SECURITY FEDERAL CORP
Form 10-Q
August 14, 2006

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark one)

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2006

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD: FROM_____________TO_____________

COMMISSION FILE NUMBER: 0-16120

SECURITY FEDERAL CORPORATION
(Exact name of Registrant as specified in Its Charter)

South Carolina	57-0858504
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

238 RICHLAND AVENUE, WEST, AIKEN, SOUTH CAROLINA	29801
(Address of Principal Executive Office)	(Zip code)

(803) 641-3000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "large accelerated filer" and "accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filed [ ]   Accelerated filer[ ] Non-accelerated filer [X]

Indicate by check mark whether the registrant is a shell company (defined in Rule 12b-2 of the Exchange Act).

YES NO X

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

CLASS:	OUTSTANDING SHARES AT:	SHARES
Common Stock, par value $0.01 per share	July 31, 2006	2,608,617

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SCHEDULES OMITTED

All schedules other than those indicated above are omitted because of the absence of the conditions under which they are required or because the information is included in the consolidated financial statements and related notes.

Part I. Financial Information

Item 1. Financial Statements

Security Federal Corporation and Subsidiaries
Consolidated Balance Sheets

	June 30, 2006	March 31, 2006
Assets:	(Unaudited)	(Audited)
Cash And Cash Equivalents	$ 11,078,009	$ 14,351,208
Investment And Mortgage-Backed Securities:		
Available For Sale: (Amortized cost of $163,391,871 at June 30, 2006 and $166,808,236 at March 31, 2006)	158,731,338	163,445,066
Held To Maturity: (Fair value of $69,623,220 at June 30, 2006 and $73,084,450 at March 31, 2006)	71,987,413	74,987,805
Total Investment And Mortgage-Backed Securities	230,718,751	238,432,871
Loans Receivable, Net:		
Held For Sale	2,476,068	1,320,644
Held For Investment: (Net of allowance of $6,853,908 at June 30, 2006 and $6,704,734 at March 31, 2006)	395,359,383	373,788,432
Total Loans Receivable, Net	397,835,451	375,109,076
Accrued Interest Receivable:		
Loans	1,238,672	1,096,014
Mortgage-Backed Securities	499,662	508,432
Investments	892,910	945,620
Premises And Equipment, Net	12,272,082	11,662,976
Federal Home Loan Bank Stock, At Cost	7,763,900	7,149,800
Bank Owned Life Insurance	5,597,509	5,000,001
Repossessed Assets Acquired In Settlement Of Loans	20,000	91,022
Other Assets	7,705,728	4,330,795
Total Assets	$ 675,622,674	$ 658,677,815

Liabilities And Shareholders' Equity

Liabilities:		
Deposit Accounts	$ 480,647,530	$ 479,229,339
Advances From Federal Home Loan Bank	144,585,523	131,363,000
Other Borrowed Money	6,864,849	7,289,773
Advance Payments By Borrowers For Taxes And Insurance	674,298	501,998
Mandatorily Redeemable Financial Instrument	1,440,270	-
Other Liabilities	3,528,277	2,691,946
Total Liabilities	$ 637,740,747	$ 621,076,056
Shareholders' Equity:		
Serial Preferred Stock, $.01 Par Value; Authorized Shares - 200,000; Issued And Outstanding Shares - None	$ -	$ -
Common Stock, $.01 Par Value; Authorized Shares - 5,000,000; Issued - 2,613,629 And Outstanding Shares - 2,602,317 At June 30, 2006 And 2,558,234 And 2,537,378 At March 31, 2006	25,582	25,582
Additional Paid-In Capital	4,404,110	4,404,110
Treasury Stock, (At Cost, 11,312 shares)	(238,656)	(238,656)
Indirect Guarantee Of Employee Stock Ownership Trust Debt	-	(215,503)
Accumulated Other Comprehensive Loss	(2,891,401)	(2,086,509)
Retained Earnings, Substantially Restricted	36,582,292	35,712,735
Total Shareholders' Equity	$ 37,881,927	$ 37,601,759
Total Liabilities And Shareholders' Equity	$ 675,622,674	$ 658,677,815

See accompanying notes to consolidated financial statements.

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Security Federal Corporation and Subsidiaries
Consolidated Statements of Income (Unaudited)

	Three Months Ended June 30,	
	2006	2005
Interest Income:		
Loans	$ 7,020,675	$ 5,185,122
Mortgage-Backed Securities	1,443,350	1,393,287
Investment Securities	1,146,342	819,557
Other	14,483	14,227
Total Interest Income	9,624,850	7,412,193
Interest Expense:		
NOW And Money Market Accounts	1,581,170	1,253,183
Passbook Accounts	41,876	44,199
Certificate Accounts	2,155,401	1,212,583
Advances And Other Borrowed Money	1,435,727	979,237

Total Interest Expense	5,214,174	3,489,202
Net Interest Income	4,410,676	3,922,991
Provision For Loan Losses	150,000	165,000
Net Interest Income After Provision For Loan Losses	4,260,676	3,757,991
Non-Interest Income:		
Net Gain On Sale Of Investments	-	17,540
Gain On Sale Of Loans	113,255	135,310
Service Fees On Deposit Accounts	277,868	283,197
Income from cash value of life insurance	56,508	-
Other	304,363	254,328
Total Other Income	751,994	690,375
Non-Interest Expense:		
Salaries And Employee Benefits	2,125,369	1,760,947
Occupancy	317,595	311,847
Advertising	74,649	25,469
Depreciation And Maintenance Of Equipment	291,469	251,801
FDIC Insurance Premiums	14,142	14,519
Other	620,080	631,541
Total Non-Interest Expense	3,443,304	2,996,124
Income Before Income Taxes	1,569,366	1,452,242
Provision For Income Taxes	546,994	523,000
Net Income	$ 1,022,372	$ 929,242
Basic Net Income Per Common Share	$ 0.40	$ 0.37
Diluted Net Income Per Common Share	$ 0.40	$ 0.36
Cash Dividend Per Share On Common Stock	$ 0.06	$ 0.04
Basic Weighted Average Shares Outstanding	2,538,951	2,530,389
Diluted Weighted Average Shares Outstanding	2,564,893	2,556,205

See accompanying notes to consolidated financial statements.

Security Federal Corporation and Subsidiaries

Consolidated Statements of Shareholders' Equity and Comprehensive Income (Unaudited)

Common	Additional Paid-In	Treasury	Indirect Guarantee of	Accumulated Other Comprehen-sive Income	Retained

	Stock	Capital	Stock	ESOP Debt	(Loss)	Earnings	
Balance At March 31, 2005	$ 25,438	$ 4,181,804	$(165,089)	$(276,217)	$(961,504)	$32,306,633	$
Net Income	-	-		-	-	929,242	
Other Comprehensive Income, Net Of Tax:							
Unrealized Holding Gains On Securities Available For Sale	-	-	-	-	403,917	-	
Plus Reclassification Adjustments for Gains Included in Net Income	-	-	-	-	10,875	-	
Comprehensive Income	-	-	-	-	-	-	
Purchase of Treasury Stock At Cost, 1,200 Shares			(25,800)				
Exercise Of Stock Options	6	9,996					
Decrease In Indirect Guarantee Of ESOP Debt	-	-	-	60,714	-	-	
Cash Dividends	-	-	-	-	-	(101,449)	
Balance At June 30, 2005	$ 25,444	$4,191,800	$(190,889)	$(215,503)	$(546,712)	$33,134,426	$

	Common Stock	Additional Paid-In Capital	Treasury Stock	Indirect Guarantee of ESOP Debt	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	
Balance At March 31, 2006	$ 25,582	$4,404,110	$(238,656)	$(215,503)	$(2,086,509)	$ 35,712,735	$
Net Income	-	-		-	-	1,022,372	
Other Comprehensive Income, Net Of Tax:							
Unrealized Holding Losses On Securities Available For Sale	-	-	-	-	(804,892)	-	
Comprehensive Income	-	-	-	-	-	-	
Decrease In Indirect Guarantee Of ESOP Debt	-	-	-	215,503	-	-	
Cash Dividends	-	-	-	-	-	(152,815)	
Balance At June 30, 2006	$ 25,582	$4,404,110	$(238,656)	$ -	$ (2,891,401)	$36,582,292	$

See accompanying notes to consolidated financial statements.

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Security Federal Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended June 30, 2006	2005
Cash Flows From Operating Activities:		
Net Income	$ 1,022,372	$ 929,242
Adjustments To Reconcile Net Income To Net Cash (Used) Provided By Operating Activities:		
Depreciation Expense	232,989	241,003
Discount Accretion And Premium Amortization	122,918	259,436
Provisions For Losses On Loans And Real Estate	150,000	165,000
Gain On Sale Of Loans	(113,255)	(135,310)
Gain On Sale Of Mortgage Backed Securities Available For Sale	-	(17,540)
(Gain) Loss On Sale Of Real Estate	(48,678)	14,230
Amortization Of Deferred Fees On Loans	(63,989)	(48,034)
Proceeds From Sale Of Loans Held For Sale	6,154,987	8,285,951
Origination Of Loans For Sale	(7,197,156)	(6,622,045)
(Increase) Decrease In Accrued Interest Receivable:		
Loans	(142,658)	(8,484)
Mortgage-Backed Securities	8,770	20,508
Investments	52,710	90,377
Increase In Advance Payments By Borrowers	172,300	180,196
Other, Net	(390,544)	471,610
Net Cash (Used) Provided By Operating Activities	(39,234)	3,826,140
Cash Flows From Investing Activities:		
Principal Repayments On Mortgage-Backed Securities Available For Sale	9,666,628	12,417,076
Principal Repayments On Mortgage-Backed Securities Held To Maturity	-	5,230
Purchase Of Investment Securities Available For Sale	(2,976,845)	(8,998,000)
Purchase Of Mortgage-Backed Securities Available For Sale	(4,614,465)	(5,596,261)
Proceeds From Sale Of Mortgage-Backed Securites Available For Sale	-	1,968,194
Maturities Of Investment Securities Available For Sale	1,218,707	2,190,338
Maturities of Investment Securities Held To Maturity	3,000,000	-
Purchase Of FHLB Stock	(1,813,100)	(1,575,000)
Redemption Of FHLB Stock	1,199,000	1,449,000
(Increase) Decrease In Loans To Customers	(21,656,962)	(18,529,421)
Proceeds From Sale Of Repossessed Assets	119,700	16,384
Purchase And Improvement Of Premises And Equipment	(842,095)	(335,492)
Purchase Of Bank Owned Life Insurance	(597,508)	-
Net Cash Used By Investing Activities	(17,296,940)	(16,987,952)
Cash Flows From Financing Activities:		
Increase In Deposit Accounts	1,418,191	10,917,946
Proceeds From FHLB Advances	77,845,000	48,195,000
Repayment Of FHLB Advances	(64,622,477)	(45,270,000)
Net Proceeds Of Other Borrowings	(424,924)	892,086

Dividends To Shareholders	(152,815)	(101,449)
Purchase Of Treasury Stock	-	(25,800)
Proceeds From Exercise of Stock Options	-	10,002
Net Cash Provided By Financing Activities	14,062,975	14,617,785

(Continued)

Security Federal Corporation and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited) Continued

	Three Months Ended June 30,	
	2006	2005
Net (Decrease) Increase In Cash And Cash Equivalents	(3,273,199)	1,455,973
Cash And Cash Equivalents At Beginning Of Period	14,351,208	7,916,488\
Cash And Cash Equivalents At End Of Period	$ 11,078,009	$ 9,372,461
Supplemental Disclosure Of Cash Flows Information:		
Cash Paid During The Period For Interest	$ 5,109,698	$ 3,442,441
Cash Paid During The Period For Income Taxes	$ -	$ 51,195
Additions To Repossessed Assets Acquired Through Foreclosure	$ -	$ 54,614
Decrease (Increase) In Unrealized Net Gain On Securities Available For Sale, Net Of Taxes	$ (804,892)	$ 414,792
Issuance Of A Mandatorily Redeemable Financial Instrument Through The Issuance Of Common Stock	$ 1,440,270	-

See accompanying notes to consolidated financial statements.

Security Federal Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and accounting principles generally accepted in the United States of America; therefore, they do not include all disclosures necessary for a complete presentation of financial condition, results of operations, and cash flows. Such statements are unaudited but, in the opinion of management, reflect all adjustments, which are of a normal recurring nature and necessary for a fair presentation of results for the selected interim periods. Users of financial information produced for interim periods are encouraged to refer to the footnotes contained in the audited financial statements appearing in Security Federal Corporation's (the "Company") 2006 Annual Report to Shareholders when reviewing interim financial statements. The results of operations for the three-month period ended June 30, 2006 are not necessarily indicative of the results that may be expected for the entire fiscal year. This Quarterly Report on Form 10-Q contains certain forward-looking statements with respect to the financial condition, results of operations, and business of the Company. These forward-looking statements involve certain risks and uncertainties. Factors that may cause actual results to differ materially from those anticipated by such forward-looking statements include, but are not limited to, changes in interest rates, the demand for loans, the regulatory environment, general economic conditions and inflation, and the securities markets. Management cautions readers of this Form 10-Q not to place undue reliance on the forward-looking statements contained herein.

2. Principles of Consolidation

The accompanying unaudited consolidated financial statements include the accounts of Security Federal Corporation (the "Company") and its wholly owned subsidiary, Security Federal Bank (the "Bank"), and the Bank's wholly owned subsidiaries, Security Federal Insurance, Inc. ("SFINS"), Security Federal Investments, Inc. ("SFINV"), Security Federal Trust, Inc. ("SFT"), and Security Financial Services Corporation ("SFSC"). The Bank is primarily engaged in the business of accepting savings and demand deposits and originating mortgage and other loans to individuals and small businesses for various personal and commercial purposes. SFINS, SFINV, and SFT were formed during fiscal 2002 and began operation during the December 2001 quarter. SFINS is an insurance agency offering business, health, home and life insurance. SFINV engages primarily in investment brokerage services. SFT offers trust, financial planning and financial management services. SFSC is currently inactive.

3. Critical Accounting Policies

The Company has adopted various accounting policies, which govern the application of accounting principles generally accepted in the United States in the preparation of our financial statements. Our significant accounting policies are described in the footnotes to the audited consolidated financial statements at March 31, 2006 included in our 2006 Annual Report to Stockholders, which was filed as an exhibit to our Annual Report on Form 10-K for the year ended March 31, 2006. Certain accounting policies involve significant judgments and assumptions by management, which have a material impact on the carrying value of certain assets and liabilities. We consider these accounting policies to be critical accounting policies. The judgments and assumptions we use are based on historical experience and other factors, which we believe to be reasonable under the circumstances. Because of the nature of the judgments and assumptions we make, actual results could differ from these judgments and estimates which could have a material impact on our carrying values of assets and liabilities and our results of operations.

We believe the allowance for loan losses is a critical accounting policy that requires the most significant judgments and estimates used in preparation of our consolidated financial statements. The Company provides for loan losses using the allowance method. Accordingly, all loan losses are charged to the related allowance and all recoveries are credited to the allowance for loan losses. Additions to the allowance for loan losses are provided by charges to operations based on various factors, which, in management's judgment, deserve current recognition in estimating possible losses. Such factors considered by management include the fair value of the underlying collateral; stated guarantees by the borrow, if applicable, the borrower's ability to repay from other economic resources, growth and composition of the loan portfolios, the relationship of the allowance for loan losses to the outstanding loans, loss experience, delinquency trends, and general economic conditions. Management evaluates the carrying value of the loans periodically and the allowance is adjusted accordingly. While management uses the best information available to make evaluations, future adjustments may be necessary if economic conditions differ substantially from the assumptions used in making these evaluations. Allowance for loan losses are subject to periodic evaluations by various authorities and may be subject to adjustments based upon the information that is available at the time of their examination.

3. Critical Accounting Policies, continued

The Company values impaired loans at the loan's fair value if it is probable that the Company will be unable to collect all amounts due according to the terms of the loan agreement at the present value of expected cash flows, the market price of the loan, if available, or the value of the underlying collateral. Expected cash flows are required to be discounted at the loan's effective interest rate. When the ultimate collectibility of an impaired loan's principal is in doubt, wholly or partially, all cash receipts are applied to principal. When this doubt does not exist, cash receipts are applied under the contractual terms of the loan agreement first to interest and then to principal. Once the recorded principal balance has been reduced to zero, future cash receipts are applied to interest income to the extent that any interest has been foregone. Further cash receipts are recorded as recoveries of any amounts previously charged off.

4. Acquistion

On June 30, 2006, the Company completed the acquisition of the insurance and premium finance businesses of Collier-Jennings Financial Corporation and it subsidiaries Collier-Jennings, Inc., The Auto Insurance Store, Inc., and Collier-Jennings Premium Pay Plans, Inc (the "Collier-Jennings Companies"). The purpose of the acquisition was to expand the insurance services and increase non-interest income. The shareholder of the Collier-Jennings Companies received $180,000 in cash and approximately 55,000 shares of the Company's common stock valued at $26 per share for an approximate purchase price of $1,620,270. The Company will release the shares to the shareholder of the Collier-Jennings Companies over a three-year period. The stock is mandatorily redeemable by the shareholder of Collier-Jennings Companies at his option in cumulative increments of 20% per year for a five- year period at the greater of $26 per share or one and one-half times the book value of the Company's stock.

5. Earnings Per Share

The Company calculates earnings per share ("EPS") in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share." SFAS No. 128 specifies the computation, presentation and disclosure requirements for EPS for entities with publicly held common stock or potential common stock such as options, warrants, convertible securities or contingent stock agreements if those securities trade in a public market.

This standard specifies computation and presentation requirements for both basic EPS and, for entities with complex capital structures, diluted EPS. Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding. Diluted EPS is similar to the computation of basic EPS except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. The dilutive effect of options outstanding under the Company's stock option plan is reflected in diluted earnings per share by application of the treasury stock method.

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Security Federal Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited), Continued

5. Earnings Per Share, Continued

The following table provides a reconciliation of the numerators and denominators of the basic and diluted EPS computations:

	For the Quarter Ended June 30, 2006		
	Income (Numerator) Amount	Shares (Denominator)	Per Share
Basic EPS	$ 1,022,372	2,538,951	$ 0.400
Effect of Diluted Securities:			
Stock Options	-	17,971	-
ESOP	-	7,971	-
Diluted EPS	$ 1,022,372	2,564,893	$ 0.400

	For the Quarter Ended June 30, 2005		
	Income (Numerator) Amount	Shares (Denominator)	Per Share
Basic EPS	$ 929,242	2,530,389	$ 0.370
Effect of Diluted Securities:			
Stock Options	-	20,227	(0.008)
ESOP	-	5,589	(0.002)
Diluted EPS	$ 929,242	2,556,205	$ 0.360

6. Stock-Based Compensation

On April 1, 2006, the Company adopted the fair value recognition provisions of Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 123(R), Accounting for Stock-Based Compensation, to account for compensation costs under its stock option plans. The Company previously utilized the intrinsic value method under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (as amended) ("APB 25"). Under the intrinsic value method prescribed by APB 25, no compensation costs were recognized for the Company's stock options because the option exercise price in its plans equals the market price on the date of grant. Prior to January 1, 2006, the Company only disclosed the pro forma effects on net income and earnings per share as if the fair value recognition provisions of SFAS 123(R) had been utilized.

In adopting SFAS No. 123, the Company elected to use the modified prospective method to account for the transition from the intrinsic value method to the fair value recognition method. Under the modified prospective method, compensation cost is recognized from the adoption date forward for all new stock options granted and for any outstanding unvested awards as if the fair value method had been applied to those awards as of the date of grant. The following table illustrates the effect on net income and earnings per share as if the fair value based method had been applied to all outstanding and unvested awards in each period.

6. Stock-Based Compensation, Continued

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005
Net income as reported	$ 1,022,372	$ 929,242
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	-	-
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	-	(30,570)
Pro forma net income including stock-based compensation cost based on fair-value method	$ 1,022,372	$ 898,672
Earnings per share:		
Basic - as reported	$ 0.40	$ 0.37
Basic - pro forma	$ 0.40	$ 0.36
Diluted - as reported	$ 0.40	$ 0.36

Diluted - pro forma	$ 0.40	$ 0.35

The following is a summary of the activity under the Company's incentive stock option plan for the quarter ended June 30, 2006.

	Three Months Ended June 30,2006	
	Shares	Weighted Average Exercise Price
Balance, Beginning of Year	118,046	$ 19.50
Options granted	-	-
Options exercised	-	-
Options forfeited	-	-
Balance, March 31	118,046	$ 19.50
Options Exercisable	118,046	$ 19.50
Options Available For Grant	13,750	

Security Federal Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited), Continued

6. Stock-Based Compensation, Continued

At June 30, 2006, the Company had the following options outstanding:

Grant Date	Outstanding Options	Option Price	Expiration Date
1/07/97	1,546	$5.33	12/31/05 to 12/31/06
10/19/99	51,000	$16.67	9/30/05 to 9/30/09
1/16/03	1,500	$22.39	12/31/12
9/1/03	3,000	$24.00	8/31/13
12/1/03	3,000	$23.65	11/30/13
1/01/04	8,500	$24.22	12/31/13
3/8/04	13,000	$21.43	2/28/14
6/7/04	2,000	$24.00	5/31/14

1/1/05	26,000	$20.55	12/31/14
1/1/05	2,000	$22.61	12/31/15
1/1/06	6,500	$22.91	12/31/16

7. Accounting and Reporting Changes

The following is a summary of recent authoritative pronouncements that affect accounting, reporting, and disclosure of financial information by the Company:

In February 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140." This Statement amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This Statement resolves issues addressed in SFAS No. 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets." SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company does not believe that the adoption of SFAS No. 155 will have a material impact on its financial position, results of operations and cash flows.

7. Accounting and Reporting Changes, Continued

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140." This Statement amends FASB No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS No. 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract; requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable; permits an entity to choose its subsequent measurement methods for each class of separately recognized servicing assets and servicing liabilities; at its initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available-for-sale securities under Statement 115, provided that the available-for-sale securities are identified in some manner as offsetting the entity's exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value; and requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities. An entity should adopt SFAS No. 156 as of the beginning of its first fiscal year that begins after September 15, 2006. The Company does not believe the adoption of SFAS No. 156 will have a material impact on its financial position, results of operations and cash flows.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations and cash flows.

8. Securities

Investment And Mortgage-Backed Securities, Available For Sale

The amortized cost, gross unrealized gains, gross unrealized losses, and fair values of investment and mortgage-backed securities available for sale are as follows:

June 30, 2006	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
US Government and Agency Obligations	$ 30,229,301	$ -	$ 579,950	$ 29,649,351
Mortgage-Backed Securities	133,059,632	50,935	4,131,330	128,979,237
Equity Securities	102,938	-	188	102,750
Total	$163,391,871	$ 50,935	$4,711,468	$158,731,338
March 31, 2006				
US Government and Agency Obligations	$ 28,466,546	$ -	$ 311,234	$ 28,155,312
Mortgage-Backed Securities	138,238,752	126,648	3,178,584	135,186,816
Equity Securities	102,938	-	-	102,938
Total	$166,808,236	$126,648	$3,489,818	$163,445,066

Security Federal Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited), Continued

8.Securities, Continued

Investment and Mortgage-Backed Securities, Held to Maturity

The amortized cost, gross unrealized gains, gross unrealized losses, and fair values of investment and mortgage-backed securities held to maturity are as follows:

June 30, 2006	Amortized	Gross Unrealized	Gross Unrealized

	Cost	Gains	Losses	Fair Value
US Government and Agency Obligations	$ 71,987,413	$ -	$2,364,193	$ 69,623,220

March 31, 2006

US Government and Agency Obligations	$ 74,987,805	$ -	$1,903,355	$ 73,084,450

9. Loans Receivable, Net

Loans receivable, net, at June 30, 2006 and March 31, 2006 consisted of the following:

	June 30, 2006	March 31, 2006
Residential Real Estate	$ 124,288,489	$ 122,026,298
Consumer	60,350,671	58,612,669
Commercial Business & Real Estate	225,358,542	209,214,332
Loans Held For Sale	2,476,068	1,320,644
	412,473,770	391,173,943
Less:		
Allowance For Possible Loan Loss	6,853,908	6,704,734
Loans In Process	7,512,708	9,185,133
Deferred Loan Fees	271,703	175,000
	14,638,319	16,064,867
	$ 397,835,451	$ 375,109,076

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Safe Harbor Statement

Certain matters in this Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements relate to, among others, expectations of the business environment in which the Company operates, projections of future performance, perceived opportunities in the market, potential future credit experience, and statements regarding the Company's mission and vision. These forward-looking statements are based upon current management expectations, and may, therefore, involve risks and uncertainties. The Company's actual results, performance, or achievements may differ materially from those suggested, expressed, or implied by forward-looking statements as a result of a wide range of factors including, but not limited to, the general business environment, interest rates, the South Carolina real estate market, the demand for loans, competitive conditions between banks and non-bank financial services providers, regulatory changes, and other risks detailed in the Company's reports filed with the Securities and Exchange Commission, including the Annual Report on Form 10-K for the fiscal year ended March 31, 2006. Forward-looking statements are effective only as of the date that they are made and the Company assumes no obligation to update this information

Comparison Of Financial Condition At June 30, 2006 and March 31, 2006

General - Total assets increased $16.9 million or 2.6% to $675.6 million at June 30, 2006 from $658.7 million at March 31, 2006. The primary reason for the growth in total assets was a $22.7 million or 6.1% increase in net loans receivable to $397.8 million. For the quarter ending June 30, 2006, the demand for loans was funded with decreased investments and mortgage-backed securities, available for sale of $4.7 million or 2.9% and investments and mortgage-backed securities, held to maturity of $3.0 million or 4.0% and increased deposits of $1.4 million and advances from the Federal Home Loan Bank ("FHLB") of $13.2 million or 10.1%.

Assets - The increases and decreases in total assets were primarily concentrated in the following asset categories:

			Increase (Decrease)	
	June 30, 2006	March 31, 2006	Amount	Percent
Cash And Cash Equivalents	$ 11,078,009	$ 14,351,208	$ (3,273,199)	(22.8)%
Investment And Mortgage-Backed Securities - Available For Sale	158,731,338	163,445,066	(4,713,728)	(2.9)
Investment And Mortgage-Backed Securities-Held - To Maturity	71,987,413	74,987,805	(3,000,392)	(4.0)
Loan Receivable, Net	397,835,451	375,109,076	22,726,375	6.1
Premises And Equipment, Net	12,272,082	11,662,976	609,106	5.2
FHLB Stock, At Cost	7,763,900	7,149,800	614,100	8.6
Bank Owned Life Insurance	5,597,509	5,000,001	597,508	12.0
Other Assets	7,705,728	4,330,795	3,374,933	77.9

Cash and cash equivalents decreased $3.3 million to $11.1 million at June 30, 2006 from $14.4 million at March 31, 2006. The reason for the decrease is that the Company used cash and cash equivalents to fund loans. Investments and mortgage-backed securities decreased $7.7 million or 3.2% to $230.7 million at June 30, 2006 from $238.4 million at March 31, 2006. The decrease in investments and mortgage-backed securities is attributable to paydowns on mortgage-backed securities, calls and maturities on investments, and a decrease in market value on mortgage-backed securities and investments, offset partially by purchases of mortgage-backed securities and investments.

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Loans receivable, net increased $22.7 million or 6.1% to $397.8 million at June 30, 2006 from $375.1 million at March 31, 2006. Residential real estate loans increased $2.3 million to $124.3 million at June 30, 2006 from $122.0 million at March 31, 2006. Consumer loans increased $1.8 million to $60.4 million at June 30, 2006 from $58.6 at March 31, 2006. The increase in consumer loans is attributable to a special rate promotion that is being advertised in print media. Commercial business and real estate loans increased $16.2 million to $225.4 million at June 30, 2006 from $209.2 million at March 31, 2006. The increase in commercial loans is attributable to the Company's continued focus on originating this type of loan. Loans held for sale increased $1.2 million to $2.5 million at June 30, 2006 from $1.3 million at March 31, 2006.

Premises and equipment, net increased $609,000 to $12.3 million at June 30, 2006 from $11.7 million at March 31, 2006. The majority of the increase is for furniture and equipment.

FHLB stock, at cost increased $614,000 to $7.8 million at June 30, 2006 from $7.2 million at March 31, 2006. The increase is attributable to a FHLB requirement that the Company maintain stock equal to 0.20% of total assets at December 31, 2005 plus a transaction component, which equals 4.5% of outstanding advances (borrowings) from the FHLB of Atlanta.

Bank Owned Life Insurance increased $598,000 to $5.6 million at June 30, 2006 from $5.0 million at March 31, 2006. The Company purchased additional life insurance during the quarter ending June 30, 2006 to provide key man life insurance for additional officers.

Other assets increased $3.4 million to $7.7 million at June 30, 2006 from $4.3 million at March 31, 2006. The majority of the increase is the result of the acquisition of the Collier-Jennings Companies. Accounts receivable, intangible assets and goodwill associated with the acquisition of the Collier-Jennings Companies are included in other assets.

Liabilities

Deposit Accounts

	June 30, 2006		March 31, 2006		Balance Increase (Decrease)	
	Balance	Weighted Rate	Balance	Weighted Rate	Amount	Percent
Demand Accounts:						
Checking	$ 98,678,589	0.98%	$105,347,713	0.97%	$(6,669,124)	(6.3)%
Money Market	148,885,581	3.83	151,494,548	3.50	(2,608,967)	(1.7)
Regular Savings	17,001,856	0.98	17,795,109	0.98	(793,253)	(4.5)
Total	264,566,026	2.58	274,637,370	2.36	(10,071,344)	(3.7)
Certificate Accounts						
0.00 - 1.99%	-		59,797		(59,797)	(100.0)
2.00 - 2.99%	17,970,170		26,836,415		(8,866,245)	(33.0)
3.00 - 3.99%	52,830,050		72,831,817		(20,001,767)	(27.5)
4.00 - 4.99%	114,493,335		94,240,989		20,252,346	21.5
5.00 - 5.99%	30,787,949		10,622,951		20,164,998	189.8

Total	216,081,504	4.28	204,591,969	3.98	11,489,535	5.6
Total Deposits	$480,647,530	3.35%	$479,229,339	3.05%	$1,418,191	0.3%

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Advances From FHLB FHLB advances are summarized by year of maturity and weighted average interest rate in the table below:

	June 30, 2006		March 31, 2006		Balance Increase (Decrease)	
Fiscal Year Due:	Balance	Rate	Balance	Rate	Balance	Percent
2007	26,225,000	4.43%	18,000,000	2.83%	$8,225,000	45.69%
2008	5,000,000	3.09	5,000,000	3.09	-	-
2009	20,000,000	3.28	20,000,000	3.28	-	-
2010	5,000,000	3.09	5,000,000	3.09	-	-
2011	15,000,000	4.61	20,000,000	4.37	(5,000,000)	(25.00)
Thereafter	73,360,523	4.15	63,363,000	4.04	9,997,523	15.78
Total Advances	$144,585,523	4.06%	$131,363,000	3.74%	$13,222,523	10.07%

These advances are secured by a blanket collateral agreement with the FHLB by pledging the Bank's portfolio of residential firs mortgage loans and investment securities with approximate amortized cost and fair value of $81.3 million and $78.8 million at June 30, 2006. Advances are subject to prepayment penalties.

The following table shows callable FHLB advances as of the dates indicated. These advances are also included in the above table. All callable advances are callable at the option of the FHLB. If an advance is called, the Bank has the option to payoff the advance without penalty, re-borrow funds on different terms, or convert the advance to a three-month floating rate advance tied to LIBOR.

As of June 30, 2006

Borrow Date	Maturity Date	Amount	Int. Rate	Type	Call Dates
11/07/02	11/07/12	$5,000,000	3.354%	1 Time Call	11/07/07
10/24/03	10/24/08	10,000,000	2.705	Multi-Call	10/24/06 and quarterly
02/20/04	02/20/14	5,000,000	3.225	1 Time Call	02/20/09
04/16/04	04/16/14	3,000,000	3.330	1 Time Call	04/16/08
09/16/04	09/16/09	5,000,000	3.090	1 Time Call	09/17/07
06/24/05	06/24/15	5,000,000	3.710	1 Time Call	06/24/10
07/22/05	07/22/15	5,000,000	3.790	1 Time Call	07/22/08
10/21/05	10/21/10	5,000,000	4.325	1 Time Call	10/23/06

11/10/05	11/10/15	5,000,000	4.400	1 Time Call	11/10/09
11/23/05	11/23/15	5,000,000	3.933	Multi-Call	11/23/07 and quarterly
11/29/05	11/29/13	5,000,000	4.320	1 Time Call	05/29/09
12/14/05	12/14/11	5,000,000	4.640	1 Time Call	09/14/09
01/12/06	01/12/16	5,000,000	4.450	1 Time Call	01/12/11
03/01/06	03/03/14	5,000,000	4.720	1 Time Call	03/03/10
03/24/06	03/24/16	5,000,000	4.120	Multi-Call	03/26/07 and quarterly
03/24/06	03/25/13	5,000,000	4.580	1 Time Call	03/25/08
04/21/06	04/22/13	5,000,000	4.530	Multi-Call	04/23/07 and quarterly
06/02/06	06/02/16	5,000,000	5.16%	1 Time Call	06/02/11

As of March 31, 2006

Borrow Date	Maturity Date	Amount	Int. Rate	Type	Call Dates
11/07/02	11/07/12	$5,000,000	3.354%	1 Time Call	11/07/07
10/24/03	10/24/08	10,000,000	2.705	Multi-Call	10/24/06 and quarterly
02/20/04	02/20/14	5,000,000	3.225	1 Time Call	02/20/09
04/16/04	04/16/14	3,000,000	3.330	1 Time Call	04/16/08
09/16/04	09/16/09	5,000,000	3.090	1 Time Call	09/17/07
06/24/05	06/24/15	5,000,000	3.710	1 Time Call	06/24/10
06/24/05	06/24/10	5,000,000	4.092	1 Time Call	06/24/06
07/22/05	07/22/15	5,000,000	3.790	1 Time Call	07/22/08
10/21/05	10/21/10	5,000,000	3.864	1 Time Call	10/23/06
11/10/05	11/10/15	5,000,000	4.400	1 Time Call	11/10/09
11/23/05	11/23/15	5,000,000	3.933	Multi-Call	11/23/07 and quarterly
11/29/05	11/29/13	5,000,000	4.320	1 Time Call	05/29/09
12/14/05	12/14/11	5,000,000	4.640	1 Time Call	09/14/09
01/12/06	01/12/16	5,000,000	4.450	1 Time Call	01/12/11
03/24/06	03/24/16	5,000,000	4.120	Multi-Call	03/26/07 and quarterly
03/24/06	03/25/13	5,000,000	4.580	1 Time Call	03/25/08
03/01/06	03/03/14	5,000,000	4.720%	1 Time Call	03/03/10

Mandatorily Redeemable Financial Instrument On June 30, 2006, the Company recorded a $1.4 million mandatorily redeemable financial instrument as a result of the acquisition of the Collier-Jennings Companies. See Note 4, "Acquisition". The shareholder of Collier-Jennings Companies received cash and issued stock to settle the acquisition. The Company will release the shares to the shareholder of Collier-Jennings Companies over a three-year period. The stock is mandatorily redeemable by the shareholder of Collier-Jennings Companies in cumulative increments of 20% per year for a five-year period at the greater of $26 per share or one and one-half times the book value of the Company's stock.

Equity - Shareholders' equity increased $280,000 or 1.0% to $37.9 million at

June 30, 2006 from $37.6 million at March 31, 2006. The employee stock ownership trust of the Company paid $216,000 of principal on the employee stock ownership plan loan during the three-month period. Accumulated Other Comprehensive Loss, net of tax, increased $805,000 to $2.9 million during the three months ended June 30, 2006. The Company's net income for the three-month period was $1.0 million. The Board of Directors of the Company declared the 62nd consecutive quarterly dividend, which was $.06 per share, in April 2006, which totaled $153,000. Book value per share was $14.56 at June 30, 2006 compared to $14.82 at March 31, 2006.

COMPARISON OF THE RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2006 AND 2005

Net Income - Net income increased $93,000 or 10.0% to $1.0 million for the three months ended June 30, 2006 compared to $929,000 for the three months ended June 30, 2005. The primary reason for the increased earnings was an increase in net interest income and non-interest income offset partially by an increase in non-interest expenses.

Net Interest Income - Net interest income increased $488,000 or 12.4% to $4.4 million during the three months ended June 30, 2006, compared to $3.9 million for the same period in 2005, as a result of an increase in interest income offset in part by an increase in interest expense. Average interest earning assets increased $59.3 million to $635.4 million while average interest-bearing liabilities increased $61.1 million to $587.3 million. The interest rate spread increased one basis point to 2.51% during the three months ended June 30, 2006 compared to the same period in 2005. The Company's net interest margin increased 2 basis points to 2.78% for the quarter ended June 30, 2006 from 2.76% for the same quarter last year. The increase in net interest margin is primarily attributable to loan growth. Interest Income - Total interest income increased $2.2 million or 29.9% to $9.6 million during the three months ended June 30, 2006 from $7.4 million for the same period in 2005. Total interest income on loans increased $1.8 million or 35.4% to $7.0 million during the three months ended June 30, 2006 as a result of the average loan portfolio balance increasing $60.1 million and the yield in the loan portfolio increasing 90 basis points. Interest income from mortgage-backed securities increased $50,000 or 3.6% as a result of an increase in the yield in the mortgage-backed portfolio despite a decrease in the average balance of the portfolio of $17.7 million. Interest income from investment securities increased $327,000 or 39.9% as a result of an increase in the yield and average balance of the investment securities portfolio.

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The following table compares detailed average balances, associated yields, and the resulting changes in interest income for the three months ended June 30, 2006 and 2005:

Three Months Ended June 30,		
2006	2005	
		Increase/ (Decrease)

	Average Balance	Yield	Average Balance	Yield	In Interest And Dividend Income From 2005
Loans Receivable, Net	$384,991,473	7.29%	$324,841,826	6.39%	$ 1,835,553
Mortgage-Backed Securities	136,802,790	4.22	154,508,432	3.61	50,063
Investments	112,271,060	4.08	94,738,838	3.46	326,785
Overnight Time	1,302,992	4.45	1,932,020	2.95	256
Total Interest-Earning Assets	$635,368,315	6.06%	$576,021,116	5.15%	$ 2,212,657

Interest Expense - Total interest expense increased $1.7 million or 49.4% to $5.2 million during the three months ended June 30, 2006 compared to $3.5 million for the same period one-year earlier. The increase in total interest expense is attributable to the increases in short-term interest rates, interest-bearing deposits, and borrowings. Interest expense on deposits increased $1.3 million or 50.5% during the period as average interest bearing deposits grew $30.1 million compared to the average balance in the three months ended June 30, 2005 while the cost of deposits increased 98 basis points. Interest expense on advances and other borrowings increased $456,000 or 46.6% as the cost of debt outstanding increased 53 basis points during the 2006 period compared to 2005 while average total borrowings outstanding increased approximately $31.0 million.

The following table compares detailed average balances, cost of funds, and the resulting changes in interest expense for the three months ended June 30, 2006 and 2005:

	Three Months Ended June 30,				
	2006		2005		
	Average Balance	Yield	Average Balance	Yield	Increase/ (Decrease) In Interest And Dividend Income From 2005
Now And Money Market Accounts	$214,426,429	2.95%	$231,490,912	2.17%	$ 327,987
Passbook Accounts	17,132,517	0.98	18,090,035	0.98	(2,323)
Certificates Accounts	210,361,963	4.10	162,230,838	2.99	942,818
FHLB Advances And Other Borrowed Money	145,409,127	3.95	114,404,114	3.42	456,490
Total Interest-Bearing Liabilities	$587,330,036	3.55%	$526,215,899	2.65%	$ 1,724,972

Provision for Loan Losses - The amount of the provision is determined by management's on-going monthly analysis of the loan portfolio. Management uses three methods to measure the estimate of the adequacy of the allowance for loan losses. These methods incorporate percentage of classified loans, five-year averages of historical loan losses in each loan category and current economic trends, and the assignment of percentage targets of reserves in each loan category. Management has used all three methods for the past seven fiscal years.

The Bank's provision for loan losses was $150,000 during the three months ended June 30, 2006 compared to $165,000 for the quarter ended June 30, 2005. The $15,000 or 9.1% decrease reflects the Company's current credit quality and reduction in classified assets, impaired loans and net charge-offs. The following table details selected activity associated with the allowance for loan losses for the three months ended June 30, 2006 and 2005:

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	June 30, 2006	June 30, 2005
Beginning Balance	$ 6,704,734	$ 6,284,055
Provision	150,000	165,000
Charge-offs	(29,619)	(29,904)
Recoveries	28,793	9,749
Ending Balance	$ 6,853,908	$ 6,428,900
Allowance For Loan Losses As A Percentage Of Gross Loans Receivable And Loans Held For Sale At The End Of The Period	1.69%	1.89%
Allowance For Loan Losses As A Percentage Of Impaired Loans At The End Of The Period	508.93%	738.95%
Impaired Loans	1,346,727	870,000
Nonaccrual Loans And 90 Days Or More Past Due Loans As A Percentage Of Loans Receivable And Loans Held For Sale At The End Of The Period	0.27%	0.49%
Loans Receivable, Net	$397,835,451	$375,109,076

Non-Interest Income - Non-interest income increased $62,000 or 8.9% to $752,000 for the three months ended June 30, 2006 from $690,000 for the same period one year ago. The following table provides a detailed analysis of the changes in the components of non-interest income:

	Three Months Ended June 30,		Increase/ (Decrease)	
	2006	2005	Amounts	Percent
Gain On Sale Of Investments	$ -	$ 17,540	$(17,540)	(100.0)%
Gain On Sale Of Loans	113,255	135,310	(22,055)	(16.3)
Service Fees On Deposit Accounts	277,868	283,197	(5,329)	(1.9)
Income from cash value of				

life insurance	56,508	-	56,508	100.0
Other	304,363	254,328	50,035	19.7
Total non-interest income	$751,994	$690,375	$61,619	8.9%

Income from cash value of life insurance was $57,000 for the three months ended June 30, 2006 compared no income for the same period one year ago. This increase is the result of the Company purchasing bank owned life insurance for certain officers of the Company. Other miscellaneous income including credit life insurance commissions, safe deposit rental income, annuity and stock brokerage commissions, trust fees, and other miscellaneous fees increased $50,000 to $304,000 during the three months ended June 30, 2006 compared to the same period one year ago.

Non-Interest Expense - Non-interest expense increased $447,000 or 14.9% to $3.4 million for the three months ended June 30, 2006 from $3.0 million for the same period one year ago. The following table provides a detailed analysis of the changes in the components of non-interest expense:

	Three Months Ended June 30,		Increase/ (Decrease)	
	2006	2005	Amounts	Percent
Salaries And Employee Benefits	$2,125,368	$1,760,947	$364,422	20.7%
Occupancy	317,595	311,847	5,748	1.8
Advertising	74,649	25,469	49,180	193.1
Depreciation And Maintenance Of Equipment	291,469	251,801	39,668	15.8
FDIC Insurance Premiums	14,142	14,519	(377)	(2.6)
Other	620,080	631,541	(11,461)	(1.8)
Total Non-Interest Expenses	$1,569,366	$2,996,124	447,180	14.9%

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Salary and employee benefits increased $364,000 to $2.1 million for the three months ended June 30, 2006 from $1.8 million for the same period one year ago. The majority of the increase is the result of hiring additional staff to handle the Company's growth and increased regulatory reporting requirements. Advertising expense increased $49,000 to $74,000 for the three months ended June 30, 2006 from $25,000 for the same period one year ago. The increase is attributable to the Company using more print media advertising to attract deposits and consumer loans.

Provision For Income Taxes - Provision for income taxes increased $24,000 or 4.6% to $547,000 for the three months ended June 30, 2006 from $523,000 for the same period one year ago. Income before income taxes was $1.6 million for the three months ended June 30, 2006 compared to $1.5 million for the three months ended June 30, 2005. The Company's combined federal and state effective income tax rate for the current quarter was 34.9% compared to 36.0% for the same quarter one year ago.

Liquidity Commitments, Capital Resources , and Impact of Inflation and Changing Prices

Liquidity - The Company actively analyzes and manages the Bank's liquidity with the objective of maintaining an adequate level of liquidity and to ensure the availability of sufficient cash flows to support loan growth, fund deposit withdrawals, fund operations, and satisfy other financial commitments. See the "Consolidated Statements of Cash Flows" contained in Item 1 Financial Statements, herein.

The primary sources of funds are customer deposits, loan repayments, loan sales, maturing investment securities, and advances from the FHLB. The sources of funds, together with retained earnings and equity, are used to make loans, acquire investment securities and other assets, and fund continuing operations. While maturities and the scheduled amortization of loans are a predictable source of funds, deposit flows and mortgage repayments are greatly influenced by the level of interest rates, economic conditions, and competition. Management believes that the Company's current liquidity position and its forecasted operating results are sufficient to fund all of its existing commitments.

During the three ended June 30, 2006 loan disbursements exceeded loan repayments resulting in a $22.7 million or 6.1% increase in total net loans receivable. During the three months ended June 30, 2006, d posits increased $1.4 million and FHLB advances increase $10.1 million. The Bank had $57.4 million in additional borrowing capacity at the FHLB at the end of the period. At June 30, 2006, the Bank had $179.8 million of certificates of deposit maturing within one year. Based on previous experience, the Bank anticipates a significant portion of these certificates will be renewed.

Off-Balance Sheet Commitments - The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments generally include commitments to originate mortgage, commercial and consumer loans, and involve to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The Company's maximum exposure to credit loss in the event of nonperformance by the borrower is represented by the contractual amount of those instruments. Since some commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments. Collateral is not required to support commitments.

The following table sets forth the length of time until maturity for unused commitments to extend credit and standby letters of credit at June 30, 2006.

(Dollars in thousands)	Within One Month	After One Through Three Months	After Three Through Twelve Months	Within One Year	Greater Than One Year	Total
Unused lines of credit	$ 1,709	$ 3,029	$ 38,199	42,937	$36,204	$79,141
Standby letters of credit	13	2	810	825	100	925

Total	$ 1,722	$ 3,031	$ 39,009	$43,762	$36,304	$80,066
	=======	=======	========	=======	=======	=======

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Capital - Consistent with our objective to operate a sound and profitable financial institution, the Company has maintained and will continue to focus on maintaining a "well capitalized" rating from our regulatory authorities. In addition, the Company is subject to certain capital requirements set by our regulatory agencies. At June 30, 2006, the Company exceeded all regulatory capital requirements.

The following table reconciles the Bank's stockholder's equity to its various regulatory capital positions:

	June 30, 2006	March 31, 2006
	(Dollars in Thousands)	
Bank's Stockholder's Equity	$ 37,605	$ 37,387
Unrealized Loss (Gain) On Available For Sale Of Securities, Net Of Tax	2,891	2,086
Reduction For Goodwill And Other Intangibles	-	-
Tangible Capital	40,496	39,473
Qualifying Core Deposits And Intangible Assets	-	-
Core Capital	40,496	39,473
Supplemental Capital	5,317	5,104
Assets Required To Be Deducted	(22)	(9)
Risk-Based Capital	$ 45,791	$ 44,568

The following table compares the Bank's capital levels relative to the applicable regulatory requirements at June 30, 2006:

	(Dollars in Thousands)					
	Amt. Required	% Required	Actual Amt.	Actual %	Excess Amt.	Excess %
Tangible Capital	$ 13,466	2.0%	$ 40,496	5.99%	$ 27,030	3.99%
Tier 1 Leverage (Core) Capital	27,047	4.0%	40,496	5.99%	13,449	1.99%
Tier 1 Risk-Based (Core) Capital	17,014	4.0%	40,496	9.52%	23,482	5.52%
Total Risk-Based Capital	34,028	8.0%	45,791	10.77%	11,763	2.77%

Impact of Inflation and Changing Prices - The consolidated financial statements, related notes, and other financial information presented herein have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering changes in relative purchasing power over time due to inflation. Unlike industrial companies, substantially all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution's performance than does inflation. See "Item 3. Quantitative and Qualitative Disclosures About Market Risk" for additional discussion of changes in interest rates.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk of loss from adverse changes in market prices and rates. The Company's market risk arises principally from interest rate risk inherent in its lending, investment, deposit and borrowing activities. Management actively monitors and manages its interest rate risk exposure. Although the Company manages other risks such as credit quality and liquidity risk in the normal course of business, management considers interest rate risk to be its most significant market risk that could potentially have the largest material effect on the Company's financial condition and results of operations. Other types of market risks such as foreign currency exchange rate risk and commodity price do not arise in the normal course of the Company's business activities.

The Company's profitability is affected by fluctuations in the market interest rate. Management's goal is to maintain a reasonable balance between exposure to interest rate fluctuations and earnings. A sudden and substantial increase or decrease in interest rates may adversely impact the Company's earnings to the extent that the interest rates on interest-earning assets and interest-bearing liabilities do not change at the same rate, to the same extent or on the same basis. The Company monitors the impact of changes in interest rates on its net interest income using a test that measures the impact on net interest income and net portfolio value of an immediate change in interest rates in 100 basis point increments and by measuring the Bank's interest sensitivity gap ("Gap"). Net portfolio value is defined as the net present value of assets, liabilities, and off-balance sheet contracts. Gap is the amount of interest sensitive assets repricing or maturing over the next twelve months compared to the amount of interest sensitive liabilities maturing or repricing in the same time period. Recent net portfolio value reports furnished by the OTS indicate that the Bank's interest rate risk sensitivity has increased slightly over the past year. The Bank has rated favorably compared to thrift peers concerning interest rate sensitivity.

For the three month period ended June 30, 2006, the Bank's interest rate spread, defined as the average yield on interest bearing assets less the average rate paid on interest bearing liabilities was 2.51%. As of the year ended March 31, 2006, the interest rate spread was 2.48%. The interest rate spread increased due to the growth of loan receivables. Loan receivables earn a higher yield than investment securities. However, if interest rates were to increase suddenly and significantly, the Bank's net interest income and net interest spread would be compressed.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures: An evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a - 15(e) of the Securities Exchange Act of 1934 ("Act")) was carried out under the supervision and with the participation of the Company's Chief Executive Officer, Chief Financial Officer and several other members of the Company's senior management as of the end of the period covered by this quarterly report. The Company's Chief Executive Officer and Chief Financial Officer concluded that at June 30, 2006 the Company's disclosure controls and procedures were effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is (i) accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time period specified in the Securities and Exchange Commission's rules and forms.

(b) Changes in Internal Controls: In the quarter ended June 30, 2006, the Company did not make any significant changes in, nor take any corrective actions regarding, its internal controls or other factors that could significantly affect these controls.

Security Federal Corporation and Subsidiaries

Part II: Other Information

Item 1 Legal Proceedings

The Company is not engaged in any legal proceedings of a material nature at the present time. From time to time, the Company is a party to legal proceedings in the ordinary course of business wherein it enforces its security interest in mortgage loans it has made.

Item 1A Risk Factors

There have been no material changes in the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended March 31, 2006.

Item 2 Unregistered sales of Equity Securities and Use Of Proceeds

None. On May 17, 2005, the Company's Board of Directors authorized a 5% repurchase plan, or 126,000 shares of the Company's outstanding common stock. As of June 30, 2006, 1,635 shares have been repurchased under this program. The Company did not repurchase any shares of its outstanding Common Stock during the three months ended June 30, 2006.

Item 3 Defaults Upon Senior Securities

None

Item 4 Submission Of Matters To A Vote Of Security Holders

None

Item 5 Other Information

None

Item 6 Exhibits

3.1 Articles Of Incorporation, as amended (1)
3.2 Bylaws (2)
4 Instruments defining the rights of security holders, including indentures (3)
10.1 Executive Compensation Plans and Arrangements
10.2 1993 Salary Continuation Agreements (4)
10.3 Amendment One to 1993 Salary Continuation Agreement (5)
10.4 Form of 2006 Salary Continuation Agreement(6)
10.4 1999 Stock Option Plan (2)
10.5 1987 Stock Option Plan (4)
10.6 2002 Stock Option Plan (7)
10.7 2004 Employee Stock Purchase Plan (8)
10.8 Incentive Compensation Plan (4)
10.9 Form of Security Federal Bank Salary Continuation Agreement (9)
10.10 Form of Security Federal Split Dollar Agreement (9)
14 Code of Ethics (10)
31.1 Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act.
31.2 Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act.
32 Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act.

(1) Filed on June 26, 1998, as an exhibit to the Company's Proxy Statement and incorporated herein by reference.
(2) Filed on March 2, 2000, as an exhibit to the Company's Registration Statement on Form S-8 and incorporated herein by reference.
(3) Filed on August 12, 1987, as an exhibit to the Company's Registration Statement on Form 8-A and incorporated herein by reference.
(4) Filed on June 28, 1993, as an exhibit to the Company's Annual Report on Form 10-KSB and incorporated herein by reference.
(5) Filed as an exhibit to the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 1993 and incorporated herein by reference.

Exhibits, Continued

(6) Filed on May 24, 2006 as an exhibit to the Company's Current Report on Form 8-K dated May 18, 2006 and incorporated herein by reference.
(7) Filed on June 19, 2002, as an exhibit to the Company's Proxy Statement and incorporated herein by reference.
(8) Filed on June 18, 2004, as an exhibit to the Company's Proxy Statement and incorporated herein by reference.
(9) Filed on May 24, 2006 as an exhibit to the Current Report on Form 8-K and incorporated herein by reference.
(10) Filed on June 29, 2006 as an exhibit to the Company's Annual Report on Form 10-K and incorporated herein by reference.

Signatures

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to the signed on its behalf by the undersigned thereunto duly authorized.

SECURITY FEDERAL CORPORATION

Date: August 14, 2006	By:/s/Timothy W. Simmons
	Timothy W. Simmons President Duly Authorized Representative
Date: August 14, 2006	By:/s/Roy G. Lindburg
	Roy G. Lindburg Treasurer/CFO Duly Authorized Representative

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EXHIBIT 31.1

Certification of the Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act

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Certification

I, Timothy W. Simmons, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Security Federal Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows

of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2006

/s/Timothy W. Simmons

Timothy W. Simmons
President and Chief Executive Officer

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EXHIBIT 31.2

Certification of the Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act

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Certification

I, Roy G. Lindburg, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Security Federal Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2006

/s/Roy G. Lindburg

Roy G. Lindburg
Treasurer and Chief Financial Officer

EXHIBIT 32

Certification Pursuant to Section 906 of the Sarbanes-oxley Act

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
OF SECURITY FEDERAL CORPORATION
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with this Quarterly Report on Form 10-Q, that:

1. the report fully complies with the requirements of Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, and

2. the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of Security Federal Corporation.

/s/Timothy W. Simmons	/s/Roy G. Lindburg
Timothy W. Simmons	Roy G. Lindburg
President and Chief Executive Officer	Treasurer and Chief Financial Officer

Dated: August 14, 2006