.99%, 07/05/06 (a)(b)	8,075	8,075
Series 2005C			IDRB (Palm Beach Day School)		
4.02%, 07/05/06 (a)(b)	6,920	6,920	Series 1999		
M/F Housing RB (Palm Key			3.99%, 07/05/06 (a)(b)	7,000	7,000
Apts) Series 1997C			RB (Norton Gallery and School		
3.98%, 07/05/06 (a)(b)	5,000	5,000	of Art) Series 1995		
M/F Housing Refunding RB			4.00%, 07/05/06 (a)(b)	2,500	2,500
(Post Fountains At Lee Vista)			Criminal Justice Facilities RB		
Series 1997E			Series 1997		
3.97%, 07/05/06 (a)(b)	7,235	7,235	4.01%, 07/06/06 (a)(b)(c)(d)	3,000	3,000
<b>Orange Cnty IDA</b>			<b>Palm Beach Cnty Educational Facilities Auth</b>		
Educational Facilities RB (UCF			RB (Lynn University) Series 2001		
Hospitality School Student			4.00%, 07/06/06 (a)(b)	9,835	9,835
Housing Foundation)			<b>Palm Beach Cnty Health Facilities Auth</b>		
Series 2004			Refunding Program RB (Pooled		
3.99%, 07/05/06 (a)(b)	9,000	9,000	Hospital Loan) Series 1985		
IDRB (Goodwill Industries of			3.59%, 07/11/06 (b)	14,000	14,000
Central Florida) Series 1999			3.57%, 07/13/06 (b)	17,600	17,600
3.99%, 07/05/06 (a)(b)	6,000	6,000	<b>Palm Beach Cnty HFA</b>		
IDRB (Central Florida YMCA)			M/F Housing Refunding RB		
Series 2002A			(Emerald Bay Club Apts)		
4.05%, 07/06/06 (a)(b)	3,900	3,900	Series 2004		
RB (Central Florida YMCA)			4.00%, 07/06/06 (a)(b)	7,000	7,000
Series 2005			<b>Palm Beach Cnty SD</b>		
4.00%, 07/06/06 (a)(b)	5,000	5,000	Sales Tax Revenue CP		
<b>Orange Cnty School Board</b>			3.65%, 08/07/06 (b)	56,000	56,000
COP Series 2006A					
4.00%, 07/06/06 (a)(b)(c)	2,282	2,282			

See financial notes. 17



Schwab Municipal Money Fund

Portfolio Holdings (Unaudited) 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>Pinellas Cnty Educational Facilities Auth</b>			<b>Tallahassee-Leon Cnty Civic Center Auth</b>		
RB (Shorecrest Preparatory School) Series 2001 3.98%, 07/05/06 (a)(b)	905	905	Capital Improvement RB Series 1998A 3.99%, 07/05/06 (a)(b)	9,060	9,060
Refunding RB (Canterbury School of Florida) Series 2004 3.98%, 07/05/06 (a)(b)	4,510	4,510	<b>Tampa</b>		
<b>Pinellas Cnty Health Facilities Auth</b>			Health Care Facilities RB (Lifelink Foundation) Series 1997 3.99%, 07/05/06 (a)(b)	4,700	4,700
Hospital Facilities Refunding & RB (Bayfront Hospital) Series 2004 4.02%, 07/03/06 (a)(b)	19,300	19,300	RB (CHF-Tampa LLC Project for the University of Tampa) Series 2005A 3.97%, 07/06/06 (a)(b)	9,000	9,000
<b>Pinellas Cnty HFA</b>			<b>Tampa Bay Water Auth</b>		
M/F Housing RB (Greenwood Apts) Series 2002A 4.05%, 07/06/06 (a)(b)	6,460	6,460	Utility System RB Series 2002 4.05%, 07/06/06 (a)(b)	6,700	6,700
<b>Pinellas Cnty Industry Council</b>			<b>University of South Florida Research Foundation</b>		
RB (Operation Par) Series 1999 4.03%, 07/06/06 (a)(b)	4,245	4,245	RB (Interdisciplinary Research Building) Series 2004A 4.00%, 07/05/06 (a)(b)	12,855	12,855
<b>Santa Rosa Cnty</b>			<b>Volusia Cnty Educational Facilities Auth</b>		
Health Facilities RB (Baptist Hospital) Series 2003 4.00%, 07/06/06 (a)(b)	7,185	7,185	RB (Bethune-Cookman College) Series 2001 3.99%, 07/05/06 (a)(b)	10,475	10,475
<b>Sarasota Cnty</b>					<b>1,050,768</b>
RB (Sarasota Family YMCA) Series 1999 3.98%, 07/06/06 (a)(b)	440	440	<b>Georgia 4.4%</b>		
<b>Sumter Landing Community Development District</b>			<b>Atlanta</b>		
Recreational RB Series 2005A 4.01%, 07/06/06 (a)(b)(c)(d)	2,000	2,000	Airport General Refunding RB Series 2000A 4.01%, 07/06/06 (a)(b)(c)(d)	11,195	11,195
<b>Sunshine State Governmental Financing Commission</b>			Airport General Refunding RB Series 2000C 4.05%, 07/06/06 (a)(b)(c)(d)	3,385	3,385
CP Revenue Notes (Miami-Dade Cnty) Series G 3.42%, 08/08/06 (b)(c)	12,050	12,050	Airport General Refunding RB Series 2003RF-D 4.05%, 07/06/06 (a)(b)(c)(d)	3,385	3,385
TECP Series 1998A 3.64%, 07/03/06 (b)(c)	29,292	29,292	Airport Passenger Facility Charge and Subordinate Lien General RB Series 2004C 4.01%, 07/06/06 (a)(b)(c)	5,185	5,185
3.35%, 08/18/06 (b)(c)	8,000	8,000			



Schwab Municipal Money Fund

**Portfolio Holdings** (Unaudited) continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Subordinate Lien Tax Allocation Bonds (Atlantic Station) Series 2006 4.07%, 07/06/06 (a)(b)	8,000	8,000	<b>Clayton Cnty Development Auth</b> IDRB (Wilson Holdings) Series 1998 4.09%, 07/05/06 (a)(b)	300	300
Water and Wastewater RB Series 2004 4.01%, 07/05/06 (a)(b)(c)(d)	4,500	4,500	<b>Clayton Cnty Housing Auth</b> M/F Housing RB (Hyde Park Club Apts) Series 1997 4.02%, 07/05/06 (a)(b)	11,795	11,795
4.01%, 07/06/06 (a)(b)(c)	4,200	4,200	<b>Cobb Cnty</b> GO TAN Series 2006 3.58%, 12/29/06	37,580	37,747
<b>Atlanta Urban Residential Finance Auth</b> M/F Housing RB (Delmonter/ Brownlee Court) Series 2001A 4.04%, 07/05/06 (a)(b)	4,595	4,595	<b>Cobb Cnty Housing Auth</b> M/F Housing RB (Walton Green Apts) Series 1995 4.03%, 07/06/06 (a)(b)	13,500	13,500
M/F Housing RB (Peaks at West Atlanta Apts) Series 2001 4.04%, 07/05/06 (a)(b)	4,800	4,800	M/F Housing RB (Woodchase Village Apts) Series 2003 4.05%, 07/06/06 (a)(b)	4,000	4,000
M/F Sr Housing RB (Big Bethel Village) Series 2001 4.04%, 07/05/06 (a)(b)	4,400	4,400	M/F Housing Refunding RB (Walton Park Apts) Series 2000 4.03%, 07/06/06 (a)(b)	21,100	21,100
M/F Housing RB (Capitol Gateway Apts Phase I) Series 2005 4.05%, 07/06/06 (a)(b)	4,125	4,125	<b>Columbus Development Auth</b> RB (Foundation Properties) Series 2002 4.03%, 07/06/06 (a)(b)	11,130	11,130
M/F Housing RB (Lindbergh City Center Apts) Series 2004 4.04%, 07/06/06 (a)(b)	5,000	5,000	<b>Columbus Housing Auth</b> M/F Housing RB (Eagles Trace Apts) Series 2002 4.04%, 07/05/06 (a)(b)	6,100	6,100
M/F Housing RB (M St Apts) Series 2003 4.03%, 07/06/06 (a)(b)	7,000	7,000	<b>Dalton Development Auth</b> Revenue Certificates (Hamilton Health Care System) Series 2003B 4.00%, 07/06/06 (a)(b)	5,245	5,245
<b>Augusta Housing Auth</b> M/F Housing RB (G-Hope) Series 2001 4.04%, 07/05/06 (a)(b)	3,620	3,620	<b>DeKalb Cnty</b> Water and Sewerage RB Series 2006A 4.00%, 07/06/06 (a)(b)(c)	10,000	10,000
<b>Cherokee Cnty</b> IDRB (Universal Alloy Corp) Series 1996 4.03%, 07/06/06 (a)(b)	1,500	1,500	<b>DeKalb Cnty Development Auth</b> RB (Arbor Montessori School) Series 1998 3.99%, 07/05/06 (a)(b)	1,100	1,100

See financial notes. 19

Schwab Municipal Money Fund

**Portfolio Holdings** (Unaudited) 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>DeKalb Cnty Housing Auth</b>			<b>Georgia</b>		
M/F Housing RB (Eagles Trace Apts) Series 1996 4.01%, 07/05/06 (a)(b)	8,550	8,550	GO Bonds Series 2002B 4.01%, 07/06/06 (a)(c)(d)	1,100	1,100
M/F Housing RB (Mountain Crest Apts) Series 2002 4.04%, 07/05/06 (a)(b)	7,725	7,725	<b>Gwinnett Cnty SD</b> TAN Series 2006 3.59%, 12/29/06	50,000	50,219
M/F Housing RB (Villas of Friendly Heights Apts) Series 2001 4.04%, 07/05/06 (a)(b)	3,415	3,415	<b>Hapeville Development Auth</b> IDRB (Hapeville Hotel) Series 1985 3.93%, 07/03/06 (a)(b)	6,600	6,600
M/F Housing RB (Wesley Club Apts) Series 2002 4.04%, 07/05/06 (a)(b)	5,810	5,810	<b>Houston Cnty Development Auth</b> IDRB (Douglas Asphalt Co) Series 2000 4.04%, 07/05/06 (a)(b)	950	950
M/F Housing RB (Brittany Apts) Series 2001 4.02%, 07/06/06 (a)(b)	7,200	7,200	<b>Jefferson Cnty Development Auth</b> IDRB (Grove River Mills) Series 1997 4.08%, 07/06/06 (a)(b)	1,200	1,200
<b>DeKalb Cnty Public Safety and Judicial Facilities Auth</b> RB Series 2004A 4.01%, 07/06/06 (a)(c)(d)	11,690	11,690	<b>Laurens Cnty Development Auth</b> Solid Waste Disposal RB (Southeast Paper Manufacturing Co) Series 1993 4.04%, 07/06/06 (a)(b)	25,000	25,000
<b>Effingham Cnty IDA</b> RB (TEMCOR) Series 2001 4.04%, 07/05/06 (a)(b)	3,005	3,005	Solid Waste Disposal RB (Southeast Paper Manufacturing Co) Series 1997 4.04%, 07/06/06 (a)(b)	26,000	26,000
<b>Fulton Cnty</b> Water and Sewerage RB Series 2004 4.00%, 07/06/06 (a)(b)(c)	3,495	3,495	<b>Lawrenceville Housing Auth</b> M/F Housing RB (Chatham Club Apts) Series 2002 4.05%, 07/06/06 (a)(b)(d)	7,700	7,700
4.00%, 07/06/06 (a)(b)(c)(d)	10,000	10,000	<b>Lowndes Cnty Development Auth</b> M/F Housing RB (FMPH Valdosta) Series 1999 4.04%, 07/05/06 (a)(b)	4,625	4,625
<b>Fulton Cnty Development Auth</b> RB (Atlanta International School) Series 1997 3.99%, 07/05/06 (a)(b)	2,400	2,400	<b>Macon-Bibb Cnty Hospital Auth</b> Revenue Anticipation Certificates (Medical Center of Central Georgia) Series 1998 3.99%, 07/05/06 (a)(b)	4,000	4,000
RB (Children's Healthcare of Atlanta) Series 2005A 4.01%, 07/06/06 (a)(c)	46,395	46,395			
RB (Trinity School) Series 2001 3.99%, 07/05/06 (a)(b)	7,000	7,000			
<b>Fulton-DeKalb Hospital Auth</b> Refunding Revenue Certificates Series 2003 4.00%, 07/06/06 (a)(b)(c)(d)	9,995	9,995			

20 See financial notes.

Schwab Municipal Money Fund

Portfolio Holdings (Unaudited) 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>Marietta Housing Auth</b>			<b>Thomasville Hospital Auth</b>		
M/F Housing RB (Walton Village Apts) Series 2005 4.03%, 07/06/06 (a)(b)	14,300	14,300	Revenue Anticipation Certificates (John D. Archbold Memorial Hospital) Series 2003 3.99%, 07/05/06 (a)(b)	5,800	5,800
<b>Metropolitan Atlanta Rapid Transit Auth</b>			<b>Walton Cnty Development Auth</b>		
Sales Tax Revenue CP BAN (Third Indenture) Series 2004A 3.63%, 07/13/06 (b)	26,500	26,500	RB (Tucker Door and Trim Corp) Series 2000 4.14%, 07/05/06 (a)(b)	2,500	2,500
3.60%, 08/07/06 (b)	12,500	12,500	<b>Webster Cnty IDA</b>		
<b>Miller Cnty Development Auth</b>			IDRB (Tolleson Lumber Co) Series 1999 4.03%, 07/06/06 (a)(b)	4,000	4,000
IDRB (Birdsong Corp) Series 2000 4.04%, 07/05/06 (a)(b)	2,300	2,300	<b>Winder-Barrow Industrial Building Auth</b>		
<b>Pooler Development Auth</b>			IDRB (Progress Container Corp) Series 2000 4.04%, 07/05/06 (a)(b)	2,200	2,200
M/F Housing RB (Alta Towne Lake Apts) Series 2005 4.05%, 07/06/06 (a)(b)	19,500	19,500	<b>Worth Cnty</b>		
<b>Savannah Economic Development Auth</b>			Refunding IDRB (Seabrook Peanut Co) Series 1996B 4.04%, 07/05/06 (a)(b)	1,300	1,300
Exempt Facility RB (Home Depot) Series 1995B 4.02%, 07/05/06 (a)(b)	5,000	5,000			577,556
Exempt Facility RB (Georgia Kaolin Terminal) Series 1997 4.05%, 07/06/06 (a)(b)	11,000	11,000	<b>Hawaii 0.5%</b>		
<b>Savannah Housing Auth</b>			<b>Hawaii</b>		
M/F Housing RB (Indigo Pointe Apts) Series 2001A1 4.04%, 07/05/06 (a)(b)	3,500	3,500	GO Bonds Series 2002CZ 4.00%, 07/06/06 (a)(b)(c)(d)	5,900	5,900
M/F Housing RB (Live Oak Plantation Apts) Series 2001A1 4.04%, 07/05/06 (a)(b)	2,500	2,500	Special Purpose Refunding RB (Hawaiian Electric Co) Series 2000 4.04%, 07/06/06 (a)(b)(c)(d)	9,095	9,095
<b>Summerville Development Auth</b>			<b>Hawaii Housing Finance and Development Corp</b>		
Exempt Facility RB (Image Industries) Series 1997 4.07%, 07/06/06 (a)(b)	11,000	11,000	S/F Mortgage Purchase RB 4.12%, 07/06/06 (a)(c)(d)	1,670	1,670
			<b>Honolulu City and Cnty</b>		
			GO Bonds Series 2003A 4.01%, 07/06/06 (a)(b)(c)(d)	14,995	14,995
			GO CP Series H 3.37%, 08/08/06 (b)	38,000	38,000
					69,660

See financial notes. 21

Schwab Municipal Money Fund

**Portfolio Holdings** (Unaudited) continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Idaho 0.4%</b>		
<b>Idaho</b>		
TAN Series 2006 3.70%, 06/29/07	28,000	28,213
<b>Idaho Housing and Finance Assoc</b>		
S/F Mortgage Bonds Series 2005F 4.03%, 07/05/06 (a)(c)	17,900	17,900
<b>Idaho State University Foundation</b>		
RB (LE and Thelma E. Stephens Performing Arts Center) Series 2001 3.97%, 07/06/06 (a)(b)	3,660	3,660
		<b>49,773</b>

**Illinois 7.1%**

<b>Carol Stream</b>		
M/F Housing Refunding RB (St Charles Square) Series 1997 4.09%, 07/05/06 (a)(b)	4,415	4,415
<b>Chicago</b>		
General Airport Third Lien RB (Chicago O'Hare International Airport) Series 2005A 4.01%, 07/06/06 (a)(b)(c)	22,192	22,192
4.01%, 07/06/06 (a)(b)(c)(d)	10,900	10,900
General Airport Third Lien RB (O'Hare International Airport) Series 2005A 4.01%, 07/06/06 (a)(b)(c)	20,580	20,580
General Airport Third Lien Refunding RB (Chicago O'Hare International Airport) Series 2005B 3.79%, 07/06/06 (a)(b)(c)(d)	6,325	6,325
4.01%, 07/06/06 (a)(b)(c)	11,450	11,450
GO Bonds (Project and Refunding) Series 2006A 4.01%, 07/06/06 (a)(b)(c)	6,595	6,595
GO Bonds Series 2003C 4.01%, 07/06/06 (a)(b)(c)(d)	2,694	2,694
GO Project and Refunding		

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Bonds Series 2005B 4.01%, 07/06/06 (a)(b)(c)(d)	6,850	6,850
GO Project and Refunding Bonds Series 2006A 4.01%, 07/06/06 (a)(b)(c)	39,270	39,270
M/F Housing RB (Central Station Senior Housing) Series 2004 4.03%, 07/06/06 (a)(b)	9,500	9,500
Midway Airport RB Series 1998C 4.02%, 07/06/06 (a)(b)(c)(d)	24,480	24,480
Sales Tax Refunding RB Series 2005 4.01%, 07/06/06 (a)(b)(c)(d)	9,705	9,705
Second Lien Wastewater Transmission Refunding RB Series 2001 4.00%, 07/06/06 (a)(b)(c)(d)	20,535	20,535
Sr Lien Water RB Series 2000 4.02%, 07/06/06 (a)(c)(d)	12,975	12,975
Water System CP Series 2004A 3.63%, 07/26/06 (b)	15,000	15,000
<b>Chicago Board of Education</b>		
Unlimited Tax GO Bonds Series 1997 4.01%, 07/06/06 (a)(b)(c)(d)	7,120	7,120
<b>Chicago Housing Auth</b>		
Capital Program Refunding RB Series 2006 4.01%, 07/06/06 (a)(b)(c)(d)	35,000	35,000
3.67%, 07/01/07 (b)	22,180	22,467
<b>Chicago O'Hare International Airport</b>		
General Airport Third Lien Refunding RB Series 2003A2 4.05%, 07/06/06 (a)(b)(c)(d)	5,295	5,295
General Airport Third Lien Refunding RB Series 2003B2 4.04%, 07/06/06 (a)(b)(c)(d)	10,800	10,800
Second Lien Passenger Facility Charge RB Series 2001A 4.06%, 07/05/06 (a)(b)(c)(d)	11,070	11,070
Second Lien Passenger Facility Charge RB Series 2001A 4.05%, 07/06/06 (a)(b)(c)(d)	6,315	6,315

# Schwab Municipal Money Fund

## Portfolio Holdings (Unaudited) continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Special Facilities RB (O'Hare Tech Center II) Series 2002 4.05%, 07/06/06 (a)(b)	15,500	15,500	IDRB (Camcraft Inc) Series 1993 4.19%, 07/05/06 (a)(b)	1,600	1,600
<b>Cook Cnty</b> RB (Catholic Theological Union) Series 2005 3.99%, 07/05/06 (a)(b)	4,000	4,000	Qualified Residential Rental Bonds (River Oaks) Series 1989 4.03%, 07/05/06 (a)(b)	32,000	32,000
GO Capital Improvement Bonds Series 2004B 4.00%, 07/06/06 (a)(b)(c)(d)	6,900	6,900	RB (Francis W. Parker School) Series 1999 3.95%, 07/05/06 (a)(b)	2,355	2,355
<b>East Dundee, Kane and Cook Cnties</b> IDRB (Otto Engineering) Series 1998 4.08%, 07/06/06 (a)(b)	1,595	1,595	RB (Aurora Central Catholic High School) Series 1994 4.24%, 07/05/06 (a)(b)	1,000	1,000
<b>Hampshire</b> IDRB (Poli-Film America) Series 1998A 4.07%, 07/06/06 (a)(b)	2,300	2,300	RB (Carmel High School) Series 2003 3.99%, 07/05/06 (a)(b)	6,200	6,200
<b>Illinois</b> GO Bonds Series 2003B 4.01%, 07/05/06 (a)(c)	10,000	10,000	RB (Catholic Charities Housing Development Corp) Series 1993A 4.14%, 07/05/06 (a)(b)	9,160	9,160
Civic Center Bonds Series 1991 4.07%, 07/06/06 (a)(b)(c)(d)	2,940	2,940	RB (Catholic Charities Housing Development Corp) Series 1993B 4.14%, 07/05/06 (a)(b)	910	910
GO Bonds (Illinois First) Series 2000 4.02%, 07/06/06 (a)(b)(c)(d)	33,575	33,575	RB (Chicago Academy of Sciences) Series 1997 3.99%, 07/05/06 (a)(b)	2,315	2,315
GO Bonds (Illinois First) Series 2002 4.02%, 07/06/06 (a)(b)(c)(d)	26,500	26,500	RB (Chicago Academy of Sciences) Series 1998 3.99%, 07/05/06 (a)(b)	5,700	5,700
GO Bonds Series 2004A 4.01%, 07/06/06 (a)(c)(d)	6,675	6,675	RB (Lake Forest Academy) Series 1994 3.99%, 07/05/06 (a)(b)	4,000	4,000
GO Bonds Series 2006 4.01%, 07/06/06 (a)(c)(d)	1,745	1,745	RB (Lake Forest Country Day School) Series 2005 3.99%, 07/05/06 (a)(b)	7,250	7,250
GO Bonds Series 2006 4.01%, 07/06/06 (a)(c)	2,400	2,400	RB (Presbyterian Homes Two Arbor Lane) Series 2001 3.99%, 07/05/06 (a)(b)	9,000	9,000
GO Refunding Bonds Series 2006 3.73%, 01/01/07	18,330	18,403	RB (Richard H. Driehaus Museum) Series 2005 3.99%, 07/05/06 (a)(b)	3,800	3,800
<b>Illinois Development Finance Auth</b> IDRB (Arc-Tronics) Series 1999 4.02%, 07/05/06 (a)(b)	1,585	1,585			

See financial notes. 23

Schwab Municipal Money Fund

**Portfolio Holdings** (Unaudited) continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
RB (Slovak American Charitable Assoc) Series 2000 3.99%, 07/05/06 (a)(b)	7,540	7,540	RB (Villa St Benedict) Series 2003B 4.05%, 07/06/06 (a)(b)	1,630	1,630
RB (St Ignatius College Prep) Series 2002 3.99%, 07/05/06 (a)(b)(d)	2,800	2,800	<b>Illinois Housing Development Auth</b>		
RB (Wheaton Academy) Series 1998 3.99%, 07/05/06 (a)(b)	9,000	9,000	M/F Mortgage Refunding RB (Hyde Park Tower Apts) Series 2000A 4.02%, 07/05/06 (a)(b)	4,500	4,500
Economic Development RB (Korex Corp) Series 1990 4.08%, 07/06/06 (a)(b)	4,000	4,000	<b>Illinois Toll Highway Auth</b>		
Gas Supply Refunding RB (People's Gas) Series 2003E 4.05%, 07/06/06 (a)(b)(c)(d)	14,995	14,995	Sr Priority RB Series 2005A 4.01%, 07/06/06 (a)(b)(c)(d)	17,610	17,610
IDRB (Radiological Society of North America) Series 1997 4.05%, 07/06/06 (a)(b)	2,930	2,930	Sr Priority RB Series 2006A2 4.00%, 07/06/06 (a)(b)(c)(d)	10,420	10,420
RB (Perspectives Charter School) Series 2003 3.99%, 07/06/06 (a)(b)	5,400	5,400	Toll Highway Sr Priority RB Series 2006A1 4.01%, 07/06/06 (a)(b)(c)(d)	10,425	10,425
Water Facilities Refunding RB (Illinois-American Water Co) Series 2002 4.08%, 07/06/06 (a)(b)(c)	5,000	5,000	Toll Highway Sr Priority RB Series 2006A2 4.01%, 07/06/06 (a)(b)(c)(d)	34,445	34,445
RB (American College of Surgeons) Series 1996 3.98%, 07/07/06 (a)(b)	13,100	13,100	<b>Lombard</b>		
<b>Illinois Education Facility Auth</b>			Refunding IDRB (B&H Partnership) Series 1995 4.37%, 07/06/06 (a)(b)	1,850	1,850
RB (Shedd Aquarium) Series 1997 4.01%, 07/05/06 (a)(b)(c)(d)	2,000	2,000	<b>Metropolitan Pier and Exposition Auth</b>		
RB (Northwestern University) Series 2003 4.01%, 07/06/06 (a)(c)(d)	7,010	7,010	Refunding Bonds (McCormick Place Expansion) Series 2002B 4.01%, 07/05/06 (a)(b)(c)(d)	18,490	18,490
<b>Illinois Health Facilities Auth</b>			Bonds (McCormick Place Expansion Project) Series 1998B 4.00%, 07/06/06 (a)(b)(c)(d)	16,000	16,000
RB (Bensenville Home Society) Series 1989A 3.99%, 07/05/06 (a)(b)	1,300	1,300	Bonds (McCormick Place Expansion) Series 2002A 4.04%, 07/06/06 (a)(b)(c)(d)	6,295	6,295
RB (Ingalls Health System) Series 1994 4.00%, 07/06/06 (a)(b)(c)(d)	29,180	29,180	Refunding Bonds (McCormick Place Expansion) Series 1999AC 4.02%, 07/06/06 (a)(b)(c)(d)	9,790	9,790

Schwab Municipal Money Fund

Portfolio Holdings (Unaudited) 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>Metropolitan Water Reclamation District of Greater Chicago</b>			<b>Wheeling</b>		
Unlimited Tax GO Refunding Bonds Series 2006 4.00%, 07/06/06 (a)(b)(c)(d)	10,000	10,000	M/F Housing Refunding RB (Woodland Creek Apts II) Series 2002 4.02%, 07/06/06 (a)(b)	17,655	17,655
<b>Montgomery Special Service Area No.10</b>			<b>Will-Kankakee Regional Development Auth</b>		
Special Tax Bonds (Blackberry Crossing West) Series 2004 3.99%, 07/05/06 (a)(b)	12,152	12,152	IDRB (Toltec Steel Services) Series 2002 4.08%, 07/06/06 (a)(b)	6,510	6,510
<b>Palatine</b>			<b>Winnebago Cnty</b>		
Special Facility Limited Obligation RB (Little City for Community Development) Series 1998 3.99%, 07/05/06 (a)(b)	5,000	5,000	GO Alternate Bonds (Public Safety Sales Tax) Series 2005A 4.01%, 07/06/06 (a)(b)(c)(d)	8,665	8,665
<b>Regional Transporation Auth Cook, DuPage, Kane, Lake, McHenry &amp; Will Cnties</b>			<b>Woodridge</b>		
GO Bonds Series 2005A 4.01%, 07/06/06 (a)(b)(c)(d)	29,165	29,165	M/F Housing Refunding RB (Hinsdale Lake Terrace Apts) Series 1990 4.02%, 07/07/06 (a)(b)(c)	20,760	20,760
<b>Regional Transportation Auth</b>			<b>Yorkville</b>		
GO Refunding Bonds Series 1999 2.98%, 07/06/06 (a)(b)(c)(d)	9,730	9,730	IDRB (FE Wheaton and Co) Series 1996 4.25%, 07/06/06 (a)(b)	950	950
4.02%, 07/06/06 (a)(b)(c)(d)	12,055	12,055			<b>922,393</b>
<b>Rockford</b>			<b>Indiana 1.3%</b>		
IDRB (Ring Can Corp) Series 1998 4.04%, 07/05/06 (a)(b)	740	740	<b>Brownburg 1999 School Bldg Corp</b>		
IDRB (Rockford Industrial Welding Supply) Series 1996 4.08%, 07/06/06 (a)(b)	2,000	2,000	First Mortgage Refunding Bonds Series 2005B 4.01%, 07/06/06 (a)(b)(c)(d)	11,600	11,600
<b>Southwestern Illinois Development Auth</b>			<b>Elkhart Cnty</b>		
Refunding IDRB (Holten Meat) Series 2004 4.07%, 07/06/06 (a)(b)	6,860	6,860	Economic Development RB (West Plains Apts) Series 1998A 4.04%, 07/05/06 (a)(b)	1,750	1,750
<b>University of Illinois</b>			<b>Indiana Development Finance Auth</b>		
Auxiliary Facilities RB Series 1999A 4.01%, 07/05/06 (a)(b)(c)(d)	3,500	3,500	IDRB (Big Sky Park) Series 1999 4.05%, 07/06/06 (a)(b)	4,400	4,400
			IDRB (Cives Corp) Series 1998 4.03%, 07/06/06 (a)(b)	7,150	7,150

See financial notes. 25



Schwab Municipal Money Fund

Portfolio Holdings (Unaudited) 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>Indiana Educational Facilities Auth</b>			Bonds (Indianapolis Airport Auth)		
RB (St Joseph's College)			Series 2005B		
Series 2004			4.05%, 07/06/06 (a)(b)(c)(d)	3,125	3,125
3.98%, 07/06/06 (a)(b)	11,835	11,835	Bonds (Indianapolis Airport Auth)		
<b>Indiana Finance Auth</b>			Series 2006F		
Environmental RB (PSI Energy Inc) Series 2005B			4.04%, 07/06/06 (a)(b)(c)(d)	12,700	12,700
4.03%, 07/05/06 (a)(b)	10,500	10,500	RB (Indianapolis Airport Auth)		
<b>Indiana Health Facility Financing Auth</b>			Series 2004I		
Insured RB Series 1985A			4.05%, 07/06/06 (a)(b)(c)(d)	11,295	11,295
3.97%, 07/05/06 (a)(b)(c)	3,280	3,280	<b>Marion</b>		
Hospital RB (Sisters of St Francis Health Services, Inc) Series 1999A			Economic Development RB (Indiana Wesleyan University) Series 2000		
4.00%, 07/06/06 (a)(b)(c)(d)	7,605	7,605	4.00%, 07/05/06 (a)(b)	7,500	7,500
RB (Ascension Health Credit Group) Series 2001A2			<b>St Joseph Cnty</b>		
3.62%, 06/01/07 (a)	17,275	17,273	Economic Development RB (Corby Apts) Series 1997B		
<b>Indiana HFA</b>			4.09%, 07/05/06 (a)(b)	3,380	3,380
S/F Mortgage RB Series 2002B			Economic Development RB (Pin Oaks Apts) Series 1997A		
4.06%, 07/05/06 (a)(c)(d)	2,600	2,600	4.09%, 07/05/06 (a)(b)	1,000	1,000
S/F Mortgage RB Series 1998D2			Economic Development RB (Western Manor Apts) Series 1997C		
4.12%, 07/06/06 (a)(c)(d)	9,715	9,715	4.09%, 07/05/06 (a)(b)	2,130	2,130
S/F Mortgage RB Series 2000B2			<b>Vigo Cnty</b>		
4.14%, 07/06/06 (a)(c)(d)	3,795	3,795	Economic Development RB (Sisters of Providence) Series 2001		
S/F Mortgage RB Series 2004B2 & 2005C2			4.04%, 07/06/06 (a)(b)	3,500	3,500
4.04%, 07/06/06 (a)(c)	5,670	5,670	<b>Wayne Township Marion Cnty School Building Corp</b>		
<b>Indianapolis</b>			First Mortgage Refunding Bonds Series 2006		
M/F Housing RB (Nora Pines Apts) Series 2001			4.00%, 07/06/06 (a)(b)(c)	5,155	5,155
4.02%, 07/06/06 (a)(b)	9,275	9,275			<b>170,378</b>
Thermal Energy System RB Series 2001A			<b>Iowa 1.4%</b>		
4.02%, 07/06/06 (a)(b)(c)(d)	9,900	9,900	<b>Des Moines Metropolitan Wastewater Reclamation Auth</b>		
<b>Indianapolis Local Public Improvement Bond Bank</b>			Sewer RB Series 2004B		
Bonds (Waterworks) Series 2006A			4.00%, 07/06/06 (a)(b)(c)(d)	6,485	6,485
3.18%, 07/03/06 (a)(b)(c)	4,245	4,245			



# Schwab Municipal Money Fund

## Portfolio Holdings (Unaudited) 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>Iowa Higher Education Loan Auth</b>			<b>Elizabethtown</b>		
Private College Facility RB (Graceland University) Series 2003 4.05%, 07/06/06 (a)(b)	2,000	2,000	IDRB (ALTEC) Series 1997 4.05%, 07/05/06 (a)(b)	3,000	3,000
<b>Iowa School Corporations</b>			<b>Jefferson Cnty</b>		
Cash Anticipation Program Warrant Certificates Series 2005-2006 B 3.21%, 01/26/07 (b)	15,090	15,198	M/F Housing Refunding RB (Camden Brookside Apts) Series 2002 4.00%, 07/06/06 (a)(b)	8,900	8,900
Cash Anticipation Program Warrant Certificates Series 2006-2007 A 3.71%, 06/28/07 (b)	75,000	75,566	Sports Stadium RB (University of Louisville Athletic Assoc) Series 1997 4.20%, 07/06/06 (a)(b)	1,800	1,800
<b>Iowa Student Loan Liquidity Corp</b>			<b>Kentucky Asset/Liability Commission</b>		
RB Series 1988B 4.03%, 07/05/06 (a)(b)(c)	46,500	46,500	General Fund TRAN Series 2006A 3.70%, 06/28/07	25,000	25,190
<b>Tobacco Settlement Auth</b>			<b>Kentucky Higher Education Student Loan Corp</b>		
Asset-Backed Bonds Series 2001B 4.01%, 07/05/06 (a)(c)	21,710	21,710	Insured RB Series 1991E 4.05%, 07/05/06 (a)(b)(c)	12,600	12,600
Asset-Backed Bonds Series C 4.03%, 07/06/06 (a)(b)(c)(d)	11,820	11,820	Insured RB Series 1996A 4.05%, 07/05/06 (a)(b)(c)	23,850	23,850
		<b>179,279</b>	<b>Kentucky Housing Corp</b>		
<b>Kansas 0.3%</b>			RB Series 2002A 4.06%, 07/05/06 (a)(c)(d)	3,590	3,590
<b>Douglas Cnty Unified SD No.497</b>			RB Series 1998B 4.05%, 07/06/06 (a)(c)(d)	11,995	11,995
GO Temporary Notes Series 2005-1 2.64%, 07/12/06	32,200	32,213	RB Series 1998F 4.12%, 07/06/06 (a)(c)(d)	19,320	19,320
<b>Kansas Development Finance Auth</b>			<b>Louisville and Jefferson Cnty Metropolitan Sewer District</b>		
M/F Housing RB (Saddlewood Apts) Series 2004M 4.07%, 07/06/06 (a)(b)	6,400	6,400	Sewage and Drainage System RB Series 1999A 4.02%, 07/06/06 (a)(b)(c)(d)	6,115	6,115
		<b>38,613</b>	<b>Richmond</b>		
<b>Kentucky 1.1%</b>			IDRB (Mikron) Series 1995 4.05%, 07/05/06 (a)(b)	5,000	5,000
<b>Daviess Cnty</b>					<b>141,360</b>
Solid Waste Disposal Facilities RB (Scott Paper Co) Series 1993A 4.05%, 07/05/06 (a)	20,000	20,000	<b>Louisiana 2.9%</b>		
			<b>East Baton Rouge</b>		
			Pollution Control Refunding RB 3.88%, 07/03/06 (a)	3,600	3,600

See financial notes. 27

Schwab Municipal Money Fund

Portfolio Holdings (Unaudited) 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)
Road and Street Improvement Sales Tax RB Series 2006B 3.96%, 07/05/06 (a)(b)(c)	35,000	35,000	<b>Louisiana Offshore Terminal Auth</b>		
<b>Ernest N. Morial-New Orleans Exhibit Hall Auth</b>			Deepwater Port Refunding RB First State Series 1992A 3.99%, 07/05/06 (a)(b)	10,000	10,000
Sr Subordinate Special Tax Bonds Series 2003A 4.04%, 07/06/06 (a)(b)(c)(d)	4,995	4,995	Deepwater Port Refunding RB Series 2003B 3.98%, 07/05/06 (a)(b)	5,700	5,700
<b>Lafayette IDB</b>			<b>Louisiana Public Facility Auth</b>		
Refunding IDRB (Westwood Village) Series 1995 4.02%, 07/06/06 (a)(b)	3,735	3,735	RB (Tiger Athletic Foundation) Series 2004 3.99%, 07/06/06 (a)(b)	25,710	25,710
<b>Lake Charles Harbor and Terminal District</b>			<b>New Orleans</b>		
Dock and Wharf RB (Conoco Inc) Series 2000 4.03%, 07/05/06 (a)(b)	10,500	10,500	GO Refunding Bonds Series 2005 4.02%, 07/06/06 (a)(b)(c)(d)	7,940	7,940
<b>Louisiana</b>			<b>New Orleans Aviation Board</b>		
Gasoline and Fuels Tax RB Series 2005A 4.01%, 07/06/06 (a)(b)(c)	17,145	17,145	Refunding Bonds Series 1993B 4.05%, 07/05/06 (a)(b)(c)	4,560	4,560
GO Refunding Bonds Series 2005A 4.01%, 07/06/06 (a)(b)(c)(d)	6,275	6,275	<b>New Orleans IDB</b>		
<b>Louisiana Citizens Property Insurance Corp</b>			M/F Housing RB (3700 Orleans) Series 2000 4.05%, 07/06/06 (a)(b)	29,000	29,000
Assessment RB Series 2006B 4.12%, 07/03/06 (a)(b)(c)	56,660	56,660	<b>St James Parish</b>		
4.01%, 07/06/06 (a)(b)(c)(d)	16,300	16,300	Pollution Control Refunding RB (Texaco) Series 1988A 3.65%, 07/13/06	59,030	59,030
<b>Louisiana HFA</b>			Pollution Control Refunding RB (Texaco) Series 1988B 3.63%, 09/12/06	39,030	39,030
S/F Mortgage Refunding RB Series 2005A 4.05%, 07/06/06 (a)(c)(d)	26,009	26,009			<b>381,704</b>
<b>Louisiana Local Government Environmental Facilities and Community Development Auth</b>			<b>Maine 0.3%</b>		
RB (University of Louisiana- Monroe) Series 2004A 3.99%, 07/06/06 (a)(b)	8,000	8,000	<b>Maine Finance Auth</b>		
RB (University of Louisiana- Monroe) Series 2004C 3.99%, 07/06/06 (a)(b)	12,515	12,515	RB (Jackson Laboratory) Series 2002 4.02%, 07/06/06 (a)(b)	5,465	5,465
			Solid Waste Disposal RB (Casella Waste Systems Inc) Series 2005 4.05%, 07/06/06 (a)(b)	12,500	12,500
			<b>Maine Housing Auth</b>		
			General Housing Draw Down Bonds Series 2005A 4.02%, 07/06/06 (a)(c)(d)	4,320	4,320

Schwab Municipal Money Fund

Portfolio Holdings (Unaudited) continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
General Housing Draw Down Bonds Series 2005B 4.05%, 07/06/06 (a)(c)(d)	14,860	14,860
Mortgage Purchase Bonds Series 2002F2 4.05%, 07/06/06 (a)(c)(d)	3,675	3,675
		<b>40,820</b>

**Maryland 0.8%**

**Baltimore**

Convention Center Hotel RB Sr Series 2006A 4.01%, 07/06/06 (a)(b)(c)(d)	20,120	20,120
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**Howard Cnty**

Consolidated Public Improvement CP BAN Series D 3.62%, 08/08/06 (c)	25,000	25,000
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**Maryland Community**

**Development Administration**

S/F Program Bonds Third Series 1999 4.12%, 07/06/06 (a)(c)(d)	32,335	32,335
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**Maryland Economic**

**Development Corp**

IDRB (Dixon Valve and Coupling Co) Series 1998 4.08%, 07/05/06 (a)(b)	950	950
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**Maryland Energy Financing**

**Administration**

Limited Obligation Local District Cooling Facilities RB (Comfort Link) Series 2001 4.04%, 07/05/06 (a)(b)	10,000	10,000
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**Montgomery Cnty**

Consolidated Public Improvement BAN Series 2006B 3.99%, 07/03/06 (a)(c)	10,000	10,000
		<b>98,405</b>

**Massachusetts 2.2%**

**Freetown-Lakeville Regional  
SD**

BAN 3.88%, 10/20/06	2,000	2,001
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Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Haverhill</b> State Qualified BAN 3.62%, 03/30/07	1,865	1,877
<b>Lowell</b> BAN Series A 3.80%, 09/22/06	5,730	5,732
<b>Massachusetts</b> GO Bonds (Consolidated Loan of 2006) Series A 4.01%, 07/03/06 (a)(c)	33,000	33,000
GO Refunding Bonds Series 2004A 4.01%, 07/05/06 (a)(b)(c)(d)	18,900	18,900
Lease RB (Route 3 North Transportation Improvements) Series 2002B 3.96%, 07/05/06 (a)(b)(c)	17,260	17,260
GO Bonds Consolidated Loan Series 2000C 3.99%, 07/06/06 (a)(c)(d)	1,500	1,500
GO Bonds Consolidated Loan Series 2001D 4.00%, 07/06/06 (a)(b)(c)(d)	2,785	2,785
GO Bonds Consolidated Loan Series 2005C 4.01%, 07/06/06 (a)(b)(d)	5,000	5,000
GO Refunding Bonds Series 2001C 3.93%, 07/06/06 (a)(c)	30,700	30,700
Special Obligation Dedicated Tax RB Series 2005 4.00%, 07/06/06 (a)(b)(c)(d)	29,700	29,700
Special Obligation RB Consolidated Loan Series 2005A 3.99%, 07/06/06 (a)(b)(c)(d)	3,500	3,500
<b>Massachusetts Bay Transportation Auth</b> Assessment Bonds Series 2005A 4.00%, 07/06/06 (a)(c)(d)	4,500	4,500

**Schwab Municipal Money Fund**

**Portfolio Holdings** (Unaudited) 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>Massachusetts Development Finance Agency</b>			<b>Massachusetts Water Pollution Abatement Trust</b>		
M/F Housing Refunding RB (Kensington at Chelmsford) Series 2002 4.02%, 07/06/06 (a)(b)	250	250	RB Subordinate Series 1999A 4.00%, 07/05/06 (a)(c)(d)	5,500	5,500
RB (Worcester Academy) Series 2000 4.00%, 07/06/06 (a)(b)	2,000	2,000	<b>Massachusetts Water Resources Auth</b>		
<b>Massachusetts Health and Educational Facilities Auth</b>			CP Notes Series 1994 3.55%, 07/06/06 (b)	1,300	1,300
RB (Capital Assets Program) Series 1985D 3.93%, 07/03/06 (a)(b)(c)	1,400	1,400	3.55%, 07/07/06 (b)	5,000	5,000
RB (Baystate Medical Center) Series D 4.00%, 07/06/06 (a)(b)(c)(d)	22,600	22,600	3.57%, 08/04/06 (b)	2,000	2,000
RB (Massachusetts Institute of Technology) Series K 4.00%, 07/06/06 (a)(c)(d)	6,710	6,710	General Revenue Refunding Bonds Series 2005B 3.99%, 07/06/06 (a)(b)(c)	3,100	3,100
RB (Winchester Hospital) Series D 4.00%, 07/06/06 (a)(b)(c)(d)	5,000	5,000	<b>Nashoba Regional SD</b>		
RB (Worcester City Campus Corp) Series 2005D 3.97%, 07/06/06 (a)(b)(c)(d)	4,770	4,770	State Qualified BAN 3.88%, 09/14/06	2,780	2,781
Revenue Notes (Harvard University) Series EE 3.55%, 08/10/06	18,000	18,000	<b>Pembroke</b>		
<b>Massachusetts HFA</b>			BAN 3.68%, 08/03/06	5,000	5,001
S/F Housing RB Series 122 4.03%, 07/06/06 (a)(c)	2,525	2,525	<b>Salem</b>		
<b>Massachusetts Port Auth</b>			BAN 3.34%, 01/11/07	6,000	6,028
RB Series 2005 A&C 4.01%, 07/06/06 (a)(b)(c)(d)	6,905	6,905	<b>Weston</b>		
<b>Massachusetts School Building Auth</b>			BAN 3.28%, 02/09/07	3,000	3,022
Dedicated Sales Tax Bonds Series 2005A 4.00%, 07/06/06 (a)(b)(c)(d)	13,300	13,300			<b>280,757</b>
<b>Massachusetts Turnpike Auth</b>			<b>Michigan 4.2%</b>		
Subordinate RB (Metropolitan Highway System) Series 1999A 4.00%, 07/06/06 (a)(b)(c)(d)	7,110	7,110	<b>Detroit</b>		
			Sewage Disposal System RB Series 1999A 4.02%, 07/06/06 (a)(b)(c)(d)	34,650	34,650
			Sewage Disposal System Second Lien RB Series 2001B 4.05%, 07/06/06 (a)(b)(c)(d)	4,260	4,260
			<b>Detroit SD</b>		
			School Building and Site Improvement Bonds (Unlimited Tax GO) Series 2001A 4.00%, 07/06/06 (a)(b)(c)(d)	83,610	83,610
			School Building and Site Improvement Bonds Series 2001A 4.05%, 07/06/06 (a)(b)(c)(d)	4,620	4,620

# Schwab Municipal Money Fund

## Portfolio Holdings (Unaudited) 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)
School Building and Site Improvement Refunding Bonds Series 2005A 4.01%, 07/06/06 (a)(b)(c)(d)	8,500	8,500	<b>Michigan State Hospital Financing Auth</b> Hospital Refunding RB (Henry Ford Health System) Series 2006B 4.00%, 07/05/06 (a)(b)	10,000	10,000
School Building and Site Improvement Refunding Bonds Unlimited Tax GO Series 2005A 3.99%, 07/06/06 (a)(b)(c)	3,580	3,580	Hospital Refunding RB (Henry Ford Health System) Series 2006C 4.00%, 07/05/06 (a)(b)	15,000	15,000
4.00%, 07/06/06 (a)(b)(c)(d)	10,915	10,915	Hospital Refunding RB (Henry Ford Health System) Series 2006A 4.02%, 07/06/06 (a)(b)(c)(d)	6,405	6,405
<b>Jackson Cnty Hospital Finance Auth</b> Refunding RB (W.A. Foote Memorial Hospital) Series 2005B 3.99%, 07/06/06 (a)(b)	10,000	10,000	<b>Michigan Strategic Fund</b> Limited Obligation RB (Advance Plastics Corp) Series 1996 4.12%, 07/06/06 (a)(b)	870	870
<b>Michigan</b> GO Notes Series 2006A 3.98%, 07/05/06 (a)(c)(d)	60,000	60,000	Limited Obligation RB (American Cancer Society) Series 2000 4.03%, 07/06/06 (a)(b)	3,965	3,965
<b>Michigan Higher Education Facilities Auth</b> Limited Obligation Refunding RB (Hope College) Series 2004 3.99%, 07/06/06 (a)(b)	3,730	3,730	Limited Obligation RB (EPI Printers) Series 1997 4.12%, 07/06/06 (a)(b)	480	480
<b>Michigan Job Development Auth</b> Limited Obligation RB (Frankenmuth Bavarian Inn Motor Lodge) Series 1985 3.50%, 07/03/06 (a)(b)	7,100	7,100	Limited Obligation RB (Mans) Series 1991 4.11%, 07/06/06 (a)(b)	210	210
<b>Michigan Municipal Bond Auth</b> Revenue Notes (Detroit SD) Series C 3.03%, 08/18/06 (b)	20,000	20,031	Limited Obligation RB (Mans) Series 1998B 4.12%, 07/06/06 (a)(b)	695	695
Revenue Notes Series 2005B1 3.20%, 08/18/06	26,500	26,535	Limited Obligation RB (United Machining) Series 1998 4.12%, 07/06/06 (a)(b)	4,000	4,000
Revenue Notes Series 2005B2 3.24%, 08/18/06 (b)	35,000	35,031	Limited Obligation Refunding RB (Detroit Edison Co) Series 1999C 4.04%, 07/06/06 (a)(b)(c)(d)	9,245	9,245
<b>Michigan State Building Auth</b> Refunding RB (Facilities Program) Series 2005I 3.99%, 07/06/06 (a)(b)(c)	4,680	4,680	Limited Obligation Refunding RB (Detroit Edison Co) Series 2003A 4.05%, 07/06/06 (a)(b)(c)(d)	5,995	5,995
CP Notes Series 5 3.50%, 08/03/06 (b)	15,000	15,000	<b>Michigan Trunk Line Fund</b> Refunding Bonds Series 1998A 4.00%, 07/06/06 (a)(b)(c)(d)	46,666	46,666

See financial notes. 31

Schwab Municipal Money Fund

Portfolio Holdings (Unaudited) 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>Oakland Cnty</b>			<b>Hennepin Cnty</b>		
Limited Obligation RB (Husky Envelope Products) Series 1999 4.12%, 07/06/06 (a)(b)	1,840	1,840	GO Refunding Bonds Series 1996C 4.10%, 07/06/06 (a)	650	650
<b>University of Michigan Health System</b>			<b>Hennepin Cnty Housing and Redevelopment Auth</b>		
RB Series 2005A 3.95%, 07/03/06 (a)	16,000	16,000	M/F Housing Refunding RB (Stone Arch Apts) Series 2002 4.02%, 07/06/06 (a)(b)(d)	2,800	2,800
<b>Wayne Cnty</b>			<b>Inver Grove Heights</b>		
Airport Refunding RB (Detroit Metropolitan Wayne Cnty Airport) Series 1996B 4.03%, 07/05/06 (a)(b)(c)	43,090	43,090	Sr Housing Refunding RB (PHM/Inver Grove, Inc) Series 2005 3.97%, 07/06/06 (a)(b)	6,000	6,000
Airport Jr Lien RB (Detroit Metropolitan Wayne Cnty Airport) Series 2001 3.99%, 07/06/06 (a)(b)(c)	14,470	14,470	<b>Mendota Heights</b>		
<b>Wayne Cnty Airport Auth</b>			Refunding IDRB (Dakota Business Plaza) Series 2000 4.17%, 07/06/06 (a)(b)	2,300	2,300
Airport RB (Detroit Metropolitan Wayne Cnty Airport) Series 2005 4.04%, 07/06/06 (a)(b)(c)(d)	8,395	8,395	<b>Minneapolis-St Paul Metropolitan Airports Commission</b>		
4.05%, 07/06/06 (a)(b)(c)(d)	22,900	22,900	RB Series 2000B 4.05%, 07/06/06 (a)(b)(c)(d)	5,225	5,225
RB (Detroit Metropolitan Airport) Series 2005 4.04%, 07/06/06 (a)(b)(c)(d)	2,750	2,750	Subordinate Refunding RB Series 2005B 4.05%, 07/06/06 (a)(b)(c)(d)	5,960	5,960
RB Series 2005 4.05%, 07/06/06 (a)(b)(c)(d)	3,640	3,640	<b>Minnesota</b>		
		<b>548,858</b>	COP (Minnesota SD Credit Enhancement Program) Series 2005 2.96%, 09/12/06	30,000	30,061
<b>Minnesota 2.1%</b>			<b>Minnesota Agricultural and Economic Development Board</b>		
<b>Bloomington Port Auth</b>			RB (Evangelical Lutheran Good Samaritan Society) Series 1996 4.02%, 07/06/06 (a)(b)	7,200	7,200
Special Tax Refunding RB (Mall of America) Series 1999B 4.02%, 07/06/06 (a)(b)(c)	19,400	19,400	<b>Minnesota HFA</b>		
<b>Burnsville</b>			Residential Housing Finance Bonds Series 2003B 4.03%, 07/06/06 (a)(c)	6,000	6,000
M/F Housing Refunding RB (Southwind Apts) Series 2004 3.97%, 07/06/06 (a)(b)	8,350	8,350	Residential Housing Finance Bonds Series 2004G 4.00%, 07/06/06 (a)(c)	17,410	17,410
<b>Eden Prairie</b>					
M/F Housing RB (Eden Prairie Leased Housing Associates I) Series 2003A 4.07%, 07/07/06 (a)(b)	6,000	6,000			

Schwab Municipal Money Fund

Portfolio Holdings (Unaudited) continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Residential Housing Finance Bonds Series 2005M 4.03%, 07/06/06 (a)(c)	57,500	57,500
<b>Minnesota Higher Education Facilities Auth</b>		
RB (Trustees of the Hamline University of Minnesota) Series Six-E1 3.99%, 07/06/06 (a)(b)	2,800	2,800
RB (Trustees of the Hamline University of Minnesota) Series Six-E2 3.99%, 07/06/06 (a)(b)	4,000	4,000
<b>Rochester</b>		
Health Care Facilities RB (Mayo Foundation) Series 1992C 3.60%, 07/11/06	20,200	20,200
Health Care Facilities RB (Mayo Foundation) Series 2000A 3.60%, 07/11/06	30,000	30,000
<b>Rochester Health Care Facilities</b>		
RB (Mayo Foundation) Series 2001A 3.60%, 07/11/06 (c)	15,000	15,000
RB (Mayo Foundation) Series 2001B 3.60%, 07/11/06 (c)	10,600	10,600
<b>St Louis Park</b>		
M/F Housing Refunding RB (Knollwood Place Apts) Series 2005 3.97%, 07/06/06 (a)(b)	5,650	5,650
M/F Housing RB (At The Park) Series 2002A 4.10%, 07/07/06 (a)(b)	3,300	3,300
<b>St Paul Housing and Redevelopment Auth</b>		
District Heating RB Series 1999D 4.02%, 07/07/06 (a)(b)	3,080	3,080
		<b>269,486</b>

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Mississippi 0.5%</b>		
<b>Jackson Cnty</b>		
Pollution Control Refunding RB (Chevron USA) Series 1992 3.98%, 07/03/06 (a)	6,200	6,200
Pollution Control Refunding RB (Chevron USA) Series 1993 3.98%, 07/03/06 (a)	7,800	7,800
Port Facility Refunding RB (Chevron USA) Series 1993 4.04%, 07/03/06 (a)	7,550	7,550
<b>Mississippi</b>		
GO Refunding Bonds Series 2001 4.02%, 07/06/06 (a)(c)(d)	14,880	14,880
<b>Mississippi Business Finance Corp</b>		
IDRB (VC Regional Assembly and Manufacturing) Series 2003 4.04%, 07/05/06 (a)(b)	9,210	9,210
IDRB (Electric Mills Wood Preserving) Series 1999 4.09%, 07/06/06 (a)(b)	5,000	5,000
IDRB (Omega Motion) Series 1996 4.03%, 07/06/06 (a)(b)	3,500	3,500
<b>Mississippi Home Corp</b>		
S/F Mortgage RB Series 2002A 4.04%, 07/06/06 (a)(b)(c)(d)	4,420	4,420
S/F Mortgage RB Series 2002C2 4.04%, 07/06/06 (a)(b)(c)(d)	4,875	4,875
		<b>63,435</b>
<b>Missouri 0.6%</b>		
<b>Missouri Development Finance Board</b>		
IDRB (Milbank Manufacturing Co) Series 1997 4.20%, 07/05/06 (a)(b)	3,000	3,000
<b>Missouri Health and Educational Facilities Auth</b>		
Health Facilities RB (SSM Health Care) Series 2005C1 3.96%, 07/03/06 (a)(b)(c)	8,200	8,200

See financial notes. 33



Schwab Municipal Money Fund

Portfolio Holdings (Unaudited) continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Health Facilities RB (SSM Health Care) Series 2005C5 3.99%, 07/05/06 (a)(b)(c)	12,200	12,200
<b>Missouri Higher Education Loan Auth</b>		
Student Loan RB Sr Series 2005A 4.05%, 07/06/06 (a)(b)(c)	9,000	9,000
<b>Missouri Housing Development Commission</b>		
S/F Mortgage RB Series 2004A1 4.04%, 07/06/06 (a)(c)	4,085	4,085
<b>St Charles Cnty IDA</b>		
M/F Housing Refunding RB (Time Centre Apts Phase I) Series 2004A 4.01%, 07/06/06 (a)(b)	15,600	15,600
M/F Housing Refunding RB (Time Centre Apts Phase II) Series 2004B 4.05%, 07/06/06 (a)(b)	4,500	4,500
<b>St Louis IDA</b>		
IDRB (Kessler Container) Series 1997A 4.05%, 07/06/06 (a)(b)	1,700	1,700
M/F Housing Refunding RB (Merchandise Mart Apts) Series 2005A 4.05%, 07/06/06 (a)(b)	10,475	10,475
<b>Washington IDA</b>		
IDRB (Pauwels Transformers) Series 1995 4.27%, 07/06/06 (a)(b)	2,400	2,400
		<b>71,160</b>
<b>Montana 0.3%</b>		
<b>Montana State Health Facility Auth</b>		
Hospital RB (Deaconess-Billings Clinic Health System) Series 1994 4.01%, 07/05/06 (a)(b)(c)(d)	10,705	10,705
4.01%, 07/05/06 (a)(b)(c)	26,375	26,375
		<b>37,080</b>

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Nebraska 0.6%</b>		
<b>American Public Energy Agency</b>		
Gas Supply RB Series 2005A 3.99%, 07/06/06 (a)(c)	5,613	5,613
<b>Nebraska Investment Finance Auth</b>		
S/F Housing RB Series 1998G 4.12%, 07/06/06 (a)(c)(d)	10,735	10,735
<b>Nebraska Public Power District</b>		
General RB Series 2005B1 & C 4.01%, 07/06/06 (a)(b)(c)	15,655	15,655
<b>Omaha Public Power District</b>		
Electric System RB Series 2006A 4.01%, 07/06/06 (a)(c)	14,260	14,260
Electric System Subordinated RB Series 2006B 4.01%, 07/06/06 (a)(b)(c)	5,090	5,090
<b>Stanton Cnty</b>		
IDRB (Nucor Corp) Series 1996 4.05%, 07/05/06 (a)	19,300	19,300
		<b>70,653</b>
<b>Nevada 2.6%</b>		
<b>Clark Cnty</b>		
Airport System Subordinate Lien RB Series 2005D2 4.00%, 07/05/06 (a)(b)(c)	4,780	4,780
Airport System Subordinate Lien RB Series 2005D3 4.00%, 07/05/06 (a)(b)(c)	7,280	7,280
IDRB (Southwest Gas Corp) Series 2003A 4.05%, 07/05/06 (a)(b)	12,500	12,500
Economic Development RB (UNLV Foundation) Series 1999 3.97%, 07/06/06 (a)(b)	325	325
GO (Limited Tax) Bank Refunding Bonds Series 2006 4.01%, 07/06/06 (a)(b)(c)	5,235	5,235



Schwab Municipal Money Fund

**Portfolio Holdings** (Unaudited) 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 Bank Refunding Bonds Series 2006 4.01%, 07/06/06 (a)(b)(c)	9,960	9,960	M/F Housing RB (Sierra Pointe Apts) Series 2005 4.03%, 07/06/06 (a)(b)	9,985	9,985
IDRB (Southwest Gas Corp) Series 2004A 4.04%, 07/06/06 (a)(b)(c)(d)	3,168	3,167	M/F Housing RB (Silver Pines Apts) Series 2002A 4.03%, 07/06/06 (a)(b)	5,500	5,500
<b>Clark Cnty SD</b> GO (Limited Tax) Building Bonds Series 2001F 4.00%, 07/06/06 (a)(b)(c)(d)	21,715	21,715	M/F Housing RB (St Rose Seniors Apts) Series 2002A 4.03%, 07/06/06 (a)(b)	14,770	14,770
GO (Limited Tax) Building Bonds Series 2005C 4.01%, 07/06/06 (a)(b)(c)(d)	16,005	16,005	M/F Housing Refunding RB (Oakmont) Series 2002 4.03%, 07/06/06 (a)(b)	4,350	4,350
<b>Las Vegas</b> GO Various Purpose Bonds Series 2006B 4.00%, 07/06/06 (a)(b)(c)	8,310	8,310	<b>Nevada System of Higher Education</b> University RB Series 2005B 4.01%, 07/06/06 (a)(b)(c)(d)	15,975	15,975
<b>Las Vegas Convention and Visitors Auth</b> Refunding RB Series 2005 4.01%, 07/06/06 (a)(b)(c)(d)	4,160	4,160	<b>North Las Vegas</b> GO Building Bonds Series 2006 4.00%, 07/06/06 (a)(b)(c)(d)	30,745	30,745
<b>Las Vegas Valley Water District</b> GO (Limited Tax) Water Improvement Bonds Series 2006A 4.00%, 07/06/06 (a)(b)(c)	17,960	17,960	<b>Truckee Meadows Water Auth</b> Water Refunding RB Series 2006 4.01%, 07/06/06 (a)(b)(c)	9,300	9,300
GO (Limited Tax) Water CP Series 2004 A&B 3.53%, 07/14/06 (c)	16,500	16,500	<b>Washoe Cnty</b> GO Refunding Bonds (Convention Center) Series 2001A 4.02%, 07/06/06 (a)(b)(c)(d)	26,000	26,000
3.38%, 08/03/06 (c)	8,000	8,000			<b>338,847</b>
3.49%, 08/03/06 (c)	37,500	37,500	<b>New Hampshire 0.4%</b>		
3.38%, 08/04/06 (c)	15,000	15,000	<b>New Hampshire Business Finance Auth</b> Solid Waste Disposal RB (Lonza Biologics) Series 2003 4.07%, 07/06/06 (a)(b)	30,000	30,000
<b>Nevada Housing Division</b> M/F Housing RB (Apache Pines Apts) Series 1999A 4.03%, 07/06/06 (a)(b)	7,415	7,415	<b>New Hampshire Health and Educational Facilities Auth</b> RB (Easter Seals New Hampshire) Series 2004A 4.02%, 07/06/06 (a)(b)	6,060	6,060
M/F Housing RB (Banbridge Apts) Series 2000A 4.03%, 07/06/06 (a)(b)	3,960	3,960			
M/F Housing RB (Bluffs Apts) Series 2002A 4.03%, 07/06/06 (a)(b)	17,850	17,850			
M/F Housing RB (Home Suites) Series 1989A 4.05%, 07/05/06 (a)(b)	4,600	4,600			

See financial notes. 35

# Schwab Municipal Money Fund

## Portfolio Holdings (Unaudited) continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
RB (Frisbie Memorial Hospital) Series 2005 4.02%, 07/06/06 (a)(b)	4,895	4,895
RB (Riverwoods) Series 2003 4.00%, 07/05/06 (a)(b)	3,085	3,085
<b>New Hampshire HFA</b> S/F Mortgage Acquisition RB Series 1997C 4.12%, 07/06/06 (a)(b)(c)(d)	1,430	1,430
S/F Mortgage Acquisition RB Series 1998B 4.12%, 07/06/06 (a)(b)(c)(d)	9,730	9,730
		<b>55,200</b>
<b>New Jersey 0.4%</b>		
<b>Delaware River Port Auth</b> RB Series 1999 4.00%, 07/06/06 (a)(b)(c)(d)	1,100	1,100
<b>New Jersey Transportation Trust Fund Auth</b> Transportation System Bonds Series 2005D 4.01%, 07/06/06 (a)(b)(c)(d)	25,175	25,175
<b>New Jersey Turnpike Auth</b> RB Series 2000A 4.01%, 07/06/06 (a)(b)(c)(d)	1,000	1,000
RB Series 2004C2 3.99%, 07/06/06 (a)(b)(c)(d)	22,365	22,365
RB Series C 4.00%, 07/06/06 (a)(b)(c)(d)	2,985	2,985
<b>Vernon</b> BAN 3.35%, 01/12/07	3,978	3,996
		<b>56,621</b>
<b>New Mexico 1.0%</b>		
<b>Farmington</b> Hospital RB (San Juan Regional Medical Center) Series 2004B 4.00%, 07/06/06 (a)(b)	5,000	5,000
<b>New Mexico</b> 2006-2007 TRAN Series 2006 3.76%, 06/29/07	110,250	111,029

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Santa Fe</b> Tax Subordinate Lien Wastewater System RB Series 1997B 4.02%, 07/05/06 (a)(b)	16,400	16,400
		<b>132,429</b>
<b>New York 7.5%</b>		
<b>Jay Street Development Corp</b> Courts Facility Lease RB Fiscal 2004 Series A4 3.94%, 07/03/06 (a)(b)	3,000	3,000
<b>Long Island Power Auth</b> Electric System RB Series 1998A 4.02%, 07/06/06 (a)(b)(c)(d)	10,970	10,970
<b>Metropolitan Transportation Auth</b> RB Series 2005G1 4.01%, 07/03/06 (a)(b)	9,000	9,000
RB Series 2005G2 3.92%, 07/03/06 (a)(b)	6,000	6,000
RB Series 2005B 4.00%, 07/06/06 (a)(b)(c)(d)	19,945	19,945
<b>New York City</b> GO Bonds Fiscal 1994 Series H4 3.94%, 07/03/06 (a)(b)	5,300	5,300
GO Bonds Fiscal 2002 Series A6 3.96%, 07/03/06 (a)(b)(c)	3,900	3,900
GO Bonds Fiscal 2004 Series H7 3.95%, 07/03/06 (a)(b)	10,100	10,100
GO Bonds Fiscal 2006 Series E2 4.03%, 07/03/06 (a)(b)	22,575	22,575
GO Bonds Fiscal 2006 Series I3 4.02%, 07/03/06 (a)(b)	22,800	22,800
GO Bonds Fiscal 2006 Series I6 3.98%, 07/03/06 (a)(b)	50,175	50,175
GO Bonds Fiscal 1998 Series D 4.00%, 07/05/06 (a)(b)(c)(d)	43,825	43,825

Schwab Municipal Money Fund

**Portfolio Holdings** (Unaudited) 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 Fiscal 2004 Series A3 3.95%, 07/05/06 (a)(b)	24,360	24,360	Water and Sewer System RB Series 2006A 4.01%, 07/06/06 (a)(c)	18,835	18,835
GO Bonds Fiscal 2006 Series I4 3.94%, 07/05/06 (a)(b)	20,000	20,000	Water and Sewer System Refunding RB Series 2005D 4.01%, 07/06/06 (a)(c)(d)	18,800	18,800
GO Bonds Fiscal 2002 Series A 4.02%, 07/06/06 (a)(b)(c)(d)	15,000	15,000	CP Notes Series One 3.67%, 08/17/06 (c)	80,000	80,000
GO Bonds Fiscal 2004 Series F 3.54%, 07/13/06 (a)(b)(c)(d)	170,000	170,000	<b>New York City Transitional Finance Auth</b>		
<b>New York City Health and Hospitals Corp</b>			Future Tax Secured Bonds Fiscal 2001 Series B 3.96%, 07/03/06 (a)(c)	5,975	5,975
Health System Bonds Series 1999A 4.00%, 07/06/06 (a)(b)(c)(d)	8,000	8,000	Recovery Bonds Fiscal 2003 Series 2A 3.96%, 07/03/06 (a)(c)	9,085	9,085
<b>New York City Municipal Water Finance Auth</b>			Future Tax Secured Refunding Bonds Fiscal 2006 Series A1 4.01%, 07/06/06 (a)(c)	1,340	1,340
Water and Sewer System RB Fiscal 2001 Series F1 4.02%, 07/03/06 (a)(c)	9,600	9,600	<b>New York Liberty Development Corp</b>		
Water and Sewer System RB Series 1993C 3.93%, 07/03/06 (a)(b)(c)	9,500	9,500	RB (Goldman Sachs Headquarters) Series 2005 4.01%, 07/06/06 (a)(c)(d)	9,300	9,300
Water and Sewer System RB Series 1994G 3.94%, 07/03/06 (a)(b)(c)	11,300	11,300	<b>New York State Dormitory Auth</b>		
Water and Sewer System RB Series 1995A 3.96%, 07/03/06 (a)(b)(c)	20,550	20,550	Court Facilities Lease RB (New York City) Series 2005A 3.96%, 07/06/06 (a)(b)(c)(d)	17,775	17,775
Water and Sewer System RB Fiscal 2005 Series D 3.99%, 07/06/06 (a)(c)(d)	15,000	15,000	RB (State University Educational Facilities) Series 2000B 3.99%, 07/06/06 (a)(b)(c)(d)	20,000	20,000
Water and Sewer System RB Fiscal 2006 Series A 4.00%, 07/06/06 (a)(b)(c)(d)	4,825	4,825	<b>New York State Energy Research Development Auth</b>		
Water and Sewer System RB Series 2002G 4.00%, 07/06/06 (a)(b)(c)(d)	18,545	18,545	Gas Facilities RB (Brooklyn Union Gas) Series 1996 3.99%, 07/06/06 (a)(b)(c)(d)	1,570	1,570
Water and Sewer System RB Series 2005D 4.00%, 07/06/06 (a)(b)(c)(d)	11,490	11,490	<b>New York State Environmental Facilities Corp</b>		
Water and Sewer System RB 4.01%, 07/06/06 (a)(b)(c)(d)	2,600	2,600	State Clean Water and Drinking Water Revolving Funds Second Resolution RB (NYC Muni Water Finance Auth) Series 2001C & 2002B 4.01%, 07/06/06 (a)(c)	15,935	15,935

See financial notes. 37

Schwab Municipal Money Fund

**Portfolio Holdings** (Unaudited) 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>New York State HFA</b>			Consolidated Bonds		
RB (250 W 50th St)			141st Series		
Series 1997A			4.02%, 07/06/06 (a)(b)(c)(d)	6,575	6,575
4.01%, 07/05/06 (a)(b)	1,400	1,400	<b>Rockland Cnty</b>		
RB (345 E 94th St)			RAN Series 2006		
Series 1998A			3.51%, 03/22/07	10,000	10,069
4.00%, 07/05/06 (a)(b)	565	565	TAN Series 2006		
<b>New York State Mortgage Agency</b>			3.53%, 03/22/07	45,000	45,305
Mortgage RB Series 109			<b>Seneca Cnty IDA</b>		
4.02%, 07/06/06 (a)(c)(d)	25,160	25,160	Solid Waste Disposal RB		
S/F Mortgage RB Series 92			(Seneca Meadows Inc)		
4.00%, 07/06/06 (a)(c)(d)	2,565	2,565	Series 2005		
<b>New York State Power Auth</b>			4.02%, 07/06/06 (a)(b)	5,000	5,000
Tender Notes Series 1985			<b>Triborough Bridge and Tunnel Auth</b>		
3.35%, 09/01/06 (a)(c)	5,070	5,070	General Refunding RB		
CP Series 1			Series 2002B		
3.60%, 09/08/06 (c)	9,000	9,000	4.01%, 07/06/06 (a)(c)(d)	9,995	9,995
<b>New York State Thruway Auth</b>			<b>Westchester Cnty IDA</b>		
Bonds Series 2005B			IDRB (Levister Redevelopment		
4.00%, 07/06/06 (a)(b)(c)(d)	9,490	9,490	Co) Series 2001A		
General RB Series 2005F			3.99%, 07/06/06 (a)(b)	1,000	1,000
3.45%, 07/06/06 (a)(b)(c)(d)	25,765	25,765			<b>970,864</b>
General RB Series F			<b>North Carolina 1.1%</b>		
4.00%, 07/06/06 (a)(b)(c)(d)	21,970	21,970	<b>Durham Housing Auth</b>		
<b>New York State Urban Development Corp</b>			M/F Housing RB (Pendleton		
State Personal Income Tax RB			Townhomes) Series 2001		
Series 2005B			4.04%, 07/05/06 (a)(b)	5,405	5,405
4.01%, 07/06/06 (a)(c)(d)	8,000	8,000	<b>Forsyth Cnty</b>		
<b>Port Auth of New York and New Jersey</b>			RB (Plymouth Printing Co)		
Consolidated Bonds			Series 1998		
135th Series			4.08%, 07/05/06 (a)(b)	590	590
4.02%, 07/06/06 (a)(c)(d)	100	100	<b>Guilford Cnty Industrial Facilities and Pollution Control Financing Auth</b>		
Consolidated Bonds			IDRB (Metalcraft of Mayville		
138th Series			SE Manufacturing)		
4.02%, 07/06/06 (a)(c)(d)	7,330	7,330	Series 1997		
Consolidated Bonds			4.05%, 07/06/06 (a)(b)	1,100	1,100
139th Series			<b>Hertford Cnty Industrial Facilities and Pollution Control Financing Auth</b>		
4.02%, 07/06/06 (a)(b)(c)(d)	19,960	19,960	IDRB (Nucor Corp)		
Consolidated Bonds			Series 2000A		
140th Series			4.08%, 07/05/06 (a)	26,500	26,500
4.00%, 07/06/06 (a)(c)	9,570	9,570			

Schwab Municipal Money Fund

Portfolio Holdings (Unaudited) 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>Johnston Cnty Industrial Facilities and Pollution Control Financing Auth</b>			<b>Sampson Cnty Industrial Facilities and Pollution Control Finance Auth</b>		
IDRB (Flanders Corp)			IDRB (Crumpler Plastic Pipe)		
Series 1998			Series 1999		
4.05%, 07/05/06 (a)(b)	4,500	4,500	4.08%, 07/06/06 (a)(b)	2,000	2,000
<b>Mecklenburg Cnty</b>			<b>Union Cnty Industrial Facilities and Pollution Control Financing Auth</b>		
M/F Housing RB (Sycamore Green Apts) Series 2001			RB (Rock-Tenn Converting Co)		
4.05%, 07/06/06 (a)(b)	8,240	8,240	Series 1997		
<b>North Carolina Educational Facilities Finance Agency</b>			4.04%, 07/05/06 (a)(b)	1,750	1,750
RB (High Point University)			<b>University of North Carolina at Chapel Hill</b>		
Series 1997			General Revenue and Refunding		
3.98%, 07/06/06 (a)(b)	4,210	4,210	RB Series 2005A		
<b>North Carolina HFA</b>			4.01%, 07/06/06 (a)(c)	5,000	5,000
Homeownership RB Series 1A			<b>Wake Cnty Housing Auth</b>		
4.05%, 07/06/06 (a)(c)(d)	10,845	10,845	M/F Housing RB (Walnut Ridge Apts) Series 2000		
Homeownership RB Series 8A and 17A			4.04%, 07/05/06 (a)(b)	9,805	9,805
4.04%, 07/06/06 (a)(c)	4,200	4,200	<b>Wilmington Housing Auth</b>		
<b>North Carolina State Education Assistance Auth</b>			M/F Housing RB (Garden Lakes Estates) Series 1999		
Student Loan RB Series 2005A1			4.04%, 07/05/06 (a)(b)	6,860	6,860
4.02%, 07/06/06 (a)(b)(c)	20,000	20,000			142,375
Student Loan RB Series 2005A3					
4.05%, 07/06/06 (a)(b)(c)	23,500	23,500	<b>North Dakota 0.5%</b>		
<b>Raleigh-Durham Airport Auth</b>			<b>North Dakota HFA</b>		
RB Series 2005B			Home Mortgage Finance		
3.98%, 07/06/06 (a)(b)(c)(d)	4,670	4,670	Program Series 2004B		
<b>Rockingham Cnty Industrial Facilities and Pollution Control Financing Auth</b>			4.03%, 07/05/06 (a)(c)	23,380	23,380
IDRB (McMichael Mills)			Home Mortgage Finance		
Series 1997			Program Series 2005A		
4.03%, 07/06/06 (a)(b)	600	600	4.03%, 07/05/06 (a)(c)	22,100	22,100
<b>Rowan Cnty Industrial Facilities and Pollution Control Financing Auth</b>			Home Mortgage Finance		
IDRB (Taylor Clay Products)			Program Series 2005C		
Series 1999			4.03%, 07/05/06 (a)(c)	12,000	12,000
4.03%, 07/06/06 (a)(b)	2,600	2,600	<b>Richland Cnty</b>		
			Solid Waste Disposal RB (Minn-Dak Farmers Coop)		
			Series 1996A		
			4.17%, 07/06/06 (a)(b)	5,445	5,445

See financial notes. 39

## Schwab Municipal Money Fund

### Portfolio Holdings (Unaudited) continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Solid Waste Disposal RB (Minn-Dak Farmers Coop) Series 1996B 4.17%, 07/06/06 (a)(b)	500	500
		<b>63,425</b>

#### Ohio 0.4%

<b>Akron, Bath and Copley Joint Township Hospital District</b>		
RB (Summa Health System) Series 2004B 3.99%, 07/06/06 (a)(b)	7,500	7,500
<b>Cuyahoga Cnty</b>		
Economic Development RB (Hathaway Brown School) Series 1999 3.99%, 07/06/06 (a)(b)	12,215	12,215
<b>Franklin Cnty</b>		
Hospital RB (The Children's Hospital) Series 2003 3.97%, 07/06/06 (a)(b)(c)	5,000	5,000
<b>Ohio</b>		
RB (Pooled Financing) Series 2004 3.99%, 07/06/06 (a)(b)	8,625	8,625
<b>Ohio HFA</b>		
Residential Mortgage RB Series 2001C 4.09%, 07/06/06 (a)(c)(d)	4,275	4,275
M/F Refunding RB (10 Wilmington Place) Series 1991B 4.02%, 07/07/06 (a)(b)(c)	8,945	8,945
<b>Ohio Higher Educational Facility Commission</b>		
RB (Pooled Financing) Series 2003B 3.99%, 07/06/06 (a)(b)	4,765	4,765
RB (The Cleveland Institute of Music) Series 2005 3.99%, 07/06/06 (a)(b)	5,000	5,000
		<b>56,325</b>

#### Oklahoma 0.7%

<b>Muldrow Public Works Auth</b>		
IDRB (OK Foods) Series 1995 4.05%, 07/05/06 (a)(b)	4,000	4,000

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Oklahoma Cnty Industrial Auth</b>		
RB (National Cowboy Hall of Fame) Series 1999 4.00%, 07/06/06 (a)(b)	905	905

#### Oklahoma Development Finance Auth

RB (Shawnee Funding) Series 1996 4.04%, 07/05/06 (a)(b)	3,100	3,100
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#### Oklahoma Student Loan Auth

Bonds and Notes Series 1998A 4.01%, 07/05/06 (a)(b)(c)	33,100	33,100
Bonds and Notes Series 2000A4 4.01%, 07/05/06 (a)(b)(c)	20,945	20,945
Bonds and Notes Series 2005A 4.01%, 07/05/06 (a)(b)(c)	15,045	15,045

#### Payne Cnty Economic Development Auth

Student Housing RB (OSUF Phase III Student Housing) Series 2005 3.99%, 07/06/06 (a)(b)(c)	8,500	8,500
		<b>85,595</b>

#### Oregon 0.6%

<b>Oregon</b>		
GO Veterans' Welfare Bonds Series 85 3.99%, 07/03/06 (a)(c)	5,000	5,000

#### Oregon Dept of Transportation

Highway User Tax Revenue Sr Lien Bonds Series 2006A 4.01%, 07/06/06 (a)(c)	17,700	17,700
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#### Oregon Economic Development Commission

RB (Kettle Foods) Series 1998-196 4.04%, 07/05/06 (a)(b)	4,075	4,075
RB (Pendleton Flour Mills) Series 1997-182 4.05%, 07/05/06 (a)(b)	3,390	3,390

#### Oregon Facilities Auth

RB (Quatama Crossing Housing) Series 2005A 3.97%, 07/06/06 (a)(b)	9,500	9,500
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Schwab Municipal Money Fund

**Portfolio Holdings** (Unaudited) 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>Oregon Health and Science University</b>			<b>Berks Cnty</b>		
Special RB (OHSU Medical Group) Series 2004A			RB (Beacon Container) Series 1998A		
4.00%, 07/05/06 (a)(b)	8,700	8,700	4.13%, 07/05/06 (a)(b)	380	380
<b>Oregon Housing and Community Services Dept</b>			<b>Bermudian Springs SD</b>		
Mortgage RB (S/F Mortgage Program) Series 2005F			GO Bonds Series 2005		
4.04%, 07/05/06 (a)(c)	13,685	13,685	3.97%, 07/06/06 (a)(b)(c)	3,900	3,900
S/F Mortgage RB Series 2004L			<b>Central Bucks SD</b>		
4.04%, 07/05/06 (a)(c)	5,000	5,000	GO Bonds Series 2000A		
<b>Portland</b>			4.02%, 07/06/06 (a)(b)(c)	1,660	1,660
M/F Housing RB (Village of Lovejoy Fountain)			<b>Daniel Boone Area SD</b>		
Series 1997			GO Bonds Series 2004		
4.04%, 07/05/06 (a)(b)	8,500	8,500	3.98%, 07/06/06 (a)(b)(c)	5,880	5,880
Second Lien Sewer System RB			<b>Dauphin Cnty General Auth</b>		
Series 2006B			RB (Education and Health Loan)		
4.01%, 07/06/06 (a)(b)(c)	3,540	3,540	Series 1997		
		<b>79,090</b>	4.02%, 07/06/06 (a)(b)(c)	6,465	6,465
<b>Pennsylvania 5.0%</b>			<b>Delaware Cnty IDA</b>		
<b>Allegheny Cnty Hospital Development Auth</b>			RB (YMCA of Philadelphia)		
RB (University of Pittsburgh Medical Center)			Series 1999		
Series 2005B			4.08%, 07/05/06 (a)(b)	90	90
4.09%, 07/06/06 (a)(e)	13,000	13,000	<b>Delaware Valley Regional Finance Auth</b>		
RB (UPMC Senior Communities)			Local Government RB		
Series 2003			Series 1998A		
3.97%, 07/06/06 (a)(b)	1,500	1,500	4.03%, 07/06/06 (a)(b)(c)(d)	500	500
<b>Allegheny Cnty Port Auth</b>			4.05%, 07/06/06 (a)(b)(c)(d)	13,210	13,210
Special Revenue Transportation Bonds Series 1999			<b>Easton Area SD</b>		
3.99%, 07/06/06 (a)(b)(c)(d)	1,000	1,000	GO Bonds Series 2005		
<b>Beaver Cnty IDA</b>			3.97%, 07/06/06 (a)(b)(c)	1,000	1,000
Pollution Control Refunding RB			<b>Emmaus General Auth</b>		
(FirstEnergy Nuclear Generation Corp)			Bonds Series 1996		
Series 2006A			3.98%, 07/05/06 (a)(b)(c)	3,625	3,625
3.99%, 07/03/06 (a)(b)	12,900	12,900	<b>Erie SD</b>		
Pollution Control Refunding RB			GO Bonds Series 2001A		
(FirstEnergy Nuclear Generation Corp)			4.01%, 07/06/06 (a)(b)(c)(d)	25,695	25,695
Series 2005A			<b>Hanover Public SD</b>		
3.98%, 07/05/06 (a)(b)	4,300	4,300	GO Bonds Series 2005		
			3.97%, 07/06/06 (a)(b)(c)	900	900
			<b>Harrisburg Auth</b>		
			Water Refunding RB		
			Series 2002B		
			4.02%, 07/06/06 (a)(b)(c)	5,000	5,000
			Water Refunding RB		
			Series 2003A		
			4.02%, 07/06/06 (a)(b)(c)	5,100	5,100

See financial notes. 41



Schwab Municipal Money Fund

**Portfolio Holdings** (Unaudited) 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>Lampeter-Strasburg SD</b>			<b>Pennsylvania Economic</b>		
GO Bonds Series 2004A			<b>Development Finance Auth</b>		
3.99%, 07/06/06 (a)(b)(c)	6,000	6,000	Exempt Facilities RB (Amtrak)		
<b>Luzerne Cnty IDA</b>			Series 2001B		
RB (Methodist Homes)			4.06%, 07/06/06 (a)(b)	2,000	2,000
Series 2003			<b>Pennsylvania Energy</b>		
4.02%, 07/05/06 (a)(b)	2,600	2,600	<b>Development Auth</b>		
Water Facility Refunding RB			RB (B&W Ebensburg)		
(Pennsylvania-American			Series 1986		
Water Co Water Facilities)			4.03%, 07/05/06 (a)(b)	4,660	4,660
Series A			<b>Pennsylvania HFA</b>		
4.04%, 07/06/06 (a)(b)(c)(d)	3,000	3,000	S/F Mortgage RB Drawdown		
<b>Manheim Township SD</b>			Series 2003		
GO Bonds Series 2004			4.04%, 07/06/06 (a)(b)(c)(d)	3,200	3,200
3.99%, 07/06/06 (a)(b)(c)	3,400	3,400	S/F Mortgage RB Drawdown		
<b>Mercer Cnty</b>			Series 2003A		
GO Bonds Series 2001			4.04%, 07/06/06 (a)(b)(c)(d)	2,280	2,280
4.01%, 07/06/06 (a)(b)(c)(d)	7,725	7,725	S/F Mortgage RB		
<b>Montgomery Cnty IDA</b>			Series 1999A		
Pollution Control Refunding RB			4.05%, 07/06/06 (a)(c)(d)	13,420	13,420
(Peco Energy Co)			<b>Pennsylvania Higher</b>		
Series 1999A			<b>Education Assistance Agency</b>		
3.95%, 07/05/06 (a)(b)	28,100	28,100	Student Loan RB Series 1997A		
School RB (Friends' Central			4.05%, 07/05/06 (a)(b)(c)	28,900	28,900
School) Series 2002			Student Loan RB Series 2000A		
3.97%, 07/06/06 (a)(b)	760	760	4.05%, 07/05/06 (a)(b)(c)	28,075	28,075
Pollution Control Refunding RB			Student Loan RB Series 2001A		
(Peco Energy Co)			4.05%, 07/05/06 (a)(b)(c)	21,450	21,450
Series 1994A			Student Loan RB Series 2003A1		
3.56%, 08/14/06 (b)	21,560	21,560	4.05%, 07/05/06 (a)(b)(c)	7,000	7,000
<b>Norwin SD</b>			Student Loan RB Series 2003A2		
GO Bonds Series 2001A			4.05%, 07/05/06 (a)(b)(c)	38,000	38,000
4.01%, 07/06/06 (a)(b)(c)(d)	11,500	11,500	<b>Pennsylvania Higher</b>		
<b>Pennsylvania</b>			<b>Educational Facilities Auth</b>		
GO Bonds First Series 2003			RB (Drexel University)		
4.00%, 07/06/06 (a)(b)(c)(d)	2,645	2,645	Series 2005B		
GO Bonds Second Series 2002			3.98%, 07/06/06 (a)(b)(c)	5,000	5,000
4.00%, 07/06/06 (a)(b)(c)(d)	14,995	14,995	RB (Temple University)		
GO Third Refunding Series 2004			Series 2006		
4.01%, 07/06/06 (a)(b)(c)	24,745	24,745	4.00%, 07/06/06 (a)(b)(c)	38,980	38,980
<b>Pennsylvania Convention</b>			RB (University of Pennsylvania		
<b>Center Auth</b>			Health Services)		
RB Series 1989A			Series 2005A		
4.00%, 07/06/06 (a)(b)(c)(d)	4,500	4,500	4.00%, 07/06/06 (a)(b)(c)(d)	5,990	5,990



Schwab Municipal Money Fund

**Portfolio Holdings** (Unaudited) continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
RB (University of Pennsylvania) Series 2005C 4.01%, 07/06/06 (a)(c)	4,870	4,870
<b>Pennsylvania Public School Building Auth</b>		
School Lease RB (Philadelphia SD) Series 2003 4.03%, 07/05/06 (a)(b)(c)(d)	6,395	6,395
Lease RB (Philadelphia SD) Series 2003 4.01%, 07/06/06 (a)(b)(c)(d)	2,658	2,657
RB (Parkland SD) Series 1999D 4.02%, 07/06/06 (a)(b)(c)	14,265	14,265
School RB (Marple Newton SD) Series 2001 4.01%, 07/06/06 (a)(b)(c)(d)	4,965	4,965
<b>Pennsylvania Turnpike Commission</b>		
RB Series 2004A 4.01%, 07/06/06 (a)(b)(c)(d)	6,225	6,225
Turnpike RB Series 2006C 3.97%, 07/06/06 (a)(b)(c)	17,000	17,000
<b>Philadelphia Gas Works</b>		
RB Third Series 2001 4.00%, 07/06/06 (a)(b)(c)(d)	4,295	4,295
Revenue Notes CP Series E 3.37%, 07/06/06 (b)	46,000	46,000
<b>Philadelphia IDA</b>		
RB Series 1998A 4.05%, 07/06/06 (a)(b)(c)(d)	12,710	12,710
<b>Philadelphia SD</b>		
TRAN Series Series 2006-07 A 3.78%, 06/29/07 (b)	67,000	67,456
<b>Reading SD</b>		
GO Bonds Series 2003A 4.01%, 07/06/06 (a)(b)(c)(d)	4,225	4,225
<b>Scranton Redevelopment Auth</b>		
Guaranteed Lease RB Series 2004 4.02%, 07/06/06 (a)(b)	2,265	2,265
<b>University of Pittsburgh</b>		
Pitt Asset Notes Series 2005 2.69%, 08/11/06	22,000	22,031

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>West Cornwall Township Municipal Auth</b>		
RB (Lebanon Valley Brethren Home) Series 1995 4.03%, 07/05/06 (a)(b)	720	720
<b>Westmoreland Cnty Municipal Auth</b>		
Municipal Service RB Series 2005 4.01%, 07/06/06 (a)(b)(c)(d)	3,090	3,090
		<b>655,759</b>
<b>Puerto Rico 0.1%</b>		
<b>Puerto Rico Highway and Transportation Auth</b>		
Subordinated RB Series 2003 3.96%, 07/06/06 (a)(b)(c)(d)	1,800	1,800
<b>Puerto Rico Infrastructure Financing Auth</b>		
Special Tax Refunding RB Series 2005C 3.98%, 07/06/06 (a)(b)(c)(d)	3,995	3,995
		<b>5,795</b>
<b>Rhode Island 1.0%</b>		
<b>Rhode Island Economic Development Corp</b>		
Airport RB Series 2005A 4.05%, 07/06/06 (a)(b)(c)(d)	6,180	6,180
Airport Refunding RB Series 2005C 4.01%, 07/06/06 (a)(b)(c)(d)	6,980	6,980
<b>Rhode Island Housing and Mortgage Finance Corp</b>		
Homeownership Opportunity Bonds Series 1998-29A 4.12%, 07/06/06 (a)(c)(d)	19,020	19,020
<b>Rhode Island IDA</b>		
IDRB (Greystone of Lincoln) Series 2000 4.20%, 07/06/06 (a)(b)	1,400	1,400
<b>Rhode Island Student Loan Auth</b>		
RB Series 1995-1 4.03%, 07/05/06 (a)(b)(c)	30,000	30,000
RB Series 1996-1 4.03%, 07/05/06 (a)(b)(c)	19,000	19,000

See financial notes. 43

Schwab Municipal Money Fund

**Portfolio Holdings** (Unaudited) continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
RB Series 1996-2 4.03%, 07/05/06 (a)(b)(c)	20,000	20,000
RB Series 1996-3 4.03%, 07/05/06 (a)(b)(c)	23,000	23,000
		<b>125,580</b>
<b>South Carolina 1.1%</b>		
<b>Beaufort-Jasper Higher Education Commission</b>		
Student Housing RB (University of South Carolina-Beaufort Student Housing) Series 2005 3.99%, 07/06/06 (a)(b)	16,540	16,540
<b>Berkeley Cnty SD</b>		
School Building Bonds Series 2002 4.01%, 07/05/06 (a)(b)(c)(d)	7,575	7,575
<b>Charleston Water and Sewer</b>		
Capital Improvement RB Series 2006B 4.00%, 07/06/06 (a)(c)	10,000	10,000
<b>Florence Cnty Public Facilities Corp</b>		
Refunding COP (Law Enforcement and Civic Centers) Series 2003 4.02%, 07/06/06 (a)(b)(c)	22,600	22,600
<b>Greenville IDA</b>		
IDRB (Stevens Aviation Technical Services) Series 1997 4.08%, 07/06/06 (a)(b)	3,500	3,500
<b>South Carolina Housing and Development Auth</b>		
M/F Rental Housing RB (Ashley Apts) Series 1999 4.04%, 07/05/06 (a)(b)	3,895	3,895
M/F Rental Housing RB (Piedmont Manor Apts) Series 2000B1 4.04%, 07/05/06 (a)(b)	5,755	5,755
M/F Rental Housing RB (Spartanburg Terrace Apts) Series 2000C1 4.04%, 07/05/06 (a)(b)	1,960	1,960

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
M/F Rental Housing Refunding RB (Fairway Apts) Series 2001A 4.01%, 07/05/06 (a)(b)	7,735	7,735
<b>South Carolina Jobs Economic Development Auth</b>		
RB (Holcim) Series 2003 4.12%, 07/06/06 (a)(b)	6,250	6,250
<b>South Carolina Public Service Auth</b>		
Revenue Obligations Series 2006A 4.00%, 07/06/06 (a)(b)(c)(d)	6,000	6,000
<b>South Carolina Transportation Infrastructure Bank</b>		
RB Series 1999A 2.98%, 07/06/06 (a)(b)(c)(d)	22,610	22,610
Refunding RB Series 2005A 4.01%, 07/06/06 (a)(b)(c)(d)	28,940	28,940
<b>Spartanburg Cnty IDA</b>		
Refunding IDRB (Bemis Co) Series 1991 4.03%, 07/06/06 (a)(b)	4,750	4,750
		<b>148,110</b>
<b>South Dakota 0.3%</b>		
<b>South Dakota Health and Educational Facilities Auth</b>		
RB (McKenna Hospital) Series 1994 4.02%, 07/07/06 (a)(b)(c)	26,330	26,330
<b>South Dakota Housing Development Auth</b>		
Homeownership Mortgage Bonds Series 2004G 4.03%, 07/05/06 (a)(c)	11,000	11,000
M/F Housing RB (Harmony Heights) Series 2001 4.10%, 07/06/06 (a)(b)	6,500	6,500
		<b>43,830</b>
<b>Tennessee 4.4%</b>		
<b>Bristol Health and Educational Facilities Board</b>		
RB (King College) Series 2001 4.00%, 07/06/06 (a)(b)	6,050	6,050

Schwab Municipal Money Fund

Portfolio Holdings (Unaudited) 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>Carter Cnty IDB</b>			<b>Jackson IDB</b>		
M/F Housing Refunding RB (Willow Run Apts) Series 1990 4.10%, 07/07/06 (a)(b)	6,675	6,675	Solid Waste Facility Bonds (Ameristeel Corp) Series 1997 4.05%, 07/06/06 (a)(b)	3,800	3,800
<b>Chattanooga Health, Education and Housing Facility Board</b>			<b>McMinn Cnty IDA</b>		
RB (Baylor School) Series 1996 3.99%, 07/05/06 (a)(b)	1,335	1,335	Solid Waste Disposal Facilities RB (Bowater) Series 1999 4.03%, 07/06/06 (a)(b)	13,500	13,500
THA Program RB (Cumberland Medical Center) Series 2004A 3.98%, 07/06/06 (a)(b)	45,670	45,670	<b>Memphis</b>		
<b>Clarksville Public Build Auth</b>			Electric System Subordinate RB Series 2003A 4.01%, 07/06/06 (a)(b)(c)(d)	2,800	2,800
Pooled Financing RB (Tennessee Municipal Bond Fund) Series 2001 4.05%, 07/03/06 (a)(b)	6,320	6,320	<b>Metropolitan Government of Nashville and Davidson Cnty Health and Educational Facilities Board</b>		
Pooled Financing RB (Tennessee Municipal Bond Fund) Series 2003 4.05%, 07/03/06 (a)(b)	1,745	1,745	RB (Ensworth School) Series 2002 3.99%, 07/05/06 (a)(b)	7,525	7,525
Pooled Financing RB (Tennessee Municipal Bond Fund) Series 1997 4.00%, 07/06/06 (a)(b)	3,955	3,955	M/F Housing RB (Burning Tree Apts) Series 2005 4.02%, 07/06/06 (a)(b)	8,815	8,815
<b>Franklin Cnty IDB</b>			M/F Housing RB (Chippington Tower Apts I & II) Series 2005 4.09%, 07/06/06 (a)(b)	13,500	13,500
IDRB (Hi-Tech) Series 1997 4.05%, 07/05/06 (a)(b)	3,300	3,300	M/F Housing Refunding RB (Brentwood Oaks Apts) Series 1991 4.00%, 07/06/06 (a)(b)	10,220	10,220
<b>Grundy Cnty IDB</b>			RB (Ascension Health Credit Group) Series 2001B1 2.85%, 08/03/06 (a)	35,000	35,000
Limited Obligation RB (Toyo Seat USA Corp) Series 2001 4.17%, 07/06/06 (a)(b)	2,810	2,810	<b>Metropolitan Government of Nashville and Davidson Cnty IDB</b>		
<b>Hendersonville IDB</b>			Educational Facilities Refunding RB (David Lipscomb University) Series 2003 3.99%, 07/05/06 (a)(b)	7,900	7,900
Refunding IDRB (Betty Machine Co) Series 2001 4.04%, 07/05/06 (a)(b)	3,345	3,345	M/F Housing RB (Arbor Crest) Series 1985B 4.00%, 07/06/06 (a)(b)	12,750	12,750
<b>Jackson Health, Educational and Housing Facility Board</b>					
M/F Housing RB (Patrician Terrace Apts) Series 2005 4.02%, 07/06/06 (a)(b)	2,400	2,400			

See financial notes. 45

**Schwab Municipal Money Fund**

**Portfolio Holdings** (Unaudited) 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 (Arbor Knoll) Series 1985A 4.00%, 07/06/06 (a)(b)	13,400	13,400	<b>Tennergy Corp</b> Gas RB Series 2006A 4.03%, 07/06/06 (a)(b)(c)(d)	115,000	115,000
<b>Metropolitan Nashville Airport Auth</b> Passenger Facility Charge Refunding Bonds Series 2003 4.04%, 07/05/06 (a)(b)	5,600	5,600	<b>Tennessee</b> GO TECP Series A 3.57%, 08/07/06 3.64%, 08/10/06 3.58%, 08/14/06 3.77%, 08/14/06	30,000 50,000 20,000 2,800	30,000 50,000 20,000 2,800
<b>Montgomery Cnty Public Building Auth</b> Pooled Financing RB (Tennessee Cnty Loan Pool) Series 2002 4.05%, 07/03/06 (a)(b)	9,440	9,440	<b>Tennessee Housing Development Agency</b> Homeownership Program Bonds Series 2001-1C 4.10%, 07/06/06 (a)(c)(d)	5,650	5,650
<b>Sevier Cnty Public Building Auth</b> Public Improvement Bonds Series 1995C1 4.00%, 07/06/06 (a)(b)(c)	2,570	2,570	<b>Volunteer Student Loan Funding Corp</b> RB Series 1987A1 4.04%, 07/05/06 (a)(b)	15,000	15,000
Public Improvement Bonds Series 1996E4 4.00%, 07/06/06 (a)(b)(c)	1,960	1,960	RB Series 1987A2 4.04%, 07/05/06 (a)(b)	13,700	13,700
Public Improvement Bonds Series 1996E5 4.00%, 07/06/06 (a)(b)(c)	1,135	1,135	RB Series 1987A3 4.04%, 07/05/06 (a)(b)	59,700	59,700
Public Improvement Bonds Series 1996II-C 4.00%, 07/06/06 (a)(b)(c)	700	700			<b>575,415</b>
<b>Shelby Cnty Health, Education and Housing Facility Board</b> M/F Housing RB (TUP I) Series 1997A 4.12%, 07/05/06 (a)(b)	5,000	5,000	<b>Texas 16.2%</b>		
RB (Rhodes College) Series 2000 3.99%, 07/06/06 (a)(b)	9,465	9,465	<b>Alvin Independent SD</b> Unlimited Schoolhouse RB Series 2005 4.01%, 07/06/06 (a)(b)(c)(d)	6,175	6,175
RB (St Benedict at Auburndale High School) Series 2003 4.00%, 07/06/06 (a)(b)	4,880	4,880	<b>Amarillo Health Facility Corp</b> Refunding RB (Evangelical Lutheran Good Samaritan Society) Series 1997 4.02%, 07/06/06 (a)(b)	3,155	3,155
RB (The Hutchison School) Series 2005 3.99%, 07/06/06 (a)(b)	10,000	10,000	<b>Austin</b> Water and Wastewater Refunding RB Series 2001 A&B 4.01%, 07/05/06 (a)(b)(c)(d)	6,425	6,425
			Electric Utility System Refunding RB Series 2006 4.01%, 07/06/06 (a)(b)(c)	28,275	28,275
			Public Improvement Bonds Series 2000 4.02%, 07/06/06 (a)(c)(d)	6,000	6,000

Schwab Municipal Money Fund

**Portfolio Holdings** (Unaudited) continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Water and Wastewater Refunding Bonds Series 2001 A&B 4.01%, 07/06/06 (a)(b)(c)	4,600	4,600	<b>Dallas Area Rapid Transit</b> Sr Lien Sales Tax RB Series 2001 4.02%, 07/06/06 (a)(b)(c)(d)	16,130	16,130
<b>Austin Convention Enterprises Inc</b> Hotel Second Tier RB (Texas Convention Center) Series 2001B 4.03%, 07/06/06 (a)(b)(c)(d)	9,325	9,325	<b>Dallas Fort Worth International Airport</b> Joint Improvement and Refunding RB Series 2001A 4.04%, 07/06/06 (a)(b)(c)(d)	4,000	4,000
<b>Austin Electric, Water and Sewer System</b> Water and Wastewater Refunding RB Series 2005 4.01%, 07/06/06 (a)(b)(c)	3,025	3,025	Joint Improvement and Refunding RB Series 2002A 4.05%, 07/06/06 (a)(b)(c)(d)	8,995	8,995
<b>Bexar County Housing Finance Corp</b> M/F Housing RB (Villages at Lost Creek Apts) Series 2006A1 4.02%, 07/06/06 (a)(b)(c)(d)	9,160	9,160	Joint Improvement RB Series 2003A 4.05%, 07/06/06 (a)(b)(c)(d)	14,990	14,990
<b>Brazos River Auth</b> Pollution Control Refunding RB (TXU Electric Co) Series 2001D1 4.02%, 07/05/06 (a)(b)	14,300	14,300	Joint RB Series 2003A 4.04%, 07/06/06 (a)(b)(c)(d)	2,500	2,500
<b>Brownville Utility System</b> Revenue Improvement and Refunding Bonds Series 2005A 4.01%, 07/06/06 (a)(b)(c)(d)	6,985	6,985	4.05%, 07/06/06 (a)(b)(c)(d)	6,370	6,370
<b>Collin Cnty HFA</b> M/F Housing RB (Huntington Apts) Series 1996 4.07%, 07/06/06 (a)(b)	6,150	6,150	<b>Dallas Independent SD</b> Unlimited Tax School Building Bonds Series 2006 4.02%, 07/06/06 (a)(b)(c)(d)	14,575	14,575
<b>Cypress-Fairbanks Independent SD</b> Schoolhouse and Refunding Bonds Series 2006 4.01%, 07/06/06 (a)(b)(c)	33,080	33,080	<b>Dallas Water and Sewer Utilities</b> Refunding and Improvement RB Series 2006 4.00%, 07/06/06 (a)(b)(c)(d)	6,500	6,500
<b>Dallas</b> GO Bonds Series 2005 4.01%, 07/06/06 (a)(c)	37,105	37,105	<b>Denton Utility System</b> RB Series 2000A 4.01%, 07/06/06 (a)(b)(c)(d)	5,230	5,230
Waterworks and Sewer System CP Series B 3.60%, 08/07/06 (c)	26,770	26,770	<b>Duncanville Independent SD</b> Unlimited Tax Refunding Bonds Series 2005 4.01%, 07/06/06 (a)(b)(c)(d)	10,355	10,355
			<b>El Paso</b> GO Bonds Series 2006 4.00%, 07/06/06 (a)(b)(c)	4,000	4,000
			Water and Sewer Refunding RB Series 1998 4.12%, 07/06/06 (a)(b)(c)(d)	8,455	8,455
			<b>El Paso Cnty Hospital District</b> Combination Tax and Revenue Certificates of Obligation Series 2005 4.00%, 07/06/06 (a)(b)(c)	6,500	6,500

See financial notes. 47

Schwab Municipal Money Fund

**Portfolio Holdings** (Unaudited) 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>Garland Independent SD</b>			Permanent Improvement		
Unlimited Tax School Building			Refunding Bonds		
Bonds Series 2004B			Series 2004A		
3.72%, 06/15/07 (a)(b)(c)	7,125	7,108	4.01%, 07/06/06 (a)(c)(d)	21,065	21,065
<b>Goose Creek Consolidated Independent SD</b>			Toll Road Sr Lien Refunding RB		
Unlimited Tax Schoolhouse and			Series 2005A		
Refunding Bonds			4.01%, 07/06/06 (a)(b)(c)(d)	6,470	6,470
Series 2006			<b>Harris Cnty Flood Control District</b>		
4.01%, 07/06/06 (a)(b)(c)	19,975	19,975	Contract Tax TECP Series F		
<b>Grand Prairie IDA</b>			3.61%, 07/18/06 (b)	26,105	26,105
IDRB (NTA Leasing Co)			3.57%, 08/04/06 (b)	14,690	14,690
Series 1994			3.64%, 08/10/06 (b)	16,000	16,000
4.12%, 07/05/06 (a)(b)	1,155	1,155	<b>Harris Cnty Health Facility Development Corp</b>		
<b>Grapevine IDA</b>			RB (SCH Health Care)		
Airport Improvement RB			Series 1997B		
(Simuflite Training			4.02%, 07/06/06 (a)(b)(c)(d)	14,850	14,850
International) Series 1983A			<b>Harris Cnty HFA</b>		
3.65%, 04/02/07 (a)(b)	19,000	19,000	M/F Housing RB (Dominion		
<b>Greater East Texas Student Loan Corp</b>			Square Apts) Series 2000		
RB Series 1992B			4.09%, 07/06/06 (a)(b)	2,825	2,825
2.85%, 07/03/06 (a)(b)	14,000	14,000	M/F Housing RB (Village At		
RB Series 1995B			Cornerstone Apts)		
2.85%, 07/03/06 (a)(b)	10,000	10,000	Series 2004		
RB Series 1992B			4.02%, 07/06/06 (a)(b)	8,360	8,360
4.02%, 07/06/06 (a)(b)	30,200	30,200	<b>Hays Consolidated Independent SD</b>		
Refunding RB Series 1993A			Unlimited Tax Refunding Bonds		
4.02%, 07/06/06 (a)(b)	48,150	48,150	Series 2005		
Refunding RB Series 1993B			4.01%, 07/06/06 (a)(b)(c)(d)	3,685	3,685
4.02%, 07/06/06 (a)(b)	23,400	23,400	<b>Hockley IDA</b>		
<b>Greater Texas Student Loan Corp</b>			Pollution Control RB (AMOCO)		
RB Series 1998A			Series 1983		
4.02%, 07/06/06 (a)(b)	10,250	10,250	3.20%, 09/01/06 (a)	52,000	51,931
<b>Gulf Coast IDA</b>			<b>Houston</b>		
IDRB (Gruma Corp)			Public Improvement Refunding		
Series 1994			Bonds Series 1998A		
4.07%, 07/05/06 (a)(b)	6,440	6,440	4.02%, 07/06/06 (a)(c)(d)	21,655	21,655
<b>Harris Cnty</b>			Water and Sewer System Jr		
Jr Lien Special RB (Rodeo)			Lien Refunding RB		
Series 2001C			Series 2002A		
4.03%, 07/06/06 (a)(b)(c)	1,800	1,800	4.05%, 07/06/06 (a)(b)(c)(d)	6,530	6,530
			TRAN Series 2006		
			3.69%, 06/29/07	17,000	17,130

Schwab Municipal Money Fund

Portfolio Holdings (Unaudited) 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>Houston Combined Utility System</b>			<b>Leander Independent SD</b>		
First Lien Refunding RB			Unlimited Tax School Building and Refunding Bonds		
Series 2004A			Series 2003		
4.01%, 07/06/06 (a)(b)(c)(d)	5,330	5,330	4.02%, 07/06/06 (a)(b)(c)(d)	10,000	10,000
First Lien Refunding RB			<b>Lower Colorado River Auth</b>		
Series 2005A			Refunding RB Series 1999A		
3.65%, 07/06/06 (a)(b)(c)(d)	15,190	15,190	4.02%, 07/06/06 (a)(b)(c)(d)	10,770	10,770
<b>Houston Higher Education Finance Corp</b>			<b>Lower Neches River Auth</b>		
Higher Education Refunding RB (Rice University)			Exempt Facilities Refunding RB		
Series 2006A			(Exxon Mobil) Series 2001A		
3.90%, 07/05/06 (a)(c)	21,600	21,600	3.88%, 07/03/06 (a)	7,000	7,000
<b>Houston Independent SD</b>			<b>Mansfield IDA</b>		
Limited Tax School Building Bonds Series 2005			IDRB (Southern Champion Tray)		
4.00%, 07/06/06 (a)(b)(c)(d)	5,730	5,730	Series 1999		
Limited Tax Schoolhouse and Refunding Bonds			4.04%, 07/05/06 (a)(b)	1,600	1,600
Series 2003			<b>Matagorda Cnty Navigation District No.1</b>		
4.01%, 07/06/06 (a)(b)(c)(d)	5,290	5,290	Refunding RB (Houston Lighting and Power Co)		
Limited Tax Schoolhouse Bonds			4.06%, 07/05/06 (a)(b)(c)(d)	6,950	6,950
Series 2004			<b>Midland College District</b>		
3.63%, 06/15/07 (a)(b)(c)	50,000	50,000	GO Bonds Series 2005		
<b>Jewett Economic Development Corp</b>			4.01%, 07/06/06 (a)(b)(c)(d)	5,540	5,540
IDRB (Nucor Corp)			<b>Midlothian Independent SD</b>		
Series 2003			Unlimited Tax School Building and Refunding Bonds		
4.05%, 07/05/06 (a)	6,200	6,200	Series 2004		
<b>Katy Independent SD</b>			4.02%, 07/06/06 (a)(b)(c)(d)	8,840	8,840
Unlimited Tax School Building Bonds Series 2000A			<b>North East Independent SD</b>		
4.02%, 07/06/06 (a)(b)(c)(d)	10,145	10,145	Unlimited Tax Refunding Bonds		
<b>Keller Independent SD</b>			Series 2005		
Unlimited Tax School Building and Refunding Bonds			4.01%, 07/06/06 (a)(b)(c)(d)	1,980	1,980
Series 2005			Unlimited Tax School Building Bonds Series 2004		
4.00%, 07/06/06 (a)(b)(c)(d)	4,810	4,810	4.00%, 07/06/06 (a)(b)(c)(d)	14,000	14,000
<b>Lavaca-Navidad River Auth</b>			<b>North Texas Higher Education Auth</b>		
Water Supply System Contract RB (Formosa Plastics Corp)			Student Loan RB Series 1998		
Series 1990			4.04%, 07/05/06 (a)(b)	9,000	9,000
4.06%, 07/05/06 (a)(b)(d)(e)	13,600	13,600	Student Loan RB Series 2005A		
			4.05%, 07/05/06 (a)(b)(c)	20,600	20,600
			Student Loan RB Series 2005C		
			4.05%, 07/05/06 (a)(b)	50,000	50,000

See financial notes. 49



# Schwab Municipal Money Fund

## Portfolio Holdings (Unaudited) 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 Texas Municipal Water District</b>			GO Bonds (Veterans' Housing Assistance Program-Fund II) Series 2002A2		
Water System RB Series 2006			4.03%, 07/05/06 (a)(c)(d)	6,000	6,000
4.01%, 07/06/06 (a)(b)(c)(d)	22,895	22,895			
<b>Northwest Independent SD</b>			GO Bonds (Veterans' Housing Assistance Program-Fund II) Series 2005A		
Unlimited Tax Refunding Bonds Series 2005			4.02%, 07/05/06 (a)(c)	16,200	16,200
4.00%, 07/06/06 (a)(b)(c)(d)	29,215	29,215			
<b>Panhandle Plains Higher Education Auth</b>			TRAN Series 2005		
Student Loan RB Series 1991A			3.50%, 08/31/06	519,310	520,296
4.03%, 07/05/06 (a)(b)(c)	32,400	32,400			
Student Loan RB Series 1992A			Transportation Commission GO Mobility Fund Bonds Series 2006		
4.03%, 07/05/06 (a)(b)(c)	19,100	19,100	3.58%, 04/01/07	18,350	18,441
Student Loan RB Series 1993A					
4.03%, 07/05/06 (a)(b)(c)	21,700	21,700	<b>Texas A&amp;M Board of Regents</b>		
<b>Port Arthur Independent SD</b>			Permanent University Fund Bonds Series 1998		
Unlimited Tax School Building Bonds Series 2005			4.00%, 07/06/06 (a)(c)(d)	15,000	15,000
4.02%, 07/06/06 (a)(b)(c)(d)	23,395	23,395			
<b>San Antonio</b>			Permanent University Fund Bonds Series 2004B		
Airport System Revenue Improvement Bonds Series 2002			4.01%, 07/06/06 (a)(c)(d)	6,500	6,500
4.05%, 07/06/06 (a)(b)(c)(d)	9,240	9,240			
Electric and Gas Systems RB New Series 2005			<b>Texas Dept of Housing and Community Affairs</b>		
4.01%, 07/06/06 (a)(b)(c)	3,000	3,000	M/F Housing RB (Canal Place Apts) Series 2005A		
<b>San Antonio Empowerment Zone Development Corp</b>			4.05%, 07/05/06 (a)(b)	15,000	15,000
Contract RB (Drury Southwest Hotel) Series 2005					
4.05%, 07/06/06 (a)(b)	10,450	10,450	M/F Housing RB (Creek Point Apts) Series 2000		
<b>San Antonio IDA</b>			4.02%, 07/05/06 (a)(b)	6,685	6,685
IDRB (Gruma Corp) Series 1994					
4.07%, 07/05/06 (a)(b)	4,095	4,095	M/F Housing RB (Atascocita Pines Apts) Series 2005		
<b>Spring Independent SD</b>			4.05%, 07/06/06 (a)(b)	11,900	11,900
Unlimited Tax Schoolhouse Bonds Series 2005					
4.00%, 07/06/06 (a)(b)(c)(d)	13,805	13,805	M/F Housing RB (Bristol Apts) Series 2004		
<b>Texas</b>			4.02%, 07/06/06 (a)(b)	8,625	8,625
GO Refunding Bonds (College Student Loan) Series 2003					
2.85%, 07/03/06 (a)(c)	30,630	30,630	M/F Housing RB (Lafayette Village Apts) Series 2005		
			4.05%, 07/06/06 (a)(b)	7,100	7,100
			M/F Housing RB (Montgomery Pines Apts) Series 2004		
			4.02%, 07/06/06 (a)(b)	12,300	12,300
			M/F Housing RB (Pinnacle Apts) Series 2004		
			4.02%, 07/06/06 (a)(b)	7,000	7,000



**Schwab Municipal Money Fund**

**Portfolio Holdings** (Unaudited) 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 (Tower Ridge Apts) Series 2005 4.09%, 07/06/06 (a)(b)	15,000	15,000	<b>Trinity River Auth</b> Solid Waste Disposal RB (Community Waste Disposal) Series 1999 4.03%, 07/05/06 (a)(b)	3,410	3,410
Residential Mortgage RB Series 1998A 4.12%, 07/06/06 (a)(c)(d)	14,950	14,950	Improvement and Refunding RB Series 2005 4.01%, 07/06/06 (a)(b)(c)(d)	10,380	10,380
Residential Mortgage Refunding RB Series 2003A 4.04%, 07/06/06 (a)(c)(d)	10,000	10,000	<b>University of Texas</b> Permanent University Fund Flexible Rate Notes Series A 3.38%, 08/08/06	21,300	21,300
S/F Mortgage RB Series 2002 A&B 4.05%, 07/06/06 (a)(b)(c)(d)	4,115	4,115			<b>2,114,510</b>
S/F Mortgage RB Series 2004D 4.01%, 07/06/06 (a)(b)(c)	23,400	23,400	<b>Utah 0.9%</b>		
<b>Texas Dept of Transportation</b> GO Mobility Funds Series 2006 4.01%, 07/06/06 (a)(c)	6,805	6,805	<b>Intermountain Power Agency</b> Power Supply Refunding RB Series 1996C 4.01%, 07/06/06 (a)(b)(c)(d)	15,330	15,330
State Highway Fund First Tier RB Series 2006A 4.01%, 07/06/06 (a)(c)	26,125	26,125	Power Supply Refunding RB Series 1998A 4.01%, 07/06/06 (a)(b)(c)(d)	9,995	9,995
<b>Texas Municipal Gas Corp</b> Sr Lien Gas Reserve RB Series 1998 3.97%, 07/05/06 (a)(b)(c)	1,790	1,790	<b>Salt Lake City</b> Hospital RB (IHC Health Services) Series 2001 4.02%, 07/06/06 (a)(b)(c)(d)	26,730	26,730
<b>Texas State Affordable Housing Corp</b> S/F Mortgage RB (Professional Educators Home Loan Program) Series 2006A 4.06%, 07/05/06 (a)(b)(c)(d)	17,784	17,784	<b>University of Utah</b> Student Loan RB Series 1993A 4.05%, 07/05/06 (a)(b)	5,000	5,000
<b>Texas State University System Board of Regents</b> Revenue Financing System RB Series 2006 4.00%, 07/06/06 (a)(b)(c)(d)	19,410	19,410	Refunding RB (Auxiliary and Campus Facilities) Series 1998A 4.02%, 07/06/06 (a)(b)(c)(d)	30,060	30,060
4.01%, 07/06/06 (a)(b)(c)(d)	8,130	8,130	<b>Utah Building Ownership Auth</b> Lease Refunding RB Series 1998C 4.02%, 07/06/06 (a)(b)(c)(d)	9,695	9,695
<b>Texas Transportation Commission</b> Mobility Fund Bonds Series 2005A 4.01%, 07/06/06 (a)(c)(d)	64,860	64,860	<b>Utah State Board of Regents</b> Student Loan RB Series 2005W 4.05%, 07/05/06 (a)(b)(c)	25,280	25,280
					<b>122,090</b>

See financial notes. 51

Schwab Municipal Money Fund

Portfolio Holdings (Unaudited) continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Vermont 0.1%</b>		
<b>Vermont Economic Development Auth</b>		
IDRB (Agri-Mark) Series 1999A 4.07%, 07/06/06 (a)(b)	17,000	17,000
IDRB (Agri-Mark) Series 1999B 4.07%, 07/06/06 (a)(b)	1,000	1,000
		<b>18,000</b>

**Virginia 0.4%**

<b>Arlington Cnty IDA</b>		
M/F Housing RB (Gates of Ballston Apts) Series 2005 4.04%, 07/05/06 (a)(b)	14,500	14,500
<b>King George Cnty</b>		
Solid Waste Disposal Facility RB (Garnet) Series 1996 4.05%, 07/06/06 (a)(b)	3,700	3,700
<b>Montgomery Cnty IDA</b>		
RB (Virginia Tech Foundation) Series 2001B 4.07%, 07/06/06 (a)(b)	695	695
<b>Newport News IDA</b>		
RB (CNU Warwick Student Apts) Series 2004 4.00%, 07/06/06 (a)(b)	4,300	4,300
<b>Norfolk</b>		
Parking System Refunding RB Series 2000B 4.02%, 07/06/06 (a)(b)(c)(d)	9,450	9,450
<b>Norfolk Redevelopment and Housing Auth</b>		
RB (E2F Student Housing I) Series 2005 4.00%, 07/06/06 (a)(b)	7,000	7,000
<b>Portsmouth Redevelopment and Housing Auth</b>		
M/F Housing RB (Churchland North Apts) Series 1999 4.04%, 07/05/06 (a)(b)	6,235	6,235

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Virginia Beach Development Auth</b>		
M/F Residential Rental Housing RB (Silver Hill at Thalia) Series 1999 4.04%, 07/05/06 (a)(b)	4,000	4,000
<b>Virginia Port Auth</b>		
RB (2002 Resolution) Series 2005A 4.04%, 07/06/06 (a)(b)(c)(d)	2,630	2,630
		<b>52,510</b>

**Washington 4.9%**

<b>Cacade Water Alliance</b>		
Water System RB Series 2006 4.00%, 07/06/06 (a)(b)(c)(d)	8,685	8,685
<b>Central Puget Sound Regional Transit Auth</b>		
Sales Tax RB Series 2005A 3.45%, 07/06/06 (a)(b)(c)(d)	7,951	7,951
<b>Clark Cnty SD</b>		
No.37 (Vancouver) Unlimited Tax Deferred Interest GO Bonds Series 2001C 4.04%, 07/06/06 (a)(b)(c)(d)	15,245	15,245
<b>Douglas Cnty Development Corp</b>		
RB (Executive Flight) Series 1998 4.05%, 07/06/06 (a)(b)	6,100	6,100
<b>Eatonville SD No.404</b>		
Unlimited Tax GO Bonds Series 2006 4.02%, 07/06/06 (a)(b)(c)(d)	8,745	8,745
<b>Energy Northwest</b>		
Electric Refunding RB (Columbia Generating Station) Series 2006A 4.01%, 07/06/06 (a)(c)	20,670	20,670
Refunding Electric RB (Columbia Generating Station No.3) Series 2001A 4.02%, 07/06/06 (a)(b)(c)(d)	29,700	29,700
Refunding Electric RB (Project No.1) Series 2002A 4.01%, 07/06/06 (a)(b)(c)(d)	35,605	35,605

Schwab Municipal Money Fund

**Portfolio Holdings** (Unaudited) 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)
Refunding Electric RB (Project No.3) Series 2003A 4.01%, 07/06/06 (a)(b)(c)(d)	8,690	8,690	Solid Waste RB (LeMay Enterprises) Series 1999 4.03%, 07/05/06 (a)(b)	1,645	1,645
Project 1 Electric Refunding RB Series 2006A 3.70%, 07/01/07	15,000	15,189	<b>Port of Centralia IDA</b> Solid Waste RB (LeMay Enterprises) Series 1999 4.03%, 07/05/06 (a)(b)	1,035	1,035
<b>Everett IDA</b> Exempt Facilities RB (Kimberly-Clark Corp) Series 2002 4.05%, 07/05/06 (a)	3,200	3,200	<b>Port of Moses Lake Public Corp</b> RB (National Frozen Foods Corp) Series 1997 4.00%, 07/05/06 (a)(b)	1,000	1,000
RB (Partners Trust I/Synsor) Series 1996 4.05%, 07/05/06 (a)(b)	3,100	3,100	<b>Port of Seattle</b> Special Facility RB (Terminal 18) Series 1999B 4.06%, 07/05/06 (a)(b)(c)(d)	49,795	49,795
<b>Fairfax Cnty Economic Development Auth</b> RB (Laurel Hill Public Facilities) Series 2003 3.54%, 07/06/06 (a)(c)(d)	5,420	5,420	Subordinate Lien RB Series 2005 4.05%, 07/05/06 (a)(b)	8,500	8,500
<b>King Cnty</b> Sewer Refunding RB Series 2006 4.00%, 07/06/06 (a)(b)(c)(d)	7,670	7,670	RB Series 2001B 4.04%, 07/06/06 (a)(b)(c)(d)	4,430	4,430
<b>King Cnty Rural Library District</b> Unlimited Tax GO Bonds Series 2005 4.01%, 07/06/06 (a)(b)(c)(d)	11,555	11,555	RB Series 2003A 4.01%, 07/06/06 (a)(b)(c)(d)	1,000	1,000
<b>Olympia</b> Solid Waste RB (LeMay Enterprises) Series 1999 4.03%, 07/05/06 (a)(b)	5,075	5,075	Subordinate Lien RB Series 1999B 4.04%, 07/06/06 (a)(b)(c)(d)	2,875	2,875
<b>Pierce Cnty</b> IDRB (McFarland Cascade) Series 1996 4.07%, 07/06/06 (a)(b)	3,945	3,945	<b>Port of Tacoma</b> RB Series 2005 4.04%, 07/06/06 (a)(b)(c)(d)	6,280	6,280
Unlimited Tax GO Bonds Series 2001 2.98%, 07/06/06 (a)(b)(c)(d)	43,655	43,655	<b>Seattle</b> Drainage and Wastewater Refunding RB Series 2002 4.01%, 07/06/06 (a)(b)(c)(d)	6,875	6,875
<b>Pierce Cnty Economic Development Corp</b> RB (Flex-A-Lite Consolidated) Series 1996 4.05%, 07/05/06 (a)(b)	2,100	2,100	<b>Seattle Housing Auth</b> RB (Casa Pacifica Apts) Series 1997 4.05%, 07/05/06 (a)(b)	2,850	2,850
RB (K&M Holdings II) Series 1997 4.09%, 07/05/06 (a)(b)	1,300	1,300	RB (CHHIP and HRG) Series 1996 4.05%, 07/05/06 (a)(b)	3,335	3,335
			<b>Snohomish Cnty Public Utility District No.1</b> Electric System Refunding RB Series 2005A 4.01%, 07/06/06 (a)(b)(c)(d)	7,425	7,425

See financial notes. 53

Schwab Municipal Money Fund

**Portfolio Holdings** (Unaudited) 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>			Solid Waste Disposal RB (Waste Management) Series 2000C		
RB (Crown Assisted Living) Series 1998 4.04%, 07/05/06 (a)(b)	3,010	3,010	4.05%, 07/05/06 (a)(b)	5,500	5,500
<b>Washington</b>			Solid Waste Disposal RB (Waste Management) Series 2000H		
GO Bonds Series 1998C 4.02%, 07/06/06 (a)(c)(d)	12,150	12,150	4.05%, 07/05/06 (a)(b)	6,825	6,825
GO Bonds Series 2000B 4.02%, 07/06/06 (a)(c)(d)	13,380	13,380	Solid Waste Disposal RB (Waste Management) Series 2000I		
GO Bonds Series 2003A 4.02%, 07/06/06 (a)(b)(c)(d)	5,170	5,170	4.03%, 07/05/06 (a)(b)	10,240	10,240
Motor Vehicle Fuel Tax GO Bonds Series 2006B 4.01%, 07/06/06 (a)(b)(c)(d)	2,500	2,500	4.05%, 07/05/06 (a)(b)	7,235	7,235
Unlimited GO Bonds Series B 4.02%, 07/06/06 (a)(b)(c)(d)	30,485	30,485	IDRB (Tonkin Building Associates) Series 1997A 4.07%, 07/06/06 (a)(b)	1,000	1,000
Various Purpose GO Bonds Series 2005D 4.01%, 07/06/06 (a)(b)(c)(d)	9,415	9,415	Solid Waste Disposal RB (Waste Management) Series 2005D		
Various Purpose GO Bonds Series 2006D 4.00%, 07/06/06 (a)(b)(c)	8,660	8,660	4.05%, 07/06/06 (a)(b)	9,000	9,000
4.01%, 07/06/06 (a)(b)(c)(d)	11,360	11,360	<b>Washington Health Care Facilities Auth</b>		
Various Purpose GO Refunding Bonds Series R-2005A 4.01%, 07/06/06 (a)(b)(c)	2,880	2,880	RB (Yakima Valley Farm Workers Clinic) Series 1997 4.00%, 07/05/06 (a)(b)	2,800	2,800
<b>Washington Economic Development Finance Auth</b>			<b>Washington Housing Finance Commission</b>		
Lease RB (Washington Biomedical Research Properties II) Series 2005E 4.01%, 07/05/06 (a)(b)(c)(d)	14,620	14,620	M/F RB (Cedar Ridge Retirement) Series 2005A 4.07%, 07/03/06 (a)(b)	5,030	5,030
RB (Hunter Douglas) Series 1997A 4.04%, 07/05/06 (a)(b)	3,500	3,500	Non-Profit Refunding RB (Horizon House) Series 2005 3.99%, 07/03/06 (a)(b)	11,725	11,725
Solid Waste Disposal RB (Cedar Grove Composting) Series 2004B 4.03%, 07/05/06 (a)(b)	5,600	5,600	M/F Mortgage RB (Lake Washington Apts) Series 1996 4.05%, 07/05/06 (a)(b)	7,850	7,850
Solid Waste Disposal RB (Lemay Enterprises) Series 2005B 4.03%, 07/05/06 (a)(b)	5,665	5,665	M/F Mortgage RB (Meridian Court Apts) Series 1996 4.02%, 07/05/06 (a)(b)	6,700	6,700
			M/F Housing RB (Anchor Village Apts) Series 1997 4.02%, 07/06/06 (a)(b)	10,750	10,750

Schwab Municipal Money Fund

**Portfolio Holdings** (Unaudited) 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 (Brittany Park Phase II) Series 1998A 4.02%, 07/06/06 (a)(b)	3,480	3,480	<b>Yakima Cnty Public Corp</b> RB (Michelsen Packaging) Series 1996 4.05%, 07/05/06 (a)(b)	600	600
M/F Housing RB (Brittany Park) Series 1996A 4.02%, 07/06/06 (a)(b)	8,930	8,930	IDRB (Cowiche Growers) Series 1998 4.05%, 07/06/06 (a)(b)	2,200	2,200
M/F Housing RB (Fairwinds Redmond) Series 2005A 4.05%, 07/06/06 (a)(b)	7,500	7,500			<b>641,540</b>
M/F Housing RB (Highlander Apts) Series 2004A 4.02%, 07/06/06 (a)(b)	7,000	7,000	<b>West Virginia 0.7%</b>		
M/F Housing RB (Lakewood Meadows Apts) Series 2000A 4.02%, 07/06/06 (a)(b)	3,140	3,140	<b>Braxton Cnty</b> Solid Waste Disposal Refunding RB (Weyerhouser Co) Series 1998 4.07%, 07/06/06 (a)(b)(c)	16,275	16,275
M/F Housing RB (Merrill Gardens at Queen Anne) Series 2004A 4.05%, 07/06/06 (a)(b)	11,000	11,000	<b>Marion Cnty</b> Solid Waste Disposal Facility RB (Grant Town Cogeneration) Series 1990B 4.07%, 07/05/06 (a)(b)	18,525	18,525
M/F Housing RB (Merrill Gardens) Series 1997A 4.02%, 07/06/06 (a)(b)	6,125	6,125	Solid Waste Disposal Facility RB (Grant Town Cogeneration) Series 1990C 4.07%, 07/05/06 (a)(b)	15,900	15,900
M/F Housing RB (Rainier Court Apts) Series 2003A 4.02%, 07/06/06 (a)(b)	12,750	12,750	Solid Waste Disposal Facility RB (Grant Town Cogeneration) Series 1990D 4.07%, 07/05/06 (a)(b)	3,000	3,000
M/F Housing RB (Rosecreek Apts) Series 1998A 4.05%, 07/06/06 (a)(b)	3,570	3,570	<b>West Virginia Housing Development Fund</b> Housing Finance Bonds Series 2001D 4.01%, 07/06/06 (a)(c)(d)	14,270	14,270
M/F Housing RB (Silver Creek Apts) Series 2004 4.02%, 07/06/06 (a)(b)	4,100	4,100	<b>West Virginia State Hospital Finance Auth</b> RB (Pallotine Health Services Inc) Series 2006 3.98%, 07/06/06 (a)(b)	12,500	12,500
M/F Housing RB (Vintage at Burien) Series 2004A 4.02%, 07/06/06 (a)(b)	6,570	6,570	<b>West Virginia Water Development Auth</b> RB (Loan Program IV) Series 2005A 4.01%, 07/06/06 (a)(b)(c)	14,470	14,470
M/F Housing RB (Woodrose Apts) Series 1999A 4.02%, 07/06/06 (a)(b)	6,750	6,750			<b>94,940</b>
M/F Mortgage RB (Canyon Lakes) Series 1993 4.10%, 07/06/06 (a)(b)	4,130	4,130			

See financial notes. 55

Schwab Municipal Money Fund

**Portfolio Holdings** (Unaudited) continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Wisconsin 0.8%</b>		
<b>Colburn IDA</b>		
IDRB (Heartland Farms) Series 1994 4.15%, 07/06/06 (a)(b)	5,100	5,100
<b>Kenosha</b>		
IDRB (Asyst Technologies) Series 1997 4.05%, 07/06/06 (a)(b)	5,000	5,000
<b>Kimberly Area SD</b>		
GO Refunding Bonds 4.01%, 07/06/06 (a)(b)(c)(d)	6,040	6,040
<b>Milwaukee Cnty</b>		
Airport RB Series 2000A 4.05%, 07/06/06 (a)(b)(c)(d)	18,470	18,470
<b>Southeast Wisconsin Professional Baseball Park District</b>		
Sales Tax Refunding Bonds Series 1998 4.01%, 07/05/06 (a)(b)(c)(d)	5,000	5,000
<b>Wisconsin</b>		
GO Bonds Series 2006A 4.01%, 07/06/06 (a)(b)(c)	6,700	6,700
<b>Wisconsin Housing and Economic Development Auth-1987 Homeownership Resolution</b>		
Homeownership RB Series 2002C 4.00%, 07/05/06 (a)(c)	3,040	3,040
Homeownership RB Series 2002D 4.03%, 07/05/06 (a)(c)	45	45
Homeownership RB Series 2003B 4.03%, 07/05/06 (a)(c)	13,000	13,000
Business Development RB (Ultratec) Series 1995-7 4.15%, 07/06/06 (a)(b)	2,050	2,050
Housing RB Series 2002B 4.01%, 07/06/06 (a)(b)(c)(d)	13,495	13,495

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Wisconsin Housing and Economic Development Auth-1988 Homeownership Resolution</b>		
Homeownership RB Series 2005C 4.03%, 07/05/06 (a)(c)	11,000	11,000
Homeownership RB Series 2003A 4.05%, 07/06/06 (a)(c)(d)	2,860	2,860
RB Series 2004D 4.05%, 07/06/06 (a)(c)(d)	2,720	2,720
<b>Wisconsin Rapids</b>		
IDRB (Thiele Kaolin) Series 1998 4.04%, 07/05/06 (a)(b)	4,500	4,500
		<b>99,020</b>

**Wyoming 0.6%**

<b>Lincoln Cnty</b>		
Pollution Control RB (Exxon) Series 1984B 3.97%, 07/03/06 (a)	10,400	10,400
<b>Uinta Cnty</b>		
Pollution Control Refunding RB (Chevron USA) Series 1993 3.98%, 07/03/06 (a)	44,800	44,800
<b>Wyoming</b>		
Education Fund TRAN Series 2006A 3.69%, 06/27/07	25,000	25,192
		<b>80,392</b>

**End of Investments.**

## Schwab Municipal Money Fund

At 6/30/06, the cost of the fund's investments was \$13,159,639.

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

### Allegheny Cnty Hospital Auth

IRB (University of Pittsburgh Medical Center) Series 2005B 4.09%, 06/15/06, 07/06/06	13,000	13,000
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### California Health Facilities Auth

IHospital RB (Adventist Health Systems/West) Series 1998B 3.93%, 06/22/06, 07/03/06	2,000	2,000
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### Lavaca-Navidad River Auth

IWater Supply System Contract RB (Formosa Plastics Corp) Series 1990 4.06%, 01/07/99, 07/05/06	13,600	13,600
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- (a) Variable-rate security.
- (b) Credit-enhanced security.
- (c) Liquidity-enhanced security.
- (d) Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registrations, normally to qualified institutional buyers. At the period end, the value of these amounted to \$3,977,273 or 30.5% of net assets.
- (e) Illiquid and/or restricted security.

*BAN* – Bond anticipation note

*COP* – Certificate of participation

*GO* – General obligation

*HFA* – Housing Finance Agency

*IDA* – Industrial Development Authority

*IDB* – Industrial Development Board

*IDRB* – Industrial Development Revenue Bond

*RAN* – Revenue anticipation note

*RB* – Revenue bond

*TAN* – Tax anticipation note

*TECP* – Tax-exempt commercial paper

*TRAN* – Tax and revenue anticipation note

## Schwab Municipal Money Fund

Statement of

### Assets and Liabilities

As of June 30, 2006; unaudited. All numbers x 1,000 except NAV.

#### Assets

Investments, at cost and value	\$13,159,639
Cash	1,234
Receivables:	
Fund shares sold	283,651
Investments sold	182,936
Interest	96,938
Prepaid expenses	+ 530
<b>Total assets</b>	<b>13,724,928</b>

#### Liabilities

Payables:	
Fund shares redeemed	177,146
Dividends to shareholders	17,525
Investments bought	509,187
Investment adviser and administrator fees	230
Transfer agent and shareholder services fees	302
Trustees' fees	10
Accrued expenses	+ 257
<b>Total liabilities</b>	<b>704,657</b>

#### Net Assets

<b>Total assets</b>	13,724,928
<b>Total liabilities</b>	- 704,657
<b>Net assets</b>	<b>\$13,020,271</b>

#### Net Assets by Source

Capital received from investors	13,024,418
Net realized capital losses	(4,147)

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

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Sweep Shares	\$7,044,620		7,048,820		\$1.00
Value Advantage Shares	\$2,987,653		2,988,270		\$1.00
Select Shares	\$1,076,968		1,077,119		\$1.00
Institutional Shares	\$1,911,030		1,911,336		\$1.00



## Schwab Municipal Money Fund

### Statement of

### Operations

For January 1, 2006 through June 30, 2006; unaudited. All numbers x 1,000.

#### Investment Income

Interest	<b>\$214,922</b>
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#### Net Realized Gains and Losses

Net realized losses on investments sold	<b>(126)</b>
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#### Expenses

Investment adviser and administrator fees	22,668
Transfer agent and shareholder service fees:	
Sweep Shares	16,309
Value Advantage Shares	3,275
Select Shares	1,162
Institutional Shares	2,048
Trustees' fees	28
Custodian fees	257
Portfolio accounting fees	157
Professional fees	37
Registration fees	463
Shareholder reports	148
Other expenses	+
Total expenses	46,608
Expense reduction	-
<b>Net expenses</b>	<b>34,222</b>

#### Increase in Net Assets from Operations

<b>Total investment income</b>	214,922
<b>Net expenses</b>	-
<b>Net investment income</b>	<b>180,700</b>
<b>Net realized losses</b>	+
<b>Increase in net assets from operations</b>	<b>\$180,574</b>

## Schwab Municipal Money Fund

Statements of

### Changes in Net Assets

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

Figures for current period are unaudited.

#### Operations

	1/1/06-6/30/06	1/1/05-12/31/05
Net investment income	\$180,700	\$246,264
Net realized losses	+ (126)	(755)
<b>Increase in net assets from operations</b>	<b>180,574</b>	<b>245,509</b>

#### Distributions Paid

<b>Dividends from net investment income</b>		
Sweep Shares	95,057	129,009
Value Advantage Shares	41,978	62,499
Select Shares	15,433	18,472
Institutional Shares	+ 28,232	36,165
<b>Total dividends from net investment income</b>	<b>\$180,700</b>	<b>\$246,145</b>

#### Transactions in Fund Shares\*

<b>Shares Sold</b>		
Sweep Shares	19,932,832	34,222,246
Value Advantage Shares	2,136,712	3,763,501
Select Shares	1,214,804	2,018,411
Institutional Shares	+ 2,054,891	3,704,608
<b>Total shares sold</b>	<b>25,339,239</b>	<b>43,708,766</b>

<b>Shares Reinvested</b>		
Sweep Shares	85,392	126,513
Value Advantage Shares	33,667	55,374
Select Shares	12,203	15,562
Institutional Shares	+ 21,663	31,212
<b>Total shares reinvested</b>	<b>152,925</b>	<b>228,661</b>

<b>Shares Redeemed</b>		
Sweep Shares	(20,440,412)	(34,444,625)
Value Advantage Shares	(2,189,795)	(4,056,494)
Select Shares	(1,115,890)	(1,795,103)
Institutional Shares	+ (1,948,793)	(3,411,103)
<b>Total shares redeemed</b>	<b>(25,694,890)</b>	<b>(43,707,325)</b>

<b>Net transactions in fund shares</b>	<b>(202,726)</b>	<b>230,102</b>
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#### Net Assets

Beginning of period	13,223,123	12,993,657
Total increase or decrease	+ (202,852)	229,466
<b>End of period</b>	<b>\$13,020,271</b>	<b>\$13,223,123</b>

\*Transactions took place at \$1.00 per share; figures for share quantities are the same as for dollars.

## Financial Notes, unaudited.

Unless stated, all dollar amounts are x 1,000.

### 1. Business Structure of the Fund

Schwab Municipal Money Fund 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 list below shows all the funds in the trust including the fund discussed in this report, which 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 AMT Tax-Free Money Fund  
 Schwab Massachusetts Municipal Money Fund  
 Schwab Retirement Advantage Money Fund  
 Schwab Investor Money Fund  
 Schwab Advisor Cash Reserves  
 Schwab Cash Reserves

Schwab Municipal Money 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 trustees may issue as many shares as necessary.

### 2. Significant Accounting Policies

The following is a summary of the significant accounting policies the fund uses in its operations and in the preparation of financial statements:

#### (a) Security Valuation:

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

#### (b) Portfolio Investments:

**Delayed-Delivery:** 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.

#### (c) Security Transactions:

Security transactions are recorded as of the date the order to buy or sell the security is executed. Realized gains and losses from security transactions are based on the identified costs of the securities involved.

## Financial Notes, unaudited (continued).

Unless stated, all dollar amounts are x 1,000.

### 2. Significant Accounting Policies (continued)

#### (d) Income, Expenses and Distributions:

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

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

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

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 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 keeps certain assets in segregated accounts, as may be required by securities law.

#### (e) Borrowing:

The fund may borrow money from banks and custodians. The fund may obtain temporary bank loans through the trusts 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.

#### (f) Accounting Estimates:

The accounting policies described in this report 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.

#### (g) Indemnification:

Under the fund's organizational documents, the 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.

**Financial Notes, unaudited (continued).**

Unless stated, all dollar amounts are x 1,000.

**3. Affiliates and Affiliated Transactions**

Charles Schwab Investment Management, Inc. (CSIM or the investment adviser), a wholly owned subsidiary of The Charles Schwab Corporation, serves as the fund's investment adviser and administrator pursuant to an Investment Advisory and Administration Agreement (Advisory Agreement) between it and the trust. Charles Schwab & Co., Inc. ("Schwab") is an affiliate of the investment adviser and is the trust's shareholder services agent and transfer agent.

For its advisory and administrative services to the fund, the investment adviser is entitled to receive an annual fee payable monthly based on the fund's average daily net assets described as follows:

**Average daily net assets**

First \$1 billion	0.38%
Over \$1 billion	0.35%
Over \$10 billion	0.32%
Over \$20 billion	0.30%
Over \$40 billion	0.27%

For its transfer agent and shareholder services, Schwab is entitled to receive an annual fee payable monthly based on the fund's average daily net assets described as follows:

	<b><u>Transfer Agent Fees</u></b>	<b><u>Shareholder Service Fees</u></b>
Sweep Shares	0.25%	0.20%
Value Advantage Shares	0.05%	0.17%
Select Shares	0.05%	0.17%
Institutional Shares	0.05%	0.17%

Although these agreements specify certain fees for these services, CSIM and Schwab have made additional agreements with the fund to limit the total expenses charged, excluding interest, taxes and certain non-routine expenses through April 29, 2007, as follows:

Sweep Shares	0.64%*
Value Advantage Shares	0.45%
Select Shares	0.35%
Institutional Shares	0.24%

\*Prior to April 30, 2006, the limit was 0.65% for Sweep Shares.

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. For the period ended June 30, 2006, the fund's total security transactions with other Schwab Funds was \$2,873,804.

**Financial Notes, unaudited (continued).**

Unless stated, all dollar amounts are x 1,000.

**3. Affiliates and Affiliated Transactions (continued)**

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. There was no interfund borrowing or lending activity for the fund during the period.

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.

**4. Federal Income Taxes**

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 realized net capital gains (if any) to its shareholders each year. The net investment income and realized capital gains and losses may differ for financial statement and tax purposes primarily due to differing treatments of losses on wash sales and market discount. As long as the fund meets the tax requirements, it is not required to pay federal income tax. As of December 31, 2005, the fund had no undistributed earnings on a tax basis.

As of December 31, 2005, the fund had capital loss carry forwards available to offset future net capital gains before the expiration dates:

<u>Expire</u>	
2007	\$775
2008	874
2011	241
2012	1,479
2013	652
<b>Total</b>	<b>\$4,021</b>

100% of the fund’s distributions for the fiscal year ended December 31, 2005 were from tax-exempt interest dividends as follows:

From tax-exempt income	\$246,145
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**Financial Notes, unaudited (continued).**

Unless stated, all dollar amounts are x 1,000.

**4. Federal Income Taxes (continued)**

The permanent book and tax basis differences may result in reclassifications between capital account and other accounts as required. The adjustments will have no impact on net assets or the results of operations. As of December 31, 2005, the fund made the following reclassifications:

Capital shares	\$(522)
Undistributed net investment income	\$(315)
Net realized capital gains and losses	\$837

# 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.

The Board, including a majority of the Independent Trustees, considered information specifically relating to its consideration of the continuance of the Agreement at meetings held on May 2, 2006, May 24, 2006 and June 12, 2006, and approved the renewal of the Agreement for an additional one year term at the meeting held on June 12, 2006. The Board’s approval of the Agreement was based on consideration and evaluation of a variety of specific factors discussed at these meetings 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 information considered by the trustees included specific information concerning changes in the nature, extent and quality of services provided by CSIM since the trustees had last considered approval of the Agreement. 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 and their shareholders. 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' shareholders 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 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, when applicable, 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 and the appropriateness of the benchmark used to compare the performance of each fund. The trustees further considered the level of fund performance in the context of its review of fund expenses and adviser profitability discussed below. Following such evaluation the Board concluded, within the

context of its full deliberations, that the performance of the funds supported 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 historical practice of voluntarily waiving 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 different legal, regulatory, compliance and operating features of mutual funds as compared to these other types of accounts. The Board also considered recent actions by CSIM to adjust fund investor eligibility criteria that would result in more shareholders investing in funds (and share classes within funds) that have lower net operating expenses and that are designed to 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. Following such evaluation and based upon CSIM's agreement to implement proposals related to fund investor eligibility, the Board concluded, within the context of its full deliberations, that the expenses of the funds are reasonable and supported 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. The Board also considered information relating to changes to CSIM's cost structure, including cost savings, technology investments and increased operating efficiencies and how these changes affected CSIM's profitability under the Agreement. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the profitability of CSIM is reasonable and supported 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 that include lower fees at higher graduated asset levels. The Board also considered certain commitments by CSIM and Schwab that are designed to pass along potential economies of scale to fund shareholders. Specifically, the Board considered CSIM

and Schwab's commitments, which may be changed only with Board approval: (i) to reduce contractual advisory fees or add breakpoints for certain funds, (ii) to implement, by means of expense limitation agreement, over the next several years additional reductions in net overall expenses for certain funds, (iii) to reduce administrative "sweep" fees paid to Schwab in connection with money market fund shares that are used for automatic investment of cash held in customer brokerage accounts, and (iv) to implement future net total operating expense reductions for taxable money funds as a group and non-taxable money funds as a group when aggregate assets of such group of funds exceed certain levels. Based on this evaluation, and in consideration of the commitments made by CSIM and Schwab as discussed above, 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 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

The tables below give information about the trustees and officers for The Charles Schwab Family of Funds, which includes the fund covered in this report. The “Fund Complex” includes The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust, Schwab Annuity Portfolios, Laudus Trust, Laudus Variable Insurance Trust, Excelsior Funds, Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust. As of June 30, 2006, the Fund Complex included 98 funds.

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, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served')	Principal Occupations During the Past Five Years	Number of Portfolios in Fund Complex Overseen by the Trustee	Other Directorships
<b>Mariann Byerwalter</b> 1960 Trustee (Trustee of The Charles Schwab Family of Funds since 2000.)	Chairman of JDN Corporate Advisory LLC. <i>From 1996 to 2001</i> , Vice President for Business Affairs and Chief Financial Officer of Stanford University, and <i>in 2001</i> , Special Advisor to the President of Stanford University.	98	<i>Board 1</i> —Director, Redwood Trust, Inc. <i>Board 2</i> —Director, PMI Group, Inc.
<b>Donald F. Dorward</b> 1931 Trustee (Trustee of The Charles Schwab Family of Funds since 1989.)	Chief Executive Officer, Dorward & Associates (corporate management, marketing and communications consulting firm). <i>From 1996-1999</i> , Executive Vice President and Managing Director, Grey Advertising. <i>Prior to 1996</i> , President and Chief Executive Officer, Allen & Dorward Advertising.	57	None.
<b>William A. Hasler</b> 1941 Trustee (Trustee of The Charles Schwab Family of Funds since 2000.)	Retired. Dean Emeritus, Haas School of Business, University of California, Berkeley. <i>Until February 2004</i> , Co-Chief Executive Officer, Apton Corp. (bio-pharmaceuticals). <i>Prior to August 1998</i> , Dean of the Haas School of Business, University of California, Berkeley (higher education).	98	<i>Board 1</i> —Director, Apton Corp. <i>Board 2</i> —Director, Mission West Properties <i>Board 3</i> —Director, TOUSA <i>Board 4</i> —Director, Stratex Networks <i>Board 5</i> —Director, Genitope Corp. <i>Board 6</i> —Director & Non-Executive Chairman, Solelectron Corp. <i>Board 7</i> —Director, Ditech Communications Corp.

# Independent Trustees continued

Name, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served <sup>1</sup> )	Principal Occupations During the Past Five Years	Number of Portfolios in Fund Complex Overseen by the Trustee	Other Directorships
<b>Robert G. Holmes</b> 1931 Trustee (Trustee of The Charles Schwab Family of Funds since 1989.)	Chairman, Chief Executive Officer and Director, Semloh Financial, Inc. (international financial services and investment advisory firm).	57	None.
<b>Gerald B. Smith</b> 1950 Trustee (Trustee of The Charles Schwab Family of Funds since 2000.)	Chairman and Chief Executive Officer and founder of Smith Graham & Co. (investment advisors).	57	<i>Board 1</i> —Board of Cooper Industries <i>Board 2</i> —Chairman of the Audit Committee of Northern Border Partners, M.L.P.
<b>Donald R. Stephens</b> 1938 Trustee (Trustee of The Charles Schwab Family of Funds since 1989.)	Managing Partner, D.R. Stephens & Company (investments). Prior to 1996, Chairman and Chief Executive Officer of North American Trust (real estate investment trust).	57	None.
<b>Michael W. Wilsey</b> 1943 Trustee (Trustee of The Charles Schwab Family of Funds since 1989.)	Chairman and Chief Executive Officer, Wilsey Bennett, Inc. (real estate investment and management, and other investments).	57	None.

## Interested Trustees

Name, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served <sup>1</sup> )	Principal Occupations During the Past Five Years	Number of Portfolios in Fund Complex Overseen by the Trustee	Other Directorships
<b>Charles R. Schwab<sup>2</sup></b> 1937 Chairman and Trustee (Chairman and Trustee of The Charles Schwab Family of Funds since 1989.)	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 May 2003</i> , Co-Chief Executive Officer, The Charles Schwab Corporation.	57	None.
<b>Randall W. Merk<sup>2</sup></b> 1954 Trustee (Trustee of The Charles Schwab Family of Funds since 2005.)	Executive Vice President and President, Schwab Financial Products, Charles Schwab & Co., Inc.; Director, Charles Schwab Asset Management (Ireland) Limited and Charles Schwab Worldwide Funds PLC. <i>From September 2002 to July 2004</i> , Chief Executive Officer and President, Charles Schwab Investment Management, Inc. and Executive Vice President, Charles Schwab & Co., Inc. <i>Prior to September 2002</i> , President and Chief Investment Officer, American Century Investment Management, and Director, American Century Companies, Inc.	98	None.

## Officers of the Trust

**Name, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served<sup>3</sup>)**

**Principal Occupations During the Past Five Years**

<b>Evelyn Dilsaver</b> 1955 President and Chief Executive Officer (Officer of The Charles Schwab Family of Funds since 2004.)	President, Chief Executive Officer, and Director, Charles Schwab Investment Management, Inc.; Executive Vice President, Charles Schwab & Co., Inc.; President and Chief Executive Officer, Laudus Trust and Laudus Variable Insurance Trust; President, Excelsior Funds Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust; President, Mutual Fund Division, UST Advisers, Inc. <i>From June 2003 to July 2004</i> , Senior Vice President, Asset Management Products and Services, Charles Schwab & Co., Inc. <i>Prior to June 2003</i> , Executive Vice President, Chief Financial Officer, and Chief Administrative Officer, U.S. Trust, a subsidiary of The Charles Schwab Corporation.
<b>Stephen B. Ward</b> 1955 Senior Vice President and Chief Investment Officer (Officer of The Charles Schwab Family of Funds since 1991.)	Director, Senior Vice President and Chief Investment Officer, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Company.
<b>George Pereira</b> 1964 Treasurer and Principal Financial Officer (Officer of The Charles Schwab Family of Funds since 2004.)	Senior Vice President and Chief Financial Officer, Charles Schwab Investment Management, Inc.; Chief Financial Officer, Laudus Trust and Laudus Variable Insurance Trust; Chief Financial Officer and Chief Accounting Officer, Excelsior Funds Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust; Chief Financial Officer, Mutual Fund Division, UST Advisors, Inc. Director, Charles Schwab Worldwide Fund, PLC and Charles Schwab Asset Management (Ireland) Limited. <i>From December 1999 to November 2004</i> , Sr. Vice President, Financial Reporting, Charles Schwab & Co., Inc.
<b>Kimon Daifotis</b> 1959 Senior Vice President and Chief Investment Officer—Fixed Income (Officer of The Charles Schwab Family of Funds since 2004.)	Senior Vice President and Chief Investment Officer—Fixed Income, Charles Schwab Investment Management, Inc. <i>Prior to 2004</i> , Vice President and Sr. Portfolio Manager, Charles Schwab Investment Management, Inc.
<b>Jeffrey Mortimer</b> 1963 Senior Vice President and Chief Investment Officer—Equities (Officer of The Charles Schwab Family of Funds since 2004.)	Senior Vice President and Chief Investment Officer—Equities, Charles Schwab Investment Management, Inc.; Vice President and Chief Investment Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Prior to 2004</i> , Vice President and Sr. Portfolio Manager, Charles Schwab Investment Management, Inc.

## Officers of the Trust continued

Name, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served <sup>3</sup> )	Principal Occupations During the Past Five Years
<b>Randall Fillmore</b> 1960 Chief Compliance Officer and AML Officer (Officer of The Charles Schwab Family of Funds since 2002.)	Senior Vice President and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Senior Vice President Charles Schwab & Co., Inc.; Chief Compliance Officer, Laudus Trust and Laudus Variable Insurance Trust; Chief Compliance Officer, Excelsior Funds Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust. <i>From 2002 to 2003</i> , Vice President, Charles Schwab & Co., Inc., and Charles Schwab Investment Management, Inc. <i>From 2000 to 2002</i> , Vice President, Internal Audit, Charles Schwab & Co., Inc.
<b>Koji E. Felton</b> 1961 Secretary and Chief Legal Officer (Officer of The Charles Schwab Family of Funds since 1998.)	Senior Vice President, Chief Counsel and Corporate Secretary, Charles Schwab Investment Management, Inc.; Senior Vice President and Deputy General Counsel, Charles Schwab & Co., Inc.; Chief Legal Officer, Laudus Trust and Laudus Variable Insurance Trust; Chief Legal Officer, Excelsior Funds Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust. <i>Prior to June 1998</i> , Branch Chief in Enforcement at U.S. Securities and Exchange Commission in San Francisco.

<sup>1</sup> Trustees remain in office until they resign, retire or are removed by shareholder vote. 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> In addition to their employment with the investment adviser and the distributor, Messrs. Schwab and Merk also own stock of The Charles Schwab Corporation. Mr. Schwab and Mr. Merk are Interested Trustees because they are employees of Schwab and/or the adviser.

<sup>3</sup> The President, Treasurer and Secretary hold office until their respective successors are chosen and qualified or until he or she sooner dies, resigns, is removed or becomes disqualified. Each other officer serves at the pleasure of the Board.

# 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

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 [www.sec.gov](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 [www.sec.gov](http://www.sec.gov).

<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.

## The Schwab Funds Family®

### Stock Funds

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™  
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®

### Asset Allocation Funds

Schwab Viewpoints Fund™  
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 Inflation Protected 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>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.

*charles* SCHWAB

**Investment Adviser**

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

**Funds**

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

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MFR25720-04

# Schwab Municipal Money Funds

## Semiannual Report

June 30, 2006

Schwab New York  
Municipal Money Fund™

Schwab New Jersey  
Municipal Money Fund™

Schwab Pennsylvania  
Municipal Money Fund™

Schwab AMT Tax-Free  
Money Fund™  
*(formerly Schwab Florida  
Municipal Money Fund™)*

Schwab Massachusetts  
Municipal Money Fund™

*charles* SCHWAB

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Fund investment adviser: Charles Schwab Investment Management, Inc. (CSIM).  
Distributor and transfer agent: Charles Schwab & Co., Inc. (Schwab).

## From the Chairman



Charles Schwab  
Chairman

Dear Shareholder,

I have always believed that money funds are a great way to invest cash between long-term investments. And while no investment is risk free, money funds can also be good choices for investors who want to mitigate the potential fluctuations that may occur in their mostly stock portfolios.

As a result of the Federal Reserve having raised short-term interest rates eight times in the past 12 months (four of which occurred during the six-month period covered in this report), yields on money funds are more attractive than they have been in several years. With their relatively short weighted average maturity (WAM), money funds are typically positioned to capture a rise in market rates more quickly than those fixed income funds with longer maturities.

Here at Schwab, we offer a range of money funds with distinct investment strategies. Our municipal money funds, for example, may be beneficial for those of you in high tax brackets. We also offer money funds for those interested in the added protection provided by a portfolio of U.S. government securities.

In closing, I would like to emphasize that we at Schwab strive every day to warrant the trust you have placed in us. My colleagues and I continue to see opportunities ahead, and we are committed to helping you maximize them.

Thank you for investing with us.

Sincerely,

A handwritten signature in black ink that reads "Charles Schwab". The signature is fluid and cursive, with the first name "Charles" and last name "Schwab" clearly distinguishable.

*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.*

# Management's Discussion for the six months ended June 30, 2006



**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 semiannual report for your Schwab money fund for the six-month period ended June 30, 2006. Although the report period was marked by volatility, our money funds performed as designed, providing you with current income, stability of capital and convenient access to your money.

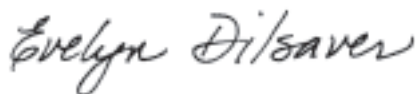
I'd like to take this opportunity to remind you that Schwab offers a range of money funds, including our purchased money funds, Schwab Value Advantage Investments®. These funds are designed for investors who have larger balances and don't require frequent access to their cash. They require a minimum initial investment of \$25,000 (\$15,000 for IRA and custodial accounts) and include various taxable and tax-free investment strategies.

Further down the maturity spectrum, our ultrashort bond fund, Schwab YieldPlus™, offers higher yield potential with higher risk than a money fund. Because taxes are always a concern, Schwab also offers two Schwab Tax-Free YieldPlus Funds that can help you manage tax impact and your exposure to the alternative minimum tax (AMT).

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,



*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.*

*Please remember that with Schwab YieldPlus and Tax-Free YieldPlus Funds, investment value will fluctuate, and shares, when redeemed, may be worth more or less than original cost. Bond funds are subject to increased loss of principal during periods of rising interest rates.*





**Kevin Shaughnessy, CFA**, a vice president of the investment adviser and senior portfolio manager, is responsible for the 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 Funds

After a volatile six months in the domestic markets, equity and fixed income funds ended the period with mixed returns. Several key issues dominated market discussions throughout the period, including slowing economic growth, inflation fears, U.S. Federal Reserve (the Fed) interest rate increases, and volatile crude oil prices.

The markets remained in a steady growth mode over the first quarter of 2006 and ended the period on a positive note. Volatility was up during the second quarter of the year, but remained lower than its historical norm. During the six-month report period, oil prices hit new record highs and the Fed continued to raise short-term interest rates to curb inflationary pressures, boosting its Fed Funds target rate four consecutive times during the six-month period and bringing the benchmark rate up to 5.25%. This was the 17th rate hike over the past two years.

Rising sharply in the second half of the report period, crude oil prices peaked in April at around \$75 per barrel while domestic gasoline prices were above \$3 a gallon. In recent months, crude oil prices climbed back in response to declining crude inventories and geopolitical concerns. Despite the volatility in energy prices, gains in productivity have remained strong and corporate earnings continue to rise. Reasonable valuations, a solid earnings season, and expectations that monetary policy tightening will soon come to an end, helped support the markets. Additionally, job and income growth remained positive, though they slowed during the report period. Moderate inflationary expectations and large foreign capital inflows helped to contain increases in long-term interest rates.

As noted above, the Fed continued its tightening cycle throughout the period, raising its Fed Funds target 0.25% at each of its four meetings. As the Fed raised rates, the yield curve flattened and had brief periods of inversion. Historically, economic slowdowns or recessions have followed the inversion of the yield curve. Following a strong start to 2006, economic growth has moderated over the past six months.

Rising interest rates have led to volatility in the equities markets and have weighed down bond returns. Meanwhile, money market funds enticed investors as the rise in short-term interest rates offered yields that had not been seen in years. The mixed messages that arose from the slowing economy and rising inflation left investors puzzled about the direction of the Fed policy. The June 29 Federal Open Market Committee (FOMC) policy statement did little to alleviate uncertainty, as the Fed acknowledged slower growth while expressing concern about inflation risks.

The yields on municipal variable-rate demand notes rose significantly during the period as the yield of the Bond Market Association's BMA seven-day Municipal Index rose by 104 basis points. This change caused the yields on the Schwab Municipal Money Funds to increase for the period.

Given the rising interest rate environment, the fund overweighted variable-rate notes, offering positive yield spread versus the BMA index. To further take advantage of the rising-rate environment, the fund maintained its relatively short weighted average maturity (WAM). Keeping the WAM short provided the flexibility to adapt and respond to the changes in interest rates by enabling management to more quickly reinvest at higher rates.

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

**For the second time in 22 years, New York passed its budget prior to the close of the fiscal year (3/30/06), with some amendments completed in the following two weeks.** After using about \$550 million to prepay some fiscal 2007 costs, the State ended fiscal 2006 with a \$2.04 billion general fund surplus due to higher personal and corporate income tax receipts. The surplus represented 4.4% of general fund spending for the year. The fiscal 2007 general fund budget includes \$50.84 billion in spending and anticipates ending the year with no surplus but with a \$3.3 billion fund balance. The State increased funding for education by almost 8% to begin to address a court order requiring higher funding for New York City schools as well as needs in other school districts in the state. The budget also included about \$600 million in relief to local governments for state-mandated Medicaid costs in exchange for lower increases in local property taxes.

On June 29, 2006 New York City passed its \$52.7 billion fiscal 2007 budget for the fiscal year beginning July 1, 2006. The City ended its fiscal 2006 year with a \$3.8 billion surplus which it used to prepay expenses occurring in fiscal 2007. The State's overall economy remains very strong due to the economic strength of the New York City metropolitan area. The State reported 1.1% growth in private employment in calendar 2005, and is expecting 0.9% growth in calendar 2006. Statewide personal income is projected to grow 5.9% in 2006, up slightly from 5.4% in 2005.

However, many local governments in northern and western New York are operating under tremendous financial pressure as their manufacturing economies have shrunk over the last several decades. Both Buffalo and Erie County are operating under State-ordered Financial Control Boards to address fiscal problems associated with declining or stagnant tax bases and soaring benefit costs.

New York State remains a strong investment-grade credit due to the vigor of the New York City metropolitan economy, and the State's financial flexibility. New York State's general obligation credit ratings are Aa3 from Moody's, AA from Standard & Poor's, and AA- from Fitch.

**New Jersey ended fiscal year 2006 on 6/30/06 with a \$675 million surplus, or 2.4% of general State revenues, and a better than projected \$1.46 billion unrestricted fund balance.** Revenues exceeded beginning year estimates by about 1.7% and fiscal 2005 revenues by about 8.9%, excluding one-time revenues from the sale of motor vehicle and cigarette tax securitization bonds issued to balance the fiscal 2005 budget.

Governor Jon Corzine signed the fiscal 2007 budget on July 8, 2006, a week after the beginning of the fiscal year. Due to budget disagreements among the Governor and legislative leaders and the resulting lack of Constitutional spending authority without a new budget in place, the Governor ordered an unprecedented shutdown of nonessential government services beginning July 1. The shutdown ended on July 8th. The government shutdown is expected to have a minimal impact on the state's financial position given the short duration of the shutdown. Most of the debate centered on a proposed one-cent increase in the sales tax, bringing it to 7.0%, which was eventually adopted in the final \$30.8 billion budget. State revenues are anticipated to increase 8.0%, aided by continued economic growth and the sales tax increase. Spending is budgeted to increase 9.7%, due in part to increased payments to teacher and state employee retirement funds, medical assistance expenditures, and property tax rebates. The state is known for having one of the highest property tax rates in the nation and the Legislature is meeting in a special session this summer to consider reforms to the property tax system. The budget relies on only a minor amount of non-recurring resources compared to past years, but draws down the state's unrestricted fund balances to \$660 million, or 2.1% of expenditures, including amounts in the state's surplus revenue fund.

New Jersey remains a solid investment grade credit due to its diverse economy, high wealth levels and revenue-raising ability. New Jersey's ratings are: Aa3 from Moody's, AA from Standard & Poor's, and AA- from Fitch.

**Pennsylvania's continuing economic recovery helped boost General Fund revenues for fiscal 2006 (ending 6/30/06) to \$25.9 billion.** General Fund revenues were 6.4%, or \$1.5 billion, higher than fiscal 2005 revenues and 3.5%, or \$864 million, higher than anticipated at the start of the fiscal year. The increase was mainly attributable to strong personal income tax and corporate tax collections. General Fund spending increased approximately 7.0%, leaving the General Fund with an estimated \$200 million balance, or less than 1% of expenditures, after contributions to the rainy day fund. The state has added approximately 47,000 jobs over the last year. The unemployment rate was 4.8% as of May 2006, down from 5.0% one year earlier.

Governor Edward Rendell signed a \$26.1 billion budget for fiscal 2007 on July 2, 2006, one day after the start of the fiscal year. The budget increases spending by 5.8%, or \$1.4 billion. Most of the growth in spending is for education, public welfare and debt service. The budget includes no new taxes or tax increases and increases the balance in the rainy day fund by 50% to \$512 million. Rainy day reserves were depleted to balance the fiscal 2002 and 2003 budgets and remain below reserve levels held prior to the recession.

The state's high credit quality is derived from its conservative financial management, increasing economic diversification and moderate debt levels. The state's ratings are: Aa2 from Moody's, AA from Standard & Poor's, and AA from Fitch.

**Florida's economic growth was very strong through 2005, continuing the strong expansion achieved in 2004.** The State expects to report a combined general and stabilization fund balance of nearly \$4.7 billion at June 30, 2006, equal to 17% of annual expenditures. The State's sales and use, corporation, and documentary stamp tax collections are projected to be up over 9% on a combined basis in fiscal 2006. Though Florida endured eight named hurricanes in 2004 and 2005, much of the direct state costs associated with these events have been or will 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 fiscal 2007 budget, which commenced July 1, 2006, projects a slowing of the state's real estate market and moderating economic growth. Net general fund revenues are projected to grow just 1.6% over fiscal 2006,

including 4.3% growth in sales and use taxes offset by declining stamp taxes and the repeal of the excise tax on intangible personal property. Fiscal 2007 appropriations include a one-time \$715 million general fund contribution to Citizens Property Insurance Corporation, but the State expects to maintain nearly \$3.2 billion in general fund reserves at fiscal year-end.

Florida's total nonfarm jobs were up a strong 4.0% in 2005, improving on 3.4% growth in the prior year, and have grown 3.6% on a month-over-month basis through May 2006. The average unemployment rate for 2005 was just 3.8%, down from 4.7% 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.

*As previously communicated to the shareholders, the Fund's investment objective, investment strategy and name have been changed due to the repeal of the annual intangible personal property tax. Accordingly, the Fund's new name is the Schwab AMT Tax-Free Money Fund and it will no longer invest primarily in securities issued by the State of Florida and its municipalities.*

**For the third consecutive year, Massachusetts collected more revenues than it had projected, thus ending the fiscal year (6/30/06) with an additional \$950 million above the originally budgeted amount of \$17.4 billion.** The additional revenues, which were predominately from corporate and personal income tax receipts, reflected an 8.2% increase in total general fund revenues for the year. The excess revenues will be used to support additional spending in the new fiscal year as well as bolster existing reserves.

On July 8, 2006, Governor Mitt Romney signed the \$25.2 billion fiscal 2007 budget which includes a 5.6% increase in spending, primarily to restore previous years' cuts in funding for education and local government support. Despite the total increase in spending, the budget also includes \$573 million in spending reductions, as well as relying on \$550 million in non-recurring revenues. Revenue in the new budget is estimated to grow a moderate 3.3% which is lower than recently experienced increases.

Massachusetts' economy continues to be fundamentally strong with the growth in personal and corporate income tax revenues suggesting sustained job growth as reflected in its low unemployment rate of 4.7% in May 2006, down slightly from an annual rate of 4.8% in 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.

## Management's Discussion continued

## Performance and Fund Facts as of 6/30/06

### 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	AMT Tax-Free	Massachusetts	
	Sweep Shares SWNXX	Value Advantage Shares™ SWYXX	SWJXX	SWEXX	SWFXX	SWDXX
<b>Seven-Day Yield<sup>1</sup></b>	3.20%	3.40%	3.22%	3.26%	3.18%	3.15%
<b>Seven-Day Yield—No Waiver<sup>2</sup></b>	3.02%	3.25%	3.01%	3.05%	2.98%	2.92%
<b>Seven-Day Effective Yield<sup>1</sup></b>	3.25%	3.46%	3.27%	3.31%	3.23%	3.20%
<b>Seven-Day Taxable-Equivalent Effective Yield<sup>1,3</sup></b>	5.59%	5.95%	5.53%	5.25%	4.97%	5.20%

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	AMT Tax-Free	Massachusetts
<b>Weighted Average Maturity</b>	19 days	38 days	27 days	35 days	23 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	70%	81%	88%	85%	53%
<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 2006 maximum tax rates: New York 41.82% (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); AMT Tax-Free 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 January 1, 2006 and held through June 30, 2006.

**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 1/1/06	Ending Account Value (Net of Expenses) at 6/30/06	Expenses Paid During Period <sup>2</sup> 1/1/06– 6/30/06
<b>Schwab New York Municipal Money Fund™</b>				
<i>Sweep Shares</i>				
Actual Return	0.65%	\$1,000	\$1,013.19	\$3.24
Hypothetical 5% Return	0.65%	\$1,000	\$1,021.57	\$3.26
<i>Value Advantage Shares™</i>				
Actual Return	0.45%	\$1,000	\$1,014.19	\$2.25
Hypothetical 5% Return	0.45%	\$1,000	\$1,022.56	\$2.26
<b>Schwab New Jersey Municipal Money Fund™</b>				
Actual Return	0.65%	\$1,000	\$1,013.17	\$3.24
Hypothetical 5% Return	0.65%	\$1,000	\$1,021.57	\$3.26
<b>Schwab Pennsylvania Municipal Money Fund™</b>				
Actual Return	0.65%	\$1,000	\$1,013.26	\$3.24
Hypothetical 5% Return	0.65%	\$1,000	\$1,021.57	\$3.26
<b>Schwab AMT Tax-Free Money Fund™</b>				
Actual Return	0.65%	\$1,000	\$1,013.20	\$3.24
Hypothetical 5% Return	0.65%	\$1,000	\$1,021.57	\$3.26
<b>Schwab Massachusetts Municipal Money Fund™</b>				
Actual Return	0.65%	\$1,000	\$1,013.08	\$3.24
Hypothetical 5% Return	0.65%	\$1,000	\$1,021.57	\$3.26

<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 181 days of the period, and divided by 365 days of the fiscal year.

# Schwab New York Municipal Money Fund<sup>TM</sup>

## Financial Statements

### Financial Highlights

Sweep Shares	1/1/06– 6/30/06*	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	1.00
Income from investment operations:						
Net investment income	0.01	0.02	0.01	0.00 <sup>1</sup>	0.01	0.02
Less distributions:						
Dividends from net investment income	(0.01)	(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	1.00
Total return (%)	1.32 <sup>2</sup>	1.78	0.56	0.41	0.80	2.06
<b>Ratios/Supplemental Data (%)</b>						
Ratios to average net assets:						
Net operating expenses	0.65 <sup>3</sup>	0.66	0.69	0.69	0.69	0.69
Gross operating expenses	0.83 <sup>3</sup>	0.84	0.84	0.84	0.85	0.86
Net investment income	2.64 <sup>3</sup>	1.75	0.55	0.41	0.80	2.04
Net assets, end of period (\$ x 1,000,000)	1,072	1,031	1,073	1,038	944	889
Value Advantage Shares	1/1/06– 6/30/06*	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	1.00
Income from investment operations:						
Net investment income	0.01	0.02	0.01	0.01	0.01	0.02
Less distributions:						
Dividends from net investment income	(0.01)	(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	1.00
Total return (%)	1.42 <sup>2</sup>	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 <sup>3</sup>	0.45	0.45	0.45	0.45	0.45
Gross operating expenses	0.60 <sup>3</sup>	0.61	0.61	0.61	0.62	0.64
Net investment income	2.85 <sup>3</sup>	2.00	0.79	0.65	1.04	2.23
Net assets, end of period (\$ x 1,000,000)	872	834	654	690	676	604

\* Unaudited.

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

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.



**Portfolio Holdings** as of June 30, 2006 (Unaudited)

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

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be viewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on a fund's most recent Form N-Q is also 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. For variable-rate obligations, the rate shown is the rate as of the report date and the maturity date shown is the next interest rate change date.

<b>Holdings by Category</b>	<b>Cost</b> (\$ x 1,000)	<b>Value</b> (\$ x 1,000)
<b>99.1% Municipal Securities</b>	1,926,179	1,926,179
<b>99.1% Total Investments</b>	<b>1,926,179</b>	<b>1,926,179</b>
<b>0.9% Other Assets and Liabilities</b>		18,318
<b>100.0% Net Assets</b>		<b>1,944,497</b>

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

**Municipal Securities 99.1% of net assets****New York 98.2%****Albany IDA**

IDRB (Newkirk Products)

Series 1995A

4.00%, 07/06/06 (a)(b) 800 800

Refunding IDRB (United Cerebral

Palsy Association-Capital

District) Series 1997B

4.00%, 07/06/06 (a)(b) 9,480 9,480

**Broome Cnty IDA**

Civic Facility RB (Methodist

Homes For the Aging) Series

2003

3.97%, 07/05/06 (a)(b) 4,820 4,820

**Central Islip Union Free SD**

TAN Series 2006

3.75%, 06/29/07 17,000 17,122

**Chautauqua Cnty**

Civic Facility RB (Jamestown

Center City Development

Corp) Series 2000A

4.02%, 07/06/06 (a)(b) 11,410 11,410

IDRB (Grafc Industries)

Series 2002

4.02%, 07/05/06 (a)(b) 5,395 5,395

**Erie Cnty IDA**

RB (Orchard Park CCRC Inc)

Series 2006B

3.95%, 07/06/06 (a)(b) 10,000 10,000

**Herkimer Cnty**

Civic Facility RB (Templeton

Foundation) Series 2000

4.04%, 07/06/06 (a)(b) 1,670 1,670

**Jay Street Dev Corp**

Courts Facility Lease RB

(Jay Street Project) Fiscal

2004 Bonds A2

3.93%, 07/05/06 (a)(b) 6,000 6,000

**Long Island Power Auth**

Electric System General RB

Series 2001A

4.00%, 07/06/06 (a)(b)(c)(d) 4,365 4,365

**Schwab New York Municipal Money Fund**

**Portfolio Holdings** (Unaudited) 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)
Electric System General RB Series 2006A 3.98%, 07/05/06 (a)(b)(c)(d)	9,400	9,400	GO Bonds Fiscal 2001 Series B 3.99%, 07/06/06 (a)(b)(c)(d)	3,460	3,460
Electric System RB Series 1998A 4.02%, 07/06/06 (a)(b)(c)(d)	1,900	1,900	GO Bonds Fiscal 2002 Series A 4.02%, 07/06/06 (a)(b)(c)(d)	9,750	9,750
<b>Metropolitan Transportation Auth</b>			GO Bonds Fiscal 2002 Series G 3.29%, 08/01/06	9,165	9,178
Dedicated Tax Fund Bonds Series 1999A 3.99%, 07/06/06 (a)(c)(d)	10,800	10,800	GO Bonds Fiscal 2003 Series C2 3.95%, 07/05/06 (a)(b)	5,030	5,030
Dedicated Tax Fund Bonds Series 2002A 4.00%, 07/06/06 (a)(b)(c)(d)	10,980	10,980	GO Bonds Fiscal 2004 Series A4 3.94%, 07/05/06 (a)(b)	6,150	6,150
RB Series 2003B 3.99%, 07/06/06 (a)(b)(c)(d)	3,500	3,500	GO Bonds Fiscal 2004 Series F 3.54%, 07/06/06 (a)(b)(c)(d)	75,000	75,000
RB Series 2005B 3.99%, 07/06/06 (a)(b)(c)(d)	11,440	11,440	GO Bonds Fiscal 2004 Series H1 3.96%, 07/03/06 (a)(b)	14,970	14,970
RB Series 2005B 4.00%, 07/06/06 (a)(b)(c)(d)	13,605	13,605	GO Bonds Fiscal 2004 Series H3 3.88%, 07/05/06 (a)(b)	20,000	20,000
RB Series 2005G1 4.01%, 07/03/06 (a)(b)	29,630	29,630	GO Bonds Fiscal 2004 Series H7 3.95%, 07/03/06 (a)(b)	4,700	4,700
RB Series 2005G2 3.92%, 07/03/06 (a)(b)	14,800	14,800	GO Bonds Fiscal 2004 Series J 3.43%, 02/01/07 (a)(b)(c)(d)	9,160	9,160
Refunding RB Series 2002A 3.99%, 07/06/06 (a)(b)(c)(d)	22,000	22,000	GO Bonds Fiscal 2005 Series E 3.99%, 07/06/06 (a)(b)(c)(d)	21,050	21,050
Transportation Revenue BAN Series CP1A 3.72%, 09/08/06 (b)	11,000	11,000	GO Bonds Fiscal 2005 Series O 4.00%, 07/06/06 (a)(b)(c)(d)	4,815	4,815
Transportation Revenue BAN Series CP1B 3.50%, 07/07/06 (b)	8,000	8,000	GO Bonds Fiscal 2006 Series E2 4.03%, 07/03/06 (a)(b)	4,700	4,700
<b>Middle Country Central SD</b>			GO Bonds Fiscal 2006 Series E4 3.96%, 07/06/06 (a)(b)	6,000	6,000
BAN Series 2005 3.00%, 08/23/06	8,000	8,014	GO Bonds Fiscal 2006 Series G 4.00%, 07/06/06 (a)(b)(c)(d)	4,630	4,630
<b>New York City</b>			GO Bonds Fiscal 2006 Series G 4.01%, 07/06/06 (a)(b)(c)	3,650	3,650
GO Bonds Fiscal 1994 Series A5 3.93%, 07/03/06 (a)(b)	1,400	1,400	GO Bonds Fiscal 2006 Series I1 4.00%, 07/06/06 (a)(b)(c)(d)	6,165	6,165
GO Bonds Fiscal 1994 Series H3 3.94%, 07/03/06 (a)(b)(c)	4,100	4,100	GO Bonds Fiscal 2006 Series I4 3.94%, 07/05/06 (a)(b)	27,920	27,920
GO Bonds Fiscal 1995 Series B4 3.93%, 07/03/06 (a)(b)(c)	5,000	5,000	GO Bonds Fiscal 2006 Series I7 3.98%, 07/05/06 (a)(b)	10,000	10,000
GO Bonds Fiscal 2000 Series A 4.00%, 07/06/06 (a)(b)(c)(d)	3,395	3,395	GO Bonds Fiscal 2006 Series I8 4.01%, 07/03/06 (a)(b)	15,985	15,985
GO Bonds Fiscal 2001 Series A 4.01%, 07/06/06 (a)(b)(c)(d)	7,385	7,385			

Schwab New York Municipal Money Fund

Portfolio Holdings (Unaudited) 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 Fiscal 2006 Series J1 4.01%, 07/06/06 (a)(b)(c)	8,025	8,025	Special Facility RB (Terminal One Group Association) Series 2005 4.07%, 07/06/06 (a)(b)(c)(d)	4,820	4,820
<b>New York City Health and Hospitals Corp</b>			<b>New York City Municipal Water Finance Auth</b>		
Health System Bonds Series 1999A 4.00%, 07/06/06 (a)(b)(c)(d)	9,620	9,620	CP Notes Series One 3.67%, 08/17/06 (c)	20,000	20,000
<b>New York City Housing Development Corp</b>			TECP Series 6 3.52%, 08/24/06 (c)	8,000	8,000
M/F Mortgage RB (First Avenue) Series 2002A 4.00%, 07/05/06 (a)(b)	16,445	16,445	Water and Sewer System RB Fiscal 2001 Series F1 4.02%, 07/03/06 (a)(c)	4,000	4,000
M/F Rental Housing RB (100 Jane St) Series 1998A 4.00%, 07/05/06 (a)(b)	6,525	6,525	Water and Sewer System RB Fiscal 2005 Series D 3.99%, 07/06/06 (a)(c)(d)	10,000	10,000
M/F Rental Housing RB (Atlantic Court Apts) Series 2005A 4.00%, 07/05/06 (a)(b)	10,600	10,600	3.99%, 07/06/06 (a)(c)	15,445	15,445
M/F Rental Housing RB (Sierra) Series 2003A 4.00%, 07/05/06 (a)(b)	18,585	18,585	Water and Sewer System RB Fiscal 2006 Series A 3.99%, 07/06/06 (a)(b)(c)(d)	25,565	25,565
M/F Rental Housing RB (The Nicole) Series 2005A 4.00%, 07/05/06 (a)(b)	10,200	10,200	4.00%, 07/06/06 (a)(b)(c)(d)	7,000	7,000
M/F Rental Housing RB (Tribeca Tower) Series 1997A 4.01%, 07/05/06 (a)(b)	2,300	2,300	4.00%, 07/06/06 (a)(c)	21,000	21,000
M/F Rental Housing RB (West End Towers) Series 2004A 4.02%, 07/05/06 (a)(b)	20,000	20,000	Water and Sewer System RB Fiscal 2006 Series D 4.00%, 07/06/06 (a)(c)(d)	20,100	20,100
<b>New York City IDA</b>			4.01%, 07/06/06 (a)(c)	5,410	5,410
Civic Facility RB (Wartburg Lutheran Home for the Aging and Wartburg Nursing Home, Inc) Series 2006A 4.00%, 07/06/06 (a)(b)	8,165	8,165	Water and Sewer System RB Series 1993C 3.93%, 07/03/06 (a)(b)(c)	15,300	15,300
Liberty Bonds (7 World Trade Center) Series A 4.02%, 07/06/06 (a)(b)(c)	2,335	2,335	Water and Sewer System RB Series 1994G 3.94%, 07/03/06 (a)(b)(c)	16,975	16,975
Refunding IDR (Allway Tools) Series 1997 4.02%, 07/06/06 (a)(b)	1,395	1,395	Water and Sewer System RB Series 1995A 3.96%, 07/03/06 (a)(b)(c)	2,500	2,500
			Water and Sewer System RB Series 1998B 4.00%, 07/06/06 (a)(b)(c)(d)	4,735	4,735
			Water and Sewer System RB Series 2001D 4.02%, 07/06/06 (a)(c)(d)	4,995	4,995
			Water and Sewer System RB Series 2002 & 2003A 4.00%, 07/06/06 (a)(c)(d)	8,500	8,500

See financial notes. 13

**Schwab New York Municipal Money Fund**

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Water and Sewer System RB Series 2002G 4.00%, 07/06/06 (a)(b)(c)(d)	5,000	5,000
Water and Sewer System RB Series 2003F2 4.01%, 07/03/06 (a)(c)	1,000	1,000
Water and Sewer System RB Series 2005C 4.00%, 07/06/06 (a)(b)(c)(d)	5,200	5,200
Water and Sewer System RB Series 2005D 3.99%, 07/06/06 (a)(c)(d)	5,141	5,141
Water and Sewer System RB Series 2005D 4.01%, 07/06/06 (a)(b)(c)(d)	7,335	7,335
Water and Sewer System RB Series 2006D 4.00%, 07/06/06 (a)(c)	6,320	6,320
<b>New York City Transitional Finance Auth</b>		
Future Tax Secured Bonds Fiscal 1999 Series A 4.00%, 07/06/06 (a)(c)(d)	4,970	4,970
Future Tax Secured Bonds Fiscal 2000 Series A 4.02%, 07/06/06 (a)(b)(c)(d)	15,720	15,720
Future Tax Secured Bonds Fiscal 2000 Series C 3.01%, 07/06/06 (a)(c)(d)	14,545	14,545
Future Tax Secured Refunding Bonds Fiscal 2005 Series A 4.01%, 07/06/06 (a)(c)(d)	26,165	26,165
Future Tax Secured Refunding Bonds Fiscal 2006 Series A1 4.01%, 07/06/06 (a)(c)	1,345	1,345
Recovery Bonds Fiscal 2003 Series 2A 3.96%, 07/03/06 (a)(c)	2,870	2,870
Recovery Bonds Fiscal 2003 Series 3B 4.00%, 07/03/06 (a)(c)	13,000	13,000

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>New York Convention Center Development Corp</b>		
RB (Hotel Unit Fee Secured) Series 2005 4.01%, 07/06/06 (a)(b)(c)(d)	7,200	7,200
<b>New York Liberty Development Corp</b>		
RB (Goldman Sachs Headquarters) Series 2005 3.98%, 07/05/06 (a)(c)(d)	7,000	7,000
<b>New York State</b>		
Environmental Quality 1986 GO Bonds Series 1997A 3.50%, 09/08/06 (b)	7,500	7,500
GO Bonds Series 2000A 3.15%, 08/03/06 (a)(b)	30,570	30,570
<b>New York State Dormitory Auth</b>		
Consolidated Fifth General Resolution RB (City University System) Series 2003A 3.99%, 07/06/06 (a)(b)(c)(d)	7,295	7,295
Insured RB (Mt Sinai School of Medicine) Series 1994A 4.00%, 07/06/06 (a)(b)(c)(d)	2,900	2,900
Lease RB (Sunny Dorm Facilities) Series 2005A 4.01%, 07/06/06 (a)(b)(c)(d)	5,675	5,675
RB (Columbia University) Series 2006A 3.98%, 07/05/06 (a)(c)(d)	12,070	12,070
RB (New York Foundling Charitable Corp) Series 1997 3.99%, 07/05/06 (a)(b)	10,835	10,835
RB (State University Educational Facilities) Series 2000B 3.99%, 07/06/06 (a)(b)(c)(d)	27,030	27,030
RB (State University Educational Facilities) Series 2000B 4.02%, 07/06/06 (a)(b)(c)(d)	12,375	12,375
State Personal Income Tax RB Series 2005F 3.99%, 07/06/06 (a)(c)(d)	12,000	12,000
State Personal Income Tax Refunding RB (Education) Series 2005B 3.99%, 07/06/06 (a)(b)(c)(d)	6,840	6,840

**Schwab New York Municipal Money Fund**

**Portfolio Holdings** (Unaudited) 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>New York State Energy Research Development Auth</b>			RB (70 Battery Place) Series 1997A		
Facilities RB Series 2004C2 3.95%, 07/05/06 (a)(b)	5,500	5,500	4.02%, 07/05/06 (a)(b)	23,300	23,300
Gas Facilities RB (Brooklyn Union Gas) Series 1996			RB (Avalon Chrystie Place I) Series 2004A		
3.99%, 07/06/06 (a)(b)(c)(d)	14,125	14,125	4.02%, 07/05/06 (a)(b)	40,300	40,300
<b>New York State Environmental Facilities Corp</b>			RB (Clinton Green South) Series 2005A		
State Clean and Drinking Water Revolving Funds RB Series 2002B			4.00%, 07/05/06 (a)(b)	15,000	15,000
4.02%, 07/06/06 (a)(c)(d)	24,225	24,225	RB (Sea Park East) Series 2004A		
<b>New York State HFA</b>			4.00%, 07/05/06 (a)(b)	18,100	18,100
Housing RB (Clinton Green North) Series 2005A			RB (The Helena) Series 2004A		
4.00%, 07/05/06 (a)(b)	2,000	2,000	4.01%, 07/05/06 (a)(b)	10,000	10,000
Housing RB (Normandie Court II) Series 1999A			RB (Tribeca Park) Series 1997A		
4.00%, 07/05/06 (a)(b)	14,000	14,000	4.01%, 07/05/06 (a)(b)	7,000	7,000
Housing RB (Tribeca Landing) Series 1997A			RB (W 20th St) Series 2001A		
3.98%, 07/05/06 (a)(b)	3,800	3,800	4.01%, 07/05/06 (a)(b)	20,800	20,800
RB (101 West End Ave) Series 1998A			RB (W 33rd St) Series 2003A		
4.00%, 07/05/06 (a)(b)	21,500	21,500	4.00%, 07/05/06 (a)(b)	8,200	8,200
RB (101 West End Ave) Series 1999A			<b>New York State Local Assistance Corp</b>		
4.00%, 07/05/06 (a)(b)	38,750	38,750	Refunding RB Series 1993C		
RB (150 E 44th St) Series 2000A			4.02%, 07/06/06 (a)(b)(c)(d)	9,900	9,900
4.00%, 07/05/06 (a)(b)	13,000	13,000	Refunding RB Series 1997B		
RB (250 W 50th St) Series 1997A			4.00%, 07/06/06 (a)(b)(c)(d)	20,965	20,965
4.01%, 07/05/06 (a)(b)	7,300	7,300	<b>New York State Mortgage Agency</b>		
RB (250 W 93rd St) Series 2005A			Homeowner Mortgage RB Series 65		
3.98%, 07/05/06 (a)(b)	7,500	7,500	4.02%, 07/06/06 (a)(c)(d)	3,780	3,780
RB (345 E 94th St) Series 1998A			Homeowner Mortgage RB Series 77A		
4.00%, 07/05/06 (a)(b)	4,700	4,700	4.00%, 07/06/06 (a)(c)(d)	35,495	35,495
RB (345 E 94th St) Series 1999A			Homeowner Mortgage RB Series 79		
4.00%, 07/05/06 (a)(b)	8,900	8,900	4.00%, 07/06/06 (a)(c)(d)	14,995	14,995
			Homeowner Mortgage RB Series 87		
			4.00%, 07/06/06 (a)(c)(d)	5,050	5,050
			Mortgage RB Series 129		
			4.00%, 07/05/06 (a)(c)	1,000	1,000

See financial notes. 15

**Schwab New York Municipal Money Fund**

Issuer Rate, 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 State Power Auth</b>			Special Project Bonds (JFK International Air Terminal) Series 6		
CP Series 1			4.03%, 07/06/06 (a)(b)(c)(d)	1,100	1,100
3.39%, 07/10/06 (c)	5,000	5,000	4.05%, 07/05/06 (a)(b)(c)(d)	1,470	1,470
3.60%, 09/08/06 (c)	18,000	18,000	TECP Series A		
CP Series 2			3.40%, 08/08/06 (c)	1,720	1,720
3.38%, 08/07/06 (c)	8,000	8,000	3.50%, 07/12/06 (c)	10,000	10,000
3.50%, 08/03/06 (c)	48,870	48,870	<b>Riverhead IDA</b>		
Tender Notes Series 1985			Civic Facility Refunding RB (Central Suffolk Hospital) Series 2006C		
3.35%, 09/01/06 (a)(c)	15,930	15,930	3.94%, 07/06/06 (a)(b)	7,000	7,000
<b>New York State Thruway Auth</b>			<b>Rockland Cnty</b>		
Bonds Series 2005B			RAN Series 2006		
4.00%, 07/06/06 (a)(b)(c)(d)	24,985	24,985	3.51%, 03/22/07	17,500	17,621
4.01%, 07/06/06 (a)(b)(c)(d)	6,745	6,745	TAN Series 2006		
General RB Series 2005F			3.53%, 03/22/07	10,000	10,068
3.45%, 07/06/06 (a)(b)(c)(d)	6,955	6,955	<b>Schenectady IDA</b>		
General RB Series F			IDRB (Fortitech Holding Corp) Series 1995A		
4.00%, 07/06/06 (a)(b)(c)(d)	10,525	10,525	4.02%, 07/06/06 (a)(b)	600	600
General RB Series G			<b>Suffolk Cnty</b>		
3.98%, 07/06/06 (a)(b)(c)(d)	20,840	20,840	TAN Series 2006I		
General Refunding RB Series E			3.19%, 08/16/06	25,000	25,025
3.99%, 07/06/06 (a)(c)(d)	5,745	5,745	<b>Suffolk Cnty Water Auth</b>		
<b>New York State Tobacco Settlement Financing Corp</b>			Water System RB Series 1992C		
Asset-Backed RB (State Contingency Contract) Series 2003A1C			3.98%, 07/05/06 (a)(b)(c)(d)	6,660	6,660
4.00%, 07/06/06 (a)(b)(c)(d)	15,900	15,900	<b>Triborough Bridge and Tunnel Auth</b>		
<b>Port Auth of New York and New Jersey</b>			General RB Series 2001A		
Consolidated Bonds 127th Series			3.99%, 07/06/06 (a)(b)(c)(d)	15,000	15,000
4.02%, 07/06/06 (a)(b)(c)(d)	3,000	3,000	General Refunding RB Series 2002B		
Consolidated Bonds 135th Series			4.00%, 07/05/06 (a)(b)(c)(d)	8,940	8,940
4.02%, 07/06/06 (a)(c)(d)	17,000	17,000	4.02%, 07/06/06 (a)(c)(d)	14,000	14,000
Consolidated Bonds 138th Series			General Refunding RB Series 2005B3		
4.02%, 07/06/06 (a)(b)(c)(d)	1,000	1,000	3.94%, 07/06/06 (a)(c)	7,000	7,000
Consolidated Bonds 140th Series			<b>TSASC, Inc</b>		
3.99%, 07/06/06 (a)(b)(c)(d)	7,445	7,445	Tobacco Settlement Asset-Backed Bonds Series 2006-1		
Consolidated Bonds 141st Series			4.02%, 07/06/06 (a)(b)(c)(d)	4,760	4,760
4.03%, 07/06/06 (a)(b)(c)(d)	1,345	1,345	4.02%, 07/06/06 (a)(b)(c)	5,600	5,600
Consolidated Bonds 85th Series					
4.00%, 07/06/06 (a)(c)(d)	6,795	6,795			
CP Series B					
3.60%, 09/08/06 (c)	9,300	9,300			

## Schwab New York Municipal Money Fund

### Portfolio Holdings (Unaudited) continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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#### Westchester Cnty IDA

IDRB (Levister Redevelopment Co) Series 2001B 3.99%, 07/06/06 (a)(b)	8,000	8,000
		<b>1,909,394</b>

#### Puerto Rico 0.9%

##### Puerto Rico

Public Improvement Bonds Series 2000 3.96%, 07/06/06 (a)(b)(c)(d)	3,000	3,000
Public Improvement Bonds Series 2001A 3.97%, 07/06/06 (a)(b)(c)(d)	4,000	4,000
Public Improvement Bonds Series 2001B 3.96%, 07/06/06 (a)(b)(c)(d)	5,295	5,295

##### Puerto Rico Highway and

##### Transportation Auth

Transportation Refunding RB Series L 3.97%, 07/06/06 (a)(b)(c)(d)	1,770	1,770
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##### Puerto Rico Infrastructure

##### Financing Auth

Special Tax Refunding RB Series 2005C 3.98%, 07/06/06 (a)(b)(c)(d)	2,720	2,720
		<b>16,785</b>

*BAN* – Bond anticipation note  
*GO* – General obligation  
*HFA* – Housing Finance Agency  
*IDA* – Industrial Development Authority  
*IDRB* – Industrial Development Revenue Bond  
*RAN* – Revenue anticipation note  
*RB* – Revenue bond  
*TAN* – Tax anticipation note  
*TECP* – Tax-exempt commercial paper

### End of Investments.

At 06/30/06, the cost of the fund's investments was \$1,926,179.

- (a) Variable-rate security
- (b) Credit-enhanced security
- (c) Liquidity-enhanced security
- (d) Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registrations, normally to qualified institutional buyers. At the period end, the value of these amounted to \$854,526 or 43.9% of net assets.

## Schwab New York Municipal Money Fund

Statement of

### Assets and Liabilities

As of June 30, 2006; unaudited. All numbers x 1,000 except NAV.

#### Assets

Investments, at cost and value	\$1,926,179
Cash	1,204
Receivables:	
Fund shares sold	37,388
Investments sold	1,539
Interest	10,708
Prepaid expenses	+ 78
<b>Total assets</b>	<b>1,977,096</b>

#### Liabilities

Payables:	
Dividends to shareholders	2,619
Fund shares redeemed	29,838
Investment adviser and administrator fees	35
Transfer agent and shareholder services fees	53
Trustees' fees	3
Accrued expenses	+ 51
<b>Total liabilities</b>	<b>32,599</b>

#### Net Assets

<b>Total assets</b>	1,977,096
<b>Total liabilities</b>	- 32,599
<b>Net assets</b>	<b>\$1,944,497</b>

#### Net Assets by Source

Capital received from investors	1,944,373
Net realized capital gains	124

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

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Sweep Shares	\$1,072,267		1,072,294		\$1.00
Value Advantage Shares	\$872,230		872,142		\$1.00



Schwab New York Municipal Money Fund

Statement of

**Operations**

For January 1, 2006 through June 30, 2006; unaudited. All numbers x 1,000.

**Investment Income**

Interest	<b>\$31,207</b>
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**Net Realized Gains and Losses**

Net realized gains on investments sold	522
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**Expenses**

Investment adviser and administrator fees	3,464
Transfer agent and shareholder service fees:	
Sweep Shares	2,406
Value Advantage Shares	908
Trustees' fees	12
Custodian fees	38
Portfolio accounting fees	34
Professional fees	17
Registration fees	35
Shareholder reports	16
Other expenses	+
Total expenses	8
Custody credits	-
Expense reduction	1
<b>Net expenses</b>	<b>5,332</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	31,207
<b>Net expenses</b>	-
<b>Net investment income</b>	<b>25,875</b>
<b>Net realized gains</b>	+
<b>Increase in net assets from operations</b>	<b>522</b>
	<b>\$26,397</b>

## Schwab New York Municipal Money Fund

Statements of

### Changes in Net Assets

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

Figures for current period are unaudited.

#### Operations

	1/1/06-6/30/06	1/1/05-12/31/05
Net investment income	\$25,875	\$33,324
Net realized gains and losses	+ 522	(110)
<b>Increase in net assets from operations</b>	<b>26,397</b>	<b>33,214</b>

#### Distributions Paid

<b>Dividends from net investment income</b>		
Sweep Shares	14,131	18,708
Value Advantage Shares	+ 11,744	14,616
<b>Total dividends from net investment income</b>	<b>25,875</b>	<b>33,324</b>

#### Transactions in Fund Shares\*

<b>Shares Sold</b>		
Sweep Shares	3,007,440	4,603,574
Value Advantage Shares	+ 671,312	1,134,247
<b>Total shares sold</b>	<b>3,678,752</b>	<b>5,737,821</b>
<b>Shares Reinvested</b>		
Sweep Shares	12,651	18,393
Value Advantage Shares	+ 9,794	13,508
<b>Total shares reinvested</b>	<b>22,445</b>	<b>31,901</b>
<b>Shares Redeemed</b>		
Sweep Shares	(2,978,672)	(4,664,683)
Value Advantage Shares	+ (643,362)	(966,945)
<b>Total shares redeemed</b>	<b>(3,622,034)</b>	<b>(5,631,628)</b>
<b>Net transactions in fund shares</b>	<b>79,163</b>	<b>138,094</b>

#### Net Assets

Beginning of period	1,864,812	1,726,828
Total increase or decrease	+ 79,685	137,984
<b>End of period</b>	<b>\$1,944,497</b>	<b>\$1,864,812</b>

\*Transactions took place at \$1.00 per share; figures for share quantities are the same as for dollars.

# Schwab New Jersey Municipal Money Fund™

## Financial Statements

### Financial Highlights

	1/1/06– 6/30/06*	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	1.00
Income from investment operations:						
Net investment income	0.01	0.02	0.01	0.00 <sup>1</sup>	0.01	0.02
Less distributions:						
Dividends from net investment income	(0.01)	(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	1.00
Total return (%)	1.32 <sup>3</sup>	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 <sup>4</sup>	0.65	0.65	0.65	0.66 <sup>2</sup>	0.65
Gross operating expenses	0.86 <sup>4</sup>	0.86	0.86	0.86	0.89	0.90
Net investment income	2.64 <sup>4</sup>	1.78	0.57	0.43	0.83	2.08
Net assets, end of period (\$ x 1,000,000)	478	472	448	463	425	382

\* Unaudited.

<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.

<sup>3</sup> Not annualized.

<sup>4</sup> Annualized.

## Schwab New Jersey Municipal Money Fund

### Portfolio Holdings as of June 30, 2006 (Unaudited)

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

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be viewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on a fund's most recent Form N-Q is also 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. For variable-rate obligations, the rate shown is the rate as of the report date and the maturity date shown is the next interest rate change date.

Holdings by Category	Cost (\$ x 1,000)	Value (\$ x 1,000)
<b>94.3% Municipal Securities</b>	450,586	450,586
<b>94.3% Total Investments</b>	<b>450,586</b>	<b>450,586</b>
<b>5.7% Other Assets and Liabilities</b>		27,261
<b>100.0% Net Assets</b>		<b>477,847</b>

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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### Municipal Securities 94.3% of net assets

#### New Jersey 82.8%

##### Bergen Cnty Improvement Auth

Sr Special Purpose Limited Obligation RB (Encap Golf Holdings LLC) Series 2005B 4.02%, 07/06/06 (a)(b)	7,200	7,200
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##### Camden Cnty Improvement Auth

RB (Parkview Redevelopment Housing) Series 2006 3.92%, 07/06/06 (a)(b)	2,400	2,400
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##### Delaware River Port Auth

RB Series 1999 4.00%, 07/06/06 (a)(b)(c)(d)	2,000	2,000
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##### Dover Township

BAN 3.60%, 06/22/07	8,170	8,240
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##### Essex Cnty Improvement Auth

GO Guaranteed Lease RB (Cnty Correctional Facility) Series 2000 4.00%, 07/06/06 (a)(b)(c)(d)	3,000	3,000
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##### Garden State Preservation Trust

Open Space and Farmland Preservation Bonds Series 2003A 3.99%, 07/06/06 (a)(b)(c)(d)	1,500	1,500
Open Space and Farmland Preservation Bonds Series 2005A 4.00%, 07/05/06 (a)(b)(c)	6,460	6,460

##### Hopatcong

BAN 2.95%, 08/11/06	9,000	9,010
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##### New Jersey Economic Development Auth

Economic Development Bonds (The Frisch School) Series 2006 3.94%, 07/06/06 (a)(b)	5,400	5,400
Exempt Facility RB (Chambers Co-Generation) 3.73%, 08/04/06 (b)	6,000	6,000
3.76%, 08/04/06 (b)	6,100	6,100

Schwab New Jersey Municipal Money Fund

**Portfolio Holdings** (Unaudited) continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Exempt Facility RB (Keystone) 3.55%, 07/05/06 (b)	5,000	5,000	Refunding RB (Crane's Mill) Series 2005B 3.97%, 07/06/06 (a)(b)	11,915	11,915
First Mortgage Refunding RB (Winchester Gardens at Homestead) Series 2004B 3.98%, 07/06/06 (a)(b)	4,000	4,000	Refunding RB (Station Plaza Park and Ride) Series 2003 4.04%, 07/06/06 (a)(b)	2,580	2,580
Gas Facilities Refunding RB (NUI Corp) Series 1997A 4.02%, 07/06/06 (a)(b)(c)(d)	3,260	3,260	School Facilities Construction RB Series 2005K 4.00%, 07/06/06 (a)(b)(c)(d)	3,065	3,065
Motor Vehicle Surcharge RB Series 2004A 3.99%, 07/06/06 (a)(b)(c)(d)	2,580	2,580	School Facilities Construction Refunding Bonds Series 2005N 4.00%, 07/06/06 (a)(b)(c)(d)	3,030	3,030
4.01%, 07/06/06 (a)(b)(c)(d)	3,880	3,880	Special Facility RB (Port Newark Container Terminal) Series 2003 4.02%, 07/05/06 (a)(b)	1,500	1,500
Natural Gas Facilities Refunding RB (Nui Corp) Series 1997A 4.02%, 07/06/06 (a)(b)(c)(d)	1,525	1,525	Thermal Energy Facilities RB (Marina Energy LLC) Series 2006A 4.02%, 07/06/06 (a)(b)	2,000	2,000
RB (Baptist Home Society of New Jersey) Series 2003 4.17%, 07/06/06 (a)(b)	3,520	3,520	Thermal Energy Facilities RB (Thermal Energy Limited Partnership I) Series 1997 4.00%, 07/05/06 (a)(b)	5,000	5,000
RB (G&W Laboratories) Series 2003 4.04%, 07/06/06 (a)(b)	5,050	5,050	<b>New Jersey Environmental Infrastructure Trust</b>		
RB (Geriatric Services Housing Corp) Series 2001 3.94%, 07/05/06 (a)(b)	1,500	1,500	RB (Bergen Cnty Improvement Auth-Encap Golf Holdings LLC) Series 2005 4.02%, 07/06/06 (a)(b)	12,700	12,700
RB (Hamilton Industrial Development) Series 1998 4.04%, 07/05/06 (a)(b)	5,370	5,370	<b>New Jersey Health Care Facilities Financing Auth</b>		
RB (Meridian Assisted Living at Shrewsbury) Series 2004 4.02%, 07/06/06 (a)(b)	5,250	5,250	RB (Jersey Shore Medical Center Obligated Group ) Series 1994 3.99%, 07/06/06 (a)(b)(c)(d)	4,500	4,500
RB (Omni Baking Co) Series 2001 3.98%, 07/06/06 (a)(b)	3,000	3,000	RB (JFK Health Systems Obligated Group) Series 1993 3.99%, 07/06/06 (a)(b)(c)(d)	8,020	8,020
RB (Princeton Day School, Inc) Series 2005 3.97%, 07/05/06 (a)(b)	5,000	5,000	RB (Somerset Medical Center) Series A 3.99%, 07/06/06 (a)(b)(c)(d)	14,115	14,115
RB (St James Preparatory School and St James Social Service Corp) Series 1998 3.99%, 07/06/06 (a)(b)	4,220	4,220			
RB (Stone Brothers Secaucus) Series 2001 4.02%, 07/07/06 (a)(b)	1,650	1,650			

See financial notes. 23

Schwab New Jersey Municipal Money Fund

Issuer Rate, 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 Composite Program Series 2003A2 3.94%, 07/06/06 (a)(b)	2,300	2,300	Consolidated Bonds 138th Series 4.02%, 07/06/06 (a)(c)(d) 4.02%, 07/06/06 (a)(b)(c)(d)	6,000 4,000	6,000 4,000
RB Composite Program Series 2004A3 3.93%, 07/06/06 (a)(b)	1,030	1,030	Consolidated Bonds 140th Series 4.00%, 07/06/06 (a)(b)(c)	2,940	2,940
RB Series 2004A4 3.94%, 07/06/06 (a)(b)	2,950	2,950	Consolidated Bonds 141st Series 4.03%, 07/06/06 (a)(b)(c)(d)	4,990	4,990
Refunding RB (St Barnabas Health Care System) Series 1998B 4.00%, 07/06/06 (a)(b)(c)(d)	9,900	9,900	Consolidated Bonds 143rd Series 4.04%, 07/06/06 (a)(c)	4,400	4,400
<b>New Jersey Transportation Trust Fund Auth</b>			CP Series B 3.60%, 08/04/06 (c)	3,900	3,900
Transportation System Bonds Series 2005B 3.20%, 10/12/06 (a)(b)(c)(d)	4,745	4,745	Special Project Bonds (JFK International Air Terminal) Series 6 4.03%, 07/06/06 (a)(b)(c)(d) 4.05%, 07/05/06 (a)(b)(c)(d)	4,895 800	4,895 800
Transportation System Bonds Series 2005D 4.01%, 07/06/06 (a)(b)(c)(d)	27,425	27,425	TECP Series A 3.40%, 08/08/06 (c) 3.50%, 07/12/06 (c) 3.68%, 08/03/06 (c)	6,000 6,180 4,730	6,000 6,180 4,730
Transportation System Bonds Series 2006C 4.03%, 07/06/06 (a)(b)(c)	17,550	17,550	<b>Township of Sparta</b>		
<b>New Jersey Turnpike Auth</b>			BAN 3.61%, 06/01/07	11,079	11,141
RB Series 2000A 3.98%, 07/06/06 (a)(b)(c)(d) 4.00%, 07/06/06 (a)(b)(c)(d) 4.01%, 07/06/06 (a)(b)(c)(d) 4.01%, 07/06/06 (a)(b)(c)	11,200 8,665 10,000 5,000	11,200 8,665 10,000 5,000	<b>Trenton</b>		
RB Series C 4.00%, 07/06/06 (a)(b)(c)(d)	7,030	7,030	BAN 3.84%, 12/15/06	3,000	3,008
Refunding RB Series 2004A 4.00%, 07/06/06 (a)(b)(c)(d)	11,495	11,495	<b>Union Cnty Pollution Control Financing Auth</b>		
<b>North Bergen</b>			Refunding RB (Exxon) Series 1994 3.58%, 07/03/06 (a)	3,000	3,000
BAN 3.70%, 05/15/07	5,000	5,034	<b>Vernon</b>		
<b>Port Auth of New York and New Jersey</b>			BAN 3.35%, 01/12/07	6,000	6,028
Consolidated Bonds 127th Series 4.02%, 07/06/06 (a)(b)(c)(d)	8,480	8,480	<b>Woodbridge</b>		
Consolidated Bonds 135th Series 4.02%, 07/06/06 (a)(c)(d)	2,900	2,900	BAN 3.79%, 07/06/07 3.80%, 07/06/07	500 7,000	503 7,047
					<b>395,806</b>

## Schwab New Jersey Municipal Money Fund

### Portfolio Holdings (Unaudited) continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Puerto Rico 11.5%</b>		
<b>Puerto Rico</b>		
Public Improvement and Refunding Bonds Series 2000 3.97%, 07/06/06 (a)(b)(c)(d)	5,135	5,135
Public Improvement Bonds Series 2000 3.96%, 07/06/06 (a)(b)(c)(d)	2,500	2,500
Public Improvement Bonds Series 2001A 3.97%, 07/06/06 (a)(b)(c)(d)	1,000	1,000
Public Improvement Refunding Bonds Series 2002A 4.06%, 07/06/06 (a)(b)(c)(d)	4,000	4,000
TRAN Series 2006 3.23%, 07/28/06 (b)	5,000	5,005
<b>Puerto Rico Highway and Transportation Auth</b>		
Highway Refunding RB Series BB 3.98%, 07/06/06 (a)(b)(c)(d)	795	795
Subordinated RB Series 2003 3.96%, 07/06/06 (a)(b)(c)(d)	1,900	1,900
Transportation Refunding RB Series 2005L 3.97%, 07/06/06 (a)(b)(c)(d)	7,250	7,250
Transportation Refunding RB Series L 3.97%, 07/06/06 (a)(b)(c)(d)	11,900	11,900
<b>Puerto Rico Housing Finance Corp</b>		
Homeownership Mortgage RB Series 1998A 4.01%, 07/06/06 (a)(b)(c)(d)	6,400	6,400
Homeownership Mortgage RB Series 2000A 3.97%, 07/06/06 (a)(b)(c)(d)	3,295	3,295
<b>Puerto Rico Infrastructure Financing Auth</b>		
Special Tax Refunding RB Series 2005C 3.98%, 07/06/06 (a)(b)(c)(d)	1,700	1,700

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Puerto Rico Public Buildings Auth</b>		
Government Facilities RB Series B 3.96%, 07/06/06 (a)(b)(c)(d)	3,900	3,900
		<b>54,780</b>

### End of Investments.

At 06/30/06, the cost of the fund's investments was \$450,586.

- (a) Variable rate security.
- (b) Credit-enhanced security.
- (c) Liquidity-enhanced security.
- (d) Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registrations, normally to qualified institutional buyers. At the period end, the value of these amounted to \$222,775 or 46.6% of net assets.

BAN – Bond anticipation note  
GO – General obligation  
RB – Revenue bond  
TECP – Tax-exempt commercial paper  
TRAN – Tax and revenue anticipation note

## Schwab New Jersey Municipal Money Fund

Statement of

### Assets and Liabilities

As of June 30, 2006; unaudited. All numbers x 1,000 except NAV.

#### Assets

Investments, at cost and value	\$450,586
Cash	881
Receivables:	
Fund shares sold	8,334
Investments sold	29,220
Interest	3,884
Prepaid expenses	+ 46
<b>Total assets</b>	<b>492,951</b>

#### Liabilities

Payables:	
Investments bought	7,550
Fund shares redeemed	6,875
Dividends to shareholders	628
Transfer agent and shareholder services fees	18
Trustees' fees	3
Investment adviser and administrator fees	7
Accrued expenses	+ 23
<b>Total liabilities</b>	<b>15,104</b>

#### Net Assets

<b>Total assets</b>	492,951
<b>Total liabilities</b>	- 15,104
<b>Net assets</b>	<b>\$477,847</b>

#### Net Assets by Source

Capital received from investors	477,815
Net realized capital gains	32

#### Net Asset Value (NAV)

<b>Net Assets</b>	÷	<b>Shares Outstanding</b>	=	<b>NAV</b>
\$477,847		477,526		\$1.00



## Schwab New Jersey Municipal Money Fund

Statement of

### Operations

For January 1, 2006 through June 30, 2006; unaudited. All numbers x 1,000.

#### Investment Income

Interest	<b>\$7,872</b>
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#### Net Realized Gains and Losses

Net realized gains on investments sold	32
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#### Expenses

Investment adviser and administrator fees	909
Transfer agent and shareholder service fees	1,077
Trustees' fees	9
Custodian fees	13
Portfolio accounting fees	14
Professional fees	12
Registration fees	20
Shareholder reports	+ 8
Total expenses	2,062
Custody credits	- 2
Expense reduction	- 505
<b>Net expenses</b>	<b>1,555</b>

#### Increase in Net Assets from Operations

Total investment income	7,872
Net expenses	- 1,555
Net investment income	<b>6,317</b>
Net realized gains	+ 32
<b>Increase in net assets from operations</b>	<b>\$6,349</b>

## Schwab New Jersey Municipal Money Fund

Statements of

### Changes in Net Assets

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

Figures for current period are unaudited.

#### Operations

	1/1/06-6/30/06	1/1/05-12/31/05
Net investment income	\$6,317	\$8,188
Net realized gains	+ 32	42
<b>Increase in net assets from operations</b>	<b>6,349</b>	<b>8,230</b>

#### Distributions Paid

Dividends from net investment income	6,317	8,191
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#### Transactions in Fund Shares\*

Shares sold	986,559	1,586,641
Shares reinvested	5,662	8,032
Shares redeemed	+ (986,775)	(1,569,930)
<b>Net transactions in fund shares</b>	<b>5,446</b>	<b>24,743</b>

#### Net Assets

Beginning of period	472,369	447,587
Total increase	+ 5,478	24,782
<b>End of period</b>	<b>\$477,847</b>	<b>\$472,369</b>

\*Transactions took place at \$1.00 per share; figures for share quantities are the same as for dollars.

# Schwab Pennsylvania Municipal Money Fund™

## Financial Statements

### Financial Highlights

	1/1/06– 6/30/06*	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	1.00
Income from investment operations:						
Net investment income	0.01	0.02	0.01	0.00 <sup>1</sup>	0.01	0.02
Less distributions:						
Dividends from net investment income	(0.01)	(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	1.00
Total return (%)	1.33 <sup>2</sup>	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 <sup>3</sup>	0.65	0.65	0.65	0.65	0.65
Gross operating expenses	0.87 <sup>3</sup>	0.88	0.86	0.87	0.89	0.92
Net investment income	2.65 <sup>3</sup>	1.82	0.62	0.48	0.87	2.14
Net assets, end of period (\$ x 1,000,000)	378	378	346	328	301	292

\* Unaudited.

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

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

See financial notes. 29

## Schwab Pennsylvania Municipal Money Fund

### Portfolio Holdings as of June 30, 2006 (Unaudited)

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

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be viewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on a fund's most recent Form N-Q is also 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. For variable-rate obligations, the rate shown is the rate as of the report date and the maturity date shown is the next interest rate change date.

Holdings by Category	Cost (\$x1,000)	Value (\$x1,000)
<b>95.4% Municipal Securities</b>	360,515	360,515
<b>95.4% Total Investments</b>	<b>360,515</b>	<b>360,515</b>
<b>4.6% Other Assets and Liabilities</b>		17,566
<b>100.0% Net Assets</b>		<b>378,081</b>

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

### Municipal Securities 95.4% of net assets

#### Pennsylvania 93.9%

##### Allegheny Cnty Hospital Development Auth

RB (University of Pittsburgh Medical Center) Series 2005B 4.09%, 07/06/06 (a)(e)	7,000	7,000
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RB (UPMC Senior Communities) Series 2003 3.97%, 07/06/06 (a)(b)	7,540	7,540
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##### Allegheny Cnty Port Auth

Grant Anticipation Notes Series 2006 3.79%, 06/29/07 (b)	10,200	10,269
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Special Revenue Transportation Bonds Series 1999 3.99%, 07/06/06 (a)(b)(c)(d)	10,995	10,995
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##### Beaver Cnty IDA

Pollution Control Refunding RB (FirstEnergy Nuclear Generation Corp) Series 2005A 3.98%, 07/05/06 (a)(b)	3,200	3,200
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Pollution Control Refunding RB (FirstEnergy Nuclear Generation Corp) Series 2006A 3.99%, 07/03/06 (a)(b)	6,800	6,800
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##### Central Bucks SD

GO Bonds Series 2000A 4.02%, 07/06/06 (a)(b)(c)	3,095	3,095
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##### Chester Cnty School Auth

School Lease RB Series 2005 4.01%, 07/06/06 (a)(b)(c)(d)	1,755	1,755
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##### Delaware Cnty IDA

Hospital RB (Crozer-Chester Medical Center) Series 2002 3.97%, 07/06/06 (a)(b)	4,800	4,800
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RB (YMCA of Philadelphia) Series 1999 4.08%, 07/05/06 (a)(b)	1,785	1,785
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Schwab Pennsylvania Municipal Money Fund

**Portfolio Holdings** (Unaudited) 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 Valley Regional Finance Auth</b>			Pollution Control Refunding		
Local Government RB			RB (Peco Energy Co)		
Series 1986			Series 1994A		
3.97%, 07/05/06 (a)(b)	10,600	10,600	3.52%, 07/18/06 (b)	10,000	10,000
Local Government RB			3.65%, 08/01/06 (b)	8,000	8,000
Series 1998A			3.56%, 08/14/06 (b)	16,000	16,000
4.03%, 07/06/06 (a)(b)(c)(d)	4,055	4,055	Pollution Control Refunding		
4.05%, 07/06/06 (a)(b)(c)(d)	1,300	1,300	RB (Peco Energy Co)		
<b>Easton Area SD</b>			Series 1999A		
GO Bonds Series 2005			3.95%, 07/05/06 (a)(b)	7,400	7,400
3.97%, 07/06/06 (a)(b)(c)	9,000	9,000	School RB (Friends' Central		
<b>Erie SD</b>			School) Series 2002		
GO Bonds Series 2001A			3.97%, 07/06/06 (a)(b)	4,200	4,200
4.01%, 07/06/06 (a)(b)(c)(d)	6,950	6,950	<b>Montgomery Cnty</b>		
<b>Hanover Public SD</b>			<b>Redevelopment Auth</b>		
GO Bonds Series 2005			M/F Housing Refunding RB		
3.97%, 07/06/06 (a)(b)(c)	4,000	4,000	(Glenmore Associates)		
<b>Harrisburg Auth</b>			Series 1995A		
Water Refunding RB			3.99%, 07/07/06 (a)(b)	3,750	3,750
Series 2003A			<b>Northhampton Cnty</b>		
4.02%, 07/06/06 (a)(b)(c)	12,000	12,000	RB (Binney and Smith)		
<b>Lehigh Cnty IDA</b>			Series 1997A		
Pollution Control Refunding RB			4.03%, 07/05/06 (a)(b)	3,250	3,250
(PPL Electric Utilities Corp)			RB (Binney and Smith)		
Series 2005B			Series 1997B		
4.01%, 07/06/06 (a)(b)(c)	3,290	3,290	4.03%, 07/05/06 (a)(b)	780	780
<b>Luzerne Cnty IDA</b>			<b>Norwin SD</b>		
RB (Methodist Homes)			GO Bonds Series 2001A		
Series 2003			4.01%, 07/06/06 (a)(b)(c)(d)	9,710	9,710
4.02%, 07/05/06 (a)(b)	2,000	2,000	<b>Pennsylvania</b>		
<b>Manheim Township SD</b>			GO Bonds First Series 2003		
GO Bonds Series 2004			4.00%, 07/06/06 (a)(b)(c)(d)	4,870	4,870
3.99%, 07/06/06 (a)(b)(c)	3,600	3,600	<b>Pennsylvania Convention</b>		
<b>Mercer Cnty</b>			<b>Center Auth</b>		
GO Bonds Series 2001			RB Series 1989A		
4.01%, 07/06/06 (a)(b)(c)(d)	1,275	1,275	4.00%, 07/06/06 (a)(b)(c)(d)	2,745	2,745
<b>Montgomery Cnty IDA</b>			<b>Pennsylvania Economic</b>		
Environmental Facilities RB			<b>Development Finance Auth</b>		
(Ionza Inc)			Bonds (Westrum Harleysville II)		
Series 2000			Series 2005		
4.07%, 07/06/06 (a)(b)	7,000	7,000	4.03%, 07/06/06 (a)(b)	6,200	6,200
Pollution Control Refunding RB			Exempt Facilities RB (Amtrak)		
(Exelon Generation Co)			Series 2001B		
Series 2002A			4.06%, 07/06/06 (a)(b)	12,000	12,000
3.60%, 07/11/06 (b)	5,000	5,000			

See financial notes. 31

# Schwab Pennsylvania Municipal Money Fund

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Exempt Facilities RB (Shippingport) Series 2005A 4.06%, 07/05/06 (a)(b)	9,000	9,000	<b>Pennsylvania Public School Building Auth</b> Lease RB (Philadelphia SD) Series 2003 4.01%, 07/06/06 (a)(b)(c)(d)	1,936	1,935
<b>Pennsylvania Energy Development Auth</b> RB (B&W Ebensburg) Series 1986 4.03%, 07/05/06 (a)(b)	9,335	9,335	RB (Parkland SD) Series 1999D 4.02%, 07/06/06 (a)(b)(c)	2,380	2,380
<b>Pennsylvania HFA</b> Residential Development Refunding RB Series 2002A 4.04%, 07/05/06 (a)(c)(d)	6,000	6,000	School Lease RB (Philadelphia SD) Series 2003 4.03%, 07/05/06 (a)(b)(c)(d)	7,000	7,000
S/F Mortgage RB Drawdown Series 2003 4.04%, 07/06/06 (a)(b)(c)(d)	2,405	2,405	<b>Pennsylvania Turnpike Commission</b> RB Series 2004A 4.01%, 07/06/06 (a)(b)(c)(d)	6,270	6,270
S/F Mortgage RB Series 1999-66A 4.02%, 07/06/06 (a)(c)(d)	2,655	2,655	Registration Fee Refunding RB Series 2005A 4.01%, 07/06/06 (a)(b)(c)(d)	2,355	2,355
S/F Mortgage RB Series 1999A 4.05%, 07/06/06 (a)(c)(d)	7,690	7,690	<b>Philadelphia</b> Airport RB Series 2005A 4.05%, 07/06/06 (a)(b)(c)(d)	1,000	1,000
S/F Mortgage RB Series 2001-72A 4.04%, 07/06/06 (a)(b)(c)	2,495	2,495	Airport Refunding RB Series 2005C 4.05%, 07/05/06 (a)(b)(c)	6,830	6,830
S/F Mortgage RB Series 2002-74B 4.02%, 07/06/06 (a)(c)(d)	7,495	7,495	Water and Wastewater RB Series 1997B 3.95%, 07/05/06 (a)(b)(c)	120	120
S/F Mortgage RB Series 2003-79A 4.04%, 07/06/06 (a)(c)	2,370	2,370	<b>Philadelphia Gas Works</b> RB Third Series 2001 4.00%, 07/06/06 (a)(b)(c)(d)	1,700	1,700
S/F Mortgage RB Series 2005-88B 4.02%, 07/05/06 (a)(c)	1,800	1,800	<b>Philadelphia IDA</b> RB (City Line Holiday Inn) Series 1996 4.00%, 07/05/06 (a)(b)	4,600	4,600
<b>Pennsylvania Higher Education Assistance Agency</b> Student Loan RB Series 2000A 4.05%, 07/05/06 (a)(b)(c)	18,125	18,125	RB Series 1998A 4.05%, 07/06/08 (a)(b)(c)(d)	5,000	5,000
Student Loan RB Series 2001A 4.05%, 07/05/06 (a)(b)(c)	5,050	5,050	<b>Philadelphia Redevelopment Auth</b> RB (Neighborhood Transformation Initiative) Series 2005C 4.01%, 07/06/06 (a)(b)(c)(d)	5,745	5,745
<b>Pennsylvania Higher Educational Facilities Auth</b> RB (University of Pennsylvania Health Services) Series 2005A 4.00%, 07/06/06 (a)(b)(c)(d)	3,000	3,000			

## Schwab Pennsylvania Municipal Money Fund

### Portfolio Holdings (Unaudited) continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Scranton Redevelopment Auth</b>		
Guaranteed Lease RB Series 2004 4.02%, 07/06/06 (a)(b)	6,905	6,905
<b>Temple University</b>		
Commonwealth System of Higher Education University Funding Obligations Series 2006 3.68%, 04/26/07	8,250	8,336
<b>West Cornwall Township Municipal Auth</b>		
RB (Lebanon Valley Brethren Home) Series 1995 4.03%, 07/05/06 (a)(b)	1,000	1,000
		<b>354,810</b>
<b>Puerto Rico 1.5%</b>		
<b>Puerto Rico</b>		
TRAN Series 2006 3.23%, 07/28/06 (b)	5,000	5,005
<b>Puerto Rico Highway and Transportation Auth</b>		
Transportation Refunding RB Series 2005L 3.97%, 07/06/06 (a)(b)(c)(d)	700	700
		<b>5,705</b>

### End of Investments.

At 06/30/06, the cost of the fund's investments was \$360,515.

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

### Allegheny County Hospital Development Auth

RB (University of Pittsburgh Medical Center) Series 2005B 4.09%, 11/17/05, 07/06/06	7,000	7,000
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- (a) Variable rate security.
- (b) Credit-enhanced security.
- (c) Liquidity-enhanced security.
- (d) Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registrations, normally to qualified institutional buyers. At the period end, the value of these amounted to \$104,605 or 27.7% of net assets.
- (e) Illiquid and/or restricted security.

GAN – Grant anticipation note  
GO – General obligation  
HFA – Housing Finance Agency  
IDA – Industrial Development Authority  
RB – Revenue bond  
TRAN – Tax and revenue anticipation note

## Schwab Pennsylvania Municipal Money Fund

Statement of

### Assets and Liabilities

As of June 30, 2006; unaudited. All numbers x 1,000 except NAV.

#### Assets

Investments, at cost and value	\$360,515
Cash	218
Receivables:	
Fund shares sold	11,349
Investments sold	20,100
Interest	2,248
Prepaid expenses	+ 35
<b>Total assets</b>	<b>394,465</b>

#### Liabilities

Payables:	
Dividends to shareholders	510
Investments bought	10,269
Fund shares redeemed	5,564
Investment adviser and administrator fees	5
Transfer agent and shareholder services fees	14
Trustees' fees	3
Accrued expenses	+ 19
<b>Total liabilities</b>	<b>16,384</b>

#### Net Assets

<b>Total assets</b>	394,465
<b>Total liabilities</b>	- 16,384
<b>Net assets</b>	<b>\$378,081</b>

#### Net Assets by Source

Capital received from investors	378,141
Net investment income not yet distributed	2
Net realized capital losses	(62)

#### Net Asset Value (NAV)

<b>Net Assets</b>	÷	<b>Shares Outstanding</b>	=	<b>NAV</b>
\$378,081		378,125		\$1.00



## Schwab Pennsylvania Municipal Money Fund

Statement of

### Operations

For January 1, 2006 through June 30, 2006; unaudited. All numbers x 1,000.

#### Investment Income

Interest	<b>\$6,334</b>
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#### Net Realized Gains and Losses

Net realized losses on investments sold	<b>(5)</b>
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#### Expenses

Investment adviser and administrator fees	729
Transfer agent and shareholder service fees	863
Trustees' fees	9
Custodian fees	10
Portfolio accounting fees	14
Professional fees	12
Registration fees	26
Shareholder reports	5
Other expenses	+
	2
Total expenses	1,670
Custody credits	-
	2
Expense reduction	-
	422
<b>Net expenses</b>	<b>1,246</b>

#### Increase in Net Assets from Operations

<b>Total investment income</b>	<b>6,334</b>
<b>Net expenses</b>	<b>-</b>
	<b>1,246</b>
<b>Net investment income</b>	<b>5,088</b>
<b>Net realized losses</b>	<b>+</b>
	<b>(5)</b>
<b>Increase in net assets from operations</b>	<b>\$5,083</b>

## Schwab Pennsylvania Municipal Money Fund

Statements of

### Changes in Net Assets

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

Figures for current period are unaudited.

#### Operations

	1/1/06-6/30/06	1/1/05-12/31/05
Net investment income	\$5,088	\$6,627
Net realized losses	+ (5)	(43)
<b>Increase in net assets from operations</b>	<b>5,083</b>	<b>6,584</b>

#### Distributions Paid

Dividends from net investment income	5,088	6,627
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#### Transactions in Fund Shares\*

Shares sold	918,463	1,434,497
Shares reinvested	4,562	6,480
Shares redeemed	+ (923,000)	(1,408,453)
<b>Net transactions in fund shares</b>	<b>25</b>	<b>32,524</b>

#### Net Assets

Beginning of period	378,061	345,580
Total increase	+ 20	32,481
<b>End of period</b>	<b>\$378,081</b>	<b>\$378,061</b>

Net investment income not yet distributed	\$2	\$2
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\*Transactions took place at \$1.00 per share; figures for shares quantities are the same as for dollars.

# Schwab AMT Tax-Free Money Fund™

(Formerly Schwab Florida Municipal Money Fund)

## Financial Statements

### Financial Highlights

	1/1/06– 6/30/06*	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	1.00
Income from investment operations:						
Net investment income	0.01	0.02	0.01	0.00 <sup>1</sup>	0.01	0.02
Less distributions:						
Dividends from net investment income	(0.01)	(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	1.00
Total return (%)	1.32 <sup>2</sup>	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 <sup>3</sup>	0.65	0.66	0.64	0.59	0.59
Gross operating expenses	0.85 <sup>3</sup>	0.85	0.85	0.85	0.87	0.87
Net investment income	2.63 <sup>3</sup>	1.78	0.59	0.47	0.95	2.30
Net assets, end of period (\$ x 1,000,000)	1,111	1,973	1,905	1,804	1,785	1,518

\* Unaudited.

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

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

See financial notes. 37

**Portfolio Holdings** as of June 30, 2006 (Unaudited)

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

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be viewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on a fund's most recent Form N-Q is also 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. For variable-rate obligations, the rate shown is the rate as of the report date and the maturity date shown is the next interest rate change date.

Holdings by Category	Cost (\$x1,000)	Value (\$x1,000)
<b>102.5% Municipal Securities</b>	1,138,962	1,138,962
<b>102.5% Total Investments</b>	<b>1,138,962</b>	<b>1,138,962</b>
<b>(2.5)% Other Assets and Liabilities</b>		(27,974)
<b>100.0% Net Assets</b>		<b>1,110,988</b>

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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**Municipal Securities 102.5% of net assets****Arizona 0.9%****Scottsdale IDA**

Hospital RB (Scottsdale Healthcare) Series 2006G 4.02%, 07/06/06 (a)(b)(c)	10,000	10,000
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**Connecticut 0.0%****Connecticut HFA**

S/F Mortgage Draw Down RB Series 2004B 4.02%, 07/06/06 (a)(b)(c)(d)	120	120
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**Florida 77.3%****Alachua Cnty Health Facilities Auth**

RB (Shands Hospital-University of Florida) Series 1992R 4.00%, 07/06/06 (a)(b)(c)(d)	55,460	55,460
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**Alachua Cnty School Board**

COP Series 2004 4.00%, 07/06/06 (a)(b)(c)(d)	9,045	9,045
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**Broward Cnty**

Subordinate Port Facilities Refunding RB (Port Everglades) Series 1998 4.03%, 07/06/06 (a)(b)(c)	8,860	8,860
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**Broward Cnty HFA**

M/F Housing RB (Sawgrass Pines Apts) Series 1993A 4.03%, 07/06/06 (a)(b)	1,100	1,100
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**Broward Cnty School District/Board**

COP Series 2006A 4.01%, 07/06/06 (a)(b)(c)	9,800	9,800
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**Capital Trust Agency**

M/F Housing RB (Portofino Villas and Stratford Landing) Series 2006A 3.97%, 07/06/06 (a)(b)	6,100	6,100
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**Charlotte Cnty**

Refunding RB Series 2003A 3.98%, 07/06/06 (a)(b)(c)	7,400	7,400
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**Collier Cnty**

IDRB (Ave Maria Utility Co) Series 2005 4.04%, 07/05/06 (a)(b)	10,000	10,000
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Schwab AMT Tax-Free Money Fund

**Portfolio Holdings** (Unaudited) continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Collier Cnty HFA</b>		
M/F Housing RB (Brittany Bay Apts) Series 2001A 4.01%, 07/05/06 (a)(b)	3,350	3,350
<b>Collier Cnty IDA</b>		
Educational Facilities RB (Community School of Naples) Series 2002 4.00%, 07/06/06 (a)(b)	2,850	2,850
<b>Escambia HFA</b>		
S/F Mortgage RB Series 2001A 4.04%, 07/06/06 (a)(b)(c)(d)	1,520	1,520
4.09%, 07/06/06 (a)(b)(c)(d)	2,795	2,795
S/F RB Series 1997A 4.12%, 07/06/06 (a)(b)(c)(d)	60	60
S/F RB Series 2002A1 4.05%, 07/06/06 (a)(c)(d)	4,070	4,070
<b>Florida</b>		
RB (Dept of Environmental Protection Preservation 2000) Series 1997B 4.01%, 07/06/06 (a)(b)(c)(d)	22,920	22,920
<b>Florida Board of Education</b>		
Capital Outlay Bonds Series 1998E 4.02%, 07/06/06 (a)(c)(d)	12,280	12,280
Capital Outlay Bonds Series 1999C 4.01%, 07/06/06 (a)(c)(d)	17,800	17,800
Capital Outlay Bonds Series 2003C 4.00%, 07/06/06 (a)(b)(c)(d)	7,500	7,500
Capital Outlay Refunding Bonds Series 2001B 4.02%, 07/06/06 (a)(c)(d)	14,100	14,100
Lottery RB Series 2005A 4.01%, 07/06/06 (a)(b)(c)(d)	3,335	3,335
3.45%, 08/03/06 (a)(b)(c)(d)	5,785	5,785
Public Education Capital Outlay Refunding Bonds Series 2005C 4.01%, 07/06/06 (a)(c)	13,993	13,993

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Florida Dept of Transportation</b>		
Turnpike RB Series 2000A 4.01%, 07/06/06 (a)(b)(c)(d)	7,820	7,820
<b>Florida Development Finance Corp</b>		
IDRB (Central Farms) Series 1999A4 4.09%, 07/05/06 (a)(b)	710	710
IDRB (Schmitt Family Partnership) Series 1999A2 4.09%, 07/05/06 (a)(b)	1,750	1,750
IDRB (Vutec Corp) Series 1999A1 4.09%, 07/05/06 (a)(b)	1,520	1,520
<b>Florida HFA</b>		
Homeowner Mortgage RB Series 2000-4 4.09%, 07/06/06 (a)(b)(c)(d)	1,395	1,395
M/F Housing RB (Cameron Cove Apts) Series 1985XX 3.99%, 07/05/06 (a)(b)	8,000	8,000
M/F Housing Refunding RB (Reflections Apts) Series 2001KA 3.97%, 07/06/06 (a)(b)	13,500	13,500
M/F Housing Refunding RB (South Pointe) Series 1998J 3.97%, 07/05/06 (a)(b)	4,925	4,925
M/F Mortgage RB (Lynn Lake Apts) Series 2005B1 4.02%, 07/06/06 (a)(b)	10,100	10,100
M/F Mortgage Refunding RB (Victoria Park Apts) Series 2002J1 3.97%, 07/06/06 (a)(b)	5,000	5,000
RB (Timberline Apts) Series 1999P 4.05%, 07/05/06 (a)(b)	6,035	6,035
<b>Florida Local Government Finance Commission</b>		
Pooled TECP Series 1994A 3.59%, 07/11/06 (b)	28,003	28,003
3.57%, 08/07/06 (b)	17,000	17,000

See financial notes. 39

Schwab AMT Tax-Free Money Fund

Issuer Rate, 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>Gainesville</b>			Special Facility Airport RB (Holland Sheltair Aviation Group) Series 2004A1		
IDRB (Exactech) Series 1997 4.04%, 07/05/06 (a)(b)	2,100	2,100	4.05%, 07/06/06 (a)(b)	6,155	6,155
<b>Gainesville Utility System</b>			Special Facility Airport RB (Holland Sheltair Aviation Group) Series 2005B		
RB Series 2005A 4.01%, 07/06/06 (a)(b)(c)	4,545	4,545	4.05%, 07/06/06 (a)(b)	2,060	2,060
<b>Greater Orlando Aviation Auth</b>			<b>Jacksonville HFA</b>		
Airport Facilities RB Series 2002E			M/F Housing RB (Brookwood Forest Apts) Series 2005		
4.05%, 07/05/06 (a)(b)(c)	11,000	11,000	4.02%, 07/05/06 (a)(b)	4,000	4,000
Airport Facility RB (Flightsafety International) Series 2003A			M/F Housing Refunding RB (St. Augustine Apts) Series 2006		
4.04%, 07/06/06 (a)(b)	8,900	8,900	3.98%, 07/05/06 (a)(b)	3,300	3,300
<b>Hillsborough Cnty Aviation Auth</b>			<b>Jacksonville Port Auth</b>		
Airport Facilities Subordinated TECP Series B			Port Facility RB Series 1996		
3.60%, 07/20/06 (b)	22,500	22,500	4.05%, 07/06/06 (a)(b)(c)(d)	10,100	10,100
RB (Tampa International Airport) Series 2003A			<b>Lee Cnty</b>		
4.05%, 07/06/06 (a)(b)(c)(d)	5,495	5,495	Airport RB Series 2000A		
RB (Tampa International Airport) Series 2005A			4.04%, 07/06/06 (a)(b)(c)(d)	4,957	4,957
4.04%, 07/06/06 (a)(b)(c)(d)	4,865	4,865	<b>Lee Cnty HFA</b>		
<b>Hillsborough Cnty HFA</b>			M/F Housing RB (University Club Apts) Series 2002A		
M/F Housing RB (Claymore Crossing Apts) Series 2005			4.04%, 07/06/06 (a)(b)	7,500	7,500
4.02%, 07/05/06 (a)(b)	3,000	3,000	<b>Manatee Cnty HFA</b>		
M/F Housing RB (Lake Kathy Apts) Series 2005			M/F Housing RB (Centre Court Apts) Series 2000		
4.03%, 07/06/06 (a)(b)	6,000	6,000	4.02%, 07/05/06 (a)(b)	3,755	3,755
<b>Hillsborough Cnty IDA</b>			<b>Miami Health Facilities Auth</b>		
IDRB (University Community Hospital) Series 1994			Refunding RB (Miami Jewish Home and Hospital for the Aged, Inc) Series 2005		
4.01%, 07/06/06 (a)(b)(c)(d)	21,085	21,085	3.99%, 07/05/06 (a)(b)	4,900	4,900
<b>Hillsborough Cnty Port District</b>			<b>Miami-Dade Cnty</b>		
Refunding RB (Tampa Port Auth) Series 2005A			Aviation RB (Miami International Airport) Series 2004B		
4.04%, 07/06/06 (a)(b)(c)(d)	6,679	6,679	4.01%, 07/06/06 (a)(b)(c)(d)	5,000	5,000
<b>Jacksonville Economic Development Commission</b>			Aviation RB (Miami International Airport) Series 2005A		
RB (Bolles School) Series 1999A			4.05%, 07/06/06 (a)(b)(c)	9,105	9,105
3.98%, 07/06/06 (a)(b)	1,300	1,300	Aviation Refunding RB (Miami International Airport-Hub of the Americas) Series 2005B		
			3.13%, 10/01/06 (b)	2,455	2,460

**Portfolio Holdings** (Unaudited) 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)
Aviation TECP (Miami International Airport) Series A 3.38%, 07/10/06 (b)	12,216	12,216	<b>Orange Cnty HFA</b> M/F Housing RB (Glenn On Millenia Boulevard) Series 2001C 4.01%, 07/05/06 (a)(b)	3,355	3,355
GO Bonds Series 2005 4.00%, 07/06/06 (a)(b)(c)(d)	9,940	9,940	M/F Housing Refunding RB (Andover Place Apts) Series 1998F 4.02%, 07/06/06 (a)(b)	7,770	7,770
Water and Sewer System Refunding RB Series 2005 3.97%, 07/06/06 (a)(b)(c)	18,600	18,600	Refunding RB (Highland Pointe Apts) Series 1998J 3.99%, 07/06/06 (a)(b)	7,455	7,455
<b>Miami-Dade Cnty HFA</b> M/F Mortgage RB Series 2003-3 4.02%, 07/05/06 (a)(b)	9,140	9,140	<b>Orange Cnty IDA</b> RB (Central Florida YMCA) Series 2005 4.00%, 07/06/06 (a)(b)	1,000	1,000
<b>Miami-Dade Cnty IDA</b> IDRB (Airbus Service Co) Series 1998A 4.08%, 07/06/06 (a)(b)	8,080	8,080	<b>Orange Cnty School Board</b> COP Series 2006A 4.00%, 07/06/06 (a)(b)(c)	7,680	7,680
IDRB (Airis Miami LLC) Series 1999A 4.03%, 07/06/06 (a)(b)(c)	14,100	14,100	COP Series 2006B 4.01%, 07/06/06 (a)(b)(c)	2,765	2,765
IDRB (Fine Art Lamps) Series 1998 4.04%, 07/05/06 (a)(b)	1,500	1,500	<b>Orlando and Orange Cnty Expressway Auth</b> RB Series 2005D 3.96%, 07/06/06 (a)(b)(c)	7,840	7,840
IDRB (Tarmac America) Series 2004 4.05%, 07/06/06 (a)(b)	3,200	3,200	<b>Palm Bay</b> Utility System Improvement RB Series 2005A 4.01%, 07/06/06 (a)(b)(c)(d)	9,135	9,135
<b>New College of Florida Development Corp</b> Master Lease Program COP Series 2006 3.99%, 07/05/06 (a)(b)	11,110	11,110	<b>Palm Beach Cnty</b> Criminal Justice Facilities RB Series 1997 4.01%, 07/06/06 (a)(b)(c)(d)	4,495	4,495
<b>Ocala</b> Utility Systems RB Series 2005B 4.01%, 07/06/06 (a)(b)(c)(d)	5,515	5,515	RB (Raymond F. Kravis Center for the Performing Arts) Series 2002 3.93%, 07/06/06 (a)(b)	5,800	5,800
<b>Ocean Highway and Port Auth</b> RB Series 1990 4.08%, 07/05/06 (a)(b)	9,400	9,400	RB (Zoological Society of the Palm Beaches) Series 2001 3.98%, 07/06/06 (a)(b)	5,500	5,500
<b>Orange Cnty Health Finance Auth</b> Refunding Program RB (Pooled Hospital Loan) Series 1985 3.70%, 08/03/06 (b)	19,600	19,600	<b>Palm Beach Cnty Health Facilities Auth</b> Refunding Program RB (Pooled Hospital Loan) Series 1985 3.59%, 07/11/06 (b)	11,500	11,500
3.68%, 08/08/06 (b)	18,400	18,400	3.58%, 09/19/06 (b)	7,300	7,300

See financial notes. 41

**Schwab AMT Tax-Free Money Fund**

Issuer Rate, 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>Sumter Landing Community Development District</b>		
M/F Housing RB (Azalea Place Apts) Series 1999A 4.06%, 07/05/06 (a)(b)	3,000	3,000	Recreational RB Series 2005A 4.01%, 07/06/06 (a)(b)(c)(d)	2,000	2,000
M/F Housing Refunding RB (Spinnaker Landing Apts) Series 1998 4.02%, 07/06/06 (a)(b)	2,645	2,645	<b>Sunshine State Governmental Financing Commission</b>		
<b>Palm Beach Cnty SD</b>			CP Revenue Notes (Miami-Dade Cnty) Series G 3.42%, 08/08/06 (b)(c)	10,000	10,000
Sales Tax Revenue CP 3.65%, 08/07/06 (b)	9,500	9,500	TECP Series 1998A 3.38%, 08/08/06 (b)(c)	40,207	40,207
3.55%, 08/14/06 (b)	4,000	4,000	<b>Tampa</b>		
<b>Pinellas Cnty IDA</b>			Educational Facilities RB (Pepin Academy of Tampa) Series 2002 4.02%, 07/06/06 (a)(b)	3,755	3,755
IDRB (H&S Swansons Tool Co) Series 2001 4.04%, 07/05/06 (a)(b)	2,910	2,910	<b>Tampa Bay Water Auth</b>		
IDRB (Restorative Care of America) Series 2001 4.14%, 07/05/06 (a)(b)	1,565	1,565	Utility System Refunding and Improvement RB Series 2001A 4.05%, 07/06/06 (a)(b)(c)(d)	5,200	5,200
<b>Sarasota Cnty</b>			<b>University of South Florida Research Foundation</b>		
RB (Sarasota Family YMCA) Series 1999 3.98%, 07/06/06 (a)(b)	1,890	1,890	RB (Interdisciplinary Research Building) Series 2004A 4.00%, 07/05/06 (a)(b)	5,500	5,500
Utility System Refunding RB Series 2005A 4.01%, 07/06/06 (a)(b)(c)(d)	4,515	4,515	<b>Volusia Cnty Health Facilities Auth</b>		
<b>Sarasota Cnty Health Facilities Auth</b>			Hospital RB (Southwest Volusia Healthcare Corp) Series 1994A 3.98%, 07/06/06 (a)(b)	11,000	11,000
RB (Sarasota-Manatee Jewish Housing Council, Inc) Series 2005A 3.98%, 07/06/06 (a)(b)	27,600	27,600	<b>Winter Haven</b>		
<b>Seminole Cnty IDA</b>			Utility System Improvement and Refunding RB Series 2005 4.00%, 07/06/06 (a)(b)(c)(d)	9,210	9,210
IDRB (Amrhein Family Limited Partnership) Series 2001 4.04%, 07/05/06 (a)(b)	4,125	4,125			<b>859,070</b>
<b>St Petersburg</b>			<b>Georgia 1.3%</b>		
Capital Improvement RB (Airport) Series 1997C 4.04%, 07/05/06 (a)(b)	210	210	<b>DeKalb Cnty</b>		
<b>Sumter Cnty IDA</b>			Water and Sewerage Refunding RB Series 2006B 4.01%, 07/06/06 (a)(b)(c)	8,500	8,500
IDRB (Robbins Manufacturing Co) Series 1997 4.08%, 07/06/06 (a)(b)	1,200	1,200	<b>Fulton Cnty</b>		
			Water and Sewerage RB Series 2004 4.00%, 07/06/06 (a)(b)(c)	1,040	1,040



**Portfolio Holdings** (Unaudited) continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Metropolitan Atlanta Rapid Transit Auth</b>		
Sales Tax Revenue CP BAN (Third Indenture) Series 2004A 3.63%, 07/13/06 (b)	5,000	5,000
		<b>14,540</b>
<b>Illinois 4.4%</b>		
<b>Chicago</b>		
General Airport Third Lien RB (Chicago O'Hare International Airport) Series 2005A 4.01%, 07/06/06 (a)(b)(c)	22,290	22,290
GO Bonds Project and Refunding Series 2006A 4.01%, 07/06/06 (a)(b)(c)(d)	17,760	17,760
<b>Chicago O'Hare International Airport</b>		
General Airport Third Lien RB Series 2003B2 4.04%, 07/06/06 (a)(b)(c)(d)	8,595	8,595
		<b>48,645</b>
<b>Indiana 0.0%</b>		
<b>Indiana HFA</b>		
S/F Mortgage RB Series 2002B 4.06%, 07/05/06 (a)(c)(d)	480	480
<b>Iowa 1.5%</b>		
<b>Iowa School Corporations</b>		
Cash Anticipation Program Warrant Certificates Series 2006-2007 A 3.71%, 06/28/07 (b)	16,720	16,846
<b>Kentucky 1.4%</b>		
<b>Kentucky Asset/Liability Commission</b>		
General Fund TRAN Series 2006A 3.70%, 06/28/07	15,000	15,114

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Louisiana 0.9%</b>		
<b>Louisiana Local Government Environmental Facilities and Community Development Auth</b>		
RB (University of Louisiana-Monroe) Series 2004C 3.99%, 07/06/06 (a)(b)	10,000	10,000
<b>Massachusetts 0.8%</b>		
<b>Chelmsford</b>		
BAN 3.66%, 06/22/07	6,000	6,047
<b>Needham</b>		
BAN 3.64%, 11/01/06	3,000	3,006
		<b>9,053</b>
<b>Nevada 3.6%</b>		
<b>Las Vegas Valley Water District</b>		
GO (Limited Tax) Water CP Series 2004 A&B 3.53%, 07/14/06 (c)	30,000	30,000
3.55%, 08/03/06 (c)	9,900	9,900
		<b>39,900</b>
<b>New Jersey 1.4%</b>		
<b>Woodbridge</b>		
BAN 3.79%, 07/06/07	13,000	13,089
3.80%, 07/06/07	3,000	3,020
		<b>16,109</b>
<b>New York 0.2%</b>		
<b>Long Island Power Auth</b>		
Electric System Subordinated RB Series 2001-2B 3.94%, 07/03/06 (a)(b)	1,000	1,000
<b>New York City Municipal Water Finance Auth</b>		
Water and Sewer System RB Series 1994G 3.94%, 07/03/06 (a)(b)(c)	1,100	1,100
		<b>2,100</b>

See financial notes. 43

## Schwab AMT Tax-Free Money Fund

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Pennsylvania 0.3%</b>		
<b>Pennsylvania Higher Education Assistance Agency</b>		
Student Loan RB Series 1988B 4.01%, 07/05/06 (a)(b)(c)	3,000	3,000
<b>Puerto Rico 2.8%</b>		
<b>Puerto Rico</b>		
TRAN Series 2006 3.23%, 07/28/06 (b)	15,000	15,014
<b>Puerto Rico Highway and Transportation Auth</b>		
Highway Refunding RB Series BB 3.50%, 02/15/07 (a)(b)(c)	11,210	11,210
<b>Puerto Rico Municipal Finance Agency</b>		
Refunding Bonds Series C 3.50%, 02/15/07 (a)(b)(c)	4,945	4,945
		<b>31,169</b>
<b>South Carolina 0.8%</b>		
<b>South Carolina Public Service Auth</b>		
TECP 3.53%, 08/11/06 (c)	8,591	8,591
<b>Tennessee 0.0%</b>		
<b>Montgomery Cnty Public Building Auth</b>		
Pooled Financing RB (Tennessee Cnty Loan Pool) Series 2002 4.05%, 07/03/06 (a)(b)	425	425
<b>Texas 2.8%</b>		
<b>Dallas Fort Worth International Airport</b>		
Joint Improvement and Refunding RB Series 2001A 4.04%, 07/06/06 (a)(b)(c)(d)	3,495	3,495
<b>Texas</b>		
TRAN Series 2005 3.70%, 08/31/06	5,000	5,006
3.74%, 08/31/06	16,500	16,517

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Texas State University System Board of Regents</b>		
Permanent University Fund Bonds Series 2005B 4.01%, 07/06/06 (a)(c)	6,350	6,350
		<b>31,368</b>
<b>Washington 0.7%</b>		
<b>Port of Seattle</b>		
Intermediate Lien Refunding RB Series 2006 4.01%, 07/06/06 (a)(b)(c)(d)	7,250	7,250
<b>Wyoming 1.4%</b>		
<b>Lincoln Cnty</b>		
Pollution Control RB (Amoco) Series 1983 3.40%, 10/01/06 (a)	15,200	15,182

### End of Investments.

At 06/30/06, the cost of the fund's investments was \$1,138,962.

- (a) Variable-rate security.
- (b) Credit-enhanced security.
- (c) Liquidity-enhanced security.
- (d) Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registrations, normally to qualified institutional buyers. At the period end, the value of these amounted to \$311,776 or 28.1% of net assets.

BAN – Bond anticipation note  
COP – Certificate of participation  
GO – General obligation  
HFA – Housing Finance Agency  
IDA – Industrial Development Authority  
IDRB – Industrial Development Revenue Bond  
RAN – Revenue anticipation note  
RB – Revenue bond  
TAN – Tax anticipation note  
TECP – Tax-exempt commercial paper  
TRAN – Tax and revenue anticipation note

Statement of

## Assets and Liabilities

As of June 30, 2006; unaudited. All numbers x 1,000 except NAV.

### Assets

Investments, at cost and value	\$1,138,962
Cash	845
Receivables:	
Fund shares sold	26,432
Investments sold	800
Interest	6,361
Prepaid expenses	+ 64
<b>Total assets</b>	<b>1,173,464</b>

### Liabilities

Payables:	
Dividends to shareholders	1,448
Investments bought	31,223
Fund shares redeemed	29,713
Investment adviser and administrator fees	16
Transfer agent and shareholder services fees	41
Trustees' fees	3
Accrued expenses	+ 32
<b>Total liabilities</b>	<b>62,476</b>

### Net Assets

<b>Total assets</b>	1,173,464
<b>Total liabilities</b>	- 62,476
<b>Net assets</b>	<b>\$1,110,988</b>

### Net Assets by Source

Capital received from investors	1,111,323
Net investment income not yet distributed	12
Net realized capital losses	(347)

### Net Asset Value (NAV)

<b>Net Assets</b>	÷	<b>Shares Outstanding</b>	=	<b>NAV</b>
\$1,110,988		1,111,235		\$1.00

Schwab AMT Tax-Free Money Fund

Statement of

**Operations**

For January 1, 2006 through June 30, 2006; unaudited. All numbers x 1,000.

**Investment Income**

Interest	<b>\$20,004</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	2,284
Transfer agent and shareholder service fees	2,746
Trustees' fees	11
Custodian fees	25
Portfolio accounting fees	22
Professional fees	13
Registration fees	38
Shareholder reports	13
Other expenses	+
	6
Total expenses	5,158
Expense reduction	-
	1,192
<b>Net expenses</b>	<b>3,966</b>

**Increase in Net Assets from Operations**

Total investment income	20,004
Net expenses	-
	3,966
Net investment income	<b>16,038</b>
Net realized losses	+
	(36)
<b>Increase in net assets from operations</b>	<b>\$16,002</b>

## Schwab AMT Tax-Free Money Fund

Statements of

### Changes in Net Assets

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

Figures for current period are unaudited.

#### Operations

	1/1/06-6/30/06	1/1/05-12/31/05
Net investment income	\$16,038	\$21,545
Net realized losses	+ (36)	(223)
<b>Increase in net assets from operations</b>	<b>16,002</b>	<b>21,322</b>

#### Distributions Paid

Dividends from net investment income	16,038	21,545
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#### Transactions in Fund Shares\*

Shares sold	2,928,872	5,637,418
Shares reinvested	14,395	21,042
Shares redeemed	+ (3,805,113)	(5,589,996)
<b>Net transactions in fund shares</b>	<b>(861,846)</b>	<b>68,464</b>

#### Net Assets

Beginning of period	1,972,870	1,904,629
Total increase or decrease	+ (861,882)	68,241
<b>End of period</b>	<b>\$1,110,988</b>	<b>\$1,972,870</b>

Net investment income not yet distributed	<b>\$12</b>	<b>\$12</b>
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\*Transactions took place at \$1.00 per share; figures for share quantities are the same as for dollars.

See financial notes. 47

# Schwab Massachusetts Municipal Money Fund™

## Financial Statements

### Financial Highlights

	1/1/06– 6/30/06*	1/1/05– 12/31/05	1/1/04– 12/31/04	5/16/03 <sup>1</sup> – 12/31/03
<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	0.01	0.02	0.01	0.00 <sup>2</sup>
Less distributions:				
Dividends from net investment income	(0.01)	(0.02)	(0.01)	(0.00) <sup>2</sup>
Net asset value at end of period	1.00	1.00	1.00	1.00
Total return (%)	1.31 <sup>3</sup>	1.78	0.64	0.30 <sup>3</sup>
<b>Ratios/Supplemental Data (%)</b>				
Ratios to average net assets:				
Net operating expenses	0.65 <sup>4</sup>	0.63	0.60	0.51 <sup>4,5</sup>
Gross operating expenses	0.88 <sup>4</sup>	0.87	0.86	0.86 <sup>4</sup>
Net investment income	2.66 <sup>4</sup>	1.76	0.63	0.48 <sup>4</sup>
Net assets, end of period (\$ x 1,000,000)	366	351	386	363

\* Unaudited.

<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.

<sup>5</sup> 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%.

## Schwab Massachusetts Municipal Money Fund

### Portfolio Holdings as of June 30, 2006 (Unaudited)

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

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be viewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on a fund's most recent Form N-Q is also 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. For variable-rate obligations, the rate shown is the rate as of the report date and the maturity date shown is the next interest rate change date.

Holdings by Category	Cost (\$x1,000)	Value (\$x1,000)
<b>95.2% Municipal Securities</b>	348,316	348,316
<b>95.2% Total Investments</b>	<b>348,316</b>	<b>348,316</b>
<b>4.8% Other Assets and Liabilities</b>		17,657
<b>100.0% Net Assets</b>		<b>365,973</b>

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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### Municipal Securities 95.2% of net assets

#### Massachusetts 92.5%

##### Bridgewater-Raynham Regional SD

BAN		
2.70%, 07/05/06	1,726	1,726
3.31%, 01/26/07	2,000	2,013

##### Chelmsford

BAN		
3.66%, 06/22/07	2,539	2,559

##### Falmouth

BAN		
2.73%, 07/21/06	2,000	2,001
3.24%, 07/21/06	2,775	2,777

##### Haverhill

BAN		
3.25%, 11/10/06	2,000	2,009
State Qualified BAN		
3.62%, 03/30/07	2,000	2,013

##### Massachusetts

GO Bonds Consolidated Loan		
Series 1998C		
4.00%, 07/06/06 (a)(b)(c)(d)	3,485	3,485
GO Bonds Consolidated Loan		
Series 2000C		
3.99%, 07/06/06 (a)(c)(d)	1,500	1,500
GO Bonds Consolidated Loan		
Series 2004A		
3.97%, 07/06/06 (a)(b)(c)(d)	3,950	3,950
GO Bonds Consolidated Loan		
Series 2005A		
3.99%, 07/06/06 (a)(b)(c)(d)	3,000	3,000
GO Bonds Consolidated Loan		
Series 2005C		
4.00%, 07/06/06 (a)(c)(d)	5,145	5,145
4.01%, 07/06/06 (a)(c)(d)	5,790	5,790
GO Refunding Bonds		
Series 2004A		
4.01%, 07/05/06 (a)(b)(c)(d)	3,090	3,090
Lease RB (Route 3 North		
Transportation Improvements)		
Series 2002B		
3.96%, 07/05/06 (a)(b)(c)	4,500	4,500

See financial notes. 49

**Schwab Massachusetts Municipal Money Fund**

**Portfolio Holdings** (Unaudited) 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>Massachusetts Bay Transportation Auth</b>			RB (Fessenden School) Series 2001 4.02%, 07/06/06 (a)(b)		
Assessment Bonds				3,000	3,000
Series 2005A			RB (FIBA Technologies) Series 2003 4.05%, 07/05/06 (a)(b)		
4.00%, 07/06/06 (a)(c)(d)	5,495	5,495		1,795	1,795
4.01%, 07/06/06 (a)(c)(d)	5,000	5,000	RB (Gordon College) Series 2002 4.00%, 07/06/06 (a)(b)		
Sr Sales Tax Bonds				2,100	2,100
Series 2004C			RB (WGBH Educational Foundation) 2002A 4.00%, 07/06/06 (a)(b)(c)(d)		
4.01%, 07/06/06 (a)(c)(d)	11,285	11,285		3,000	3,000
Sr Sales Tax Bonds			RB (Worcester Academy) Series 2000 4.00%, 07/06/06 (a)(b)		
Series 2006C				5,500	5,500
4.01%, 07/06/06 (a)(c)(d)	11,405	11,405	RB (YMCA of Greater Boston) Series 2004A 3.98%, 07/06/06 (a)(b)		
Sr Sales Tax RB Series 2005A				1,500	1,500
4.00%, 07/06/06 (a)(c)(d)	2,300	2,300	<b>Massachusetts Health and Educational Facilities Auth</b>		
<b>Massachusetts Development Finance Agency</b>			RB (Baystate Medical Center) Series D 4.00%, 07/06/06 (a)(b)(c)(d)		
Education RB (Dexter School) Series 2000				12,200	12,200
4.00%, 07/06/06 (a)(b)(c)	6,235	6,235	RB (Boston Home) Series 2002B 4.00%, 07/06/06 (a)(b)		
Higher Education RB (Smith College) Series 2005				2,500	2,500
4.01%, 07/06/06 (a)(c)	4,890	4,890	RB (Massachusetts Institute of Technology) Series I1 3.93%, 07/06/06 (a)(c)(d)		
M/F Housing RB (Archstone Reading Apts) Series 2004A				7,965	7,965
4.02%, 07/05/06 (a)(b)	8,000	8,000	RB (Massachusetts Institute of Technology) Series K 4.00%, 07/06/06 (a)(c)(d)		
M/F Housing RB (Midway Studios) Series 2003A				8,800	8,800
4.03%, 07/06/06 (a)(b)	5,000	5,000	RB (Winchester Hospital) Series D 4.00%, 07/06/06 (a)(b)(c)(d)		
M/F Housing Refunding RB (Kensington at Chelmsford) Series 2002				4,000	4,000
4.02%, 07/06/06 (a)(b)	16,200	16,200	Revenue Notes (Harvard University) Series EE 3.55%, 08/10/06		
RB (Berkshire School) Series 2001				7,000	7,000
3.99%, 07/06/06 (a)(b)	4,500	4,500	<b>Massachusetts HFA</b>		
RB (Boston University) Series R3			Housing Bonds Series 2003S 4.06%, 07/05/06 (a)(c)(d)		
3.95%, 07/06/06 (a)(b)(c)	1,000	1,000		7,285	7,285
RB (Boston University) Series T1			RB Series 2005H 4.04%, 07/05/06 (a)(c)		
4.00%, 07/06/06 (a)(b)(c)(d)	2,605	2,605		2,965	2,965
RB (College of Holy Cross) Series 2002					
4.00%, 07/06/06 (a)(b)(c)(d)	1,600	1,600			



# Schwab Massachusetts Municipal Money Fund

## Portfolio Holdings (Unaudited) continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Rental Housing Mortgage RB Series 2002F		
4.02%, 07/06/06 (a)(b)(c)(d)	6,615	6,615
4.04%, 07/06/06 (a)(b)(c)(d)	5,315	5,315
S/F Housing Notes Series O		
4.03%, 12/01/06	6,000	5,921
S/F Housing RB Series 122		
4.03%, 07/06/06 (a)(c)	8,000	8,000
<b>Massachusetts IFA</b>		
RB (New England College of Optometry) Series 1997		
4.00%, 07/06/06 (a)(b)	6,330	6,330
<b>Massachusetts School Building Auth</b>		
Dedicated Sales Tax Bonds Series 2005A		
4.00%, 07/06/06 (a)(b)(c)(d)	13,005	13,005
<b>Massachusetts State College Building Auth</b>		
RB Series 2006A		
4.01%, 07/05/06 (a)(b)(c)(d)	8,240	8,240
<b>Massachusetts Turnpike Auth</b>		
RB (Western Turnpike) Series 1997A		
4.00%, 07/06/06 (a)(b)(c)(d)	7,750	7,750
<b>Massachusetts Water Pollution Abatement Trust</b>		
Pool Program Bonds Series 10		
4.00%, 07/06/06 (a)(c)(d)	3,835	3,835
RB Subordinate Series 1999A		
4.00%, 07/05/06 (a)(c)(d)	9,500	9,500
<b>Massachusetts Water Resources Auth</b>		
CP Notes Series 1994		
3.55%, 07/06/06 (b)	23,500	23,500
3.55%, 07/07/06 (b)	6,000	6,000
3.57%, 08/04/06 (b)	5,000	5,000
General Revenue Refunding Bonds Series 2005B		
3.99%, 07/06/06 (a)(b)(c)	1,900	1,900
<b>Needham</b>		
BAN		
3.64%, 11/01/06	4,110	4,118

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Pembroke</b>		
BAN		
3.68%, 08/03/06	10,000	10,002
<b>Plymouth</b>		
BAN		
3.60%, 09/27/06	4,560	4,572
3.73%, 12/12/06	4,000	4,011
<b>Ralph C. Mahar Regional SD</b>		
BAN		
2.70%, 07/14/06	2,000	2,001
<b>Salem</b>		
BAN		
3.34%, 01/11/07	2,000	2,009
		<b>338,307</b>

## Puerto Rico 2.7%

<b>Puerto Rico</b>		
TRAN Series 2006		
3.23%, 07/28/06 (b)	10,000	10,009

## End of Investments.

At 06/30/06, the cost of the fund's investments was \$348,316.

- (a) Variable rate security.
- (b) Credit-enhanced security.
- (c) Liquidity-enhanced security.
- (d) Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registrations, normally to qualified institutional buyers. At the period end, the value of these amounted to \$163,160 or 44.6% of net assets.

BAN – Bond anticipation note  
 GAN – Grant anticipation note  
 GO – General obligation  
 HFA – Housing Finance Agency  
 IDA – Industrial Development Authority  
 RB – Revenue bond  
 TECP – Tax-exempt commercial paper  
 TRAN – Tax and revenue anticipation note

See financial notes. 51

## Schwab Massachusetts Municipal Money Fund

Statement of

### Assets and Liabilities

As of June 30, 2006; unaudited. All numbers x 1,000 except NAV.

#### Assets

Investments, at cost and value	\$348,316
Cash	2,105
Receivables:	
Investments sold	2,255
Fund shares sold	14,291
Interest	3,672
Prepaid expenses	+ 68
<b>Total assets</b>	<b>370,707</b>

#### Liabilities

Payables:	
Fund shares redeemed	4,227
Dividends to shareholders	462
Investment adviser and administrator fees	5
Transfer agent and shareholder services fees	13
Trustees' fees	3
Accrued expenses	+ 24
<b>Total liabilities</b>	<b>4,734</b>

#### Net Assets

<b>Total assets</b>	370,707
<b>Total liabilities</b>	- 4,734
<b>Net assets</b>	<b>\$365,973</b>

#### Net Assets by Source

Capital received from investors	366,092
Net investment income not yet distributed	14
Net realized capital losses	(133)

#### Net Asset Value (NAV)

<b>Net Assets</b>	<b>÷</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$365,973		366,093		\$1.00

## Schwab Massachusetts Municipal Money Fund

Statement of

### Operations

For January 1, 2006 through June 30, 2006; unaudited. All numbers x 1,000.

#### Investment Income

Interest	\$5,936
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#### Net Realized Gains and Losses

Net realized losses on investments sold	(38)
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#### Expenses

Investment adviser and administrator fees	688
Transfer agent and shareholder service fees	815
Trustees' fees	10
Custodian fees	9
Portfolio accounting fees	12
Professional fees	12
Registration fees	43
Shareholder reports	4
Other expenses	+
	4
Total expenses	1,597
Custodian credits	-
	1
Expense reduction	-
	418
<b>Net expenses</b>	<b>1,178</b>

#### Increase in Net Assets from Operations

<b>Total investment income</b>	5,936
<b>Net expenses</b>	-
	1,178
<b>Net investment income</b>	<b>4,758</b>
<b>Net realized losses</b>	+
	(38)
<b>Increase in net assets from operations</b>	<b>\$4,720</b>

## Schwab Massachusetts Municipal Money Fund

Statements of

### Changes in Net Assets

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

Figures for current period are unaudited.

#### Operations

	1/1/06-6/30/06	1/1/05-12/31/05
Net investment income	\$4,758	\$6,224
Net realized losses	+ (38)	(10)
<b>Increase in net assets from operations</b>	<b>4,720</b>	<b>6,214</b>

#### Distributions Paid

Dividends from net investment income	<b>4,745</b>	<b>6,223</b>
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#### Transactions in Fund Shares\*

Shares sold	684,061	1,272,243
Shares reinvested	4,271	6,127
Shares redeemed	+ (673,722)	(1,312,689)
<b>Net transactions in fund shares</b>	<b>14,610</b>	<b>(34,319)</b>

#### Net Assets

Beginning of period	351,388	385,716
Total increase or decrease	+ 14,585	(34,328)
<b>End of period</b>	<b>\$365,973</b>	<b>\$351,388</b>

Net investment income not yet distributed	\$14	\$1
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\*Transactions took place at \$1.00 per share; figures for share quantities are the same as for dollars.

## Financial Notes, unaudited.

Unless stated, all dollar amounts are x 1,000.

### 1. 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 list below shows all the funds in the trust including the funds discussed in this report, which are highlighted:

<b>The Charles Schwab Family of Funds</b>	<b>Schwab New Jersey Municipal Money Fund</b>
(organized October 20, 1989)	<b>Schwab Pennsylvania Municipal Money Fund</b>
Schwab Money Market Fund	<b>Schwab AMT Tax-Free Money Fund</b>
Schwab Government Money Fund	<b>Schwab Massachusetts Municipal Money Fund</b>
Schwab U.S. Treasury Money Fund	Schwab Retirement Advantage Money Fund
Schwab Value Advantage Money Fund	Schwab Investor Money Fund
Schwab Municipal Money Fund	Schwab Advisor Cash Reserves
Schwab California Municipal Money Fund	Schwab Cash Reserves
<b>Schwab New York Municipal Money Fund</b>	

The Schwab Florida Municipal Money Fund's investment objective, investment strategy and name have been changed due to the repeal of the annual intangible personal property tax. Accordingly, the Fund's new name is the Schwab AMT Tax-Free Money Fund and it will no longer invest primarily in securities issued by the State of Florida and its municipalities.

Schwab New York Municipal Money 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. Schwab New Jersey Municipal Money, Schwab Pennsylvania Municipal Money, Schwab AMT Tax-Free Money and Schwab 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 trustees may issue as many shares as necessary.

### 2. Significant Accounting Policies

The following is a summary of the significant accounting policies the funds use in their operations and in their preparation of financial statements:

#### (a) Security Valuation:

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

#### (b) Portfolio Investments:

**Delayed-Delivery:** 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, 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.

## **Financial Notes, unaudited (continued).**

Unless stated, all dollar amounts are x 1,000.

## **2. Significant Accounting Policies (continued)**

### **(c) Security Transactions:**

Security transactions are recorded as of the date the order to buy or sell the security is executed. Realized gains and losses from security transactions are based on the identified costs of the securities involved.

### **(d) Income, Expenses and Distributions:**

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

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

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

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.

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 keeps certain assets in segregated accounts, as may be required by securities law.

### **(e) Borrowing:**

The funds may borrow money from banks and custodians. The funds may obtain temporary bank loans through the trusts to which they 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 were no borrowings for any funds during the period.

**Financial Notes, unaudited (continued).**

Unless stated, all dollar amounts are x 1,000.

**2. Significant Accounting Policies (continued)****(f) Accounting Estimates:**

The accounting policies described in this report 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.

**(g) Indemnification:**

Under the funds' organizational documents, the 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.

**3. Affiliates and Affiliated Transactions**

Charles Schwab Investment Management, Inc. (CSIM or the investment adviser), a wholly owned subsidiary of The Charles Schwab Corporation, serves as each fund's investment adviser and administrator pursuant to an Investment Advisory and Administration Agreement (Advisory Agreement) between it and the trust. Charles Schwab & Co., Inc. ("Schwab") is an affiliate of the investment adviser and is the trust's shareholder services agent and transfer agent.

For its advisory and administrative services to each fund, the investment adviser is entitled to receive an annual fee payable monthly based on each fund's average daily net assets described as follows:

Average daily net assets	New York Municipal Money Fund	New Jersey Municipal Money Fund	Pennsylvania Municipal Money Fund	AMT Tax-Free Money Fund	Massachusetts Municipal Money Fund
First \$1 billion	0.38%	0.38%	0.38%	0.38%	0.38%
Over \$1 billion	0.35%	0.35%	0.35%	0.35%	0.35%
Over \$10 billion	0.32%	0.32%	0.32%	0.32%	0.32%
Over \$20 billion	0.30%	0.30%	0.30%	0.30%	0.30%
Over \$40 billion	0.27%	0.27%	0.27%	0.27%	0.27%

**Financial Notes, unaudited (continued).**

Unless stated, all dollar amounts are x 1,000.

**3. Affiliates and Affiliated Transactions (continued)**

For its transfer agent and shareholder services, Schwab is entitled to receive an annual fee payable monthly based on each fund's average daily net assets described as follows:

	<u>Transfer Agent Fees</u>	<u>Shareholder Service Fees</u>
Sweep Shares	0.25%	0.20%
Value Advantage Shares*	0.05%	0.17%

Although these agreements specify certain fees for these services, CSIM and Schwab have made additional agreements with the funds to limit the total expenses charged, excluding interest, taxes and certain non-routine expenses through April 29, 2007, as follows:

	<u>New York Municipal Money Fund</u>	<u>New Jersey Municipal Money Fund</u>	<u>Pennsylvania Municipal Money Fund</u>	<u>AMT Tax-Free Money Fund</u>	<u>Massachusetts Municipal Money Fund</u>
Sweep Shares	0.65%	0.65%	0.65%	0.65%	0.65%
Value Advantage Shares*	0.45%	n/a	n/a	n/a	n/a

\* Value Advantage Shares are only offered by New York Municipal Money Fund.

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. For the period ended June 30, 2006, each fund's total security transactions with other Schwab Funds were as follows:

New York Municipal Money Fund	\$412,864
New Jersey Municipal Money Fund	557,415
Pennsylvania Municipal Money Fund	551,825
AMT Tax-Free Money Fund	1,282,249
Massachusetts Municipal Money Fund	359,345

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. There was no interfund borrowing or lending activity for any fund during the period.

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.



**Financial Notes, unaudited (continued).**

Unless stated, all dollar amounts are x 1,000.

**4. Federal Income Taxes**

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 realized net capital gains (if any) to their respective shareholders each year. The net investment income and realized capital gains and losses may differ for financial statement and tax purposes primarily due to differing treatments of losses on wash sales and market discount. As long as a fund meets the tax requirements, it is not required to pay federal income tax.

As of December 31, 2005, the components of distributable earnings on a tax basis were as follows:

	<u>New York Municipal Money Fund</u>	<u>New Jersey Municipal Money Fund</u>	<u>Pennsylvania Municipal Money Fund</u>	<u>AMT Tax-Free Money Fund</u>	<u>Massachusetts Municipal Money Fund</u>
Undistributed tax-exempt income	—	—	\$2	\$12	\$1

As of December 31, 2005, the following funds had capital loss carry forwards available to offset future net capital gains before the expiration dates:

<u>Expire</u>	<u>New York Municipal Money Fund</u>	<u>New Jersey Municipal Money Fund</u>	<u>Pennsylvania Municipal Money Fund</u>	<u>AMT Tax-Free Money Fund</u>	<u>Massachusetts Municipal Money Fund</u>
2009	\$12	—	—	—	—
2011	—	—	—	—	\$2
2012	244	—	\$14	\$80	83
2013	142	—	43	231	10
<b>Total</b>	<b>\$398</b>	<b>—</b>	<b>\$57</b>	<b>\$311</b>	<b>\$95</b>

100% of the funds' distributions for the fiscal year ended December 31, 2005 were from tax-exempt interest dividends as follows:

	<u>New York Municipal Money Fund</u>	<u>New Jersey Municipal Money Fund</u>	<u>Pennsylvania Municipal Money Fund</u>	<u>AMT Tax-Free Money Fund</u>	<u>Massachusetts Municipal Money Fund</u>
From tax-exempt income	\$33,324	\$8,191	\$6,627	\$21,545	\$6,223

The permanent book and tax basis differences may result in reclassifications between capital account and other accounts as required. The adjustments will have no impact on net assets or the results of operations.

As of December 31, 2005, the funds made the following reclassifications:

**Financial Notes, unaudited (continued).**

Unless stated, all dollar amounts are x 1,000.

**4. Federal Income Taxes (continued)**

	<b>New York Municipal Money Fund</b>	<b>New Jersey Municipal Money Fund</b>	<b>Pennsylvania Municipal Money Fund</b>	<b>AMT Tax-Free Money Fund</b>	<b>Massachusetts Municipal Money Fund</b>
Capital received from investors	—	\$14	—	—	—
Net investment income not yet distributed	—	\$(18)	—	—	—
Long term capital gains	—	\$4	—	—	—

# 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, Schwab New Jersey Municipal Money Fund, Schwab Pennsylvania Municipal Money Fund, Schwab AMT Tax-Free Money Fund and 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.

The Board, including a majority of the Independent Trustees, considered information specifically relating to its consideration of the continuance of the Agreement at meetings held on May 2, 2006, May 24, 2006 and June 12, 2006, and approved the renewal of the Agreement for an additional one year term at the meeting held on June 12, 2006. The Board’s approval of the Agreement was based on consideration and evaluation of a variety of specific factors discussed at these meetings 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 information considered by the trustees included specific information concerning changes in the nature, extent and quality of services provided by CSIM since the trustees had last considered approval of the Agreement. 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 and their shareholders. 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' shareholders 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 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, when applicable, 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 and the appropriateness of the benchmark used to compare the performance of each fund. The

trustees further considered the level of fund performance in the context of its review of fund expenses and adviser profitability discussed below. Following such evaluation the Board concluded, within the context of its full deliberations, that the performance of the funds supported 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 historical practice of voluntarily waiving 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 different legal, regulatory, compliance and operating features of mutual funds as compared to these other types of accounts. The Board also considered recent actions by CSIM to adjust fund investor eligibility criteria that would result in more shareholders investing in funds (and share classes within funds) that have lower net operating expenses and that are designed to 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. Following such evaluation and based upon CSIM's agreement to implement proposals related to fund investor eligibility, the Board concluded, within the context of its full deliberations, that the expenses of the funds are reasonable and supported 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 connec-

tion, 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. The Board also considered information relating to changes to CSIM's cost structure, including cost savings, technology investments and increased operating efficiencies and how these changes affected CSIM's profitability under the Agreement. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the profitability of CSIM is reasonable and supported 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 that include lower fees at

higher graduated asset levels. The Board also considered certain commitments by CSIM and Schwab that are designed to pass along potential economies of scale to fund shareholders. Specifically, the Board considered CSIM and Schwab's commitments, which may be changed only with Board approval: (i) to reduce contractual advisory fees or add breakpoints for certain funds, (ii) to implement, by means of expense limitation agreement, over the next several years additional reductions in net overall expenses for certain funds, (iii) to reduce administrative "sweep" fees paid to Schwab in connection with money market fund shares that are used for automatic investment of cash held in customer brokerage accounts, and (iv) to implement future net total operating expense reductions for taxable money funds as a group and non-taxable money funds as a group when aggregate assets of such group of funds exceed certain levels. Based on this evaluation, and in consideration of the commitments made by CSIM and Schwab as discussed above, 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 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

The tables below give information about the trustees and officers for The Charles Schwab Family of Funds, which includes the funds covered in this report. The “Fund Complex” includes The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust, Schwab Annuity Portfolios, Laudus Trust, Laudus Variable Insurance Trust, Excelsior Funds, Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust. As of June 30, 2006, the Fund Complex included 98 funds.

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, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served')	Principal Occupations During the Past Five Years	Number of Portfolios in Fund Complex Overseen by the Trustee	Other Directorships
<b>Mariann Byerwalter</b> 1960 Trustee (Trustee of The Charles Schwab Family of Funds since 2000.)	Chairman of JDN Corporate Advisory LLC. <i>From 1996 to 2001</i> , Vice President for Business Affairs and Chief Financial Officer of Stanford University, and <i>in 2001</i> , Special Advisor to the President of Stanford University.	98	<i>Board 1</i> —Director, Redwood Trust, Inc. <i>Board 2</i> —Director, PMI Group, Inc.
<b>Donald F. Dorward</b> 1931 Trustee (Trustee of The Charles Schwab Family of Funds since 1989.)	Chief Executive Officer, Dorward & Associates (corporate management, marketing and communications consulting firm). <i>From 1996-1999</i> , Executive Vice President and Managing Director, Grey Advertising. <i>Prior to 1996</i> , President and Chief Executive Officer, Allen & Dorward Advertising.	57	None.
<b>William A. Hasler</b> 1941 Trustee (Trustee of The Charles Schwab Family of Funds since 2000.)	Retired. Dean Emeritus, Haas School of Business, University of California, Berkeley. <i>Until February 2004</i> , Co-Chief Executive Officer, Aphton Corp. (bio-pharmaceuticals). <i>Prior to August 1998</i> , Dean of the Haas School of Business, University of California, Berkeley (higher education).	98	<i>Board 1</i> —Director, Aphton Corp. <i>Board 2</i> —Director, Mission West Properties <i>Board 3</i> —Director, TOUSA <i>Board 4</i> —Director, Stratex Networks <i>Board 5</i> —Director, Genitope Corp. <i>Board 6</i> —Director & Non-Executive Chairman, Solelectron Corp. <i>Board 7</i> —Director, Ditech Communications Corp.

# **Independent Trustees** continued

Name, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served <sup>1</sup> )	Principal Occupations During the Past Five Years	Number of Portfolios in Fund Complex Overseen by the Trustee	Other Directorships
<b>Robert G. Holmes</b> 1931 Trustee (Trustee of The Charles Schwab Family of Funds since 1989.)	Chairman, Chief Executive Officer and Director, Semloh Financial, Inc. (international financial services and investment advisory firm).	57	None.
<b>Gerald B. Smith</b> 1950 Trustee (Trustee of The Charles Schwab Family of Funds since 2000.)	Chairman and Chief Executive Officer and founder of Smith Graham & Co. (investment advisors).	57	<i>Board 1</i> —Board of Cooper Industries <i>Board 2</i> —Chairman of the Audit Committee of Northern Border Partners, M.L.P.
<b>Donald R. Stephens</b> 1938 Trustee (Trustee of The Charles Schwab Family of Funds since 1989.)	Managing Partner, D.R. Stephens & Company (investments). Prior to 1996, Chairman and Chief Executive Officer of North American Trust (real estate investment trust).	57	None.
<b>Michael W. Wilsey</b> 1943 Trustee (Trustee of The Charles Schwab Family of Funds since 1989.)	Chairman and Chief Executive Officer, Wilsey Bennett, Inc. (real estate investment and management, and other investments).	57	None.

## Interested Trustees

Name, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served <sup>1</sup> )	Principal Occupations During the Past Five Years	Number of Portfolios in Fund Complex Overseen by the Trustee	Other Directorships
<b>Charles R. Schwab<sup>2</sup></b> 1937 Chairman and Trustee (Chairman and Trustee of The Charles Schwab Family of Funds since 1989.)	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 May 2003</i> , Co-Chief Executive Officer, The Charles Schwab Corporation.	57	None.
<b>Randall W. Merk<sup>2</sup></b> 1954 Trustee (Trustee of The Charles Schwab Family of Funds since 2005.)	Executive Vice President and President, Schwab Financial Products, Charles Schwab & Co., Inc.; Director, Charles Schwab Asset Management (Ireland) Limited and Charles Schwab Worldwide Funds PLC. <i>From September 2002 to July 2004</i> , Chief Executive Officer and President, Charles Schwab Investment Management, Inc. and Executive Vice President, Charles Schwab & Co., Inc. <i>Prior to September 2002</i> , President and Chief Investment Officer, American Century Investment Management, and Director, American Century Companies, Inc.	98	None.



## Officers of the Trust

**Name, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served<sup>3</sup>)**

**Principal Occupations During the Past Five Years**

<b>Evelyn Dilsaver</b> 1955 President and Chief Executive Officer (Officer of The Charles Schwab Family of Funds since 2004.)	President, Chief Executive Officer, and Director, Charles Schwab Investment Management, Inc.; Executive Vice President, Charles Schwab & Co., Inc.; President and Chief Executive Officer, Laudus Trust and Laudus Variable Insurance Trust; President, Excelsior Funds Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust; President, Mutual Fund Division, UST Advisers, Inc. <i>From June 2003 to July 2004</i> , Senior Vice President, Asset Management Products and Services, Charles Schwab & Co., Inc. <i>Prior to June 2003</i> , Executive Vice President, Chief Financial Officer, and Chief Administrative Officer, U.S. Trust, a subsidiary of The Charles Schwab Corporation.
<b>Stephen B. Ward</b> 1955 Senior Vice President and Chief Investment Officer (Officer of The Charles Schwab Family of Funds since 1991.)	Director, Senior Vice President and Chief Investment Officer, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Company.
<b>George Pereira</b> 1964 Treasurer and Principal Financial Officer (Officer of The Charles Schwab Family of Funds since 2004.)	Senior Vice President and Chief Financial Officer, Charles Schwab Investment Management, Inc.; Chief Financial Officer, Laudus Trust and Laudus Variable Insurance Trust; Chief Financial Officer and Chief Accounting Officer, Excelsior Funds Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust; Chief Financial Officer, Mutual Fund Division, UST Advisors, Inc. Director, Charles Schwab Worldwide Fund, PLC and Charles Schwab Asset Management (Ireland) Limited. <i>From December 1999 to November 2004</i> , Sr. Vice President, Financial Reporting, Charles Schwab & Co., Inc.
<b>Kimon Daifotis</b> 1959 Senior Vice President and Chief Investment Officer—Fixed Income (Officer of The Charles Schwab Family of Funds since 2004.)	Senior Vice President and Chief Investment Officer—Fixed Income, Charles Schwab Investment Management, Inc. <i>Prior to 2004</i> , Vice President and Sr. Portfolio Manager, Charles Schwab Investment Management, Inc.
<b>Jeffrey Mortimer</b> 1963 Senior Vice President and Chief Investment Officer—Equities (Officer of The Charles Schwab Family of Funds since 2004.)	Senior Vice President and Chief Investment Officer—Equities, Charles Schwab Investment Management, Inc.; Vice President and Chief Investment Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Prior to 2004</i> , Vice President and Sr. Portfolio Manager, Charles Schwab Investment Management, Inc.

## Officers of the Trust continued

Name, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served <sup>3</sup> )	Principal Occupations During the Past Five Years
<b>Randall Fillmore</b> 1960 Chief Compliance Officer and AML Officer (Officer of The Charles Schwab Family of Funds since 2002.)	Senior Vice President and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Senior Vice President Charles Schwab & Co., Inc.; Chief Compliance Officer, Laudus Trust and Laudus Variable Insurance Trust; Chief Compliance Officer, Excelsior Funds Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust. <i>From 2002 to 2003</i> , Vice President, Charles Schwab & Co., Inc., and Charles Schwab Investment Management, Inc. <i>From 2000 to 2002</i> , Vice President, Internal Audit, Charles Schwab & Co., Inc.
<b>Koji E. Felton</b> 1961 Secretary and Chief Legal Officer (Officer of The Charles Schwab Family of Funds since 1998.)	Senior Vice President, Chief Counsel and Corporate Secretary, Charles Schwab Investment Management, Inc.; Senior Vice President and Deputy General Counsel, Charles Schwab & Co., Inc.; Chief Legal Officer, Laudus Trust and Laudus Variable Insurance Trust; Chief Legal Officer, Excelsior Funds Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust. <i>Prior to June 1998</i> , Branch Chief in Enforcement at U.S. Securities and Exchange Commission in San Francisco.

<sup>1</sup> Trustees remain in office until they resign, retire or are removed by shareholder vote. 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> In addition to their employment with the investment adviser and the distributor, Messrs. Schwab and Merk also own stock of The Charles Schwab Corporation. Mr. Schwab and Mr. Merk are Interested Trustees because they are employees of Schwab and/or the adviser.

<sup>3</sup> The President, Treasurer and Secretary hold office until their respective successors are chosen and qualified or until he or she sooner dies, resigns, is removed or becomes disqualified. Each other officer serves at the pleasure of the Board.

# 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 [www.sec.gov](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 [www.sec.gov](http://www.sec.gov).

<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.

## The Schwab Funds Family®

### Stock Funds

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™  
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®

### Asset Allocation Funds

Schwab Viewpoints Fund™  
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 Inflation Protected 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>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.

*charles* SCHWAB

**Investment Adviser**

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

**Funds**

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

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# Schwab California Municipal Money Fund<sup>TM</sup>

**Semiannual Report**

June 30, 2006

*charles* SCHWAB

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Fund investment adviser: Charles Schwab Investment Management, Inc. (CSIM).  
Distributor and transfer agent: Charles Schwab & Co., Inc. (Schwab).

## From the Chairman



Charles Schwab  
Chairman

Dear Shareholder,

I have always believed that money funds are a great way to invest cash between long-term investments. And while no investment is risk free, money funds can also be good choices for investors who want to mitigate the potential fluctuations that may occur in their mostly stock portfolios.

As a result of the Federal Reserve having raised short-term interest rates eight times in the past 12 months (four of which occurred during the six-month period covered in this report), yields on money funds are more attractive than they have been in several years. With their relatively short weighted average maturity (WAM), money funds are typically positioned to capture a rise in market rates more quickly than those fixed income funds with longer maturities.

Here at Schwab, we offer a range of money funds with distinct investment strategies. Our municipal money funds, for example, may be beneficial for those of you in high tax brackets. We also offer money funds for those interested in the added protection provided by a portfolio of U.S. government securities.

In closing, I would like to emphasize that we at Schwab strive every day to warrant the trust you have placed in us. My colleagues and I continue to see opportunities ahead, and we are committed to helping you maximize them.

Thank you for investing with us.

Sincerely,

A handwritten signature in cursive script that reads "Charles Schwab".

*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.*

# Management's Discussion for the six months ended June 30, 2006



**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 semiannual report for your Schwab money fund for the six-month period ended June 30, 2006. Although the report period was marked by volatility, our money funds performed as designed, providing you with current income, stability of capital and convenient access to your money.

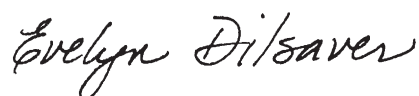
I'd like to take this opportunity to remind you that Schwab offers a range of money funds, including our purchased money funds, Schwab Value Advantage Investments®. These funds are designed for investors who have larger balances and don't require frequent access to their cash. They require a minimum initial investment of \$25,000 (\$15,000 for IRA and custodial accounts) and include various taxable and tax-free investment strategies.

Further down the maturity spectrum, our ultrashort bond fund, Schwab YieldPlus,™ offers higher yield potential with higher risk than a money fund. Because taxes are always a concern, Schwab also offers two Schwab Tax-Free YieldPlus Funds that can help you manage tax impact and your exposure to the alternative minimum tax (AMT).

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,



*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.*

*Please remember that with Schwab YieldPlus and Tax-Free YieldPlus Funds, investment value will fluctuate, and shares, when redeemed, may be worth more or less than original cost. Bond funds are subject to increased loss of principal during periods of rising interest rates.*



**Kevin Shaughnessy, CFA**, a vice president of the investment adviser and senior portfolio manager, is responsible for the 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

After a volatile six months in the domestic markets, equity and fixed income funds ended the period with mixed returns. Several key issues dominated market discussions throughout the period, including slowing economic growth, inflation fears, U.S. Federal Reserve (the Fed) interest rate increases, and volatile crude oil prices.

The markets remained in a steady growth mode over the first quarter of 2006 and ended the period on a positive note. Volatility was up during the second quarter of the year, but remained lower than its historical norm. During the six-month report period, oil prices hit new record highs and the Fed continued to raise short-term interest rates to curb inflationary pressures, boosting its Fed Funds target rate four consecutive times during the six-month period and bringing the benchmark rate up to 5.25%. This was the 17th rate hike over the past two years.

Rising sharply in the second half of the report period, crude oil prices peaked in April at around \$75 per barrel while domestic gasoline prices were above \$3 a gallon. In recent months, crude oil prices climbed back in response to declining crude inventories and geopolitical concerns. Despite the volatility in energy prices, gains in productivity have remained strong and corporate earnings continue to rise. Reasonable valuations, a solid earnings season, and expectations that monetary policy tightening will soon come to an end, helped support the markets. Additionally, job and income growth remained positive, though they slowed during the report period. Moderate inflationary expectations and large foreign capital inflows helped to contain increases in long-term interest rates.

As noted above, the Fed continued its tightening cycle throughout the period, raising its Fed Funds target 0.25% at each of its four meetings. As the Fed raised rates, the yield curve flattened and had brief periods of inversion. Historically, economic slowdowns or recessions have followed the inversion of the yield curve. Following a strong start to 2006, economic growth has moderated over the past six months.

Rising interest rates have led to volatility in the equities markets and have weighed down bond returns. Meanwhile, money market funds enticed investors as the rise in short-term interest rates offered yields that had not been seen in years. The mixed messages that arose from the slowing economy and rising inflation left investors puzzled about the direction of the Fed policy. The June 29 Federal Open Market Committee (FOMC) policy statement did little to alleviate uncertainty, as the Fed acknowledged slower growth while expressing concern about inflation risks.

The yields on municipal variable-rate demand notes rose significantly during the period as the yield of the Bond Market Association's BMA seven-day Municipal Index rose by 104 basis points. This change caused the yields on the Schwab California Municipal Money Fund to increase for the period.

Given the rising interest rate environment, the fund overweighted variable-rate notes, offering positive yield spread versus the BMA index. To further take advantage of the rising-rate environment, the fund maintained its relatively short weighted average maturity (WAM). Keeping the WAM short provided the flexibility to adapt and respond to the changes in interest rates by enabling management to more quickly reinvest at higher rates.

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

**California's economy continues to strengthen, building on steady growth in employment and exports and strong growth in personal income.**

The State added more than 262,000 payroll jobs from January to May 2006, up 1.8% over the same period in 2005. This follows a 1.8% year-over-year gain for all of 2005. Over 20% of these jobs were in the construction sector, though this sector is now slowing. The State also reported strong gains in the professional/business-services and leisure/hospitality job sectors. The State's unemployment rate dipped to 4.6% in May 2006, its lowest recording since May 2001, and down from 5.1% in May 2005. The State Department of Finance is projecting 1.6% growth in payroll jobs for the full year 2006, and 6.2% growth in personal income.

California expected to report a general fund balance of \$9.5 billion as of June 30, 2006, or 10.3% of annual expenditures. This positive result reflects revenue growth much stronger than anticipated, and a stronger carryover balance from the prior year. Fiscal year 2006 general fund revenues and transfers are now projected to be nearly \$8 billion ahead of the original budget estimates, with more than 15% year-over-year growth in personal income tax receipts. The balance also includes about \$2 billion in tax amnesty accruals.

On June 30, 2006, Governor Arnold Schwarzenegger signed the state budget for fiscal year 2007, which commenced on July 1, 2006. The \$101.3 billion general fund budget is 9.2% above last year's plan, and largely reflects the Governor's May revision spending proposals. The budget allocates \$7.0 billion in additional funds for primary and secondary education, of which about \$4.5 billion is an ongoing commitment. In part, this reflects a settlement towards the fiscal year 2005 suspension of Proposition 98's spending requirement for education. The plan also prepays \$1.4 billion in prior year loans to transportation programs, and another \$1.4 billion for deficit bonds and other intergovernmental loans. While the State expects to end fiscal year 2007 with a general fund balance of about \$2.1 billion, California's ongoing spending commitments are projected to continue to outstrip recurring revenues. California's Legislative Analyst projects the State will face operating imbalances of \$4.5 to \$5 billion in fiscal years 2008 and 2009.

In November, California voters will be asked to authorize over \$42 billion in new general obligation bonds, including a \$37.3 billion proposal advocated by the Governor and the State Legislature. This historically large debt package is a scaled down version of the Governor's Strategic Growth Plan that is intended for reinvestment in the State's major transportation, education, flood control and housing infrastructure.

With the state's improved economic and revenue performance, each of Moody's, S&P, and Fitch upgraded their ratings by a single notch in May and June 2006. Still, California's ratings remain among the lowest of the U.S. states. At the end of the report period, the State's ratings were A1 from Moody's, A+ from Standard & Poor's, and A+ from Fitch.

## Performance and Fund Facts as of 6/30/06

### 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
<b>Seven-Day Yield<sup>1</sup></b>	3.13%	3.32%
<b>Seven-Day Yield—No Waiver<sup>2</sup></b>	2.96%	3.19%
<b>Seven-Day Effective Yield<sup>1</sup></b>	3.18%	3.38%
<b>Seven-Day Taxable-Equivalent Effective Yield<sup>1, 3</sup></b>	5.45%	5.80%

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).

<b>Weighted Average Maturity</b>	39 days
<b>Credit Quality of Holdings</b> % of portfolio	100% Tier 1
<b>Credit-Enhanced Securities</b> % of portfolio	71%
<b>Minimum Initial Investment<sup>4</sup></b>	
<i>Sweep Investments™</i>	*
<i>Value Advantage Shares</i>	\$25,000
<i>(\$15,000 for IRA and custodial accounts)<sup>5</sup></i>	

**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 2006 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 January 1, 2006 and held through June 30, 2006.

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

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

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

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

	Expense Ratio <sup>1</sup> (Annualized)	Beginning Account Value at 1/1/06	Ending Account Value (Net of Expenses) at 6/30/06	Expenses Paid During Period <sup>2</sup> 1/1/06–6/30/06
<b>Schwab California Municipal Money Fund™</b>				
<i>Sweep Shares</i>				
Actual Return	0.65%	\$1,000	\$1,013.03	\$3.24
Hypothetical 5% Return	0.65%	\$1,000	\$1,021.57	\$3.26
<i>Value Advantage Shares™</i>				
Actual Return	0.45%	\$1,000	\$1,014.02	\$2.25
Hypothetical 5% Return	0.45%	\$1,000	\$1,022.56	\$2.26

<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 181 days of the period, and divided by 365 days of the fiscal year.

# Financial Statements

## Financial Highlights

Sweep Shares	1/1/06– 6/30/06*	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	1.00
Income from investment operations:						
Net investment income	0.01	0.02	0.01	0.00 <sup>1</sup>	0.01	0.02
Less distributions:						
Dividends from net investment income	(0.01)	(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	1.00
Total return (%)	1.30 <sup>2</sup>	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 <sup>3</sup>	0.65	0.65	0.65	0.65	0.65
Gross operating expenses	0.82 <sup>3</sup>	0.82	0.82	0.82	0.82	0.82
Net investment income	2.61 <sup>3</sup>	1.74	0.58	0.45	0.83	1.98
Net assets, end of period (\$ x 1,000,000)	4,208	4,134	4,147	4,169	4,056	3,897
Value Advantage Shares	1/1/06– 6/30/06*	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	1.00
Income or loss from investment operations:						
Net investment income	0.01	0.02	0.01	0.01	0.01	0.02
Less distributions:						
Dividends from net investment income	(0.01)	(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	1.00
Total return (%)	1.40 <sup>2</sup>	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 <sup>3</sup>	0.45	0.45	0.45	0.45	0.45
Gross operating expenses	0.59 <sup>3</sup>	0.59	0.59	0.59	0.59	0.61
Net investment income	2.81 <sup>3</sup>	1.96	0.78	0.65	1.03	2.11
Net assets, end of period (\$ x 1,000,000)	3,688	3,240	2,825	3,061	3,081	2,563

\* Unaudited.

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

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

## Schwab California Municipal Money Fund™

### Portfolio Holdings as of June 30, 2006 (Unaudited)

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

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be viewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on a fund's most recent Form N-Q is also 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. For variable-rate obligations, the rate shown is the rate as of the report date and the maturity date shown is the next interest rate change date.

Holdings by Category	Cost (\$x1,000)	Value (\$x1,000)
<b>104.2% Municipal Securities</b>	<b>8,227,210</b>	<b>8,227,210</b>
<b>104.2% Total Investments</b>	<b>8,227,210</b>	<b>8,227,210</b>
<b>(4.2)% Other Assets and Liabilities</b>		<b>(331,427)</b>
<b>100.0% Net Assets</b>		<b>7,895,783</b>

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

### Municipal Securities 104.2% of net assets

#### California 102.0%

##### Adelanto Public Utility Auth

Refunding RB (Utility System)

Series 2005A

3.99%, 07/03/06 (a)(b)(c) 13,965 13,965

##### Alameda Cnty IDA

RB (Aitchison Family Partnership)

Series 1993A

3.97%, 07/05/06 (a)(b) 2,520 2,520

RB (JMS Family Partnership)

Series 1995A

3.97%, 07/05/06 (a)(b) 1,000 1,000

RB (Scientific Technology)

Series 1994A

4.02%, 07/05/06 (a)(b) 2,100 2,100

##### Anaheim Housing Auth

M/F Housing RB (Casa Granada

Apts) Series 1997A

3.97%, 07/06/06 (a)(b) 3,495 3,495

M/F Housing RB (Park Vista

Apts) Series 2000D

3.96%, 07/05/06 (a)(b) 21,000 21,000

M/F Housing RB (Port Trinidad

Apts) Series 1997C

3.97%, 07/06/06 (a)(b) 1,940 1,940

M/F Housing Refunding RB

(Sage Park) Series 1998A

3.96%, 07/06/06 (a)(b) 5,500 5,500

##### Association of Bay Area Governments

Bonds (Airport Premium

Fare-Bart SFO Extension)

Series 2002A

4.00%, 07/06/06 (a)(b)(c)(d) 9,995 9,995

COP (Harker School Foundation)

Series 1998

3.94%, 07/05/06 (a)(b) 4,200 4,200

M/F Housing RB (Artech

Building) Series 1999A

3.97%, 07/06/06 (a)(b) 3,200 3,200

**Schwab California Municipal Money Fund™**

**Portfolio Holdings** (Unaudited) 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 3.96%, 07/06/06 (a)(b)	64,450	64,450	Economic Recovery Bonds Series 2004C18 3.92%, 07/05/06 (a)(b)(c)	1,000	1,000
M/F Housing RB (Miramar Apts) Series 2000A 3.96%, 07/06/06 (a)(b)	30,000	30,000	Economic Recovery Bonds Series 2004C2 3.90%, 07/03/06 (a)(c)	2,300	2,300
M/F Housing RB (Mountain View Apts) Series 1997A 4.00%, 07/06/06 (a)(b)	6,025	6,025	Economic Recovery Bonds Series 2004C3 3.90%, 07/03/06 (a)(c)	100	100
M/F Housing RB (Paragon Apts at the Crossing) Series 2005A 3.99%, 07/06/06 (a)(b)	17,000	17,000	Economic Recovery Bonds Series 2004C8 3.91%, 07/03/06 (a)(b)	6,500	6,500
RB (Air Force Village West, Inc) Series 2005 3.96%, 07/06/06 (a)(b)	11,500	11,500	GO Bonds 3.97%, 07/06/06 (a)(b)(c)(d)	7,870	7,870
RB (Francis Parker School) Series 2005 3.94%, 07/06/06 (a)(b)	5,000	5,000	4.00%, 07/06/06 (a)(b)(c)(d)	139,725	139,725
RB (Public Policy Institute of California) Series 2001A 3.94%, 07/06/06 (a)(b)	10,000	10,000	4.01%, 07/06/06 (a)(b)(c)(d)	129,470	129,470
<b>Bay Area Toll Auth</b>			4.02%, 07/06/06 (a)(b)(c)(d)	19,800	19,800
RB (San Francisco Bridge) Series D 3.97%, 07/06/06 (a)(b)(c)(d)	10,125	10,125	GO Bonds Series 1999 3.01%, 07/06/06 (a)(b)(c)(d)	13,675	13,675
San Francisco Bay Area Toll Bridge RB Series 2006A1 3.87%, 07/06/06 (a)(b)(c)	19,800	19,800	3.97%, 07/06/06 (a)(b)(c)(d)	10,835	10,835
San Francisco Bay Area Toll Bridge RB Series 2006F 4.00%, 07/06/06 (a)(c)(d)	49,255	49,255	GO Bonds Series 2003C3 3.96%, 07/06/06 (a)(b)	20,000	20,000
<b>California</b>			GO Bonds Series 2003C4 3.94%, 07/06/06 (a)(b)	2,400	2,400
Economic Recovery Bonds Series 2004A 3.98%, 07/05/06 (a)(c)(d)	50,000	50,000	GO Bonds Series 2004A5 3.88%, 07/03/06 (a)(b)	3,830	3,830
3.90%, 07/06/06 (a)(b)(c)	12,895	12,895	GO Bonds Series 2004A8 3.90%, 07/06/06 (a)(b)	10,105	10,105
3.97%, 07/06/06 (a)(b)(c)(d)	8,872	8,872	GO Bonds Series 2004B6 3.96%, 07/06/06 (a)(b)	21,300	21,300
4.00%, 07/06/06 (a)(c)(d)	58,740	58,740	GO Bonds Series 2005B7 3.92%, 07/03/06 (a)(b)	14,000	14,000
4.00%, 07/06/06 (a)(b)(c)(d)	39,915	39,915	GO CP Notes 3.60%, 07/06/06 (c)	26,000	26,000
4.01%, 07/06/06 (a)(b)(c)	8,265	8,265	3.57%, 07/07/06 (c)	23,000	23,000
Economic Recovery Bonds Series 2004C16 3.95%, 07/05/06 (a)(b)(c)	17,300	17,300	3.60%, 07/10/06 (c)	31,000	31,000
			3.40%, 07/13/06 (c)	70,000	70,000
			3.40%, 07/18/06 (c)	40,800	40,800
			3.48%, 08/03/06 (c)	37,950	37,950
			3.30%, 08/04/06 (c)	31,100	31,100
			3.38%, 08/04/06 (c)	250	250

**Schwab California Municipal Money Fund**

**Portfolio Holdings** (Unaudited) 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)
3.35%, 08/07/06 (c)	48,000	48,000	Power Supply RB Series 2002C13 3.88%, 07/06/06 (a)(b)(c)	20,500	20,500
3.48%, 08/07/06 (c)	40,000	40,000	Power Supply RB Series 2002C17 3.95%, 07/06/06 (a)(b)	9,000	9,000
3.35%, 08/08/06 (c)	48,000	48,000	Power Supply RB Series 2002C4 3.92%, 07/06/06 (a)(b)	35,300	35,300
3.46%, 08/08/06 (c)	34,500	34,500	Power Supply RB Series 2002C7 3.97%, 07/06/06 (a)(b)(c)	7,450	7,450
GO Refunding Bonds			Power Supply RB Series 2002C8 3.86%, 07/06/06 (a)(b)	3,000	3,000
4.00%, 07/06/06 (a)(b)(c)(d)	10,000	10,000	Power Supply RB Series 2002C9 3.97%, 07/06/06 (a)(b)	29,785	29,785
4.01%, 07/06/06 (a)(b)(c)(d)	47,395	47,395	Power Supply RB Series 2005F3 3.93%, 07/03/06 (a)(b)	11,500	11,500
GO Refunding Bonds			Power Supply RB Series 2005F4 3.93%, 07/03/06 (a)(b)	31,500	31,500
Series 2005			Power Supply RB Series 2005F5 4.00%, 07/03/06 (a)(b)	6,005	6,005
4.01%, 07/06/06 (a)(b)(c)	22,655	22,655	Power Supply RB Series 2005G13 3.96%, 07/06/06 (a)(b)(c)	9,650	9,650
Various Purpose GO Bonds			Power Supply RB Series 2005G3 3.97%, 07/06/06 (a)(b)(c)	35,130	35,130
3.96%, 07/06/06 (a)(b)(c)(d)	37,665	37,665	Power Supply RB Series 2005G8 3.98%, 07/06/06 (a)(b)(c)	50,000	50,000
3.97%, 07/06/06 (a)(b)(c)	31,365	31,365	Water Refunding RB (Big Bear Lake) Series 1996 4.01%, 07/06/06 (a)(b)(c)(d)	8,445	8,445
4.00%, 07/06/06 (a)(b)(c)(d)	8,090	8,090			
Various Purpose GO Bonds					
Series 2003					
4.00%, 07/06/06 (a)(b)(c)	13,790	13,790			
Various Purpose GO Bonds					
Series 2004					
3.97%, 07/06/06 (a)(b)(c)	12,155	12,155			
Various Purpose GO Bonds					
Series 2006					
4.01%, 07/06/06 (a)(b)(c)	9,780	9,780			
Veterans GO Bonds Series CB					
4.05%, 07/06/06 (a)(b)(c)(d)	9,375	9,375			
<b>California Dept of Water Resources</b>					
Power Supply RB Series 2002A 4.01%, 07/06/06 (a)(b)(c)(d)	12,835	12,835			
Power Supply RB Series 2002B1 3.93%, 07/03/06 (a)(b)	3,000	3,000			
Power Supply RB Series 2002B3 3.91%, 07/03/06 (a)(b)	3,860	3,860			
Power Supply RB Series 2002B4 3.88%, 07/03/06 (a)(b)	30,575	30,575			
Power Supply RB Series 2002C11 3.92%, 07/06/06 (a)(b)	3,100	3,100			

See financial notes. 11

# Schwab California Municipal Money Fund

## Portfolio Holdings (Unaudited) 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>California Economic Development Financing Auth</b>			<b>California HFA</b>		
Airport Facilities RB			Home Mortgage RB		
(Mercury Air Group)			Series 2001R		
Series 1998			3.96%, 07/03/06 (a)(b)(c)		
4.00%, 07/06/06 (a)(b)			3.96%, 07/03/06 (a)(b)		
12,500			3,145		
12,500			Home Mortgage RB		
IDRB (Calco) Series 1997			Series 2002B		
3.95%, 07/05/06 (a)(b)			4.02%, 07/03/06 (a)(b)(c)		
400			46,900		
400			46,900		
IDRB (Gaiser Tool Company)			Home Mortgage RB		
Series 1997			Series 2003H		
3.97%, 07/05/06 (a)(b)			4.00%, 07/05/06 (a)(b)(c)		
1,430			20,020		
1,430			20,020		
<b>California Educational Facilities Auth</b>			Home Mortgage RB		
RB (Chapman University)			Series 2003K		
Series 2000			4.00%, 07/05/06 (a)(c)		
4.09%, 07/05/06 (a)(b)			21,000		
4,500			21,000		
4,500			Home Mortgage RB		
RB (University of Judaism)			Series 2005B		
Series 1998A			4.02%, 07/05/06 (a)(c)		
4.05%, 07/06/06 (a)(b)			61,455		
5,100			61,455		
5,100			Home Mortgage RB		
RB (University of San Francisco)			Series 2005H		
Series 1996			4.05%, 07/03/06 (a)(c)		
3.97%, 07/06/06 (a)(b)(c)(d)			17,000		
8,995			17,000		
8,995			M/F Housing RB III		
Refunding RB (Pepperdine University) Series 2005A			Series 2001G		
4.00%, 07/06/06 (a)(b)(c)(d)			3.97%, 07/05/06 (a)(c)		
20,835			46,010		
20,835			46,010		
<b>California Health Facilities Finance Auth</b>			M/F Housing RB III		
Hospital RB (Adventist Health System/West) Series 1998A			Series 2002A		
3.93%, 07/03/06 (a)(b)(c)			4.00%, 07/05/06 (a)(c)		
3,430			28,675		
3,430			28,675		
Insured RB (Southern California Presbyterian Homes)			M/F Housing RB III		
Series 1998			Series 2002E		
3.96%, 07/05/06 (a)(b)(c)			4.00%, 07/05/06 (a)(c)		
14,700			59,160		
14,700			59,160		
RB (Kaiser Permanente)			M/F Housing RB III		
Series 1998A			Series 2005B		
4.00%, 07/06/06 (a)(b)(c)(d)			4.00%, 07/05/06 (a)(b)(c)		
9,995			57,590		
9,995			57,590		
RB (Kaiser Permanente)			S/F Mortgage RB Draw Down		
Series 2006C			Series 2004B1		
3.95%, 07/05/06 (a)			4.04%, 07/06/06 (a)(b)(c)(d)		
138,000			53,385		
138,000			53,385		
RB (Kaiser Permanente)			<b>California Infrastructure and Economic Development Bank</b>		
Series 2006E			Bay Area Toll Bridges Seismic		
3.48%, 09/06/06			Retrofit RB Series 2003A		
20,000			3.97%, 07/06/06 (a)(b)(c)		
20,000			32,540		
3.48%, 09/12/06			32,540		
15,000			IDRB (American-De Rosa Lamp Arts) Series 1999		
15,000			4.02%, 07/05/06 (a)(b)		
			4,950		
			4,950		

**Schwab California Municipal Money Fund**

**Portfolio Holdings** (Unaudited) 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)
IDRB (Fairmont Sign Co) Series 2000A 4.12%, 07/06/06 (a)(b)	4,250	4,250	Solid Waste Disposal RB (Ag Resources III) Series 2004 4.00%, 07/05/06 (a)(b)	2,790	2,790
IDRB (Nelson Name Plate Co) Series 1999 4.00%, 07/03/06 (a)(b)	2,750	2,750	Solid Waste Disposal RB (Agrifab) Series 2003 4.00%, 07/05/06 (a)(b)	2,900	2,900
IDRB (Roller Bearing Co) Series 1999 4.17%, 07/05/06 (a)(b)	2,400	2,400	Solid Waste Disposal RB (Alameda Cnty Industries) Series 2000A 4.00%, 07/05/06 (a)(b)	2,975	2,975
Insured RB (Rand Corp) Series 2002B 3.89%, 07/03/06 (a)(b)(c)(d)	1,750	1,750	Solid Waste Disposal RB (Athens Disposal Co) Series 1995A 4.00%, 07/05/06 (a)(b)	7,555	7,555
RB (Asian Art Museum Foundation of SF) Series 2005 3.93%, 07/03/06 (a)(b)(c)	9,700	9,700	Solid Waste Disposal RB (Athens Disposal Co) Series 1999A 4.00%, 07/05/06 (a)(b)	5,100	5,100
RB (Bay Area Toll Bridges Seismic Retrofit) Series 2003A 4.00%, 07/06/06 (a)(b)(c)(d)	17,775	17,775	Solid Waste Disposal RB (Athens Services) Series 2001A 4.00%, 07/05/06 (a)(b)	3,305	3,305
RB (California Independent System Operator Corp) Series 2004A 3.95%, 07/05/06 (a)(b)(c)	10,935	10,935	Solid Waste Disposal RB (Atlas Disposal Industries) Series 1999A 4.00%, 07/05/06 (a)(b)	3,000	3,000
RB (SRI International) Series 2003A 3.91%, 07/05/06 (a)(b)	4,000	4,000	Solid Waste Disposal RB (BLT Enterprises of Fremont) Series 2005A 4.05%, 07/05/06 (a)(b)	7,280	7,280
RB (The Contemporary Jewish Museum) Series 2006 3.96%, 07/06/06 (a)(b)	4,000	4,000	Solid Waste Disposal RB (BLT Enterprises of Sacramento) Series 1999A 4.00%, 07/05/06 (a)(b)	6,045	6,045
RB (The J. Paul Getty Trust) Series 2004B 3.25%, 02/02/07 (a)	45,250	45,242	Solid Waste Disposal RB (Blue Line Transfer) Series 1999A 4.00%, 07/05/06 (a)(b)	4,100	4,100
<b>California Pollution Control Finance Auth</b>			Solid Waste Disposal RB (Blue Line Transfer) Series 2001A 4.00%, 07/05/06 (a)(b)	4,100	4,100
Refunding RB (Pacific Gas and Electric Co) Series 1996A 4.02%, 07/06/06 (a)(b)(c)(d)	34,115	34,115	Solid Waste Disposal RB (Burrtec Waste and Recycling Services LLC) Series 2006A 4.00%, 07/05/06 (a)(b)	9,210	9,210
Refunding RB (Pacific Gas and Electric Co) Series 1996C 3.95%, 07/03/06 (a)(b)	81,161	81,161	Solid Waste Disposal RB (Burrtec Waste Group) Series 2004 4.00%, 07/05/06 (a)(b)	1,985	1,985
Resource Recovery RB (Sanger) Series 1990A 3.99%, 07/05/06 (a)(b)	19,200	19,200			
Resource Recovery RB (Wadham Energy) Series 1987B 3.98%, 07/05/06 (a)(b)	2,700	2,700			

See financial notes. 13

# Schwab California Municipal Money Fund

## Portfolio Holdings (Unaudited) continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Solid Waste Disposal RB (Burrtec Waste Group) Series 2006A 4.00%, 07/05/06 (a)(b)	6,145	6,145	Solid Waste Disposal RB (EDCO Disposal Corp) Series 1996A 4.00%, 07/05/06 (a)(b)	12,345	12,345
Solid Waste Disposal RB (Burrtec Waste Industries) Series 1997B 4.00%, 07/05/06 (a)(b)	3,200	3,200	Solid Waste Disposal RB (EDCO Disposal Corp) Series 2004A 4.00%, 07/05/06 (a)(b)	22,200	22,200
Solid Waste Disposal RB (California Waste Solutions) Series 2002A 4.00%, 07/05/06 (a)(b)	3,375	3,375	Solid Waste Disposal RB (Escondido Disposal/Jemco Equipment Corp) Series 1998A 4.05%, 07/05/06 (a)(b)	7,845	7,845
Solid Waste Disposal RB (California Waste Solutions) Series 2004A 4.00%, 07/05/06 (a)(b)	8,350	8,350	Solid Waste Disposal RB (Federal Disposal Service) Series 2001A 4.05%, 07/05/06 (a)(b)	1,400	1,400
Solid Waste Disposal RB (Cheese and Protein International) Series 2001A 4.01%, 07/06/06 (a)(b)	10,000	10,000	Solid Waste Disposal RB (Greenteam of San Jose) Series 1997A 4.00%, 07/05/06 (a)(b)	1,120	1,120
Solid Waste Disposal RB (Cold Canyon Landfill) Series 1998A 4.00%, 07/05/06 (a)(b)	5,845	5,845	Solid Waste Disposal RB (Greenteam of San Jose) Series 2001A 4.00%, 07/05/06 (a)(b)	10,100	10,100
Solid Waste Disposal RB (Contra Costa Waste Service) Series 1995A 4.00%, 07/05/06 (a)(b)	1,700	1,700	Solid Waste Disposal RB (Greenwaste of Tehama) Series 1999A 4.00%, 07/05/06 (a)(b)	700	700
Solid Waste Disposal RB (CR&R Inc) Series 1995A 4.03%, 07/05/06 (a)(b)	3,160	3,160	Solid Waste Disposal RB (GreenWaste Recovery, Inc) Series 2006A 4.05%, 07/05/06 (a)(b)	3,080	3,080
Solid Waste Disposal RB (CR&R Inc) Series 2000A 4.03%, 07/05/06 (a)(b)	2,860	2,860	Solid Waste Disposal RB (Madera Disposal Systems Inc) Series 1998A 4.00%, 07/05/06 (a)(b)	1,800	1,800
Solid Waste Disposal RB (CR&R Inc) Series 2002A 4.03%, 07/05/06 (a)(b)	3,900	3,900	Solid Waste Disposal RB (Marborg Industries) Series 2000A 4.00%, 07/05/06 (a)(b)	3,815	3,815
Solid Waste Disposal RB (CR&R Inc) Series 2006A 4.03%, 07/05/06 (a)(b)	3,920	3,920	Solid Waste Disposal RB (Marin Sanitary Service) Series 2006A 4.05%, 07/05/06 (a)(b)	4,115	4,115
Solid Waste Disposal RB (Desert Properties LLC) Series 2006B 4.05%, 07/05/06 (a)(b)	2,245	2,245			



**Schwab California Municipal Money Fund**

**Portfolio Holdings** (Unaudited) continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Solid Waste Disposal RB (Metropolitan Recycling Corp) Series 2000B 4.05%, 07/05/06 (a)(b)	2,560	2,560	Solid Waste Disposal RB (Talco Plastics) Series 1997A 4.02%, 07/05/06 (a)(b)	3,125	3,125
Solid Waste Disposal RB (Mottra Corp) Series 2002A 4.05%, 07/05/06 (a)(b)	1,910	1,910	Solid Waste Disposal RB (Valley Vista Services) Series 2003A 4.00%, 07/05/06 (a)(b)	3,905	3,905
Solid Waste Disposal RB (Napa Recycling and Waste Services) Series 2005A 4.05%, 07/05/06 (a)(b)	5,155	5,155	Solid Waste Disposal RB (West Valley MRF) Series 1997A 4.05%, 07/05/06 (a)(b)	2,525	2,525
Solid Waste Disposal RB (Norcal Waste System) Series 2001 4.00%, 07/05/06 (a)(b)	11,015	11,015	Solid Waste Disposal RB (Zanker Road Landfill) Series 1999C 4.05%, 07/05/06 (a)(b)	4,540	4,540
Solid Waste Disposal RB (Norcal Waste System) Series 2002A 4.00%, 07/05/06 (a)(b)	6,000	6,000	<b>California Public Works Board</b> Lease RB (University of California) Series 1997C 4.01%, 07/06/06 (a)(b)(c)(d)	10,900	10,900
Solid Waste Disposal RB (Norcal Waste System) Series 2003A 4.00%, 07/05/06 (a)(b)	4,000	4,000	Lease RB (University of California) Series 2005C 4.01%, 07/06/06 (a)(c)(d)	26,670	26,670
Solid Waste Disposal RB (Orange Ave Disposal Co) Series 2002A 4.00%, 07/05/06 (a)(b)	5,950	5,950	Lease RB Series 1999A 4.00%, 07/05/06 (a)(b)(c)(d)	9,985	9,985
Solid Waste Disposal RB (Ratto Group of Companies) Series 2001A 4.00%, 07/05/06 (a)(b)	3,715	3,715	Lease RB Series 2005E 4.01%, 07/06/06 (a)(b)(c)(d)	11,100	11,100
Solid Waste Disposal RB (Sanco Services) Series 2002A 4.05%, 07/05/06 (a)(b)	3,200	3,200	Lease Refunding RB (Dept of Corrections and Rehabilitation) Series 2005J 4.01%, 07/06/06 (a)(b)(c)(d)	24,940	24,940
Solid Waste Disposal RB (Santa Clara Valley Disposal) Series 2001A 4.00%, 07/05/06 (a)(b)	4,160	4,160	Lease Refunding RB (Dept of Corrections) Series 1993A 3.97%, 07/06/06 (a)(b)(c)(d)	3,000	3,000
Solid Waste Disposal RB (Santa Clara Valley Industries) Series 1998A 4.05%, 07/05/06 (a)(b)	1,800	1,800	<b>California School Cash Reserve Program Auth</b> COP (2006-2007 TRAN) Series A 3.50%, 07/06/07 (b)	55,000	55,531
Solid Waste Disposal RB (Solag Disposal) Series 1997A 4.03%, 07/05/06 (a)(b)	2,135	2,135	Pool Bonds Series 2005A 2.60%, 07/06/06 (b)	54,175	54,185
Solid Waste Disposal RB (Specialty Solid Waste and Recycling) Series 2001A 4.05%, 07/05/06 (a)(b)	1,300	1,300	3.45%, 07/06/06 (b)	25,000	25,002
			3.47%, 07/06/06 (b)	23,270	23,271
			<b>California State University</b> Systemwide RB Series 2005A 4.00%, 07/06/06 (a)(b)(c)	5,900	5,900

See financial notes. 15

# Schwab California Municipal Money Fund

## Portfolio Holdings (Unaudited) 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)
Systemwide RB Series 2005C			M/F Housing RB (Dublin Ranch		
4.00%, 07/06/06 (a)(b)(c)(d)	25,895	25,895	Senior Apts) Series 2006G		
4.00%, 07/06/06 (a)(b)(c)	20,260	20,260	3.99%, 07/06/06 (a)(b)	5,010	5,010
4.01%, 07/06/06 (a)(b)(c)(d)	43,655	43,655	M/F Housing RB (Emerald		
<b>California Statewide Communities</b>			Gardens Apts) Series 2000E		
<b>Development Auth</b>			3.96%, 07/06/06 (a)(b)	7,320	7,320
COP (Sutter Health			M/F Housing RB (Fairway		
Related Group)			Family Apts) Series 2003PP		
4.00%, 07/05/06 (a)(b)(c)(d)	5,000	5,000	3.99%, 07/06/06 (a)(b)	30,000	30,000
IDRB (Biocol Investments)			M/F Housing RB (Fairway		
Series 1997B			Family Apts) Series 2006H		
4.10%, 07/05/06 (a)(b)	1,405	1,405	3.99%, 07/06/06 (a)(b)	7,000	7,000
IDRB (Cowden Metal Stamping			M/F Housing RB (Heritage		
and Tooling) Series 1997A			Oaks Apts) Series 2004YY		
4.10%, 07/05/06 (a)(b)	995	995	3.96%, 07/06/06 (a)(b)	7,000	7,000
IDRB (Golden Valley Grape			M/F Housing RB (Kimberly		
Juice and Wine) Series 1998			Woods Apts) Series 1995B		
4.05%, 07/05/06 (a)(b)	420	420	3.96%, 07/05/06 (a)(b)	13,400	13,400
IDRB (Integrated Rolling Co			M/F Housing RB (Las Flores		
Series 1999A			Village Apts) Series 2004JJ		
4.00%, 07/03/06 (a)(b)	900	900	3.94%, 07/06/06 (a)(b)	13,500	13,500
IDRB (RL Group) Series 1998C			M/F Housing RB (Laurel Park		
4.05%, 07/05/06 (a)(b)	1,410	1,410	Senior Apts) Series 2002H		
M/F Housing RB (Agave at Elk			3.97%, 07/06/06 (a)(b)	5,500	5,500
Grove Apts) Series 2003DD			M/F Housing RB (Los Padres		
3.96%, 07/06/06 (a)(b)	15,100	15,100	Apts) Series 2003E		
M/F Housing RB (Bay Vista at			3.96%, 07/06/06 (a)(b)	10,750	10,750
MeadowPark Apts)			M/F Housing RB (Marlin Cove		
Series 2003NN1			Apts) Series 2000V		
3.99%, 07/06/06 (a)(b)	15,000	15,000	3.96%, 07/06/06 (a)(b)	8,000	8,000
M/F Housing RB (Bay Vista at			M/F Housing RB (Oak Center		
MeadowPark Apts)			Towers) Series 2005L		
Series 2003NN2			3.96%, 07/06/06 (a)(b)	11,450	11,450
3.99%, 07/06/06 (a)(b)	5,000	5,000	M/F Housing RB (Oakmont of		
M/F Housing RB (Creeside at			Concord) Series 2002Q		
MeadowPark Apts)			3.96%, 07/06/06 (a)(b)(d)	25,000	25,000
Series 2002HH			M/F Housing RB (Park David		
3.96%, 07/06/06 (a)(b)	10,035	10,035	Senior Apts) Series 1999D		
M/F Housing RB (Cypress Villa			3.96%, 07/06/06 (a)(b)	8,220	8,220
Apts) Series 2000F			M/F Housing RB (Plaza Club		
3.96%, 07/06/06 (a)(b)	4,725	4,725	Apts) Series 1997A		
M/F Housing RB (Dublin Ranch			3.98%, 07/06/06 (a)(b)	10,290	10,290
Senior Apts) Series 2003OO					
3.99%, 07/06/06 (a)(b)	15,090	15,090			

**Schwab California Municipal Money Fund**

**Portfolio Holdings** (Unaudited) 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 (Rancho Santa Fe Village Apts) Series 2004EE 3.94%, 07/06/06 (a)(b)	13,000	13,000	RB (Elder Care Alliance) Series 2000 3.96%, 07/05/06 (a)(b)	12,560	12,560
M/F Housing RB (Sagewood At Stonebridge Estates) Series 2005CC 3.96%, 07/06/06 (a)(b)	9,100	9,100	RB (Gemological Institute) Series 2001 3.93%, 07/06/06 (a)(b)(c)	580	580
M/F Housing RB (Silvercrest Residence) Series 2003EEE 4.00%, 07/06/06 (a)(b)	23,130	23,130	RB (Japanese American National Museum) Series 2000A 3.95%, 07/06/06 (a)(b)	4,500	4,500
M/F Housing RB (The Belmont) Series 2005F 3.96%, 07/06/06 (a)(b)	10,500	10,500	RB (Jewish Federation Council of Greater Los Angeles) Series 2000A 4.05%, 07/06/06 (a)(b)	2,100	2,100
M/F Housing RB (The Crossings Senior Apts-Phase II) Series 2005J 3.99%, 07/06/06 (a)(b)	7,425	7,425	RB (Kaiser Permanente) Series 2001C 3.85%, 08/01/06 (a)	15,000	15,007
M/F Housing RB (The Fountains At Seacliff Apts) Series 2002Y 3.99%, 07/06/06 (a)(b)	12,540	12,540	RB (Kaiser Permanente) Series 2004K 3.50%, 07/11/06	14,000	14,000
M/F Housing RB (Valley Palms Apts) Series 2002C 3.96%, 07/06/06 (a)(b)	12,000	12,000	3.51%, 07/14/06	5,000	5,000
M/F Housing RB (Villas at Hamilton Apts) Series 2001HH 3.96%, 07/06/06 (a)(b)	11,440	11,440	3.58%, 07/14/06	6,000	6,000
M/F Housing RB (Wilshire Court Apts) Series 2003M 3.96%, 07/06/06 (a)(b)	15,000	15,000	3.58%, 07/19/06	24,700	24,700
M/F Housing RB (Wilshire Court Apts) Series 2004AAA 3.96%, 07/06/06 (a)(b)	15,000	15,000	3.48%, 08/11/06	20,000	20,000
M/F Housing RB (Woodsong Apts) Series 1997B 3.97%, 07/06/06 (a)(b)	3,127	3,127	RB (Kaiser Permanente) Series 2004M 3.95%, 07/05/06 (a)	8,000	8,000
M/F Housing RB (Wyndover Apts) Series 2004LL 3.96%, 07/06/06 (a)(b)	9,000	9,000	RB (Kaiser Permanente) Series 2006B 4.01%, 07/06/06 (a)(b)(c)	10,800	10,800
M/F Housing Refunding RB (Crystal View Apts) Series 2004A 3.96%, 07/06/06 (a)(b)	7,075	7,075	RB (Kaiser Permanente) Series 2006D 3.50%, 07/18/06	20,000	20,000
			3.48%, 08/03/06	26,500	26,500
			RB (Laurence School) Series 2003 3.94%, 07/06/06 (a)(b)	3,875	3,875
			RB (National Public Radio) Series 2002 3.97%, 07/05/06 (a)(b)	1,365	1,365
			RB (Painted Turtle) Series 2003 3.94%, 07/06/06 (a)(b)	13,650	13,650
			Refunding RB (13th and I Associates) Series 1991 4.10%, 07/05/06 (a)(b)	3,620	3,620
			See financial notes. 17		

# Schwab California Municipal Money Fund

## Portfolio Holdings (Unaudited) 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 2006A2 3.57%, 06/29/07	15,865	16,005	<b>Dublin Housing Auth</b> M/F Housing RB (Park Sierra At Iron Horse Trail) Series 1998A 3.97%, 07/05/06 (a)(b)	14,900	14,900
TRAN Series 2006A3 3.57%, 06/29/07	22,500	22,694	<b>East Bay Municipal Utility District</b> Water System Subordinated RB Series 2005A 3.98%, 07/06/06 (a)(b)(c)(d)	11,520	11,520
TRAN Series 2006A4 3.56%, 06/29/07	5,000	5,045	<b>East Side Union High SD</b> GO Refunding Bonds Series 2003B 4.00%, 07/06/06 (a)(b)(c)(d)	23,965	23,965
TRAN Series 2006A5 3.61%, 06/29/07	31,000	31,268	<b>Eastern Municipal Water District</b> Water and Sewer Revenue COP Series 2003B 3.92%, 07/06/06 (a)(b)(c)	34,075	34,075
<b>Carlsbad</b> M/F Housing Refunding RB (Santa Fe Ranch Apts) Series 1993A 3.94%, 07/06/06 (a)(b)	14,400	14,400	<b>El Cajon Redevelopment Agency</b> M/F Housing RB (Park-Mollison and Madison Apts) Series 1998 3.98%, 07/06/06 (a)(b)	4,800	4,800
<b>Central Unified SD</b> GO Refunding Bonds Series 2005 4.00%, 07/06/06 (a)(b)(c)(d)	11,855	11,855	<b>El Camino Community College District</b> GO Bonds Series 2003A 3.98%, 07/06/06 (a)(b)(c)(d)	16,100	16,100
<b>Clovis Unified SD</b> TRAN Series 2005 2.74%, 07/05/06	19,000	19,003	<b>Elk Grove Unified SD</b> 2005-06 TRAN 3.00%, 07/06/06	23,000	23,002
3.49%, 07/05/06	10,000	10,000	Community Facilities District No.1 Special Tax Bonds (Election of 1998) Series 2005 3.97%, 07/06/06 (a)(b)(c)(d)	17,050	17,050
<b>Contra Costa Cnty</b> M/F Mortgage RB (El Cerrito Royale) Series 1987A 4.00%, 07/06/06 (a)(b)	2,480	2,480	<b>Emeryville Redevelopment Agency</b> M/F Housing RB (Bay St Apts) Series 2002A 3.99%, 07/06/06 (a)(b)	81,715	81,715
<b>Contra Costa Water District</b> Refunding RB Series N 3.70%, 07/06/06 (a)(b)(c)(d)	10,320	10,320	<b>Escondido</b> M/F Housing RB (Via Roble Apts) Series 2003A 3.96%, 07/06/06 (a)(b)	6,900	6,900
<b>Davis Community Facilities District No.1992-2</b> Special Tax Bonds (East Davis Mace Ranch Area II) Series 2000 3.96%, 07/06/06 (a)(b)	3,075	3,075	<b>Evergreen Elementary SD</b> GO Refunding Bonds Series 2005 4.01%, 07/06/06 (a)(b)(c)(d)	16,185	16,185
<b>Desert Sands Unified SD</b> GO Bonds (Election of 2001) Series 2006 3.59%, 06/01/07	16,665	16,764			
<b>Diamond Bar Public Financing Auth</b> Lease RB (Community/Senior Center) Series 2002A 4.07%, 07/05/06 (a)(b)	5,590	5,590			

Schwab California Municipal Money Fund

**Portfolio Holdings** (Unaudited) 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>Fillmore Public Financing Auth</b>			<b>Huntington Beach</b>		
RB (Central City Redevelopment Area) Series 2003A			M/F Housing RB (Five Points Seniors) Series 1991A		
3.96%, 07/06/06 (a)(b)	2,565	2,565	3.98%, 07/06/06 (a)(b)	9,500	9,500
<b>Foothill-DeAnza Community College District</b>			<b>Huntington Park Redevelopment Agency</b>		
GO Bonds Series A			M/F Housing RB (Casa Rita Apts) Series 1994A		
4.00%, 07/05/06 (a)(c)(d)	9,965	9,965	3.98%, 07/06/06 (a)(b)	4,950	4,950
<b>Fresno IDA</b>			<b>Irvine</b>		
IDRB (Keiser Corp) Series 1997			Lease RB (Capital Improvement) Series 1985		
4.02%, 07/05/06 (a)(b)	1,250	1,250	3.95%, 07/06/06 (a)(b)	2,000	2,000
<b>Golden State Tobacco Securitization Corp</b>			<b>Irvine Assessment District No.93-14</b>		
Enhanced Tobacco Settlement			Limited Obligation Improvement Bonds Series 2000		
Asset-Backed Bonds			3.90%, 07/03/06 (a)(b)	5,257	5,257
Series 2005A			<b>Irvine Assessment District No.94-15</b>		
3.97%, 07/06/06 (a)(b)(c)(d)	45,800	45,800	Limited Obligation Improvement Bonds Series 1994		
4.00%, 07/06/06 (a)(b)(c)(d)	82,740	82,740	3.91%, 07/03/06 (a)(b)	1,100	1,100
4.02%, 07/06/06 (a)(b)(c)(d)	18,845	18,845	<b>Irvine Assessment District No.97-16</b>		
<b>Golden West Schools Financing Auth</b>			Limited Obligation Improvement Bonds (Northwest Irvine) Series 1997		
GO RB (Beverly Hills Unified SD) Series 2005			3.91%, 07/03/06 (a)(b)	2,665	2,665
4.00%, 07/06/06 (a)(b)(c)(d)	8,900	8,900	<b>Irvine Ranch Water District</b>		
<b>Grossmont Union High SD</b>			Consolidated Series 1995 GO of Improvement Districts No.140, 240, 105, & 250		
GO Bonds (Election of 2004) Series 2006			3.90%, 07/03/06 (a)(b)	1,200	1,200
4.03%, 07/06/06 (a)(b)(c)(d)	5,575	5,575	Sewer Bonds (Improvement District No.284-Election 1988) Series A		
<b>Hayward</b>			3.90%, 07/03/06 (a)(b)	400	400
M/F Housing RB (Lord Tennyson Apts) Series 2005A			<b>Kern Cnty</b>		
3.94%, 07/06/06 (a)(b)	13,915	13,915	2006-07 TRAN		
M/F Housing RB (Shorewood Apts) Series 1984A			3.50%, 06/29/07	25,000	25,239
3.97%, 07/06/06 (a)(b)	12,100	12,100	3.58%, 06/29/07	55,000	55,483
<b>Hayward Housing Auth</b>			<b>Long Beach</b>		
M/F Mortgage Refunding RB (Huntwood Terrace Apts) Series 1993A			Harbor Refunding RB Series 2005A		
3.94%, 07/05/06 (a)(b)	5,155	5,155	4.02%, 07/06/06 (a)(b)(c)(d)	3,005	3,005
<b>Hemet Unified SD</b>					
COP (2006 School Facilities) Series 2006					
3.85%, 10/01/36 (b)(c)	19,445	19,445			
<b>Hercules Public Financing Auth</b>					
Lease RB Series 2003A					
3.94%, 07/06/06 (a)(b)	7,000	7,000			

See financial notes. 19

# Schwab California Municipal Money Fund

## Portfolio Holdings (Unaudited) 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>Long Beach Harbor</b>			<b>Los Angeles Cnty</b>		
RB Series 2002A			2006-07 TRAN Series A		
3.96%, 07/05/06 (a)(b)(c)	345	345	3.50%, 06/29/07	60,000	60,573
Refunding RB Series 2005A			<b>Los Angeles Cnty Metropolitan</b>		
3.62%, 07/06/06 (a)(b)(c)(d)	8,155	8,155	<b>Transportation Auth</b>		
4.02%, 07/06/06 (a)(b)(c)(d)	2,540	2,540	Sales Tax RB Series 1997A		
<b>Long Beach Harbor Facilities Corp</b>			4.00%, 07/05/06 (a)(b)(c)(d)	23,830	23,830
Harbor TECP Series A			Second Subordinate Sales Tax		
3.60%, 07/06/06 (c)	28,750	28,750	Revenue CP Series A		
3.55%, 07/11/06 (c)	31,400	31,400	3.50%, 07/06/06 (b)	36,650	36,650
<b>Los Angeles</b>			3.54%, 07/07/06 (b)	11,349	11,349
2006 TRAN			Sr Sales Tax RB Series 2001A		
3.73%, 06/29/07	50,000	50,358	3.98%, 07/06/06 (a)(b)(c)(d)	12,600	12,600
3.75%, 06/29/07	50,000	50,351	Sr Sales Tax Refunding RB		
GO Refunding Bonds			Series 2001B		
Series 1998A			3.01%, 07/06/06 (a)(b)(c)(d)	24,750	24,750
4.01%, 07/06/06 (a)(b)(c)(d)	4,150	4,150	<b>Los Angeles Cnty Schools</b>		
M/F Housing RB (Beverly Park			<b>Pooled Financing Program</b>		
Apts) Series 1988A			Pooled Financing (Pooled		
3.96%, 07/06/06 (a)(b)	34,000	34,000	TRANS Participation)		
M/F Housing RB Series 1985K			Series 2006-07 A		
3.90%, 07/04/06 (a)(b)	852	852	3.50%, 06/29/07 (b)	5,450	5,502
M/F Housing Refunding RB			<b>Los Angeles Community</b>		
(Tri-City) Series 2001I			<b>College District</b>		
3.99%, 07/06/06 (a)(b)	600	600	GO Refunding Bonds (2001		
Sanitation Equipment Charge			Election) Series 2005A		
RB Series 2005A			3.81%, 07/06/06 (a)(b)(c)(d)	8,140	8,140
3.99%, 07/06/06 (a)(b)(c)(d)	5,530	5,530	<b>Los Angeles Community</b>		
Wastewater System Subordinate			<b>Redevelopment Agency</b>		
Refunding RB Series 2006A			M/F Housing RB (Metropolitan		
3.98%, 07/06/06 (a)(b)(c)	20,000	20,000	Lofts Apts) Series 2002A		
Wastewater System Subordinate			3.99%, 07/06/06 (a)(b)	17,750	17,750
Refunding RB Series 2006B1			M/F Housing RB (Wilshire		
3.93%, 07/06/06 (a)(b)(c)	9,465	9,465	Station Apts) Series 2003A		
Wastewater System Subordinate			4.05%, 07/03/06 (a)(b)	45,000	45,000
Refunding RB Series 2006C			M/F Housing RB (Wilshire		
3.93%, 07/06/06 (a)(b)(c)	10,000	10,000	Station Apts) Series 2004A		
Wastewater System Subordinate			4.05%, 07/03/06 (a)(b)	8,275	8,275
Refunding RB Series 2006D			<b>Los Angeles Dept of Water</b>		
3.94%, 07/06/06 (a)(b)(c)	5,000	5,000	<b>and Power</b>		
			Power Supply RB Series 2005A1		
			4.00%, 07/06/06 (a)(b)(c)(d)	45,000	45,000
			Power System RB Series 2001A		
			4.01%, 07/06/06 (a)(b)(c)(d)	24,750	24,750

**Schwab California Municipal Money Fund**

**Portfolio Holdings** (Unaudited) 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)
Power System RB Series 2001A1			GO Bonds (Election of 2002)		
4.00%, 07/06/06 (a)(b)(c)(d)	15,000	15,000	Series 2003A		
4.01%, 07/06/06 (a)(c)(d)	7,120	7,120	4.00%, 07/06/06 (a)(b)(c)(d)	20,705	20,705
Power System RB Series 2005A1			GO Bonds (Election of 2004)		
3.97%, 07/06/06 (a)(b)(c)	34,150	34,150	Series 2005E		
Power System RB Series 2005A2			4.00%, 07/03/06	6,000	6,000
3.97%, 07/06/06 (a)(b)(c)(d)	20,800	20,800	GO Bonds Series 1999C		
Power System Revenue CP Notes			3.98%, 07/06/06 (a)(b)(c)(d)	16,400	16,400
3.48%, 07/05/06 (c)	57,000	57,000	GO Refunding Bonds Series		
3.47%, 07/11/06 (c)	30,000	30,000	2005A1		
3.36%, 08/08/06 (c)	17,500	17,500	4.01%, 07/06/06 (a)(b)(c)(d)	8,400	8,400
3.52%, 08/10/06 (c)	40,000	40,000	4.01%, 07/06/06 (a)(b)(c)	46,080	46,080
Water System RB Series 2001A			GO Refunding Bonds Series		
3.97%, 07/06/06 (a)(b)(c)(d)	13,555	13,555	2005A2		
Water Works RB Series 1999			4.00%, 07/06/06 (a)(b)(c)(d)	6,580	6,580
4.00%, 07/05/06 (a)(b)(c)(d)	22,090	22,090	4.01%, 07/06/06 (a)(b)(c)	8,080	8,080
<b>Los Angeles Dept of Water and Power (Water Div Only)</b>			<b>Los Angeles Wastewater System</b>		
Water System RB Series 2006A			Refunding RB Series 2002A		
4.00%, 07/06/06 (a)(b)(c)(d)	59,925	59,925	3.97%, 07/06/06 (a)(b)(c)(d)	12,245	12,245
Water System RB Series 2006A2			<b>Madera Cnty</b>		
3.97%, 07/06/06 (a)(b)(c)(d)	8,500	8,500	Lease RB (Madera Municipal		
4.00%, 07/06/06 (a)(b)(c)(d)	13,400	13,400	Golf Course Refinancing)		
<b>Los Angeles Harbor</b>			Series 1993		
Refunding RB Series 2005 A&B			3.92%, 07/06/06 (a)(b)	2,945	2,945
4.01%, 07/06/06 (a)(b)(c)(d)	22,915	22,915	<b>Madera Irrigation Financing Auth</b>		
<b>Los Angeles Municipal Improvement Corp</b>			Water RB Series 2005A		
Lease Revenue TECP Series A1			3.99%, 07/03/06 (a)(b)(c)	16,005	16,005
3.48%, 07/05/06 (b)	19,481	19,481	<b>Martinez</b>		
3.50%, 07/11/06 (b)	7,000	7,000	M/F Housing Refunding RB		
3.55%, 07/11/06 (b)	5,000	5,000	(Muirwood Garden Apts)		
3.36%, 08/08/06 (b)	5,000	5,000	Series 2003A		
3.55%, 08/10/06 (b)	10,000	10,000	3.92%, 07/05/06 (a)(b)	6,800	6,800
<b>Los Angeles Unified SD</b>			<b>Menlo Park Community Development Agency</b>		
2005-06 TRAN Series A			Tax Allocation Refunding Bonds		
2.91%, 10/18/06	50,000	50,231	(Las Pulgas Community		
2.94%, 10/18/06	58,485	58,707	Development) Series 2006		
3.58%, 10/18/06	37,425	37,490	3.99%, 07/03/06 (a)(b)(c)	10,000	10,000
GO Bonds (Election 2004)			<b>Merced Irrigation District</b>		
Series 2006F			Electric System Refunding RB		
3.25%, 07/03/06 (a)(b)(c)	5,275	5,275	Series 2005		
			4.00%, 07/06/06 (a)(b)(c)(d)	3,250	3,250

See financial notes. 21



# Schwab California Municipal Money Fund

## Portfolio Holdings (Unaudited) 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>Mt San Antonio Community College District</b>			<b>Orange Cnty Sanitation District</b>		
GO Bonds (2001 Election)			COP Series 2003		
Series 2004B			3.97%, 07/06/06 (a)(b)(c)(d)	2,133	2,133
3.98%, 07/06/06 (a)(b)(c)(d)	13,140	13,140	No.1-3, 5-7, and 11 Refunding		
<b>Mt. Diablo Unified SD</b>			COP Series 1993		
GO Bonds (Election of 2002)			3.92%, 07/03/06 (a)(b)(c)	1,400	1,400
Series 2006			Refunding COP Series 2000A		
3.97%, 07/06/06 (a)(b)(c)(d)	14,385	14,385	3.92%, 07/03/06 (a)(c)	5,190	5,190
<b>Norwalk-La Mirada Unified SD</b>			Refunding COP Series 2000B		
COP (2006 School Facility			3.92%, 07/03/06 (a)(c)	12,940	12,940
Bridge Funding Program)			<b>Oxnard Financing Auth</b>		
3.92%, 07/06/06 (a)(b)(c)	37,000	37,000	Water Revenue Project Bonds		
<b>Oakland</b>			Series 2006		
Insured RB (180 Harrison			3.96%, 07/06/06 (a)(b)(c)(d)	11,815	11,815
Foundation) Series 1999A			<b>Palo Alto Unified SD</b>		
4.00%, 07/05/06 (a)(b)(c)(d)	4,500	4,500	GO Bonds (Election of 1995)		
<b>Oceanside</b>			Series B		
M/F Mortgage RB (Riverview			4.00%, 07/05/06 (a)(c)(d)	6,000	6,000
Springs Apts) Series 1990A			<b>Pasadena</b>		
3.98%, 07/06/06 (a)(b)	14,470	14,470	COP (City Hall & Park		
<b>Ohlone Community College District</b>			Improvements) Series 2003		
GO Bonds (Election of 2002)			3.93%, 07/06/06 (a)(b)(c)	8,890	8,890
Series B			<b>Petaluma Community Development Commission</b>		
4.00%, 07/06/06 (a)(b)(c)(d)	10,000	10,000	M/F Housing RB (Oakmont)		
<b>Ontario Housing Auth</b>			Series 1996A		
M/F Housing RB (Parc Vista)			3.97%, 07/06/06 (a)(b)	3,250	3,250
Series 2006B			<b>Petaluma SD</b>		
3.99%, 07/06/06 (a)(b)	6,960	6,960	TRAN Series 2005		
M/F Housing RB (Terrace View)			2.58%, 07/06/06	4,020	4,021
Series 2006A			<b>Pinole Redevelopment Agency</b>		
3.99%, 07/06/06 (a)(b)	6,240	6,240	M/F Housing RB (East Bluff		
<b>Orange Cnty</b>			Apts) Series 1998A		
Apartment Development			4.00%, 07/06/06 (a)(b)	4,959	4,959
Refunding RB (Villas Aliento)			<b>Pleasant Hill</b>		
Series 1998E			M/F Mortgage RB (Brookside		
3.95%, 07/06/06 (a)(b)	4,500	4,500	Apts) Series 1988A		
COP (Florence Crittenton			3.92%, 07/05/06 (a)(b)	4,100	4,100
Services) Series 1990			<b>Pleasanton</b>		
3.85%, 07/05/06 (a)(b)	4,600	4,600	M/F Housing RB (Busch Senior		
<b>Orange Cnty Local Transportation Auth</b>			Housing) Series 2003A		
Sales Tax Revenue CP Notes			3.96%, 07/06/06 (a)(b)	13,360	13,360
3.50%, 07/12/06 (b)	29,100	29,100	<b>Port of Oakland</b>		
			CP Series D		
			3.49%, 08/08/06 (b)	30,000	30,000



Schwab California Municipal Money Fund

**Portfolio Holdings** (Unaudited) continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
RB Series 2000K 4.05%, 07/05/06 (a)(b)(c)(d)	15,000	15,000	M/F Housing RB (Hastings Park Apts) Series 2004G 3.96%, 07/06/06 (a)(b)	16,500	16,500
4.02%, 07/06/06 (a)(b)(c)(d)	18,295	18,295	M/F Housing RB (Hidden Oaks Apts) Series 1999C 3.96%, 07/06/06 (a)(b)	6,300	6,300
RB Series 2002L 4.01%, 07/06/06 (a)(b)(c)(d)	13,000	13,000	M/F Housing Refunding RB (Chesapeake Commons Apts) Series 2001C 3.98%, 07/06/06 (a)(b)	28,000	28,000
<b>Rancho Santiago Community College District</b>			<b>Sacramento Cnty Sanitation District Financing Auth</b>		
GO Bonds (Election of 2002) Series B 4.00%, 07/06/06 (a)(b)(c)(d)	10,000	10,000	RB Series 2000A 4.01%, 07/06/06 (a)(c)(d)	6,090	6,090
<b>Redwood City</b>			RB Series 2004A 4.00%, 07/06/06 (a)(b)(c)(d)	3,230	3,230
COP (City Hall) Series 1998 3.94%, 07/06/06 (a)(b)	4,870	4,870	<b>Sacramento Finance Auth</b>		
<b>Richmond</b>			Capital Improvement RB (Community Reinvestment Capital Improvement) Series 2006A 4.01%, 07/06/06 (a)(b)(c)	7,290	7,290
M/F Housing RB (Baycliff Apts) Series 2004A 3.96%, 07/06/06 (a)(b)	28,800	28,800	Refunding RB (Solid Waste, Redevelopment and Master Lease Program Facilities) Series 2005 4.01%, 07/06/06 (a)(b)(c)	9,030	9,030
<b>Riverside Cnty</b>			<b>Sacramento Housing Auth</b>		
Transportation Commission CP Notes (Limited Tax Bonds) 3.50%, 10/06/06 (b)	10,904	10,904	M/F Housing RB (Atrium Court Apts) 2002G 3.96%, 07/06/06 (a)(b)	17,200	17,200
<b>Riverside Cnty Housing Auth</b>			M/F Housing RB (St Anton Building Apts) Series 2003I 3.96%, 07/06/06 (a)(b)	8,000	8,000
M/F Housing RB (Victoria Springs Apts) Series 1989C 3.98%, 07/06/06 (a)(b)	9,000	9,000	<b>Sacramento Municipal Utility District Financing Auth</b>		
<b>Roseville Joint Union High SD</b>			Consumers Project RB Series 2006 4.00%, 07/06/06 (a)(b)(c)(d)	10,475	10,475
COP Series 2003 3.94%, 07/06/06 (a)(b)(c)	5,555	5,555	<b>Sacramento Redevelopment Agency</b>		
<b>Sacramento Cnty</b>			M/F Housing RB (18th and L Apts) Series 2002E 3.96%, 07/06/06 (a)(b)	21,075	21,075
2005 TRAN Series A 2.73%, 07/10/06	4,470	4,471			
Special Facilities Airport RB (Cessna Aircraft Co) Series 1998 3.97%, 07/06/06 (a)(b)	3,300	3,300			
TRAN Series 2006A 3.68%, 07/17/06	50,000	50,405			
3.69%, 07/17/07	25,000	25,200			
<b>Sacramento Cnty Housing Auth</b>					
M/F Housing RB (Carlton Plaza of Sacramento Senior Apts) Series 2003E 3.98%, 07/06/06 (a)(b)	14,000	14,000			

See financial notes. 23

## Schwab California Municipal Money Fund

### Portfolio Holdings (Unaudited) 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 Bernardino City Unified SD</b>					
GO Bonds (Election of 2004)			M/F Housing RB (Hillside Garden		
Series B			Apts) Series 2004B		
4.00%, 07/06/06 (a)(b)(c)(d)	11,365	11,365	3.96%, 07/06/06 (a)(b)	13,595	13,595
<b>San Diego</b>					
Certificates of Undivided			M/F Mortgage Refunding RB		
Interest in Installment			(Creekside Villa Apts)		
Payments Payable from			Series 1999B		
Net System Revenues			3.98%, 07/06/06 (a)(b)	6,000	6,000
of the Water Utility Fund			<b>San Diego Unified SD</b>		
Series 1998			2005-2006 TRAN Series A		
4.00%, 07/06/06 (a)(b)(c)(d)	7,785	7,785	2.64%, 07/24/06	60,000	60,050
<b>San Diego Cnty and SD</b>			2006-2007 TRAN Series A		
<b>Pool Program</b>			3.70%, 07/24/07	50,000	50,407
TRAN Program Note			GO Bonds Series 2002D		
Participations Series 2006A			3.98%, 07/06/06 (a)(b)(c)(d)	12,280	12,280
3.70%, 06/29/07	37,500	37,807	GO Bonds Series 2003E		
TRAN Program Note			3.98%, 07/06/06 (a)(b)(c)(d)	21,665	21,665
Participations Series 2006B			<b>San Francisco Airports</b>		
3.72%, 06/29/07	12,600	12,701	<b>Commission</b>		
TRAN Series 2005A			Second Series RB (San Francisco		
2.58%, 07/14/06	45,000	45,021	International Airport)		
<b>San Diego Cnty Regional</b>			Series 18B		
<b>Airport Auth</b>			3.97%, 07/06/06 (a)(b)(c)(d)	16,255	16,255
Refunding RB Series 2005			Second Series RB (San Francisco		
4.02%, 07/06/06 (a)(b)(c)(d)	5,895	5,895	International Airport)		
<b>San Diego Cnty Regional</b>			Series 24A		
<b>Transportation Commission</b>			4.04%, 07/06/06 (a)(b)(c)(d)	12,670	12,670
Subordinate Sales Tax Revenue			Second Series Refunding RB		
CP Notes (Limited Tax Bonds)			(San Francisco International		
Series A			Airport) Series 33G		
3.50%, 10/06/06 (c)	22,023	22,023	4.00%, 07/05/06 (a)(b)(c)	10,000	10,000
<b>San Diego Community</b>			Second Series Refunding RB		
<b>College District</b>			(San Francisco International		
GO Bonds (Election of 2002)			Airport) Series 33H		
Series 2005			3.99%, 07/05/06 (a)(b)(c)	20,200	20,200
4.00%, 07/06/06 (a)(b)(c)(d)	30,950	30,950	<b>San Francisco Bay Area</b>		
4.01%, 07/06/06 (a)(b)(c)(d)	5,265	5,265	<b>Rapid Transit</b>		
GO Series 2005			Sales Tax Refunding RB		
4.00%, 07/06/06 (a)(b)(c)(d)	17,495	17,495	Series 2005A		
<b>San Diego Housing Auth</b>			3.95%, 07/05/06 (a)(b)(c)	9,465	9,465
M/F Housing RB (Delta Village			<b>San Francisco City and Cnty</b>		
Apts) Series 2005A			GO Bonds (Laguna Honda		
3.98%, 07/06/06 (a)(b)	9,000	9,000	Hospital-1999) Series 2005D		
			3.90%, 07/06/06 (a)(b)(c)	6,450	6,450

**Schwab California Municipal Money Fund**

**Portfolio Holdings** (Unaudited) continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
GO Bonds (Laguna Honda Hospital-1999) Series 2005I 4.01%, 07/06/06 (a)(b)(c)	4,340	4,340
GO Bonds Series 2005 F&G 3.99%, 07/06/06 (a)(b)(c)(d)	4,985	4,985
M/F Housing RB (Carter Terrace Apts) Series 2002B 4.00%, 07/06/06 (a)(b)	6,375	6,375
M/F Housing Refunding RB (City Heights Apts) Series 1997A 3.96%, 07/05/06 (a)(b)	20,800	20,800
M/F Housing Refunding RB (Post St Towers) Series 2000A 3.91%, 07/05/06 (a)(b)	16,800	16,800
<b>San Francisco City and Cnty Redevelopment Agency</b>		
M/F Housing RB (Derek Silva Community) Series 2002D 4.00%, 07/06/06 (a)(b)	2,700	2,700
M/F Housing RB (Notre Dame Apts) Series 2000G 3.96%, 07/05/06 (a)(b)	14,000	14,000
M/F Housing RB (Ocean Beach Apts) Series 2001B 3.99%, 07/05/06 (a)(b)	7,034	7,035
M/F Housing Refunding RB (Fillmore Center) Series 1992A2 3.96%, 07/05/06 (a)(b)	3,750	3,750
<b>San Francisco Cnty Transportation Auth</b>		
CP Series A&B 3.55%, 07/11/06 (c)	12,500	12,500
3.50%, 07/12/06 (c)	27,500	27,500
3.50%, 07/14/06 (c)	19,700	19,700
<b>San Francisco Public Utility Commission</b>		
San Francisco Water RB Series 2006A 3.97%, 07/06/06 (a)(b)(c)(d)	14,605	14,605

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>San Francisco Unified SD</b>		
GO Bonds (Election of 2003) Series 2005B 4.01%, 07/06/06 (a)(b)(c)(d)	9,785	9,785
GO Bonds (Prop A, Election of 2003) Series 2005B 4.00%, 07/06/06 (a)(b)(c)(d)	2,645	2,645
<b>San Gabriel Valley Council of Governments</b>		
Alameda Corridor-East Construction Project Grant Anticipation Notes 3.50%, 07/11/06 (b)	37,000	37,000
3.58%, 07/11/06 (b)	5,900	5,900
<b>San Jose</b>		
GO Bonds (Libraries, Parks and Public Safety) Series 2002 3.97%, 07/06/06 (a)(b)(c)(d)	11,971	11,971
M/F Housing RB (Almaden Family Apts) Series 2003D 3.96%, 07/06/06 (a)(b)	5,000	5,000
M/F Housing RB (Almaden Lake Village Apts) Series 1997A 3.98%, 07/06/06 (a)(b)	20,400	20,400
M/F Housing RB (Betty Anne Gardens Apts) Series 2002A 3.98%, 07/06/06 (a)(b)	7,410	7,410
M/F Housing RB (Raintree Apts) Series 2005A 4.00%, 07/06/06 (a)(b)	10,500	10,500
M/F Housing RB (Siena at Renaissance Square Apts) Series 1996A 3.96%, 07/06/06 (a)(b)	21,500	21,500
<b>San Jose Financing Auth</b>		
Lease RB (Civic Center) Series 2002C 3.88%, 07/05/06 (a)(b)(c)	58,315	58,315
<b>San Jose Redevelopment Agency</b>		
M/F Housing RB (101 San Fernando Apts) Series 1998A 3.99%, 07/05/06 (a)(b)	38,000	38,000

See financial notes. 25

## Schwab California Municipal Money Fund

### Portfolio Holdings (Unaudited) 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)
Tax Allocation Bonds (Merged Area Redevelopment) Series 2005C 3.97%, 07/05/06 (a)(b)	16,575	16,575	<b>Santa Rosa</b> Wastewater Refunding RB Series 2004A 3.94%, 07/06/06 (a)(b)	24,000	24,000
Tax Allocation Bonds (Merged Area Redevelopment) Series 2005D 3.99%, 07/05/06 (a)(b)	10,000	10,000	<b>Santa Rosa Housing Auth</b> M/F Housing RB (Quail Run Apts) Series 1997A 4.02%, 07/06/06 (a)(b)	8,190	8,190
Tax Allocation Refunding Bonds (Merged Area Redevelopment) Series 2005A 4.01%, 07/06/06 (a)(b)(c)	7,960	7,960	<b>Sierra Joint Community College District</b> GO Bonds (School Facilities Improvement District No.1 & 2-Election of 2004) Series A 4.01%, 07/06/06 (a)(b)(c)(d)	12,425	12,425
<b>San Jose Unified SD</b> 2006 GO Bonds (Election of 2002) Series C 4.01%, 07/06/06 (a)(b)(c)(d)	4,125	4,125	<b>Sonoma Cnty Junior College District</b> GO Bonds (Election of 2002) Series B 3.96%, 07/06/06 (a)(b)(c)(d)	16,650	16,650
<b>San Jose-Evergreen Community College District</b> GO Bonds Election of 2004 Series A 3.97%, 07/06/06 (a)(b)(c)	8,000	8,000	4.01%, 07/06/06 (a)(b)(c)(d)	6,415	6,415
<b>San Marcos Redevelopment Agency</b> M/F Housing RB (Grandon Village) Series 2002A 3.94%, 07/06/06 (a)(b)	13,390	13,390	<b>South Placer Wastewater Auth</b> RB Series B 3.98%, 07/06/06 (a)(b)(c)	5,200	5,200
<b>San Mateo Cnty Transit District</b> Limited Tax Refunding Bonds Series 2005A 4.01%, 07/06/06 (a)(b)(c)(d)	8,745	8,745	<b>South San Francisco</b> M/F Housing RB (Magnolia Plaza Apts) Series 1987A 4.00%, 07/05/06 (a)(b)	5,500	5,500
Limited Tax Refunding Bonds Series 2005B 3.97%, 07/06/06 (a)(b)(c)(d)	1,000	1,000	<b>Southern California HFA</b> S/F Mortgage RB Series 2004A 4.01%, 07/05/06 (a)(c)	21,100	21,100
<b>Santa Barbara Cnty</b> 2005-2006 TRAN Series A 2.63%, 07/25/06	28,500	28,525	S/F Mortgage RB Series 2004B 4.01%, 07/05/06 (a)(c)	14,665	14,665
<b>Santa Clara Cnty Housing Auth</b> M/F Housing RB (Monte Vista Terrace Apts) Series 2005C 4.05%, 07/06/06 (a)(b)	7,000	7,000	<b>Southern California Metropolitan Water District</b> RB Series 1999A 4.00%, 07/05/06 (a)(c)(d)	18,500	18,500
<b>Santa Fe Springs IDA</b> IDRB (Tri-West) Series 1983 3.40%, 07/03/06 (a)(b)	4,000	4,000	RB Series 2001C1 3.85%, 07/03/06 (a)(c)	29,200	29,200
			Refunding RB Series 2001B1 3.92%, 07/06/06 (a)(c)	6,500	6,500
			Water RB Series 2001C2 3.87%, 07/03/06 (a)(c)	6,000	6,000

## Schwab California Municipal Money Fund

### Portfolio Holdings (Unaudited) 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>Stockton</b>			<b>Victor Valley Community College District</b>		
Special Tax Bonds (Arch Road East Community Facilities District No.99-02) Series 1999 3.96%, 07/06/06 (a)(b)	940	940	COP Series 1997 3.95%, 07/06/06 (a)(b)	50,275	50,275
<b>Sunnyvale</b>			<b>Western Placer Unified SD</b>		
COP (Government Center Site Acquisition) Series 2001A 3.93%, 07/06/06 (a)(b)(c)	7,590	7,590	COP (School Facilities) Series 2003 4.00%, 07/06/06 (a)(b)	8,600	8,600
<b>Sweetwater Union High SD</b>			<b>Westminister Redevelopment Agency</b>		
GO Bonds (Election of 2000) Series C 4.00%, 07/06/06 (a)(b)(c)	7,900	7,900	M/F Housing RB (Brookhurst Royale Senior Assisted Living) Series 2000A 4.00%, 07/06/06 (a)(b)	7,700	7,700
<b>Tobacco Securitization Auth of Southern California</b>			Tax Allocation Refunding RB (Commercial Redevelopment Project No.1) Series 1997 3.94%, 07/06/06 (a)(b)(c)	1,500	1,500
Tobacco Settlement Asset-Backed Bonds (San Diego Cnty TASC) Series 2006A 4.01%, 07/06/06 (a)(b)(c)	5,300	5,300	<b>Westminster</b>		
<b>University of California</b>			COP (Civic Center Refunding) Series 1998A 3.94%, 07/06/06 (a)(b)(c)	2,915	2,915
General RB Series 2003A 4.00%, 07/06/06 (a)(b)(c)(d)	17,270	17,270			<b>8,053,382</b>
General RB Series 2005F 3.97%, 07/06/06 (a)(b)(c)(d)	8,195	8,195	<b>Puerto Rico 2.2%</b>		
4.01%, 07/06/06 (a)(b)(c)(d)	21,975	21,975	<b>Puerto Rico</b>		
General RB Series G 4.01%, 07/06/06 (a)(b)(c)(d)	18,025	18,025	Public Improvement Bonds Series 2001A 3.97%, 07/06/06 (a)(b)(c)(d)	200	200
Limited Project RB Series 2005B 3.95%, 07/05/06 (a)(b)(c)	7,000	7,000	Public Improvement Bonds Series 2001B 3.96%, 07/06/06 (a)(b)(c)(d)	2,000	2,000
3.96%, 07/06/06 (a)(b)(c)	10,340	10,340	Public Improvement Refunding Bonds Series 2002A 4.06%, 07/06/06 (a)(b)(c)(d)	995	995
4.00%, 07/06/06 (a)(b)(c)	6,470	6,470	TRAN Series 2006 3.23%, 07/28/06 (b)	25,000	25,023
RB (Multiple Purpose) Series K 4.01%, 07/06/06 (a)(c)(d)	19,430	19,430	<b>Puerto Rico Electric Power Auth</b>		
RB (Multiple Purpose) Series O 3.97%, 07/06/06 (a)(b)(c)(d)	7,995	7,995	RB Series HH 3.96%, 07/06/06 (a)(b)(c)(d)	9,665	9,665
<b>Ventura Cnty</b>			RB Series II 4.00%, 07/06/06 (a)(b)(c)(d)	7,405	7,405
TRAN Series 2005-06 4.00%, 07/03/06	50,000	50,004	<b>Puerto Rico Highway and Transportation Auth</b>		
<b>Vernon Natural Gas Financing Auth</b>			Highway Refunding RB Series BB 3.98%, 07/06/06 (a)(b)(c)(d)	830	830
RB (Vernon Gas) Series 2006C 3.95%, 07/05/06 (a)(b)(c)	25,000	25,000			

See financial notes. 27

## Schwab California Municipal Money Fund

### Portfolio Holdings (Unaudited) continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
RB Series 2000B 3.98%, 07/05/06 (a)(b)(c)(d)	4,935	4,935
RB Series Y 3.96%, 07/06/06 (a)(b)(c)(d)	7,400	7,400
3.99%, 07/06/06 (a)(b)(c)(d)	10,600	10,600
Refunding RB Series AA 3.99%, 07/06/06 (a)(b)(c)(d)	3,995	3,995
Subordinated RB Series 2003 3.96%, 07/06/06 (a)(b)(c)(d)	2,000	2,000
Transportation Refunding RB Series 2005L 3.97%, 07/06/06 (a)(b)(c)(d)	6,975	6,975
Transportation Refunding RB Series L 3.97%, 07/06/06 (a)(b)(c)(d)	5,800	5,800
3.97%, 07/06/06 (a)(b)(c)	15,000	15,000
3.98%, 07/06/06 (a)(b)(c)(d)	8,115	8,115
<b>Puerto Rico Housing Finance Corp</b>		
Homeownership Mortgage RB Series 1998A 4.01%, 07/06/06 (a)(b)(c)(d)	3,500	3,500
<b>Puerto Rico Infrastructure Financing Auth</b>		
Special Obligation Bonds Series 2000A 4.02%, 07/06/06 (a)(c)(d)	29,000	29,000
Special Tax Refunding RB Series 2005C 3.98%, 07/06/06 (a)(b)(c)(d)	155	155
3.99%, 07/06/06 (a)(b)(c)	13,595	13,595
<b>Puerto Rico Public Buildings Auth</b>		
Government Facilities RB Series B 3.96%, 07/06/06 (a)(b)(c)(d)	10,095	10,095
Refunding RB Series L 3.99%, 07/06/06 (a)(b)(c)(d)	6,545	6,545
		<b>173,828</b>

At 6/30/06, the cost of the fund's investments was \$8,227,210.

(a) Variable rate security.  
(b) Credit-enhanced security  
(c) Liquidity-enhanced security  
(d) Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registrations, normally to qualified institutional buyers. At the period end, the value of these amounted to \$2,313,281 or 29.3% of net assets.

COP – Certificate of participation

GO – General obligation

HFA – Housing Finance Agency

IDA – Industrial Development Authority

IDRB – Industrial Development Revenue Bond

RAN – Revenue anticipation note

RB – Revenue bond

TECP – Tax-exempt commercial paper

TRAN – Tax and revenue anticipation note

End of Investments.

## Schwab California Municipal Money Fund

Statement of

### Assets and Liabilities

As of June 30, 2006; unaudited. All numbers x 1,000 except NAV.

#### Assets

Investments, at cost and value	\$8,227,210
Cash	1,022
Receivables:	
Receivable for investment sold	106,107
Fund shares sold	245,317
Interest	61,905
Prepaid expenses	+ 118
<b>Total assets</b>	<b>8,641,679</b>

#### Liabilities

Payables:	
Fund shares redeemed	121,018
Investments bought	614,057
Dividends to shareholders	10,305
Investment adviser and administrator fees	141
Transfer agent and shareholder services fees	203
Trustee's fees	6
Accrued expenses	+ 166
<b>Total liabilities</b>	<b>745,896</b>

#### Net Assets

<b>Total assets</b>	8,641,679
<b>Total liabilities</b>	— 745,896
<b>Net assets</b>	<b>\$7,895,783</b>

#### Net Assets by Source

Capital received from investors	7,898,457
Net realized capital losses	(2,674)

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

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Sweep Shares	\$4,207,734		4,209,763		\$1.00
Value Advantage Shares	\$3,688,049		3,688,809		\$1.00

## Schwab California Municipal Money Fund

Statement of

### Operations

For January 1, 2006 through June 30, 2006; unaudited. All numbers x 1,000.

#### Investment Income

Interest	<b>\$124,426</b>
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#### Net Realized Gains and Losses

Net realized losses on investments sold	(204)
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#### Expenses

Investment adviser and administrator fees	13,501
Transfer agent and shareholder service fees:	
Sweep Shares	9,370
Value Advantage Shares	3,810
Trustees' fees	20
Custodian fees	146
Portfolio accounting fees	88
Professional fees	24
Registration fees	77
Shareholder reports	44
Other expenses	+ 31
Total expenses	27,111
Custodian credits	- 5
Expense reduction	- 5,844
<b>Net expenses</b>	<b>21,262</b>

#### Increase in Net Assets from Operations

<b>Total investment income</b>	124,426
<b>Net expenses</b>	- 21,262
<b>Net investment income</b>	<b>103,164</b>
<b>Net realized losses</b>	+ (204)
<b>Increase in net assets from operations</b>	<b>\$102,960</b>



## Schwab California Municipal Money Fund

Statements of

### Changes in Net Assets

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

Figures for current period are unaudited.

#### Operations

	1/1/06-6/30/06	1/1/05-12/31/05
Net investment income	\$103,164	\$130,419
Net realized losses	+ (204)	(619)
<b>Increase in net assets from operations</b>	<b>102,960</b>	<b>129,800</b>

#### Distributions Paid

<b>Dividends from net investment income</b>		
Sweep Shares	54,404	71,464
Value Advantage Shares	+ 48,760	58,952
<b>Total dividends from net investment income</b>	<b>103,164</b>	<b>130,416</b>

#### Transactions in Fund Shares \*

<b>Shares Sold</b>		
Sweep Shares	11,496,429	18,372,058
Value Advantage Shares	+ 3,089,879	4,453,975
<b>Total shares sold</b>	<b>14,586,308</b>	<b>22,826,033</b>

<b>Shares Reinvested</b>		
Sweep Shares	48,818	70,262
Value Advantage Shares	+ 39,011	52,187
<b>Total shares reinvested</b>	<b>87,829</b>	<b>122,449</b>

<b>Shares Redeemed</b>		
Sweep Shares	(11,471,556)	(18,455,404)
Value Advantage Shares	+ (2,680,329)	(4,091,191)
<b>Total shares redeemed</b>	<b>(14,151,885)</b>	<b>(22,546,595)</b>

<b>Net transactions in fund shares</b>	<b>522,252</b>	<b>401,887</b>
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#### Net Assets

Beginning of period	7,373,735	6,972,464
Total increase	+ 522,048	401,271
<b>End of period</b>	<b>\$7,895,783</b>	<b>\$7,373,735</b>

\* Transactions took place at \$1.00 per share; figures for share quantities are the same as for dollars.

## Financial Notes, unaudited.

Unless stated, all dollar amounts are x 1,000.

### 1. Business Structure of the Fund

Schwab California Municipal Money Fund 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 list below shows all the funds in the trust including the fund discussed in this report, which 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 AMT Tax-Free Money Fund

Schwab Massachusetts Municipal Money Fund

Schwab Retirement Advantage Money Fund

Schwab Investor Money Fund

Schwab Advisor Cash Reserves

Schwab Cash Reserves

Schwab California Municipal Money 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 trustees may issue as many shares as necessary.

### 2. Significant Accounting Policies

The following is a summary of the significant accounting policies the fund uses in its operations and in the preparation of financial statements:

#### (a) Security Valuation:

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

#### (b) Portfolio Investments:

**Delayed-Delivery:** 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.

#### (c) Security Transactions:

Security transactions are recorded as of the date the order to buy or sell the security is executed. Realized gains and losses from security transactions are based on the identified costs of the securities involved.

## **Financial Notes, unaudited (continued).**

Unless stated, all dollar amounts are x 1,000.

## **2. Significant Accounting Policies (continued)**

### **(d) Income, Expenses and Distributions:**

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

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

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

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 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 keeps certain assets in segregated accounts, as may be required by securities law.

### **(e) Borrowing:**

The fund may borrow money from banks and custodians. The fund may obtain temporary bank loans through the trusts 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.

### **(f) Accounting Estimates:**

The accounting policies described in this report 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.

**Financial Notes, unaudited (continued).**

Unless stated, all dollar amounts are x 1,000.

**2. Significant Accounting Policies (continued)****(g) Indemnification:**

Under the fund's organizational documents, the 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.

**3. Affiliates and Affiliated Transactions**

Charles Schwab Investment Management, Inc. (CSIM or the investment adviser), a wholly owned subsidiary of The Charles Schwab Corporation, serves as the fund's investment adviser and administrator pursuant to an Investment Advisory and Administration Agreement (Advisory Agreement) between it and the trust. Charles Schwab & Co., Inc. ("Schwab") is an affiliate of the investment adviser and is the trust's shareholder services agent and transfer agent.

For its advisory and administrative services to the fund, the investment adviser is entitled to receive an annual fee payable monthly based on the fund's average daily net assets described as follows:

**Average daily net assets**

First \$1 billion	0.38%
Over \$1 billion	0.35%
Over \$10 billion	0.32%
Over \$20 billion	0.30%
Over \$40 billion	0.27%

For its transfer agent and shareholder services, Schwab is entitled to receive an annual fee payable monthly based on the fund's average daily net assets described as follows:

	<b><u>Transfer Agent Fees</u></b>	<b><u>Shareholder Service Fees</u></b>
Sweep Shares	0.25%	0.20%
Value Advantage Shares	0.05%	0.17%

Although these agreements specify certain fees for these services, CSIM and Schwab have made additional agreements with the fund to limit the total expenses charged, excluding interest, taxes and certain non-routine expenses through April 29, 2007, as follows:

Sweep Shares	0.64%*
Value Advantage Shares	0.45%

\*Prior to April 30, 2006, the limit was 0.65% for Sweep Shares.

**Financial Notes, unaudited (continued).**

Unless stated, all dollar amounts are x 1,000.

**3. Affiliates and Affiliated Transactions (continued)**

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. For the period ended June 30, 2006, the fund's total security transactions with other Schwab Funds was \$1,222,665.

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. There was no interfund borrowing or lending activity for the fund during the period.

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.

**4. Federal Income Taxes**

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 realized net capital gains (if any) to its shareholders each year. The net investment income and realized capital gains and losses may differ for financial statement and tax purposes primarily due to differing treatments of losses on wash sales and market discount. As long as the fund meets the tax requirements, it is not required to pay federal income tax. As of December 31, 2005, the fund had no undistributed earnings on a tax basis.

As of December 31, 2005, the fund had capital loss carry forwards available to offset future net capital gains before the expiration dates:

<u>Expire</u>	
2008	\$955
2011	508
2012	397
2013	610
<b>Total</b>	<b><u>\$2,470</u></b>

**Financial Notes, unaudited (continued).**

Unless stated, all dollar amounts are x 1,000.

**4. Federal Income Taxes (continued)**

100% of the fund's distributions for the year ended December 31, 2005 were from tax-exempt interest dividends as follows:

From tax-exempt income	\$130,416
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The permanent book and tax basis differences may result in reclassifications between capital account and other accounts as required. The adjustments will have no impact on net assets or the results of operations. As of December 31, 2005, the funds made the following reclassifications:

Capital shares	—
Undistributed net investment income	\$(9)
Net realized capital gains and losses	\$9

# 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.

The Board, including a majority of the Independent Trustees, considered information specifically relating to its consideration of the continuance of the Agreement at meetings held on May 2, 2006, May 24, 2006 and June 12, 2006, and approved the renewal of the Agreement for an additional one year term at the meeting held on June 12, 2006. The Board’s approval of the Agreement was based on consideration and evaluation of a variety of specific factors discussed at these meetings 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 information considered by the trustees included specific information concerning changes in the nature, extent and quality of services provided by CSIM since the trustees had last considered approval of the Agreement. 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 and their shareholders. 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' shareholders 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 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, when applicable, 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 and the appropriateness of the benchmark used to compare the performance of each fund. The trustees further considered the level of fund per-

formance in the context of its review of fund expenses and adviser profitability discussed below. Following such evaluation the Board concluded, within the context of its full deliberations, that the performance of the funds supported 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 historical practice of voluntarily waiving 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 different legal, regulatory, compliance and operating features of mutual funds as compared to these other types of accounts. The Board also considered recent actions by CSIM to adjust fund investor eligibility criteria that would result in more shareholders investing in funds (and share classes within funds) that have lower net operating expenses and that are designed to 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. Following such evaluation and based upon CSIM's agreement to implement proposals related to fund investor eligibility, the Board concluded, within the context of its full deliberations, that the expenses of the funds are reasonable and supported 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. The Board also considered information relating to changes to CSIM's cost structure, including cost savings, technology investments and increased operating efficiencies and how these changes affected CSIM's profitability under the Agreement. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the profitability of CSIM is reasonable and supported 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 that include lower fees at higher graduated asset levels. The Board also considered certain commitments by CSIM and Schwab that are designed to pass along potential economies of scale to fund shareholders. Specifically, the Board considered CSIM and Schwab's commitments, which may be changed only with Board approval: (i) to reduce contractual advisory fees or add breakpoints for certain funds, (ii) to implement, by means of expense limitation agreement, over the next several years additional reductions in net overall expenses for certain funds, (iii) to reduce administrative "sweep" fees paid to Schwab in connection with money market fund shares that are used for automatic investment of cash held in customer brokerage accounts, and (iv) to implement future net total operating expense reductions for taxable money funds as a group and non-taxable money funds as a group when aggregate assets of such group of funds exceed certain levels. Based on this evaluation, and in consideration of the commitments made by CSIM and Schwab as discussed above, 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 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

The tables below give information about the trustees and officers for The Charles Schwab Family of Funds, which includes the fund covered in this report. The “Fund Complex” includes The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust, Schwab Annuity Portfolios, Laudus Trust, Laudus Variable Insurance Trust, Excelsior Funds, Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust. As of June 30, 2006, the Fund Complex included 98 funds.

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, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served')	Principal Occupations During the Past Five Years	Number of Portfolios in Fund Complex Overseen by the Trustee	Other Directorships
<b>Mariann Byerwalter</b> 1960 Trustee (Trustee of The Charles Schwab Family of Funds since 2000.)	Chairman of JDN Corporate Advisory LLC. <i>From 1996 to 2001</i> , Vice President for Business Affairs and Chief Financial Officer of Stanford University, and <i>in 2001</i> , Special Advisor to the President of Stanford University.	98	<i>Board 1</i> —Director, Redwood Trust, Inc. <i>Board 2</i> —Director, PMI Group, Inc.
<b>Donald F. Dorward</b> 1931 Trustee (Trustee of The Charles Schwab Family of Funds since 1989.)	Chief Executive Officer, Dorward & Associates (corporate management, marketing and communications consulting firm). <i>From 1996-1999</i> , Executive Vice President and Managing Director, Grey Advertising. <i>Prior to 1996</i> , President and Chief Executive Officer, Allen & Dorward Advertising.	57	None.
<b>William A. Hasler</b> 1941 Trustee (Trustee of The Charles Schwab Family of Funds since 2000.)	Retired. Dean Emeritus, Haas School of Business, University of California, Berkeley. <i>Until February 2004</i> , Co-Chief Executive Officer, Aphton Corp. (bio-pharmaceuticals). <i>Prior to August 1998</i> , Dean of the Haas School of Business, University of California, Berkeley (higher education).	98	<i>Board 1</i> —Director, Aphton Corp. <i>Board 2</i> —Director, Mission West Properties <i>Board 3</i> —Director, TOUSA <i>Board 4</i> —Director, Stratex Networks <i>Board 5</i> —Director, Genitope Corp. <i>Board 6</i> —Director & Non-Executive Chairman, Solelectron Corp. <i>Board 7</i> —Director, Ditech Communications Corp.

# **Independent Trustees** continued

Name, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served <sup>1</sup> )	Principal Occupations During the Past Five Years	Number of Portfolios in Fund Complex Overseen by the Trustee	Other Directorships
<b>Robert G. Holmes</b> 1931 Trustee (Trustee of The Charles Schwab Family of Funds since 1989.)	Chairman, Chief Executive Officer and Director, Semloh Financial, Inc. (international financial services and investment advisory firm).	57	None.
<b>Gerald B. Smith</b> 1950 Trustee (Trustee of The Charles Schwab Family of Funds since 2000.)	Chairman and Chief Executive Officer and founder of Smith Graham & Co. (investment advisors).	57	<i>Board 1</i> —Board of Cooper Industries <i>Board 2</i> —Chairman of the Audit Committee of Northern Border Partners, M.L.P.
<b>Donald R. Stephens</b> 1938 Trustee (Trustee of The Charles Schwab Family of Funds since 1989.)	Managing Partner, D.R. Stephens & Company (investments). Prior to 1996, Chairman and Chief Executive Officer of North American Trust (real estate investment trust).	57	None.
<b>Michael W. Wilsey</b> 1943 Trustee (Trustee of The Charles Schwab Family of Funds since 1989.)	Chairman and Chief Executive Officer, Wilsey Bennett, Inc. (real estate investment and management, and other investments).	57	None.

## Interested Trustees

Name, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served <sup>1</sup> )	Principal Occupations During the Past Five Years	Number of Portfolios in Fund Complex Overseen by the Trustee	Other Directorships
<b>Charles R. Schwab<sup>2</sup></b> 1937 Chairman and Trustee (Chairman and Trustee of The Charles Schwab Family of Funds since 1989.)	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 May 2003</i> , Co-Chief Executive Officer, The Charles Schwab Corporation.	57	None.
<b>Randall W. Merk<sup>2</sup></b> 1954 Trustee (Trustee of The Charles Schwab Family of Funds since 2005.)	Executive Vice President and President, Schwab Financial Products, Charles Schwab & Co., Inc.; Director, Charles Schwab Asset Management (Ireland) Limited and Charles Schwab Worldwide Funds PLC. <i>From September 2002 to July 2004</i> , Chief Executive Officer and President, Charles Schwab Investment Management, Inc. and Executive Vice President, Charles Schwab & Co., Inc. <i>Prior to September 2002</i> , President and Chief Investment Officer, American Century Investment Management, and Director, American Century Companies, Inc.	98	None.

## Officers of the Trust

**Name, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served<sup>3</sup>)**

**Principal Occupations During the Past Five Years**

<b>Evelyn Dilsaver</b> 1955 President and Chief Executive Officer (Officer of The Charles Schwab Family of Funds since 2004.)	President, Chief Executive Officer, and Director, Charles Schwab Investment Management, Inc.; Executive Vice President, Charles Schwab & Co., Inc.; President and Chief Executive Officer, Laudus Trust and Laudus Variable Insurance Trust; President, Excelsior Funds Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust; President, Mutual Fund Division, UST Advisers, Inc. <i>From June 2003 to July 2004</i> , Senior Vice President, Asset Management Products and Services, Charles Schwab & Co., Inc. <i>Prior to June 2003</i> , Executive Vice President, Chief Financial Officer, and Chief Administrative Officer, U.S. Trust, a subsidiary of The Charles Schwab Corporation.
<b>Stephen B. Ward</b> 1955 Senior Vice President and Chief Investment Officer (Officer of The Charles Schwab Family of Funds since 1991.)	Director, Senior Vice President and Chief Investment Officer, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Company.
<b>George Pereira</b> 1964 Treasurer and Principal Financial Officer (Officer of The Charles Schwab Family of Funds since 2004.)	Senior Vice President and Chief Financial Officer, Charles Schwab Investment Management, Inc.; Chief Financial Officer, Laudus Trust and Laudus Variable Insurance Trust; Chief Financial Officer and Chief Accounting Officer, Excelsior Funds Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust; Chief Financial Officer, Mutual Fund Division, UST Advisors, Inc. Director, Charles Schwab Worldwide Fund, PLC and Charles Schwab Asset Management (Ireland) Limited. <i>From December 1999 to November 2004</i> , Sr. Vice President, Financial Reporting, Charles Schwab & Co., Inc.
<b>Kimon Daifotis</b> 1959 Senior Vice President and Chief Investment Officer—Fixed Income (Officer of The Charles Schwab Family of Funds since 2004.)	Senior Vice President and Chief Investment Officer—Fixed Income, Charles Schwab Investment Management, Inc. <i>Prior to 2004</i> , Vice President and Sr. Portfolio Manager, Charles Schwab Investment Management, Inc.
<b>Jeffrey Mortimer</b> 1963 Senior Vice President and Chief Investment Officer—Equities (Officer of The Charles Schwab Family of Funds since 2004.)	Senior Vice President and Chief Investment Officer—Equities, Charles Schwab Investment Management, Inc.; Vice President and Chief Investment Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Prior to 2004</i> , Vice President and Sr. Portfolio Manager, Charles Schwab Investment Management, Inc.

## Officers of the Trust continued

Name, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served <sup>3</sup> )	Principal Occupations During the Past Five Years
<b>Randall Fillmore</b> 1960 Chief Compliance Officer and AML Officer (Officer of The Charles Schwab Family of Funds since 2002.)	Senior Vice President and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Senior Vice President Charles Schwab & Co., Inc.; Chief Compliance Officer, Laudus Trust and Laudus Variable Insurance Trust; Chief Compliance Officer, Excelsior Funds Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust. <i>From 2002 to 2003</i> , Vice President, Charles Schwab & Co., Inc., and Charles Schwab Investment Management, Inc. <i>From 2000 to 2002</i> , Vice President, Internal Audit, Charles Schwab & Co., Inc.
<b>Koji E. Felton</b> 1961 Secretary and Chief Legal Officer (Officer of The Charles Schwab Family of Funds since 1998.)	Senior Vice President, Chief Counsel and Corporate Secretary, Charles Schwab Investment Management, Inc.; Senior Vice President and Deputy General Counsel, Charles Schwab & Co., Inc.; Chief Legal Officer, Laudus Trust and Laudus Variable Insurance Trust; Chief Legal Officer, Excelsior Funds Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust. <i>Prior to June 1998</i> , Branch Chief in Enforcement at U.S. Securities and Exchange Commission in San Francisco.

<sup>1</sup> Trustees remain in office until they resign, retire or are removed by shareholder vote. 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> In addition to their employment with the investment adviser and the distributor, Messrs. Schwab and Merk also own stock of The Charles Schwab Corporation. Mr. Schwab and Mr. Merk are Interested Trustees because they are employees of Schwab and/or the adviser.

<sup>3</sup> The President, Treasurer and Secretary hold office until their respective successors are chosen and qualified or until he or she sooner dies, resigns, is removed or becomes disqualified. Each other officer serves at the pleasure of the Board.

# 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 [www.sec.gov](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 [www.sec.gov](http://www.sec.gov).

<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.

## The Schwab Funds Family®

### Stock Funds

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™  
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®

### Asset Allocation Funds

Schwab Viewpoints Fund™  
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 Inflation Protected 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>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.

*charles* SCHWAB

**Investment Adviser**

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

**Funds**

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

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# Schwab Money Market Fund™

**Semiannual Report**

June 30, 2006

*charles* SCHWAB

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Fund investment adviser: Charles Schwab Investment Management, Inc. (CSIM).  
Distributor and transfer agent: Charles Schwab & Co., Inc. (Schwab).

## From the Chairman



Charles Schwab  
Chairman

Dear Shareholder,

I have always believed that money funds are a great way to invest cash between long-term investments. And while no investment is risk free, money funds can also be good choices for investors who want to mitigate the potential fluctuations that may occur in their mostly stock portfolios.

As a result of the Federal Reserve having raised short-term interest rates eight times in the past 12 months (four of which occurred during the six-month period covered in this report), yields on money funds are more attractive than they have been in several years. With their relatively short weighted average maturity (WAM), money funds are typically positioned to capture a rise in market rates more quickly than those fixed income funds with longer maturities.

Here at Schwab, we offer a range of money funds with distinct investment strategies. Our municipal money funds, for example, may be beneficial for those of you in high tax brackets. We also offer money funds for those interested in the added protection provided by a portfolio of U.S. government securities.

In closing, I would like to emphasize that we at Schwab strive every day to warrant the trust you have placed in us. My colleagues and I continue to see opportunities ahead, and we are committed to helping you maximize them.

Thank you for investing with us.

Sincerely,

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

*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.*

# Management's Discussion for the six months ended June 30, 2006



**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 semiannual report for your Schwab money fund for the six-month period ended June 30, 2006. Although the report period was marked by volatility, our money funds performed as designed, providing you with current income, stability of capital and convenient access to your money.

I'd like to take this opportunity to remind you that Schwab offers a range of money funds, including our purchased money funds, Schwab Value Advantage Investments®. These funds are designed for investors who have larger balances and don't require frequent access to their cash. They require a minimum initial investment of \$25,000 (\$15,000 for IRA and custodial accounts) and include various taxable and tax-free investment strategies.

Further down the maturity spectrum, our ultrashort bond fund, Schwab YieldPlus,™ offers higher yield potential with higher risk than a money fund. Because taxes are always a concern, Schwab also offers two Schwab Tax-Free YieldPlus Funds that can help you manage tax impact and your exposure to the alternative minimum tax (AMT).

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,

*Evelyn Dilsaver*

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

*Please remember that with Schwab YieldPlus and Tax-Free YieldPlus Funds, investment value will fluctuate, and shares, when redeemed, may be worth more or less than original cost. Bond funds are subject to increased loss of principal during periods of rising interest rates.*





**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

After a volatile six months in the domestic markets, equity and fixed income funds ended the period with mixed returns. Several key issues dominated market discussions throughout the period, including slowing economic growth, inflation fears, U.S. Federal Reserve (the Fed) interest rate increases, and volatile crude oil prices.

The markets remained in a steady growth mode over the first quarter of 2006 and ended the period on a positive note. Volatility was up during the second quarter of the year, but remained lower than its historical norm. During the six-month report period, oil prices hit new record highs and the Fed continued to raise short-term interest rates to curb inflationary pressures, boosting its Fed Funds target rate four consecutive times during the six-month period and bringing the benchmark rate up to 5.25%. This was the 17th rate hike over the past two years.

Rising sharply in the second half of the report period, crude oil prices peaked in April at around \$75 per barrel while domestic gasoline prices were above \$3 a gallon. In recent months, crude oil prices climbed back in response to declining crude inventories and geopolitical concerns. Despite the volatility in energy prices, gains in productivity have remained strong and corporate earnings continue to rise. Reasonable valuations, a solid earnings season, and expectations that monetary policy tightening will soon come to an end, helped support the markets. Additionally, job and income growth remained positive, though they slowed during the report period. Moderate inflationary expectations and large foreign capital inflows helped to contain increases in long-term interest rates.

As noted above, the Fed continued its tightening cycle throughout the period, raising its Fed Funds target 0.25% at each of its four meetings. At the end of the six-month report period, the benchmark rate was up to 5.25%. As the Fed raised rates, the yield curve flattened and had brief periods of inversion. Historically, economic slowdowns or recessions have followed the inversion of the yield curve. Nonetheless, higher short-term rates succeeded in moving money fund yields higher, making them a more attractive investment vehicle. Following a strong start to 2006, economic growth has moderated over the past six months.

## Management's Discussion continued

Rising interest rates have led to volatility in the equities markets and have weighed down bond returns. Meanwhile, money market funds enticed investors as the rise in short-term interest rates offered yields that have not been seen in years. The mixed messages that arose from the slowing economy and rising inflation have left investors puzzled about the direction of the Fed policy. The June 29 Federal Open Market Committee (FOMC) policy statement did little to alleviate uncertainty, as the Fed acknowledged slower growth while expressing concern about inflation risks.

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 holdings of variable rate securities. The interest rates on these types of securities reset frequently, allowing us the opportunity to capture a rise in market rates. In addition, we also purchased securities with longer maturities in order to add yield to the portfolio.

To further take advantage of the rising-rate environment, we maintained our weighted average maturity (WAM) in the mid to high 40-day range over the course of the reporting period. Keeping the WAM in this range provided the 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 6/30/06 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.

<b>Seven-Day Yield<sup>1</sup></b>	4.43%
<b>Seven-Day Yield-No Waiver<sup>2</sup></b>	4.38%
<b>Seven-Day Effective Yield<sup>1</sup></b>	4.53%

**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).

<b>Weighted Average Maturity</b>	48 days
<b>Credit Quality of Holdings</b> % 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 January 1, 2006 and held through June 30, 2006.

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

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

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

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

	Expense Ratio <sup>1</sup> (Annualized)	Beginning Account Value at 1/1/06	Ending Account Value (Net of Expenses) at 6/30/06	Expenses Paid During Period <sup>2</sup> 1/1/06–6/30/06
<b>Schwab Money Market Fund™</b>				
Actual Return	0.74%	\$1,000	\$1,020.01	\$3.71
Hypothetical 5% Return	0.74%	\$1,000	\$1,021.12	\$3.71

<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 181 days of the period, and divided by 365 days of the fiscal year.

# Financial Statements

## Financial Highlights

	1/1/06– 6/30/06*	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	1.00
Income from investment operations:						
Net investment income	0.02	0.03	0.01	0.01	0.01	0.04
Less distributions:						
Dividends from net investment income	(0.02)	(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	1.00
Total return (%)	2.00 <sup>1</sup>	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 <sup>2</sup>	0.74	0.75	0.75	0.75	0.75
Gross operating expenses	0.79 <sup>2</sup>	0.78	0.78	0.78	0.78	0.79
Net investment income	3.96 <sup>2</sup>	2.52	0.67	0.50	1.22	3.63
Net assets, end of period (\$ x 1,000,000)	30,033	42,552	44,023	49,079	51,063	49,116

\* Unaudited.

<sup>1</sup> Not annualized.

<sup>2</sup> Annualized.

See financial notes. 7

## Schwab Money Market Fund

### Portfolio Holdings as of June 30, 2006 (Unaudited)

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

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be viewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on a fund's most recent Form N-Q is also 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 and the maturity date shown is the next interest rate change date.

Holdings by Category	Cost (\$x1,000)	Value (\$x1,000)
<b>73.3% Fixed-Rate Obligations</b>	<b>22,019,166</b>	<b>22,019,166</b>
<b>16.1% Variable-Rate Obligations</b>	<b>4,827,310</b>	<b>4,827,310</b>
<b>10.1% Other Investments</b>	<b>3,022,503</b>	<b>3,022,503</b>
<b>99.5% Total Investments</b>	<b>29,868,979</b>	<b>29,868,979</b>
<b>0.5% Other Assets and Liabilities</b>		<b>164,121</b>
<b>100.0% Net Assets</b>		<b>30,033,100</b>

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

### Fixed-Rate Obligations 73.3% of net assets

#### Bank Notes 2.9%

<b>Bank of America, N.A.</b>		
5.09%, 07/21/06	140,000	140,000
5.10%, 07/21/06	159,000	159,000
5.10%, 07/25/06	360,000	360,000
5.08%, 08/04/06	229,000	229,000
		<b>888,000</b>

#### Certificates of Deposit 21.5%

<b>Barclays Bank PLC</b>		
5.18%, 08/24/06	8,000	8,000
5.26%, 04/05/07	113,000	113,000
<b>Bayerische Hypo- und Vereinsbank AG</b>		
5.08%, 07/12/06	120,000	120,000
<b>BNP Paribas</b>		
4.63%, 07/10/06	178,000	178,000
4.89%, 08/23/06	220,000	220,000
5.17%, 08/25/06	170,000	170,000
5.21%, 11/06/06	114,000	114,000
<b>Canadian Imperial Bank of Commerce</b>		
5.23%, 11/13/06	118,000	118,000
5.27%, 02/02/07	153,000	153,000
<b>Caylon</b>		
4.83%, 07/17/06	43,000	43,000
4.83%, 08/10/06	120,000	120,000
<b>Citibank, N.A.</b>		
5.12%, 08/10/06	50,000	50,000
5.13%, 08/11/06	216,000	216,000
5.13%, 08/15/06	101,000	101,000
5.13%, 08/17/06	110,000	110,000
5.17%, 08/24/06	130,000	130,000
5.20%, 08/31/06	49,000	49,000
5.23%, 09/05/06	8,000	8,000
5.40%, 09/20/06	92,000	92,000
<b>Credit Suisse</b>		
4.66%, 07/03/06	80,000	80,000
5.11%, 10/02/06	104,000	104,000
<b>Depfa Bank, PLC</b>		
4.80%, 08/02/06	55,000	55,000
<b>Deutsche Bank, AG</b>		
4.63%, 07/14/06	200,000	200,000

Schwab Money Market Fund

Portfolio Holdings (Unaudited) 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)
4.62%, 10/26/06	236,000	236,000	5.27%, 09/08/06	40,000	39,999
4.85%, 01/26/07	116,000	116,000	5.30%, 09/15/06	150,000	150,000
5.01%, 02/09/07	50,000	50,000	5.23%, 11/17/06	45,000	45,000
<b>Dexia Credit Local</b>			<b>Washington Mutual Bank</b>		
5.27%, 02/07/07	85,000	84,818	5.08%, 07/07/06	37,000	37,000
<b>Landesbank Baden- Wuerttemberg</b>			5.37%, 12/04/06	70,000	69,977
4.63%, 07/10/06	10,000	10,000	<b>Wells Fargo Bank, N.A.</b>		
5.46%, 09/26/06	92,000	91,999	5.20%, 07/07/06	115,000	115,000
5.49%, 12/20/06	200,000	200,000	5.20%, 07/28/06	440,000	440,000
<b>Mitsubishi UFJ Trust &amp; Banking Corp.</b>			5.19%, 07/31/06	52,000	52,000
5.11%, 07/06/06	100,000	100,000	<b>Wilmington Trust Company</b>		
<b>Mizuho Corp. Bank Ltd.</b>			4.92%, 08/03/06	27,000	27,000
4.85%, 07/14/06	155,000	155,000	5.19%, 10/18/06	10,000	10,000
5.17%, 08/08/06	120,000	120,000			<b>6,461,787</b>
5.29%, 09/13/06	26,000	26,000	<b>Commercial Paper &amp; Other Corporate Obligations</b>		<b>47.8%</b>
<b>Morgan Stanley Bank</b>			<b>AB Spintab</b>		
5.28%, 07/26/06	60,000	60,000	5.16%, 08/07/06	45,000	44,763
<b>Nordea Bank Finland, PLC</b>			5.41%, 08/28/06	135,000	133,833
4.62%, 08/08/06	146,000	146,000	<b>Alliance &amp; Leicester, PLC</b>		
4.95%, 09/08/06	35,000	35,000	4.84%, 07/13/06 (c)	7,500	7,488
5.27%, 02/01/07	190,000	190,000	4.88%, 08/10/06 (c)	30,000	29,841
<b>Skandinaviska Enskilda Banken AB</b>			4.89%, 08/10/06 (c)	11,000	10,942
5.17%, 07/14/06	41,000	41,000	5.12%, 08/14/06 (c)	41,313	41,058
4.83%, 07/21/06	43,000	43,000	5.28%, 09/12/06 (c)	25,000	24,736
<b>Societe Generale</b>			5.38%, 09/15/06 (c)	94,000	92,946
4.91%, 08/25/06	141,000	140,999	<b>Amstel Funding Corp.</b>		
<b>Sumitomo Mitsui Banking Corp.</b>			5.09%, 07/17/06 (b)(c)	190,967	190,538
5.29%, 07/25/06	179,000	179,000	5.16%, 08/21/06 (b)(c)	42,000	41,697
5.25%, 09/05/06	65,000	65,000	5.20%, 08/29/06 (b)(c)	56,000	55,529
<b>Sumitomo Trust &amp; Banking Co.</b>			5.48%, 09/26/06 (b)(c)	17,000	16,778
4.97%, 08/08/06	165,000	165,000	<b>Amsterdam Funding Corp.</b>		
5.02%, 09/11/06	75,000	75,000	5.28%, 07/20/06 (a)(b)(c)	30,000	29,917
5.13%, 10/05/06	17,000	17,000	5.18%, 07/24/06 (a)(b)(c)	111,900	111,532
<b>Svenska Handelsbanken AB</b>			5.19%, 07/25/06 (a)(b)(c)	12,000	11,959
5.20%, 08/14/06	145,000	145,000	5.17%, 08/02/06 (a)(b)(c)	40,000	39,818
<b>Toronto Dominion Bank</b>			<b>Anglo Irish Bank Corp., PLC</b>		
5.16%, 09/05/06	47,000	47,000	5.19%, 08/29/06 (c)	36,000	35,698
5.00%, 09/14/06	79,000	79,000	<b>Aquinas Funding, L.L.C.</b>		
5.11%, 10/05/06	95,000	95,000	5.30%, 07/21/06 (a)(b)(c)	50,209	50,062
<b>Unicredito Italiano SpA</b>			5.29%, 07/27/06 (a)(b)(c)	50,498	50,306
5.10%, 07/21/06	50,000	49,997	5.39%, 09/18/06 (a)(b)(c)	29,000	28,662
5.16%, 08/10/06	46,000	45,998	5.45%, 09/18/06 (a)(b)(c)	6,000	5,929
5.18%, 08/24/06	105,000	105,000	<b>ASAP Funding Ltd.</b>		
5.24%, 09/08/06	10,000	10,000	5.12%, 07/07/06 (a)(b)(c)	48,000	47,959
			5.13%, 08/01/06 (a)(b)(c)	28,000	27,878

Schwab Money Market Fund

Portfolio Holdings (Unaudited) 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)
5.12%, 08/02/06 (a)(b)(c)	15,000	14,933	<b>CBA Finance, Inc.</b>		
5.13%, 08/03/06 (a)(b)(c)	118,000	117,453	5.27%, 01/23/07 (a)	25,000	24,274
<b>Atlantic Asset Securitization, L.L.C.</b>			<b>CC (USA), Inc.</b>		
5.08%, 07/10/06 (a)(b)(c)	23,425	23,395	5.03%, 07/17/06 (b)(c)	17,000	16,963
5.10%, 07/17/06 (a)(b)(c)	49,440	49,329	5.10%, 07/17/06 (b)(c)	25,000	24,944
5.22%, 07/17/06 (a)(b)(c)	47,884	47,773	5.42%, 08/29/06 (b)(c)	13,000	12,886
5.33%, 09/12/06 (a)(b)(c)	10,816	10,701	5.27%, 09/11/06 (b)(c)	35,000	34,636
5.49%, 09/20/06 (a)(b)(c)	98,000	96,805	5.28%, 09/14/06 (b)(c)	20,000	19,783
<b>Atlantis One Funding Corp.</b>			5.30%, 09/15/06 (b)(c)	22,000	21,757
4.80%, 08/02/06 (b)(c)	28,000	27,883	<b>Chariot Funding, L.L.C.</b>		
5.12%, 08/07/06 (b)(c)	96,252	95,752	5.08%, 07/07/06 (a)(b)(c)	26,000	25,978
5.18%, 08/25/06 (b)(c)	31,000	30,758	5.29%, 07/20/06 (a)(b)(c)	14,592	14,551
5.23%, 09/01/06 (b)(c)	112,936	111,932	<b>Citigroup Funding, Inc.</b>		
5.26%, 09/07/06 (b)(c)	84,000	83,177	5.09%, 07/10/06 (a)	192,000	191,758
5.18%, 10/17/06 (b)(c)	79,236	78,036	5.03%, 07/14/06 (a)	131,000	130,765
5.18%, 10/18/06 (b)(c)	54,180	53,352	5.23%, 07/18/06 (a)	100,000	99,754
5.19%, 10/19/06 (b)(c)	95,000	93,534	5.12%, 07/26/06 (a)	48,000	47,832
5.21%, 10/27/06 (b)(c)	8,031	7,898	4.91%, 08/21/06 (a)	123,000	122,165
5.24%, 10/30/06 (b)(c)	50,000	49,143	5.18%, 08/24/06 (a)	85,000	84,348
5.18%, 11/01/06 (b)(c)	75,000	73,707	<b>Clipper Receivables Co., L.L.C.</b>		
<b>Bank of America Corp.</b>			5.29%, 07/27/06 (a)(b)(c)	130,550	130,054
4.84%, 07/17/06	341,000	340,282	5.31%, 07/27/06 (a)(b)(c)	238,000	237,092
5.12%, 07/28/06	165,000	164,372	<b>Concord Minuteman Capital Co., Series A</b>		
4.92%, 08/24/06	250,000	248,200	5.09%, 07/19/06 (a)(b)(c)	98,000	97,753
5.17%, 08/24/06	165,000	163,736	5.39%, 09/18/06 (a)(b)(c)	49,000	48,429
<b>Bank of Ireland</b>			<b>Dakota CP Notes of Citibank Credit Card Issuance Trust</b>		
4.86%, 08/09/06 (c)	38,000	37,805	4.96%, 07/06/06 (b)(c)	230,000	229,843
<b>Bear Stearns Companies, Inc.</b>			5.09%, 07/07/06 (b)(c)	70,000	69,941
5.12%, 08/07/06	35,000	34,818	5.28%, 07/20/06 (b)(c)	80,000	79,778
4.88%, 08/14/06	23,000	22,866	5.11%, 08/02/06 (b)(c)	175,000	174,214
5.40%, 09/19/06	124,000	122,531	5.12%, 08/09/06 (b)(c)	35,000	34,809
5.44%, 09/21/06	132,000	130,385	5.32%, 08/16/06 (b)(c)	46,000	45,690
5.53%, 11/30/06	18,000	17,590	5.23%, 09/01/06 (b)(c)	59,895	59,363
<b>Beta Finance, Inc.</b>			5.31%, 09/14/06 (b)(c)	38,000	37,585
5.10%, 07/12/06 (b)(c)	22,000	21,966	5.41%, 09/21/06 (b)(c)	31,000	30,624
4.89%, 08/21/06 (b)(c)	14,000	13,905	<b>Danske Corp.</b>		
4.93%, 08/25/06 (b)(c)	50,000	49,633	5.17%, 10/31/06 (a)(c)	51,000	50,129
<b>Blue Spice, L.L.C.</b>			4.98%, 11/21/06 (a)(c)	32,000	31,390
5.18%, 08/29/06 (a)(b)(c)(d)	93,000	92,221	5.28%, 12/04/06 (a)(c)	275,000	268,875
<b>Cancara Asset Securitisation, L.L.C.</b>			5.34%, 04/30/07 (a)(c)	96,000	91,907
5.31%, 09/13/06 (a)(b)(c)	100,000	98,923	<b>Dexia Delaware, L.L.C.</b>		
5.39%, 09/18/06 (a)(b)(c)	107,132	105,881	5.31%, 08/04/06 (a)	75,000	74,626
5.39%, 09/19/06 (a)(b)(c)	38,033	37,583			



Schwab Money Market Fund

Portfolio Holdings (Unaudited) 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>DnB NOR Bank ASA</b>			5.45%, 09/29/06	84,000	82,870
4.95%, 09/06/06	80,000	79,281	<b>Irish Life &amp; Permanent, PLC</b>		
<b>Dorada Finance, Inc.</b>			4.84%, 07/18/06 (c)	13,000	12,971
5.23%, 09/01/06 (b)(c)	53,000	52,529	4.85%, 07/18/06 (c)	28,600	28,536
5.26%, 09/11/06 (b)(c)	38,000	37,606	4.84%, 07/19/06 (c)	42,000	41,900
5.28%, 09/12/06 (b)(c)	15,000	14,842	5.31%, 08/21/06 (c)	9,000	8,933
<b>Edison Asset Securitization Corp., L.L.C.</b>			5.36%, 12/08/06 (c)	42,000	41,026
5.26%, 11/20/06 (a)(b)(c)	100,000	97,976	<b>IXIS Commercial Paper Corp.</b>		
<b>Falcon Asset Securitization Corp.</b>			4.98%, 09/08/06 (a)(c)	212,000	210,027
5.26%, 07/20/06 (a)(b)(c)	74,000	73,795	<b>Jupiter Securitization Corp.</b>		
5.31%, 07/25/06 (a)(b)(c)	26,479	26,386	5.39%, 09/20/06 (a)(b)(c)	68,225	67,408
<b>Five Finance, Inc.</b>			<b>K2 (USA), L.L.C.</b>		
5.10%, 07/19/06 (b)(c)	13,000	12,967	4.63%, 07/06/06 (b)(c)	12,000	11,992
5.09%, 07/28/06 (b)(c)	2,000	1,992	4.81%, 08/04/06 (b)(c)	24,000	23,894
5.48%, 09/15/06 (b)(c)	22,000	21,748	4.87%, 08/14/06 (b)(c)	25,000	24,855
5.39%, 09/18/06 (b)(c)	38,000	37,557	4.93%, 08/25/06 (b)(c)	50,000	49,633
5.23%, 11/15/06 (b)(c)	4,000	3,923	5.39%, 09/18/06 (b)(c)	13,000	12,849
<b>ForeningsSparbanken AB (Swedbank), Inc.</b>			5.03%, 09/28/06 (b)(c)	42,000	41,491
4.92%, 08/24/06	9,000	8,935	5.24%, 10/27/06 (b)(c)	29,000	28,515
4.97%, 08/24/06	19,000	18,861	<b>KBC Financial Products International, Ltd.</b>		
<b>Galaxy Funding, Inc.</b>			5.02%, 09/25/06 (a)(c)	81,000	80,052
5.30%, 08/17/06 (b)(c)	20,000	19,863	5.24%, 11/09/06 (a)(c)	39,000	38,276
5.23%, 09/01/06 (b)(c)	40,000	39,645	<b>Lexington Parker Capital Co., L.L.C.</b>		
<b>General Electric Capital Corp.</b>			4.74%, 07/18/06 (a)(b)(c)	100,000	99,781
5.26%, 07/03/06	350,000	349,898	5.45%, 09/19/06 (a)(b)(c)	45,000	44,462
5.26%, 09/07/06	110,000	108,922	<b>Mane Funding Corp.</b>		
5.22%, 11/06/06	157,000	154,164	5.15%, 08/17/06 (b)(c)	62,000	61,589
<b>Grampian Funding, L.L.C.</b>			5.27%, 09/12/06 (b)(c)	30,000	29,684
4.92%, 08/08/06 (a)(b)(c)	10,000	9,949	5.39%, 09/18/06 (b)(c)	121,196	119,781
4.93%, 08/23/06 (a)(b)(c)	8,000	7,943	5.45%, 09/25/06 (b)(c)	165,390	163,264
5.02%, 09/22/06 (a)(b)(c)	90,000	88,983	<b>Mont Blanc Capital Corp.</b>		
5.42%, 09/26/06 (a)(b)(c)	173,000	170,765	5.08%, 07/10/06 (a)(b)(c)	65,000	64,918
5.18%, 10/10/06 (a)(b)(c)	25,000	24,646	<b>Morgan Stanley</b>		
5.50%, 10/30/06 (a)(b)(c)	44,000	43,201	5.29%, 07/13/06	142,000	141,750
5.28%, 11/17/06 (a)(b)(c)	13,000	12,741	<b>Nationwide Building Society</b>		
<b>HBOS Treasury Services, PLC</b>			5.11%, 07/24/06	112,000	111,638
5.11%, 08/07/06 (a)	33,000	32,829	<b>Nieuw Amsterdam</b>		
5.11%, 08/08/06 (a)	99,000	98,473	<b>Receivables Corp.</b>		
5.46%, 10/03/06 (a)	43,000	42,396	5.11%, 07/10/06 (a)(b)(c)	50,000	49,936
<b>HSBC U.S.A., Inc.</b>			5.11%, 07/24/06 (a)(b)(c)	33,600	33,492
5.22%, 11/10/06	20,000	19,627	5.11%, 07/25/06 (a)(b)(c)	20,000	19,933
5.22%, 11/13/06	32,000	31,390	5.12%, 08/08/06 (a)(b)(c)	30,397	30,235
<b>HSN Norbank AG</b>			4.94%, 09/01/06 (a)(b)(c)	30,771	30,516
5.45%, 09/13/06	15,000	14,834	5.39%, 09/19/06 (a)(b)(c)	11,000	10,870
5.42%, 09/22/06	20,900	20,642	5.24%, 11/09/06 (a)(b)(c)	20,544	20,163

See financial notes. 11

Schwab Money Market Fund

Portfolio Holdings (Unaudited) 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>Nordea North America, Inc.</b>			5.37%, 12/06/06 (b)(c)	60,000	58,624
5.22%, 09/01/06 (a)	115,000	113,979	5.37%, 12/08/06 (b)(c)	64,000	62,514
<b>Park Avenue Receivables Co., L.L.C.</b>			<b>Societe Generale North America, Inc.</b>		
5.14%, 07/12/06 (a)(b)(c)	4,000	3,994	4.66%, 07/05/06 (a)	185,000	184,906
5.28%, 07/24/06 (a)(b)(c)	42,366	42,224	4.97%, 11/17/06 (a)	22,000	21,593
5.29%, 07/24/06 (a)(b)(c)	100,947	100,608	<b>Svenska Handelsbanken, Inc.</b>		
<b>Park Granada, L.L.C.</b>			5.23%, 10/23/06 (a)	34,164	33,612
5.11%, 08/04/06 (b)(c)	158,000	157,246	<b>Thunder Bay Funding, L.L.C.</b>		
5.12%, 08/10/06 (b)(c)	35,000	34,804	5.08%, 07/05/06 (a)(b)(c)	39,400	39,378
5.21%, 11/03/06 (b)(c)	25,000	24,559	5.10%, 07/11/06 (a)(b)(c)	13,000	12,982
5.22%, 11/03/06 (b)(c)	20,000	19,647	4.84%, 08/08/06 (a)(b)(c)	51,229	50,974
<b>Picaros Funding, L.L.C.</b>			5.42%, 09/18/06 (a)(b)(c)	58,000	57,320
5.11%, 07/21/06 (a)(b)(c)	92,000	91,741	<b>Ticonderoga Funding, L.L.C.</b>		
4.97%, 09/01/06 (a)(b)(c)	30,000	29,749	5.08%, 07/07/06 (a)(b)(c)	100,000	99,916
5.41%, 09/27/06 (a)(b)(c)	4,000	3,948	5.27%, 07/19/06 (a)(b)(c)	14,199	14,162
<b>San Paolo I M I U.S. Financial Co.</b>			5.29%, 07/25/06 (a)(b)(c)	20,000	19,930
4.93%, 08/10/06 (a)	53,000	52,716	<b>UBS Finance (Delaware), Inc.</b>		
<b>Santander Central Hispano Finance (Delaware), Inc.</b>			5.27%, 07/03/06 (a)	225,000	224,934
5.18%, 10/04/06	28,000	27,627	5.12%, 07/11/06 (a)	327,000	326,538
<b>Scaldis Capital Ltd.</b>			5.15%, 07/26/06 (a)	445,000	443,419
5.25%, 07/20/06 (a)(b)(c)	199,686	199,135	<b>Westpac Banking Corp.</b>		
5.31%, 07/25/06 (a)(b)(c)	90,000	89,683	4.99%, 09/08/06 (c)	186,000	184,266
5.28%, 09/12/06 (a)(b)(c)	20,000	19,789	5.43%, 09/29/06 (c)	10,541	10,400
5.30%, 09/12/06 (a)(b)(c)	57,276	56,669	5.27%, 11/22/06 (c)	50,000	48,974
5.30%, 09/13/06 (a)(b)(c)	50,000	49,462	<b>Westpac Trust Securities NZ, Ltd.</b>		
5.46%, 09/25/06 (a)(b)(c)	59,935	59,165	5.03%, 07/24/06 (a)(c)	24,550	24,472
5.46%, 09/26/06 (a)(b)(c)	117,171	115,648	<b>Whistlejacket Capital, L.L.C.</b>		
<b>Sedna Finance, Inc.</b>			5.13%, 07/27/06 (b)(c)	13,000	12,952
5.39%, 08/01/06 (b)(c)	60,000	59,723	5.28%, 09/11/06 (b)(c)	20,000	19,792
5.27%, 09/08/06 (b)(c)	10,000	9,900	5.38%, 09/15/06 (b)(c)	20,000	19,776
5.35%, 05/08/07 (b)(c)	62,000	62,000	<b>White Pine Finance, L.L.C.</b>		
<b>Sheffield Receivables Corp.</b>			5.27%, 09/08/06 (b)(c)	7,823	7,745
5.14%, 07/24/06 (a)(b)(c)	204,000	203,335	5.38%, 09/15/06 (b)(c)	32,675	32,309
4.95%, 09/05/06 (a)(b)(c)	9,762	9,676	5.45%, 09/20/06 (b)(c)	21,563	21,302
<b>Sigma Finance, Inc.</b>			<b>Windmill Funding Corp.</b>		
5.11%, 07/26/06 (b)(c)	57,000	56,800	5.18%, 07/18/06 (a)(b)(c)	18,000	17,956
4.92%, 08/09/06 (b)(c)	2,000	1,990	5.19%, 07/27/06 (a)(b)(c)	55,000	54,795
4.89%, 08/21/06 (b)(c)	138,000	137,067			<b>14,349,379</b>
4.94%, 08/31/06 (b)(c)	45,000	44,632	<b>Promissory Notes 1.1%</b>		
5.20%, 08/31/06 (b)(c)	30,000	29,739	<b>The Goldman Sachs Group, Inc.</b>		
5.28%, 09/15/06 (b)(c)	84,000	83,076	4.98%, 10/30/06 (d)	220,000	220,000
5.29%, 11/28/06 (b)(c)	11,000	10,764	5.35%, 01/19/07 (d)	100,000	100,000
5.29%, 11/30/06 (b)(c)	15,000	14,674			<b>320,000</b>
5.33%, 12/01/06 (b)(c)	50,000	48,897			

Schwab Money Market Fund

Portfolio Holdings (Unaudited) 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)
Variable-Rate Obligations 16.1% of net assets			<b>K2 (USA), L.L.C.</b>		
<b>ABAG Financial Authority for Nonprofit Corps., California</b>			5.31%, 07/17/06 (b)(c)	110,000	109,989
5.35%, 07/06/06 (a)	17,785	17,785	<b>Liberty Lighthouse U.S. Capital Co., L.L.C.</b>		
<b>Albuquerque, New Mexico Airport</b>			5.09%, 07/05/06 (b)(c)	73,000	72,997
Series B			5.09%, 07/07/06 (b)(c)	66,000	65,999
5.40%, 07/05/06 (a)	15,700	15,700	<b>Links Finance, L.L.C.</b>		
<b>Bank of Ireland</b>			5.11%, 07/10/06 (b)(c)	30,000	29,998
5.24%, 07/20/06 (c)	50,000	50,000	5.15%, 07/10/06 (b)(c)	57,000	57,002
<b>Bank of New York Co., Inc.</b>			5.15%, 07/17/06 (b)(c)	115,000	114,996
5.40%, 07/27/06 (c)	75,000	75,000	5.18%, 07/17/06 (b)(c)	122,000	122,003
<b>Barclays Bank, PLC</b>			5.21%, 07/17/06 (b)(c)	113,000	113,020
5.07%, 07/05/06	90,000	90,000	<b>LoanStar Assets Partners II, L.P.</b>		
5.28%, 07/27/06	25,000	24,997	5.37%, 07/06/06 (a)	45,000	45,000
<b>Bear Stearns Companies, Inc.</b>			<b>Lowndes Corp., Georgia</b>		
4.77%, 07/21/06	11,000	11,000	5.45%, 07/06/06 (a)(c)	2,350	2,350
<b>BNP Paribas</b>			<b>Merlot 2000 B</b>		
5.07%, 07/05/06	65,000	64,995	5.50%, 07/05/06 (a)(c)	32,630	32,630
<b>Canadian Imperial Bank of Commerce</b>			<b>Merlot 2001 A67</b>		
5.28%, 07/17/06	100,000	100,000	5.50%, 07/05/06 (a)(c)	35,065	35,065
5.28%, 07/24/06	65,000	65,000	<b>Merlot 2001 A7</b>		
<b>CFM International, Inc.</b>			5.50%, 07/05/06 (a)(c)	15,470	15,470
5.35%, 07/03/06 (a)(c)	13,990	13,990	<b>Merrill Lynch &amp; Co., Inc.</b>		
<b>Commonwealth Bank of Australia</b>			5.18%, 07/17/07	100,000	100,000
5.29%, 07/24/06 (c)	50,000	50,000	<b>Metropolitan Life Insurance Co.</b>		
<b>Concord Minutemen Capital Co., Series A</b>			5.16%, 07/03/06 (d)	100,000	100,000
5.29%, 07/27/06 (a)(b)(c)	50,000	49,999	<b>Monumental Life Insurance Co.</b>		
<b>Cook County, IL</b>			5.26%, 07/03/06 (d)	100,000	100,000
5.37%, 07/05/06 (a)	30,000	30,000	<b>Morgan Stanley</b>		
<b>Dexia Credit Local</b>			5.15%, 07/03/06	240,000	240,000
5.26%, 07/26/06	79,000	78,991	<b>New Jersey Economic Development Authority</b>		
<b>Five Finance, Inc.</b>			5.25%, 07/03/06 (a)	20,850	20,850
5.16%, 07/17/06 (b)(c)	49,000	48,999	5.28%, 07/03/06 (a)	41,830	41,830
<b>General Electric Capital Corp.</b>			<b>Nordea Bank AB</b>		
5.25%, 07/10/06	175,000	175,000	5.13%, 07/10/06 (c)	50,000	50,000
5.35%, 07/17/06	75,000	75,000	5.15%, 07/11/06 (c)	45,000	45,000
<b>Genworth Life &amp; Annuity</b>			<b>Royal Bank of Canada</b>		
5.19%, 07/03/06 (d)	100,000	100,000	5.20%, 07/10/06	60,000	60,000
5.19%, 07/03/06 (d)	50,000	50,000	<b>Royal Bank of Scotland, PLC</b>		
<b>Goldman Sachs Group, Inc.</b>			5.07%, 07/05/06	100,000	99,994
5.20%, 07/10/06 (c)(d)	225,000	225,000	5.20%, 07/19/06	20,000	19,999
<b>J.P. Morgan Securities, Inc.</b>			5.27%, 07/21/06 (c)	185,000	185,000
5.15%, 07/03/06 (c)	100,000	100,000	5.29%, 07/31/06	181,000	180,994

See financial notes. 13

## Portfolio Holdings (Unaudited) continued

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Security	Maturity Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Santa Rosa, California</b> 5.35%, 07/06/06 (a)	9,300	9,300	Other Investments 10.1% of net assets		
<b>SE Christian Church, Jefferson County, Kentucky</b> 5.46%, 07/06/06 (a)	8,115	8,115	<b>Repurchase Agreements 10.1%</b>		
<b>Sigma Finance, Inc.</b> 5.11%, 07/06/06 (b)(c)	11,000	11,000	<b>Bank of America Securities L.L.C.</b>		
5.16%, 07/17/06 (b)(c)	73,000	72,999	Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$846,600		
5.20%, 07/17/06 (b)(c)	20,000	20,003	5.28%, issued 06/30/06, due 07/03/06		
<b>Sisters of Mercy of the Americas Regional Community of Omaha, Nebraska</b> 5.35%, 07/06/06 (a)	11,860	11,860	830,365 830,000		
<b>Societe Generale</b> 5.08%, 07/03/07 (c)	60,000	60,000	<b>Bear Stearns &amp; Co., Inc.</b>		
<b>Svenska Handelsbanken AB</b> 5.07%, 07/03/06	100,000	99,995	Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$288,660		
<b>The Goldman Sachs Group, Inc.</b> 5.15%, 07/03/06	128,000	128,007	5.28%, issued 06/30/06, due 07/03/06		
<b>Travelers Insurance Co.</b> 5.39%, 07/28/06 (d)	100,000	100,000	283,124 283,000		
<b>Wachovia Asset Securitization Issuance, L.L.C.</b> Series 2005 - HEMM 1 Class A	39,399	39,399	<b>Credit Suisse Securities (USA), L.L.C.</b>		
5.31%, 07/25/06 (a)(b)(c)	39,399	39,399	Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$9,694		
<b>Wells Fargo &amp; Co.</b> 5.16%, 07/03/06 (c)	75,000	75,000	5.25%, issued 06/30/06, due 07/03/06		
5.19%, 07/17/06 (c)	165,000	165,004	9,507 9,503		
<b>Whistlejacket Capital, L.L.C.</b> 5.16%, 07/17/06 (b)(c)	73,000	72,998	<b>Goldman Sachs &amp; Co.</b>		
5.22%, 07/20/06 (b)(c)	26,000	25,999	Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$612,000		
5.23%, 07/20/06 (b)(c)	61,000	60,999	5.28%, issued 06/30/06, due 07/03/06		
<b>White Pine Finance, L.L.C.</b> 5.13%, 07/10/06 (b)(c)	70,000	69,996	600,264 600,000		
5.13%, 07/12/06 (b)(c)	47,000	47,000	<b>Morgan Stanley &amp; Co., Inc.</b>		
5.15%, 07/17/06 (b)(c)	50,000	50,000	Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$103,827		
5.15%, 07/17/06 (b)(c)	93,000	92,997	5.25%, issued 06/30/06, due 07/03/06		
5.31%, 07/27/06 (b)(c)	35,000	34,997	100,044 100,000		
		<b>4,827,310</b>	<b>UBS Financial Services, Inc.</b>		
			Tri-Party Repurchase Agreement Collateralized by U.S. Government Securities with a value of \$1,224,002		
			5.28%, issued 06/30/06, due 07/03/06		
			1,200,528 1,200,000		
			<b>3,022,503</b>		

**Portfolio Holdings** (Unaudited) continued

Security	Maturity Amount (\$ x 1,000)	Value (\$ x 1,000)
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**End of Investments.**

At 06/30/06, the cost of the fund's investments was \$29,868,979.

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

5.18%, 05/25/06, 08/29/06	93,000	92,221
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**Genworth Life & Annuity**

5.19%, 02/01/06, 07/03/07	100,000	100,000
5.19%, 02/01/06, 07/03/07	50,000	50,000
		<b>150,000</b>

**Metropolitan Life Insurance Co.**

5.16%, 02/01/06, 07/03/06	100,000	100,000
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**Monumental Life Insurance Co.**

5.26%, 06/10/93, 07/03/06	100,000	100,000
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**The Goldman Sachs Group, Inc.**

4.98%, 02/03/06, 10/30/06	220,000	220,000
5.35%, 04/26/05, 01/19/07	100,000	100,000
		<b>320,000</b>

**Travelers Insurance Co.**

5.39%, 10/28/05, 07/28/06	100,000	100,000
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- (a) Credit-enhanced security
- (b) Asset-backed security.
- (c) Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registrations, normally to qualified institutional buyers. At the period end, the value of these amounted to \$12,082,492 or 40.2% of net assets.
- (d) Illiquid and/or restricted security.

## Schwab Money Market Fund

Statement of

### Assets and Liabilities

As of June 30, 2006; unaudited. All numbers x 1,000 except NAV.

#### Assets

Investments, at cost and value	\$26,846,476
Repurchase agreements, at cost and value	3,022,503
Receivables:	
Fund shares sold	583,557
Investments sold	1,185
Interest	97,214
Prepaid expenses	+ 270
<b>Total assets</b>	<b>30,551,205</b>

#### Liabilities

Payables:	
Dividends to shareholders	55,014
Fund shares redeemed	459,633
Investment adviser and administrator fees	665
Transfer agent and shareholder services fees	1,107
Trustees' fees	31
Accrued expenses	+ 1,655
<b>Total liabilities</b>	<b>518,105</b>

#### Net Assets

<b>Total assets</b>	30,551,205
<b>Total liabilities</b>	- 518,105
<b>Net assets</b>	<b>\$30,033,100</b>

#### Net Assets by Source

Capital received from investors	30,033,146
Net realized capital losses	(46)

#### Net Asset Value (NAV)

<b>Net Assets</b>	+	<b>Shares Outstanding</b>	=	<b>NAV</b>
\$30,033,100		30,033,705		\$1.00

## Schwab Money Market Fund

### Statement of

### Operations

For January 1, 2006 through June 30, 2006; unaudited. All numbers x 1,000.

#### Investment Income

Interest	\$871,617
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#### Expenses

Investment adviser and administrator fees	59,032
Transfer agent and shareholder service fees	83,369
Trustees' fees	67
Custodian fees	866
Portfolio accounting fees	445
Professional fees	60
Registration fees	440
Shareholder reports	1,259
Other expenses	+ 162
Total expenses	145,700
Custodian credits	- 3
Expense reduction	- 8,601
<b>Net expenses</b>	<b>137,096</b>

#### Increase in Net Assets from Operations

Total investment income	871,617
Net expenses	- 137,096
Net investment income	734,521
Net realized gains	+ 3
<b>Increase in net assets from operations</b>	<b>\$734,524</b>

## Schwab Money Market Fund

Statements of

### Changes in Net Assets

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

Figures for current period are unaudited.

#### Operations

	1/1/06-6/30/06	1/1/05-12/31/05
Net investment income	\$734,521	\$1,083,432
Net realized gains	+ 3	—
<b>Increase in net assets from operations</b>	<b>734,524</b>	<b>1,083,432</b>

#### Distributions Paid

Dividends from net investment income	<b>734,521</b>	<b>1,083,432</b>
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#### Transactions in Fund Shares\*

Shares sold	67,153,890	133,869,279
Shares reinvested	676,543	1,067,563
Shares redeemed	+ (80,349,746)	(136,407,280)
<b>Net transactions in fund shares</b>	<b>(12,519,313)</b>	<b>(1,470,438)</b>

#### Net Assets

Beginning of period	42,552,410	44,022,848
Total decrease	+ (12,519,310)	(1,470,438)
<b>End of period</b>	<b>\$30,033,100</b>	<b>\$42,552,410</b>

\* Transactions took place at \$1.00 per share; figures for share quantities are the same as for dollars.



**Financial Notes, unaudited.**

Unless stated, all dollar amounts are x 1,000.

**1. Business Structure of the Fund**

Schwab Money Market Fund 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 list below shows all the funds in the trust including the fund discussed in this report, which 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 AMT Tax-Free Money Fund

Schwab Massachusetts Municipal Money Fund

Schwab Retirement Advantage Money Fund

Schwab Investor Money Fund

Schwab Advisor Cash Reserves

Schwab Cash Reserves

Schwab Money Market 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 trustees may issue as many shares as necessary.

**2. Significant Accounting Policies**

The following is a summary of the significant accounting policies the fund uses in its operations and in the preparation of financial statements:

**(a) Security Valuation:**

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

**(b) Portfolio Investments:**

**Delayed-Delivery:** 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.

**Repurchase Agreements:** 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.

## **Financial Notes, unaudited (continued).**

Unless stated, all dollar amounts are x 1,000.

### **2. Significant Accounting Policies (continued)**

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.

#### **(c) Security Transactions:**

Security transactions are recorded as of the date the order to buy or sell the security is executed. Realized gains and losses from security transactions are based on the identified costs of the securities involved.

#### **(d) Income, Expenses and Distributions:**

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

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

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 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 keeps certain assets in segregated accounts, as may be required by securities law.

#### **(e) Borrowing:**

The fund may borrow money from banks and custodians. The fund may obtain temporary bank loans through the trusts 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.

**Financial Notes, unaudited (continued).**

Unless stated, all dollar amounts are x 1,000.

**2. Significant Accounting Policies (continued)****(f) Accounting Estimates:**

The accounting policies described in this report 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.

**(g) Indemnification:**

Under the fund's organizational documents, the 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.

**3. Affiliates and Affiliated Transactions**

Charles Schwab Investment Management, Inc. (CSIM or the investment adviser), a wholly owned subsidiary of The Charles Schwab Corporation, serves as the fund's investment adviser and administrator pursuant to an Investment Advisory and Administration Agreement (Advisory Agreement) between it and the trust. Charles Schwab & Co., Inc. ("Schwab") is an affiliate of the investment adviser and is the trust's shareholder services agent and transfer agent.

For its advisory and administrative services to the fund, the investment adviser is entitled to receive an annual fee payable monthly based on the fund's average daily net assets described as follows:

**Average daily net assets**

First \$1 billion	0.38%
Over \$1 billion	0.35%
Over \$10 billion	0.32%
Over \$20 billion	0.30%
Over \$40 billion	0.27%

For its transfer agent and shareholder services, Schwab is entitled to receive an annual fee payable monthly based on the fund's average daily net assets described as follows:

**Transfer Agent Fees**

0.25%

**Shareholder Service Fees**

0.20%

**Financial Notes, unaudited (continued).**

Unless stated, all dollar amounts are x 1,000.

**3. Affiliates and Affiliated Transactions (continued)**

Although these agreements specify certain fees for these services, CSIM and Schwab have made additional agreements with the fund to limit the total expenses charged, excluding interest, taxes and certain non-routine expenses to 0.74% through April 29, 2007.

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. For the period ended June 30, 2006, the fund's total security transactions with other Schwab Funds was \$22,000.

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. There was no interfund borrowing or lending activity for the fund during the period.

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.

**4. Federal Income Taxes**

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 realized net capital gains (if any) to its shareholders each year. As long as the fund meets the tax requirements, it is not required to pay federal income tax. As of December 31, 2005, the fund had no undistributed earnings on a tax basis.

As of December 31, 2005, the fund had capital loss carry forwards available to offset future net capital gains before the expiration date:

<u>Expire</u>	
2007	\$49

**Financial Notes, unaudited (continued).**

Unless stated, all dollar amounts are x 1,000.

**4. Federal Income Taxes (continued)**

The tax-basis components of distributions for the fiscal year ended December 31, 2005 were:

From ordinary income	\$1,083,432
From long-term capital gains	—
From return of capital	—

# 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.

The Board, including a majority of the Independent Trustees, considered information specifically relating to its consideration of the continuance of the Agreement at meetings held on May 2, 2006, May 24, 2006 and June 12, 2006, and approved the renewal of the Agreement for an additional one year term at the meeting held on June 12, 2006. The Board’s approval of the Agreement was based on consideration and evaluation of a variety of specific factors discussed at these meetings 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 information considered by the trustees included specific information concerning changes in the nature, extent and quality of services provided by CSIM since the trustees had last considered approval of the Agreement. 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 and their shareholders. 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' shareholders 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 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, when applicable, 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 and the appropriateness of the benchmark used to compare the performance of each fund. The trustees further considered the level of fund performance in the context of its review of fund expenses and adviser profitability discussed below. Following

such evaluation the Board concluded, within the context of its full deliberations, that the performance of the funds supported 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 historical practice of voluntarily waiving 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 different legal, regulatory, compliance and operating features of mutual funds as compared to these other types of accounts. The Board also considered recent actions by CSIM to adjust fund investor eligibility criteria that would result in more shareholders investing in funds (and share classes within funds) that have lower net operating expenses and that are designed to 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. Following such evaluation and based upon CSIM's agreement to implement proposals related to fund investor eligibility, the Board concluded, within the context of its full deliberations, that the expenses of the funds are reasonable and supported 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. The Board also considered information relating to changes to CSIM's cost structure, including cost savings, technology investments and increased operating efficiencies and how these changes affected CSIM's profitability under the Agreement. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the profitability of CSIM is reasonable and supported 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 that include lower fees at higher graduated asset levels. The Board also con-

sidered certain commitments by CSIM and Schwab that are designed to pass along potential economies of scale to fund shareholders. Specifically, the Board considered CSIM and Schwab's commitments, which may be changed only with Board approval: (i) to reduce contractual advisory fees or add breakpoints for certain funds, (ii) to implement, by means of expense limitation agreement, over the next several years additional reductions in net overall expenses for certain funds, (iii) to reduce administrative "sweep" fees paid to Schwab in connection with money market fund shares that are used for automatic investment of cash held in customer brokerage accounts, and (iv) to implement future net total operating expense reductions for taxable money funds as a group and non-taxable money funds as a group when aggregate assets of such group of funds exceed certain levels. Based on this evaluation, and in consideration of the commitments made by CSIM and Schwab as discussed above, 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 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

The tables below give information about the trustees and officers for The Charles Schwab Family of Funds, which includes the fund covered in this report. The “Fund Complex” includes The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust, Schwab Annuity Portfolios, Laudus Trust, Laudus Variable Insurance Trust, Excelsior Funds, Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust. As of June 30, 2006, the Fund Complex included 98 funds.

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, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served')	Principal Occupations During the Past Five Years	Number of Portfolios in Fund Complex Overseen by the Trustee	Other Directorships
<b>Mariann Byerwalter</b> 1960 Trustee (Trustee of The Charles Schwab Family of Funds since 2000.)	Chairman of JDN Corporate Advisory LLC. <i>From 1996 to 2001</i> , Vice President for Business Affairs and Chief Financial Officer of Stanford University, and <i>in 2001</i> , Special Advisor to the President of Stanford University.	98	<i>Board 1</i> —Director, Redwood Trust, Inc. <i>Board 2</i> —Director, PMI Group, Inc.
<b>Donald F. Dorward</b> 1931 Trustee (Trustee of The Charles Schwab Family of Funds since 1989.)	Chief Executive Officer, Dorward & Associates (corporate management, marketing and communications consulting firm). <i>From 1996-1999</i> , Executive Vice President and Managing Director, Grey Advertising. <i>Prior to 1996</i> , President and Chief Executive Officer, Allen & Dorward Advertising.	57	None.
<b>William A. Hasler</b> 1941 Trustee (Trustee of The Charles Schwab Family of Funds since 2000.)	Retired. Dean Emeritus, Haas School of Business, University of California, Berkeley. <i>Until February 2004</i> , Co-Chief Executive Officer, Apton Corp. (bio-pharmaceuticals). <i>Prior to August 1998</i> , Dean of the Haas School of Business, University of California, Berkeley (higher education).	98	<i>Board 1</i> —Director, Apton Corp. <i>Board 2</i> —Director, Mission West Properties <i>Board 3</i> —Director, TOUSA <i>Board 4</i> —Director, Stratex Networks <i>Board 5</i> —Director, Genitope Corp. <i>Board 6</i> —Director & Non-Executive Chairman, Solelectron Corp. <i>Board 7</i> —Director, Ditech Communications Corp.

# Independent Trustees continued

Name, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served <sup>1</sup> )	Principal Occupations During the Past Five Years	Number of Portfolios in Fund Complex Overseen by the Trustee	Other Directorships
<b>Robert G. Holmes</b> 1931 Trustee (Trustee of The Charles Schwab Family of Funds since 1989.)	Chairman, Chief Executive Officer and Director, Semloh Financial, Inc. (international financial services and investment advisory firm).	57	None.
<b>Gerald B. Smith</b> 1950 Trustee (Trustee of The Charles Schwab Family of Funds since 2000.)	Chairman and Chief Executive Officer and founder of Smith Graham & Co. (investment advisors).	57	<i>Board 1</i> —Board of Cooper Industries <i>Board 2</i> —Chairman of the Audit Committee of Northern Border Partners, M.L.P.
<b>Donald R. Stephens</b> 1938 Trustee (Trustee of The Charles Schwab Family of Funds since 1989.)	Managing Partner, D.R. Stephens & Company (investments). Prior to 1996, Chairman and Chief Executive Officer of North American Trust (real estate investment trust).	57	None.
<b>Michael W. Wilsey</b> 1943 Trustee (Trustee of The Charles Schwab Family of Funds since 1989.)	Chairman and Chief Executive Officer, Wilsey Bennett, Inc. (real estate investment and management, and other investments).	57	None.

## Interested Trustees

Name, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served <sup>1</sup> )	Principal Occupations During the Past Five Years	Number of Portfolios in Fund Complex Overseen by the Trustee	Other Directorships
<b>Charles R. Schwab<sup>2</sup></b> 1937 Chairman and Trustee (Chairman and Trustee of The Charles Schwab Family of Funds since 1989.)	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 May 2003</i> , Co-Chief Executive Officer, The Charles Schwab Corporation.	57	None.
<b>Randall W. Merk<sup>2</sup></b> 1954 Trustee (Trustee of The Charles Schwab Family of Funds since 2005.)	Executive Vice President and President, Schwab Financial Products, Charles Schwab & Co., Inc.; Director, Charles Schwab Asset Management (Ireland) Limited and Charles Schwab Worldwide Funds PLC. <i>From September 2002 to July 2004</i> , Chief Executive Officer and President, Charles Schwab Investment Management, Inc. and Executive Vice President, Charles Schwab & Co., Inc. <i>Prior to September 2002</i> , President and Chief Investment Officer, American Century Investment Management, and Director, American Century Companies, Inc.	98	None.

## Officers of the Trust

**Name, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served<sup>3</sup>)**

**Principal Occupations During the Past Five Years**

<b>Evelyn Dilsaver</b> 1955 President and Chief Executive Officer (Officer of The Charles Schwab Family of Funds since 2004.)	President, Chief Executive Officer, and Director, Charles Schwab Investment Management, Inc.; Executive Vice President, Charles Schwab & Co., Inc.; President and Chief Executive Officer, Laudus Trust and Laudus Variable Insurance Trust; President, Excelsior Funds Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust; President, Mutual Fund Division, UST Advisers, Inc. <i>From June 2003 to July 2004</i> , Senior Vice President, Asset Management Products and Services, Charles Schwab & Co., Inc. <i>Prior to June 2003</i> , Executive Vice President, Chief Financial Officer, and Chief Administrative Officer, U.S. Trust, a subsidiary of The Charles Schwab Corporation.
<b>Stephen B. Ward</b> 1955 Senior Vice President and Chief Investment Officer (Officer of The Charles Schwab Family of Funds since 1991.)	Director, Senior Vice President and Chief Investment Officer, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Company.
<b>George Pereira</b> 1964 Treasurer and Principal Financial Officer (Officer of The Charles Schwab Family of Funds since 2004.)	Senior Vice President and Chief Financial Officer, Charles Schwab Investment Management, Inc.; Chief Financial Officer, Laudus Trust and Laudus Variable Insurance Trust; Chief Financial Officer and Chief Accounting Officer, Excelsior Funds Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust; Chief Financial Officer, Mutual Fund Division, UST Advisors, Inc. Director, Charles Schwab Worldwide Fund, PLC and Charles Schwab Asset Management (Ireland) Limited. <i>From December 1999 to November 2004</i> , Sr. Vice President, Financial Reporting, Charles Schwab & Co., Inc.
<b>Kimon Daifotis</b> 1959 Senior Vice President and Chief Investment Officer—Fixed Income (Officer of The Charles Schwab Family of Funds since 2004.)	Senior Vice President and Chief Investment Officer—Fixed Income, Charles Schwab Investment Management, Inc. <i>Prior to 2004</i> , Vice President and Sr. Portfolio Manager, Charles Schwab Investment Management, Inc.
<b>Jeffrey Mortimer</b> 1963 Senior Vice President and Chief Investment Officer—Equities (Officer of The Charles Schwab Family of Funds since 2004.)	Senior Vice President and Chief Investment Officer—Equities, Charles Schwab Investment Management, Inc.; Vice President and Chief Investment Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Prior to 2004</i> , Vice President and Sr. Portfolio Manager, Charles Schwab Investment Management, Inc.

## Officers of the Trust continued

Name, Year of Birth, and Position(s) with the Trust; (Term of Office, and Length of Time Served <sup>3</sup> )	Principal Occupations During the Past Five Years
<b>Randall Fillmore</b> 1960 Chief Compliance Officer and AML Officer (Officer of The Charles Schwab Family of Funds since 2002.)	Senior Vice President and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Senior Vice President Charles Schwab & Co., Inc.; Chief Compliance Officer, Laudus Trust and Laudus Variable Insurance Trust; Chief Compliance Officer, Excelsior Funds Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust. <i>From 2002 to 2003</i> , Vice President, Charles Schwab & Co., Inc., and Charles Schwab Investment Management, Inc. <i>From 2000 to 2002</i> , Vice President, Internal Audit, Charles Schwab & Co., Inc.
<b>Koji E. Felton</b> 1961 Secretary and Chief Legal Officer (Officer of The Charles Schwab Family of Funds since 1998.)	Senior Vice President, Chief Counsel and Corporate Secretary, Charles Schwab Investment Management, Inc.; Senior Vice President and Deputy General Counsel, Charles Schwab & Co., Inc.; Chief Legal Officer, Laudus Trust and Laudus Variable Insurance Trust; Chief Legal Officer, Excelsior Funds Inc., Excelsior Tax-Exempt Funds, Inc., and Excelsior Funds Trust. <i>Prior to June 1998</i> , Branch Chief in Enforcement at U.S. Securities and Exchange Commission in San Francisco.

<sup>1</sup> Trustees remain in office until they resign, retire or are removed by shareholder vote. 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> In addition to their employment with the investment adviser and the distributor, Messrs. Schwab and Merk also own stock of The Charles Schwab Corporation. Mr. Schwab and Mr. Merk are Interested Trustees because they are employees of Schwab and/or the adviser.

<sup>3</sup> The President, Treasurer and Secretary hold office until their respective successors are chosen and qualified or until he or she sooner dies, resigns, is removed or becomes disqualified. Each other officer serves at the pleasure of the Board.

# 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 [www.sec.gov](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 [www.sec.gov](http://www.sec.gov).

<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.

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Schwab Target 2040 Fund  
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Schwab Inflation Protected 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™

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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>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.

*charles* SCHWAB

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