



ANNUAL MEETING REPORT

Year Ending December 31, 2005

April 18, 2006

Credit Union Officials

BOARD OF DIRECTORS

John T. Holloway, Jr., Chairman
Charles R. Smith, Jr., 1st Vice-Chairman
Bobbie F. Avery, 2nd Vice-Chairman
G. Dea Mitchem, Secretary
Joseph T. Schmierer, Jr., Treasurer
Corliss R. Baugh
Billy C. Holland
Paula R. Padgett
Dabney E. Short, Jr.

SUPERVISORY COMMITTEE

Michelle D. McQueen, Chairman
Sally H. Anderson
Michael A. Koch
Karron E. Small
Gloria J. Walker

Alternate:

Marita Hawkins Beckles

Credit Union Staff

Angela M. Adams, Title Specialist
Daniel A. Adams, President
David K. Adkins, Loan Officer
Linda D. Broughton, Loan Interviewer
Lillian A. Carlton, Teller
Marie A. Christian, Teller
Sherry M. Cobbs, Loan/Insurance Processor
Helen J. Cordova, Teller
William D. Cosby, Jr., System & Network Coordinator
Zenovia H. Davis, Vice-President of Finance & Accounting
Janice J. Diehl, Vice-President of Collections
Faye Dillow, Teller
Linda D. Broughton, Loan Interviewer
Michael E. Gray, Account Coordinator
Robert O. Jenkins, Computer Operator
Jennifer L. Johnson, Senior Teller
Rachel M. Johnston, Member Service Representative
Rita H. Jones, ACH Coordinator
Mary M. Moore, Administrative Assistant
Debra B. Smith, Teller
Mary K. Strahle, Collection Officer
Deborah K. Tait, Senior Loan Officer
Dennis T. Toler, Vice-President of Cash Operations
William B. G. White, Vice-President of Lending
Christina M. Williams, Member Service Representative
Betty S. Wright, Receptionist

Chairman's Report

The last 55 years have been built on our commitment to the credit union philosophy of "people helping people". We will strive to continue our tradition of strong financial performance for our members, while positioning your credit union for ongoing success. We are pleased to report that your credit union enjoyed healthy and controlled growth during 2005.

Saving our members' money, dollar by dollar, is always on our mind at Bellwood FCU. Each year there are national studies conducted that show that banks are relying on increasing profits through customer fee income. Your credit union, on the other hand, concentrates on keeping product fees to an absolute minimum.

In 2005, your credit union launched a new online financial transaction product called NetBranch. This product enhances your credit union's efficiency and member service by reducing the number of transactions conducted in our office or through the Service Centers of Virginia. This is another way that your Board recognizes that the success of the credit union is a result of our members having a better tool to handle their financial needs.

The banking industry (American Bankers Association) continues to claim that banks are losing market share to credit unions and that we should be taxed. This claim loses its strength when compared to yet another year of record profits for U.S. banks. Tax exemption of credit unions is no threat to banks, but ultimately any tax imposed on credit unions will be a tax on you, our member-owners.

The Credit Union Regulatory Relief Improvements Act (CURIA) was reintroduced in Congress in 2005 to undo burdensome requirements on credit unions. This proposed update to the Federal Credit Union Act would provide much needed regulatory relief for credit unions and help improve productivity and efficiency in a competitive and dynamic marketplace. Provisions in CURIA identify areas needing adjustment to assist credit unions and their ability to serve members. There are currently 113 members of Congress signed on as co-sponsors, but none so far from the Virginia delegation. We need your help in contacting your Representative in Congress to ask for them to co-sponsor CURIA. Letters and calls from credit union members will be a powerful force to counterbalance the continuing misinformation bankers bring before Congress each day.

Through your commitment to Bellwood FCU in 2005, you once again proved to be a loyal and steady membership. The prior year successes prepare us for Bellwood FCU's next 55 years. To our loyal members who have entrusted us with their finances – thank you for your membership.

John T. Holloway, Jr.

TREASURER'S REPORT STATEMENT OF FINANCIAL CONDITION		
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<u>ASSETS</u>	<u>12/31/05</u>	<u>12/31/04</u>
Loans to Members.....	\$ 25,050,113	\$23,072,778
Allowance for Loan losses.....	(98,371)	(130,301)
Cash/Federal Reserve.....	3,385,850	3,634,342
Land and Building	125,549	132,836
Furniture and Equipment	161,051	205,108
Shares in VA Financial Institutions.....	16,121,651	21,226,223
Other Investments.....	3,055,031	1,895,384
Accrued Income	186,981	113,296
NCUSIF Capital Deposit	454,309	449,854
Prepaid Expenses.....	347,863	188,942
Other Assets.....	340,492	8,503
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TOTALS	\$49,130,519	\$50,796,965

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable.....	\$ 34,950	\$ 35,445
Regular Shares	28,904,743	30,879,110
Share Draft/Checking	9,209,023	8,615,098
Club Accounts	199,979	175,861
Share Certificates.....	3,767,323	5,127,145
I. R. A. Accounts	2,512,913	2,741,475
Statutory Reserves	1,123,898	1,123,898
Undivided Earnings	3,074,046	2,515,355
Other Liabilities.....	303,644	(416,422)
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TOTALS	\$49,130,519	\$50,796,965

TREASURER'S REPORT STATEMENT OF FINANCIAL CONDITION
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	<u>12/31/05</u>	<u>12/31/04</u>
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GROSS INCOME	\$3,003,510	\$2,776,708
Less: Expenses.....	2,244,663	2,366,858
Less: Dividends to Members	200,157	148,850
NET INCOME	\$558,690	\$261,000
 <u>ALLOCATION OF NET INCOME</u>		
Regular Reserves.....	\$0	\$153,585
Undivided Earnings	558,690	107,415
Total Number of Members	13,319	13,720
Total Number of Loans.....	3,717	3,854
Total Net Worth/Capital.....	\$4,197,944	\$3,639,254

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Bellwood F.C.U. is a federally chartered credit union organized under the Federal Credit Union Act.

Dividends

Dividends are computed on regular and IRA share accounts based on their daily balance (day of deposit to day of withdrawal). Dividends are paid and compounded quarterly and can be withdrawn on the first day of the month following the end of each quarter or any subsequent day the credit union is open for business. Dividends will not be paid on accounts that are closed during the quarter. Dividend rates are declared quarterly by the Board of Directors based on available current earnings after expenses and reserves have been set aside. Contracted rates are declared on term share accounts.

Income Taxes

The Credit Union is exempt from federal income taxes under the provisions of Section 501(c)(14)(A) of the Internal Revenue Code.

NOTE 2 – SHARES IN VIRGINIA CORPORATE F.C.U.

Share deposits in Virginia Corporate Federal Credit Union include a permanent capital base. The permanent capital base funds are interest bearing, are required deposits for membership and may be withdrawn only by closing the Credit Union's membership at Virginia Corporate F.C.U. At December 31, 2005, the balance in the permanent capital base was \$501,992.

NOTE 3 – SHARE INSURANCE FUND DEPOSIT

Federal credit unions are required by law to maintain a deposit in the National Credit Union Share Insurance Fund equal to 1% of insured shares at June 30 of each year. Deposited funds can be withdrawn only if the Credit Union terminates its share insurance.

NOTE 4 – RETAINED EARNINGS

The regular reserve is comprised of statutory and discretionary transfers from Undivided Earnings. Statutory transfers are not available for dividends. As of December 31, 2005, \$558,690 had been transferred to Undivided Earnings.

NOTE 5 – PENSION PLAN

The Credit Union's non-contributory defined benefit pension plan covers substantially all of its employees. The plan provides payment to participants at varying retirement dates and also provides payment of certain disability, death and severance benefits. The plan benefits payable are generally determined based on length of service and employee compensation. Employees become eligible for future vested benefits after meeting certain length of employment requirements. Contributions to the plan are sufficient to meet the benefits of employees' services to date and future services.

President's Report

The past year marked 55 years of continuing member service for your credit union. This success comes thanks to our members' participation in their financial cooperative. Bellwood FCU once again returned real financial value to you and achieved a year of solid stability.

One area that showed better than normal growth was in loans to members. At the end of 2005, loans had increased by 8.9%, or \$1,977,335. Providing loans to members is at the core of the credit union philosophy. Savings deposited by members is used to provide low-cost loans to other members, which provides the credit union with its main source of income. With this increase in income, your credit union was able to strengthen its capital net worth by 15.4%, or \$558,690. This will contribute to your credit union's financial stability in the future.

Bellwood FCU places a high value on providing new and efficient automated services. In 2005, an online financial transaction service, NetBranch, was implemented. This new service provides members with Internet access to their credit union account 24 hours a day, 365 days a year. With NetBranch, members can now view their account activity, transfer funds between accounts, download account information directly into Quicken and Microsoft Money, and access a variety of convenient user services.

We recognize the importance of strong relationships with members. Our continuing goal is to exceed your expectations, ensure your financial needs are fully met, and provide you with the products and services you need to be financially successful. Because when our members are successful, the credit union is successful. The officials and staff of your credit union are focused on comprehensive financial advice, increasing corporate social responsibility, and fostering staff empowerment and outstanding leadership through ongoing training of employees.

The credit union movement was predicated on the principle of "people helping people". During 2005, your credit union was managed under this philosophy and took opportunities to serve our community through support of education, charitable giving, and volunteerism. This included working with local charities such as Children's Miracle Network and Habitat for Humanity.

Thank you for your support, which enables your credit union to provide better value and service. This support will position us for success in the next 55 years.

Daniel Adams

Supervisory Committee Report

The Supervisory Committee consists of credit union members appointed by the Board of Directors whose responsibilities include examining and evaluating the effectiveness of established internal controls of Bellwood Federal Credit Union.

The Supervisory Committee's continuous service includes but is not limited to carrying out responsibilities that include: providing local audits, obtaining external auditors, attending monthly Board meetings, performing cash counts and holding regular committee meetings. No issues were found referencing the cash counts and no recommendations are needed.

This year the committee performed a local audit of the credit union. No major issues were found. Recommendations were given to the board upon continuing and maintaining an educated workforce. An impressive training system has been implemented which allows the training of all employees as well as Board and Supervisory Committee members. The committee engaged the firm of Schreiner, Legge & Company of Alexandria, Virginia to conduct the annual audit for BFCU as of December 31, 2005. The goals of the annual audit are to determine the integrity and reliability of financial information, and to determine compliance with current policies, plans, procedures, rules and regulations.

The National Credit Union Administration (NCUA), in addition to the professional audit, conducted its annual examination of BFCU. This regulatory agency evaluates federal credit unions on their capital adequacy, asset quality, management, earnings and liquidity management. BFCU is a sound and stable institution that is able to withstand business fluctuations quite well.

All of these positive actions should allow you to know that the Supervisory committee wants you, the member to feel secure in the manner in which your credit union is being operated.

We look forward to another excellent year. As always, your Supervisory Committee members will continue to give their time and effort to serve you in a professional, responsive and businesslike manner.

Michelle D. McQueen
Chairman