STATEMENT OF ADDITIONAL INFORMATION
Dated January 1, 2010

HILLIARD-LYONS GOVERNMENT FUND, INC.

500 West Jefferson Street
Louisville, Kentucky 40202
(800) 444-1854

Hilliard-Lyons Government Fund, Inc. (the "Fund") is an open-end, diversified management investment company. Its goal is to provide investors with liquidity and the highest possible level of current income consistent with the preservation of capital. The Fund seeks to achieve its goals by investing exclusively in short-term securities issued or guaranteed by the U.S. Government, its agencies and instrumentalities or in repurchase agreements collateralized by such securities, or in a combination of both.

This Statement of Additional Information ("SAI") is not a prospectus. It contains information in addition to that set forth in the prospectus for the Fund dated January 1, 2010 and is to be read in conjunction with the prospectus. The audited financial statements for the Fund for the fiscal year ended August 31, 2009 are incorporated herein by reference to the Fund's 2009 Annual Report. A copy of the prospectus and/or the Annual Report may be obtained at no cost from the Fund by calling toll free 1-800-444-1854 or from the Fund's website at http://www.hilliard.com.

An investment in the Fund is not a deposit of any bank or other insured depository institution. Your investment is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency.

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FUND HISTORY

The Fund was incorporated under the laws of Maryland on June 5, 1980, and has an authorized capital consisting of 2,500,000,000 shares of common stock, $.01 par value per share. All shares have equal non-cumulative voting rights and equal rights with respect to dividends, distributions, redemptions and liquidation. The shares are fully paid and non-assessable when issued and have no preemptive, conversion or exchange rights.

INVESTMENT OBJECTIVES AND POLICIES

The following information supplements the discussion under "Investment Objectives, Policies and Risks" in the Fund's prospectus.

Investment Objectives

Some of the government agencies and instrumentalities which issue or guarantee securities in which the Fund may invest include the Federal Housing Administration, Export-Import Bank of the United States, Federal Farm Credit Banks, Federal Home Loan Banks, Tennessee Valley Authority and the International Bank for Reconstruction and Development.

Investment Restrictions

The Fund may not purchase a security if, as a result:

(a) more than 5% of the value of the Fund's total assets would be invested in the securities of a single issuer, except securities issued or guaranteed by the U.S. Government, or any of its agencies or instrumentalities, and repurchase agreements collateralized by such securities;

(b) 10% or more of the outstanding securities of any class of any issuer would be held by the Fund (for this purpose, all indebtedness of an issuer is deemed to be of a single class), except securities issued or guaranteed by the U.S. Government, or any of its agencies or instrumentalities, and repurchase agreements collateralized by such securities;

(c) 25% or more of the value of the Fund's total assets would be invested in the securities of issuers having their principal business activities in the same industry, provided that this limitation does not apply to obligations issued or guaranteed by the U.S. Government, or its agencies or instrumentalities, or to repurchase agreements collateralized by such securities, or to certificates of deposit or domestic bankers' acceptances; or

(d) more than 5% of the value of the Fund's total assets would be invested in the securities (taken at cost) of issuers which, at the time of purchase, had been in operation less than three years, including predecessors and unconditional guarantors, except investments in obligations issued or guaranteed by the U.S. Government, or any of its agencies or instrumentalities, and repurchase agreements collateralized by such securities.

The Fund may not:

(1) purchase any common stock or other equity securities, or securities convertible into equity securities;

(2) purchase securities with legal or contractual restrictions on resale (except repurchase agreements) or securities which are otherwise not readily marketable;

(3) purchase or sell real estate (although it may purchase money market securities secured by real estate or interests therein, or issued by companies which invest in real estate or interests therein);

(4) purchase securities of other investment companies, except in connection with a merger, consolidation, acquisition, or reorganization;

(5) purchase or sell commodities or commodity contracts;

(6) purchase participations or other direct interests in oil, gas, or other mineral exploration or development programs;

(7) purchase securities on margin, except for use of short-term credit necessary for clearance of purchases of portfolio securities;

(8) make loans, although it may purchase money market securities and enter into repurchase agreements;

(9) borrow money, except as a temporary measure for extraordinary or emergency purposes, and then only from banks in amounts not exceeding the lesser of 10% of its total assets valued at cost or 5% of its total assets valued at market;

(10) mortgage, pledge, hypothecate, or in any other manner transfer as security for indebtedness any security owned by the Fund, except as may be necessary in connection with permissible borrowings mentioned in (9) above, and then such mortgaging, pledging, or hypothecating may not exceed 15% of the Fund's assets, taken at cost; provided, however, that as a matter of operating policy, the Fund will limit any such mortgaging, pledging or hypothecating to 10% of its net assets, taken at market;

(11) underwrite securities issued by other persons;

(12) purchase or retain the securities of any issuer if, to the knowledge of the Fund's management, those officers and directors of the Fund, and of its investment adviser, each of whom owns beneficially more than .5% of the outstanding securities of such issuer, together own beneficially more than 5% of such securities;

(13) invest in companies for the purpose of exercising management or control; or

(14) invest in puts, calls, straddles, spreads or any combination thereof.

The Fund will not borrow in order to increase income (leveraging), but only to facilitate redemption requests which might otherwise require untimely disposition of portfolio securities. Accordingly, the Fund will not purchase securities while borrowings are outstanding.

These investment restrictions, except that described as an operating policy in (10), are fundamental policies and may be changed only by a vote of the holders of a majority of the Fund's outstanding voting securities. A "majority of the outstanding voting securities" of the Fund means the lesser of (1) 67% of the shares of common stock of the Fund represented at a meeting at which the holders of more than 50% of the outstanding shares of the Fund are present in person or by proxy, or (2) more than 50% of the outstanding shares of the Fund. Operating policies are subject to change by the Board of Directors without shareholder approval. However, the operating policy of investing exclusively in securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities and repurchase agreements collateralized by such securities, which securities (except those covered by repurchase agreements) will mature in six months or less, may be changed by the Board of Directors only if 30 days' written notice is forwarded to shareholders. Likewise, such notice must be given if the Fund is to change its policy of investing not more than 10% of its total assets in repurchase agreements maturing in more than seven business days.

Change in Investment Policies

Should the yield differential between the securities in which the Fund invests and other high quality, short-term investments widen to in excess of 1¾%, J.J.B. Hilliard, W.L. Lyons, LLC (the "Adviser" or "Hilliard-Lyons") may recommend to the Fund's Board of Directors that it consider authorizing investments in securities other than those issued or guaranteed by the U.S. Government, its agencies or instrumentalities, or in repurchase agreements collateralized by such securities. The Board of Directors may, at its discretion, but only after 30 days' written notice to shareholders, authorize this change in investment policy, provided such investments are not prohibited by the Fund's investment restrictions or by applicable law. If such policy is changed (after 30 days' written notice to shareholders) the Fund will only invest in the following:

(i) short-term (maturing in one year or less) debt obligations which are payable in dollars, issued or guaranteed by the Federal government, Federal governmental agencies or instrumentalities, or certain banks, savings and loan associations, and corporations;

(ii) certificates of deposit issued by domestic banks (but not foreign branches thereof) and savings and loan associations which have total assets in excess of $1 billion;

(iii) bankers' acceptances or letters of credit guaranteed by U.S. commercial banks having total assets in excess of $1 billion;

(iv) commercial paper which is rated A-2 or higher by Standard & Poor's Corporation ("Standard & Poor's") or rated P-2 or higher by Moody's Investors Service, Inc. ("Moody's") or, if not rated, will be issued by a corporation having an existing debt security rated AA or higher by Standard & Poor's or Aa or higher by Moody's;

(v) other debt instruments (including bonds) issued by domestic corporations which either mature within one year or have been called for redemption by the issuer, with such redemption to be effective within one year, and which are rated AA or higher by Standard & Poor's or Aa or higher by Moody's;

(vi) obligations issued by other entities, if the obligation is accompanied by a guarantee of principal and interest of a bank or corporation whose certificates of deposit or commercial paper may otherwise be purchased by the Fund; and

(vii) repurchase agreements collateralized by any of the foregoing types of securities. Although securities underlying the repurchase agreements may have maturities longer than one year, no repurchase agreements will be entered into with a duration of more than seven business days, if as a result more than 10% of the Fund's total assets would be so invested. The Fund has no present plans to change its policy with regard to the types or maturities of the securities in which it invests, and the Fund's prospectus will be supplemented to give further information should the Fund's Board of Directors authorize such a change.

Portfolio Holdings

The Board of Directors has adopted policies and procedures designed to protect the confidentiality of the Fund's portfolio holdings and to prevent the selective disclosure of non-public information about such holdings. These policies and procedures apply to the Fund's officers and directors and to its investment adviser and principal underwriter and its officers, directors, employees and agents.

Pursuant to these policies and procedures, information about the Fund's portfolio holdings may be disclosed to unaffiliated third parties under the following circumstances:

- The Fund will publicly disclose its portfolio holdings in accordance with regulatory requirements, such as periodic portfolio disclosure in filings with the SEC.

- The Fund may disclose portfolio information in response to requests from regulators or valid subpoenas.

- The Fund may disclose any and all portfolio information to any of its service providers if:

  1) the service provider generally needs access to portfolio information to perform its contractual duties and responsibilities; and

  2) the service provider is subject to duties of confidentiality, including a duty not to trade on non-public information. "Duties of confidentiality" include provisions of confidentiality included in written agreements, implied by the nature of the relationship (such as attorney-client privilege), or required by fiduciary or regulatory principles (such as custody services provided by financial institutions).

These service providers include: the Fund's custodian, its independent registered public accounting firm, legal counsel to the Fund, any financial printer providing services to the Fund, independent legal counsel to the Fund's Independent Directors, and any other service provider that the Fund's Treasurer determines meets the criteria set forth above.

The Fund's Treasurer must approve any exception to these policies and procedures. Any such exception must be based on a legitimate business purpose of the Fund and must be in the best interest of the Fund and its shareholders. Any party to such an exception must execute a confidentiality agreement. No compensation or other consideration may be received by the Fund or its investment adviser in connection with such exception.

The Treasurer will report, at least annually, to the Board on matters related to these policies and procedures.

CONTROL PERSONS AND PRINCIPAL SHAREHOLDERS

As of December 1, 2009, no persons were the record owners (or to the knowledge of the Fund, beneficial owners) of 5% or more of the shares of the Fund.

DIRECTORS AND OFFICERS

The Board of Directors is responsible for the management of the business and affairs of the Fund under the laws of the state of Maryland. The Board consists of four directors, all of whom are not "interested persons" of the Fund within the meaning of the Investment Company Act of 1940, as amended (the "Independent Directors"). The address of each director and officer is c/o J.J.B. Hilliard, W.L. Lyons, LLC, 500 West Jefferson Street, Louisville, Kentucky 40202. Directors and officers of the Fund, together with information as to their principal occupations during the past five years and affiliations, if any, with the Adviser, are set forth in the following tables.

Independent Directors

Name, Address and Age	Position(s) Held With the Fund	Term of Office and Length Time Served	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex overseen by Director	Other Directorships Held by Director
J. Robert Shine[(1)] Age: 86	Director and Chair of the Audit Committee	Indefinite: Since October 17, 1989	Chairman and Certified Public Accountant, Monroe Shine & Co., Inc., an accounting firm	1	None
Lindy B. Street[(1)] Age: 63	Director and Chair of the Board	Indefinite: Director Since November 2, 1999; Chair Since December 2, 2005	Retired; former Senior Vice President of Marketing & Public Affairs of Columbia/HCA Healthcare Corporation	1	None
William A. Blodgett, Jr.[(1)(2)] Age: 63	Director	Indefinite: Since December 2, 2005	Senior Vice President and Deputy General Counsel of Brown-Forman Corporation, a producer and marketer of fine wines and spirits	1	None
Gregory A. Wells[(1)(2)] Age: 51	Director and Chair of the Nominating Committee	Indefinite: Since December 2, 2005	Executive Vice President and Chief Financial Officer of NTS Development Company, a real estate development company; Chief Financial Officer, Treasurer and Secretary of NTS Mortgage Income Fund, Inc., a real estate investment corporation	1	None

(1) Member of Audit Committee.
(2) Member of Nominating Committee.

Officers

Name, Address and Age	Position(s) Held With the Fund	Term of Office and Length Time Served	Principal Occupation(s) During Past 5 Years
Joseph C. Curry, Jr. Age: 65	President and Anti-Money Laundering ("AML") Compliance Officer	Annually: President since December 18, 1986; AML Compliance Officer since June 19, 2002.	Senior Vice President and Director of Fund Administration, J.J.B. Hilliard, W.L. Lyons, LLC; Senior Vice President and Treasurer, DNP Select Income Fund Inc. and Vice President and Assistant Treasurer, Senbanc Fund
Dianna P. Wengler Age: 49	Senior Vice President and Treasurer	Annually: Senior Vice President since December 13, 2006; Vice President from June 23, 1998 to December 13, 2006; Treasurer since June 23, 1998.	Vice President and Associate Director of Fund Administration, J.J.B. Hilliard, W.L. Lyons, LLC; Vice President and Assistant Secretary, DNP Select Income Fund Inc.
Edward J. Veilleux Age: 66	Vice President and Chief Compliance Officer	Annually: Since July 23, 2004.	President, EJV Financial Services, LLC, a mutual fund consulting firm
Stephanie J. Ferree Age: 31	Assistant Vice President and Secretary	Annually: Assistant Vice President since December 13, 2006; Secretary since December 11, 2003.	Fund Administrator I, J.J.B. Hilliard, W.L. Lyons, LLC
Timothy P. Riordan Age: 45	Assistant Vice President	Annually: Since December 13, 2006.	Vice President and Fund Administrator III, J.J.B. Hilliard, W.L. Lyons, LLC

The following table describes the dollar range of Fund shares beneficially owned by each Director of the Fund as of December 31, 2008.

NAME OF DIRECTOR	DOLLAR RANGE OF EQUITY SECURITIES IN THE FUND
J. Robert Shine	\$10,001–\$50,000
Lindy B. Street	\$50,001–\$100,000
William A. Blodgett, Jr.	\$1–\$10,000
Gregory A. Wells	\$50,001–\$100,000

No compensation is paid by the Fund to officers of the Fund and directors who are affiliated with the Adviser. Mr. Veilleux receives compensation from the Adviser for his services as Chief Compliance Officer of the Fund. The Fund pays each Independent Director an annual retainer of \$12,000, a fee of \$2,000 for each Board of Directors or committee meeting attended and all expenses the directors incur in attending meetings. The Chairperson of the Board of Directors receives an additional annual retainer of \$4,000. The Audit Committee Chair receives an additional annual retainer of \$3,500. The Nominating Committee Chair receives an additional annual retainer of \$1,500. For the year ended August 31, 2009, the Independent Directors received, in the aggregate, \$129,000 from the Fund.

As of December 1, 2009, the Fund's officers and directors together owned less than 1% of its outstanding shares.

The following table sets forth the aggregate compensation paid by the Fund to the Directors of the Fund for the fiscal year ended August 31, 2009.

NAME OF PERSON Independent Directors	AGGREGATE COMPENSATION FROM FUND	PENSION OR RETIREMENT BENEFITS ACCRUED AS PART OF FUND EXPENSES	ESTIMATED ANNUAL BENEFITS UPON RETIREMENT	TOTAL COMPENSATION FROM FUND AND FUND COMPLEX PAID TO DIRECTORS
J. Robert Shine	$33,500	0	0	$33,500
Lindy B. Street	$34,000	0	0	$34,000
William A. Blodgett, Jr.	$30,000	0	0	$30,000
Gregory A. Wells	$31,500	0	0	$31,500

There are two standing committees of the Board, the Audit Committee and the Nominating Committee. During the fiscal year ended August 31, 2009, the members of the Audit Committee were Mr. Shine (chair), Ms. Street, Mr. Blodgett and Mr. Wells. The Board has adopted a written charter for the Audit Committee pursuant to which the Audit Committee: retains the independent auditors to audit the financial statements of the Fund; meets with the independent auditors periodically to review the results of the audit and reports its results to the Board; evaluates the independence of the auditors; and preapproves, or establishes preapproval policies and procedures concerning all audit and non-audit services provided to the Fund. During the fiscal year ended August 31, 2009, the Audit Committee met three times.

During the fiscal year ended August 31, 2009, the members of the Nominating Committee were Mr. Wells (chair) and Mr. Blodgett. The Board has adopted a written charter for the Nominating Committee pursuant to which the Nominating Committee: selects nominees for election as directors; recommends individuals to be appointed by the Board as Fund officers; and makes recommendations regarding other Fund governance and Board administration matters. The Nominating Committee may consider nominees recommended by shareholders. Shareholders who wish to recommend a nominee may do so by submitting the appropriate information about the candidate to the Fund's secretary. During the fiscal year ended August 31, 2009, the Nominating Committee did not have a meeting.

INVESTMENT ADVISORY AND OTHER SERVICES

Investment Adviser

Hilliard-Lyons has been retained by the Fund as its investment adviser under an Investment Advisory Agreement (the "Agreement") dated April 17, 2008.

The Agreement was first approved by the Board of Directors, including a majority of the Independent Directors, on December 17, 2007 and by the shareholders of the Fund on April 17, 2008. The Agreement shall continue in effect for a period of two years. After this initial period, the Agreement will continue in effect from year to year, provided that such continuance is approved at least annually (a) by a majority of the Independent Directors and (b) by either the Fund's Board of Directors or by the vote of a majority of the outstanding voting securities of the Fund (as defined in the Investment Company Act of 1940, as amended (the "Investment Company Act")).

The Agreement may be terminated by the Adviser at any time without penalty upon giving the Fund 180 days' written notice and may be terminated by the Fund at any time without penalty upon giving the Adviser 60 days' written notice, provided that such termination by the Fund is directed or approved by the vote of a majority of the Board of Directors of the Fund or by the vote of a majority of the outstanding voting securities of the Fund (as defined in the Investment Company Act). The Agreement will automatically terminate in the event of its assignment.

The Agreement requires the Adviser at its own expense to furnish office space to the Fund and all necessary office facilities, equipment, and personnel for managing the assets of the Fund. The Adviser pays all other expenses incurred by it in connection with managing the assets of the Fund, including, but not limited to, the cost and expense of research, analysis and supervision of the investment portfolio. The Adviser pays the expense of determining the daily price of shares of the Fund and the related bookkeeping expenses (other than for such services that are provided by the Fund's Custodian) and one-half of the fees of any trade association of which the Fund may be a member.

Under the Agreement, the Fund pays all charges of depositories, custodians, and other agencies for the safekeeping and servicing of its cash, securities, and other property, and of its transfer, shareholder record-keeping, dividend disbursing, and redemption agents. The Fund pays all charges of legal counsel and of independent registered public accounting firm, other than those described in the preceding paragraph. The Fund is responsible for all interest expense. The expense of notices, proxy solicitation material, reports to its shareholders and of all prospectuses furnished from time to time to existing shareholders or used for regulatory purposes are the Fund's responsibility. The Fund pays for any bond and insurance coverage required by law, all brokers' commissions and other normal charges incident to the purchase and sale of portfolio securities. The Fund pays all taxes and corporate fees payable to Federal, state, or other governmental agencies and all stamp or other transfer taxes. The Fund bears all expenses of complying with Federal, state, and other laws regulating the issue or sale of shares except for those expenses that were attributable to initial Federal and state securities law compliance and those deemed to be sales or promotional expenses. The Fund also bears one-half of the fees of any trade association of which the Fund may be a member and all of the Fund's extraordinary expenses as may arise including expenses incurred in connection with litigation, proceedings and claims and expenses incurred in connection with the legal obligation of the Fund to indemnify its directors, employees, shareholders and agents with respect to any claims or litigation. In general, the Fund bears all expenses incidental to its operations not assumed by Hilliard-Lyons, with the exception of sales and promotional expenses which are borne by the Adviser.

For the services the Adviser renders and facilities it furnishes pursuant to the Agreement, the Fund has agreed to pay the Adviser an annual advisory fee of ½ of 1% of the first $200 million of average daily net assets, ⅜ of 1% of the next $100 million of average daily net assets, and ¼ of 1% of average daily net assets in excess of $300 million. The fee accrues daily and is paid monthly. For the fiscal years ended August 31, 2009, 2008 and 2007, the Adviser earned advisory fees, based on the formula described above, totaling $5,617,387, $4,950,802, and $4,485,366, respectively. The Adviser voluntarily agreed to waive a portion of its advisory fee beginning January 15, 2009. The Adviser may discontinue or modify any such waiver at its discretion. The Adviser waived $2,872,158 of its advisory fee for the period January 15, 2009 through August 31, 2009. The total advisory fee paid for the fiscal year ended August 31, 2009 was $2,745,229. At August 31, 2009, the Adviser was voluntarily waiving the full amount of its advisory fee.

The Adviser has agreed to reimburse the Fund if total operating expenses of the Fund, excluding taxes, interest and extraordinary expenses, exceed on an annual basis 1½% of the first $30 million of average daily net assets and 1% of average daily net assets over $30 million. The Adviser reimburses the Fund for such excess expenses monthly as an offset against any amounts receivable from the Fund. All such reimbursements and offsets are subject to adjustments as of the end of each fiscal year. There were no reimbursements necessary in the fiscal years ended August 31, 2009, 2008 or 2007.

The Agreement provides that in the absence of willful misfeasance, bad faith, gross negligence or reckless disregard for its obligations thereunder, the Adviser is not liable for any act or omission in the course of or in connection with its rendering of services thereunder. The Adviser has reserved the right to grant its name to other mutual funds and if the Agreement is terminated to withdraw its consent to the continuing use of its name by the Fund.

Certain affiliated persons of the Fund are also affiliated persons of the Adviser. Mr. Joseph C. Curry, Jr., President of the Fund, is a Senior Vice President and Director of Fund Administration of the Adviser. Ms. Dianna P. Wengler, Senior Vice President and Treasurer of the Fund, is a Vice President and Associate Director of Fund Administration of the Adviser. Ms. Stephanie J. Ferree, Assistant Vice President and Secretary of the Fund, is Fund Administrator I of the Adviser. Mr. Timothy P. Riordan, Assistant Vice President of the Fund, is a Vice President and Fund Administrator III of the Adviser.

The senior officers (at the Executive Vice President level and above) and directors of the Adviser are: James R. Allen, Chairman, Chief Executive Officer, President and Director—Hilliard-Lyons; James M. Rogers, Executive Vice President, Chief Operating Officer and Director—Hilliard-Lyons; John R. Bugh, Executive Vice President and Director of Financial Services—Hilliard-Lyons; Carmella R. Miller, Executive Vice President, Chief Administrative Officer and Director—Hilliard-Lyons; Darryl K. Metzger, Executive Vice President and Director of Private Client Group—Hilliard-Lyons; and Donald L. Asfahl, Executive Vice President and Director of Asset Management—Hilliard-Lyons.

The directors and officers of the Adviser, including the aforementioned officers and directors of the Fund, may be deemed to control the Adviser by reason of their positions with the Adviser.

The Fund invests exclusively in non-voting securities and therefore is not required to include information regarding proxy voting policies and procedures.

Distributor

The Fund entered into a Distribution Agreement dated as of April 1, 2008 (the "Distribution Agreement") with the Adviser (the "Distributor") located at 500 West Jefferson Street, Louisville, Kentucky 40202. The terms of the Distribution Agreement were approved on December 13, 2007, by the Board of Directors of the Fund, including a majority of the Independent Directors. The Agreement will continue in effect for an initial two-year period and thereafter from year to year, provided that such continuance is approved annually by a majority of the Fund's Board of Directors including a majority of the Independent Directors.

Pursuant to the terms of the Distribution Agreement, the Distributor serves as the principal underwriter and distributor of the Fund's shares. There is no fee payable by the Fund pursuant to the Distribution Agreement. The Distribution Agreement also provides that the Distributor bears the cost of all sales and promotional expenses, including the expenses of printing all sales literature and prospectuses, other than those utilized for regulatory purposes and those furnished from time to time to existing shareholders of the Fund. The Distribution Agreement will terminate automatically if assigned by either party thereto and is terminable upon 60 days written notice by the Fund or the Distributor.

Fund Administration

The Fund has entered into an Omnibus Account Agreement (the "Omnibus Agreement") with the Adviser to provide shareholder and administration services to the Fund. The fees received and the services provided by the Adviser under the Omnibus Agreement are in addition to fees received and services provided by the Adviser under the Advisory Agreement.

Under the Omnibus Agreement, the Adviser provides certain shareholder and administrative functions for the Fund, including, but not limited to: (i) preparing and mailing monthly statements to shareholders; (ii) forwarding shareholder communications from the Fund; (iii) responding to inquiries from shareholders concerning their investments in the Fund; (iv) maintaining account information relating to shareholders that invest in the Fund; and (v) processing purchase, exchange and redemption requests from shareholders and placing orders and appropriate documentation with the Fund or its service providers. For shareholder services it provides to the Fund, the Adviser receives a monthly fee from the Fund based on the Fund's average daily net assets at the annual rate of 0.25% on the first $1.25 billion, 0.15% on the next $250 million, 0.13% on the next $500 million, 0.10% on the next $250 million and 0.05% on amounts over $2.25 billion. The Adviser receives a monthly fee from the Fund at an annual rate of 0.18% of the Fund's average daily net assets for administration services it provides under the Omnibus Agreement. Total fees earned for shareholder and administrative services for the years ended August 31, 2009, 2008 and 2007 were $7,725,405, $6,913,994, and $6,403,121, respectively. The Adviser voluntarily agreed to waive a portion of its administration services fee beginning August 10, 2009. The Adviser may discontinue or modify any such waiver at its discretion. The Adviser waived $20,703 of its administration services fee for the period August 10, 2009 through August 31, 2009. The total administration services fee paid for the fiscal year ended August 31, 2009 was $3,573,816.

Custodian and Transfer Agent

State Street Bank and Trust Company (the "Bank"), 1776 Heritage Drive, Boston, Massachusetts 02105, is the Fund's custodian and transfer agent. As such, it is responsible for maintaining books and records with respect to the Fund's portfolio transactions and holds the Fund's portfolio securities and cash pursuant to a Custodian Agreement with the Fund. It also maintains the Fund's accounting and portfolio transaction records and computes the Fund's net asset value, net income and dividends daily. The Bank may, for settlement purposes, enter into sub-custodian agreements with other banks.

Independent Registered Public Accounting Firm

Cohen Fund Audit Services, Ltd. ("Cohen"), 800 Westpoint Parkway, Suite 1100, Westlake, Ohio 44145, has been selected as the independent registered public accounting firm of the Fund. Cohen also prepares the Fund's Federal income tax returns.

PORTFOLIO TRANSACTIONS

The Adviser places orders for all purchases and sales of portfolio securities. As a consequence of its investment policies and restrictions, the Fund does not generally purchase securities for which a brokerage commission is paid, but purchases securities from dealers at current market prices, or directly from the issuer. Purchases from underwriters of portfolio securities will include a commission or concession paid by the issuer to the underwriter, and purchases from dealers serving as market makers will include a dealer's mark-up.

For the fiscal years ended August 31, 2009, 2008 and 2007, the Fund did not pay any brokerage commissions on portfolio transactions.

Although the Fund does not seek but may nonetheless make profits through short-term trading, the Adviser may, on behalf of the Fund, dispose of any portfolio security prior to its maturity if it believes such disposition advisable. The Fund's policy of generally investing in securities with maturities of six months or less results in high portfolio turnover.

Portfolio securities are not purchased from or through or sold to or through the Adviser or any affiliated person (as defined in the Investment Company Act) of the Adviser when the Adviser is acting as principal. Hilliard-Lyons is a frequent dealer in U.S. Treasury and U.S. agency securities. In addition, the Fund does not purchase securities during the existence of any underwriting or selling group related thereto of which the Adviser is a member. As a result, substantially all of the Fund's purchases of Federal agency securities are made in the secondary market. Such limitation, in the opinion of the Fund, does not affect the Fund's ability to pursue its investment objectives. However, under certain circumstances, the Fund may be at a disadvantage because of this limitation in comparison with other funds with similar investment objectives but not subject to such limitation.

No affiliated person of the Fund, including the Adviser, may serve as a dealer in connection with transactions with the Fund. However, affiliated persons of the Fund may serve as its broker in any transactions conducted on an agency basis.

The Adviser's overriding objective in placing orders for the purchase and sale of the Fund's portfolio securities with a particular bank, dealer or broker is to seek to obtain the best combination of price and execution. The best net price, giving effect to transaction and other costs, is normally an important factor in this decision, but a number of other judgmental considerations also enter into the decision. These considerations include, but are not limited to: (1) trading and operational capability; (2) financial condition and stability; and (3) reliability and integrity. Accordingly, the Fund may not necessarily be paying the lowest spread or commission available. When more than one broker or dealer is believed to be capable of providing the best combination of price and execution with respect to a particular portfolio transaction, the Adviser may select a broker or dealer primarily on the basis of its ability to furnish research, statistical or similar services to the Adviser. Since such information and services will be only supplementary to the Adviser's own research efforts, the receipt of research information is not expected to significantly reduce the Adviser's expenses. Research information furnished by brokers or dealers may be useful to the Adviser in serving other clients, as well as the Fund. Conversely, the Fund may benefit from research information obtained by the Adviser from the placement of portfolio transactions of other clients.

NET ASSET VALUE

As stated in the Fund's prospectus, net asset value ("NAV") per share as of a given date is calculated by adding the value of all securities in the portfolio and other assets of the Fund, subtracting liabilities and dividing by the number of shares outstanding. Expenses, including the fees payable to the Adviser, are accrued daily.

Portfolio securities are valued by use of the amortized cost method of valuation. The amortized cost method of valuation involves valuing a security at its cost on the date of purchase and thereafter assuming a constant amortization to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of the instrument. While this method provides certainty in valuation, it may result in periods during which value, as determined by this method, is higher or lower than the price the Fund would receive if it sold the instrument. During such periods the yield to investors in the Fund may differ somewhat from that obtained in a similar company which uses other methods to determine the fair market value of its portfolio securities. The NAV per share of the Fund for purposes of pricing orders for both the purchase and redemption of Fund shares is determined once daily on each day except Saturdays, Sundays and the day of observance of New Years Day, Martin Luther King, Jr. Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Columbus Day, Veterans' Day, Thanksgiving Day and Christmas Day.

The relationship between the amortized cost value per share and the NAV per share based upon available indications of market value is monitored. The Board of Directors will decide what, if any, steps should be taken if there is a difference of more than ½ of 1% between the two. The Board of Directors will take any steps it considers appropriate to minimize any material dilution or other unfair results arising from differences between the two methods of determining NAV.

In connection with its attempt to maintain its NAV per share of $1.00, the Fund has received an order of exemption from the SEC permitting the Fund to round its NAV per share to the nearest one cent. In connection with the order of exemption, the Fund has agreed: (i) that its Board of Directors will undertake to assure, to the extent reasonably practicable, taking into account current market conditions affecting its investment objectives, that the Fund's price per share, rounded to the nearest one cent, will not deviate from $1.00; (ii) that it will maintain a dollar-weighted average portfolio maturity appropriate to its objective of maintaining a stable price per share and not, in any event, in excess of 120 days; and (iii) that its purchases of portfolio securities will be limited to those United States dollar denominated instruments which its Board of Directors determines present minimal credit risks and which are of high quality as determined by any major rating service or, in the case of any instrument that is not so rated, of comparable quality as determined by its Board of Directors.

REDEMPTION

The redemption price will be the NAV per share of the Fund next determined after receipt by the Custodian of a redemption request in proper form or, with respect to redemption by telephone, at the NAV per share next determined after receipt of a redemption request by the Adviser.

In no event will payment be delayed more than seven days, except payment may be delayed (generally not in excess of 15 days) if the check in payment of all or a portion of the shares being redeemed has not cleared at the time the redemption request is received. The Fund may suspend the right of redemption or delay payment more than seven days during any period when the New York Stock Exchange is closed (other than customary weekend or holiday closings), when trading in the markets customarily utilized by the Fund is restricted or when an emergency exists so that disposal of investments or determination of net asset value is not reasonably practicable, or for such other period as the Securities and Exchange Commission by order may permit for protection of shareholders.

Although the Fund will attempt to maintain a consistent share price of $1.00, it is possible that the value of the shares upon redemption may be more or less than the shareholder’s cost, depending upon the market value of the Fund’s portfolio securities at the time of redemption.

The Board of Directors has authorized redemption of all of the shares in any account which does not maintain a total investment value of more than $75.

Redemption by Telephone

The following information regarding redemption by telephone is for shareholders with Hilliard-Lyons’ accounts. If your account was established through a financial consultant, please contact your financial consultant for information regarding redemption by telephone.

Depending upon what was specified in the shareholder’s application, the proceeds of a telephone redemption will be wired either to the shareholder’s account at Hilliard-Lyons or to the shareholder’s bank account. Shareholders desiring to utilize the redemption by telephone procedure should so indicate on their Fund application. Further documentation may be required from corporations, fiduciaries and institutional investors. If a shareholder should desire the Fund to wire the proceeds of any telephone redemption request directly to the shareholder’s bank and he has not so indicated on his Fund application, the shareholder will be required to furnish to the Fund, in advance of or concurrently with the request, a new Fund application identifying the bank and indicating the shareholder’s account number. The signature(s) on any such instructions must be guaranteed by a member firm of the New York Stock Exchange or by a commercial bank or trust company (not a savings bank) which is a member of the Federal Deposit Insurance Corporation.

Notaries public are not acceptable guarantors. Hilliard-Lyons charges a fee for domestic and international wiring of proceeds, which is subject to change. This charge will be deducted from the proceeds to be wired and will be paid to Hilliard-Lyons to cover the administrative expenses of processing the redemption.

Funds will normally be transmitted on the business day on which the redemption becomes effective and credited to the shareholder’s Hilliard-Lyons account on the same day. If a shareholder so desires, a check representing the proceeds of such redemption will be available to the shareholder at Hilliard-Lyons after such proceeds have been credited to the shareholder’s Hilliard-Lyons account. Alternatively, and normally no later than the next business day, Hilliard-Lyons will mail a check representing such proceeds to the shareholder if so instructed.

The Fund and the Adviser reserve the right to reject a telephone request and the Fund, at its option, may limit the frequency or amount of such redemptions. The Fund in its discretion may honor telephonic withdrawal requests in amounts less than $100.

Redemption by Mail

When redeeming shares by mail, the signature(s) on any such instructions must be guaranteed by a member firm of the New York Stock Exchange or by a commercial bank or trust company (not a savings bank) which is a member of the Federal Deposit Insurance Corporation. Notaries public are not acceptable guarantors. A shareholder should also include any documents required by special situations. Shareholders may request that proceeds from the redemption of shares be wired to their brokerage account at Hilliard-Lyons. Normally, payment will be made by check mailed within one business day after receipt of a redemption request in proper form.

Redemption by Check

When redeeming shares by check, shareholders will be subject to all applicable Bank rules and regulations including the right of the Bank not to honor checks in amounts exceeding the value of the account at the time the check is presented for payment. The Fund and the Bank each reserve the right to modify or terminate this service at any time after giving notice to the shareholders. If a shareholder wishes to use this method of redemption this should be indicated on the shareholder's Fund application. Checks should not be used to close a shareholder's account since the amount in the account, including accrued dividends, may not equal the amount of the check.

Redemption by Systematic Withdrawal Plan

Dividend distributions on shares held under the Withdrawal Plan are reinvested in additional full and fractional shares of the Fund at NAV. Hilliard-Lyons acts as agent for the shareholder in redeeming sufficient full and fractional shares to provide the amount of the systematic withdrawal payment. The Withdrawal Plan may be terminated at any time. Withdrawal payments should not be considered to be dividends or income. If periodic withdrawals continuously exceed reinvested dividend distributions, the shareholder's original investment will be correspondingly reduced and ultimately exhausted. Furthermore, each withdrawal constitutes a redemption of shares, and any gain or loss realized must be reported for federal and state income tax purposes. Shareholders should consult their tax adviser regarding the tax consequences of participating in the Withdrawal Plan.

YIELD INFORMATION

The Fund's yield is its current net investment income expressed in annualized terms. Yield is computed by dividing the Fund's average per share net investment income for a current period (for example, seven calendar days) by the Fund's average per share NAV for the same period and annualizing the result on a 365-day basis. The Fund's net investment income changes in response to fluctuations in interest rates and in the expenses of the Fund. Any given yield quotation should not be considered as representative of what the Fund's yield may be for any specified period in the future. Because the yield will fluctuate, it cannot be compared with yields on savings accounts or other investment alternatives that provide an agreed to or guaranteed fixed yield for a stated period of time. However, yield information may be useful to an investor considering temporary investments in money market instruments. In comparing the yield of one money market fund to another, consideration should be given to each fund's investment policies, including the types of investments made, lengths of maturities of the portfolios, the method used by each fund to compute the yield (which may differ) and whether there are any special account charges which may reduce the effective yield.

The following is an example of the yield calculation. The yield shown represents the average annualized net investment income per share for the seven calendar days ended August 31, 2009.

Total dividends per share from net investment income (seven days ended August 31, 2009)	$ .000002
Annualized (365 day basis)	$ .000100
Average NAV per share	$ 1.00
Annualized net yield per share (seven calendar days ended August 31, 2009)	.01%

TAX CONSEQUENCES

The Fund intends to qualify annually as a "regulated investment company" under Subchapter M of the Internal Revenue Code, and if so qualified will not be liable for federal income taxes to the extent earnings are distributed to shareholders on a timely basis. In order to qualify as a "regulated investment company," the Fund must, among other things, (a) derive 90% of its income from dividends; interest; payments with respect to securities loans; gain from the disposition of stock, securities, or foreign currencies; other income derived from investing in stock, securities, or currencies; and net income from an interest in a qualified publicly traded partnership; and (b) meet certain diversification requirements. In order to avoid liability for federal income taxes, the Fund must, among other things, distribute an amount at least equal to the sum of 90% of its investment company taxable income and 90% of the portion of its exempt-interest income that exceeds certain disallowed deductions.

In the event the Fund fails to qualify as a "regulated investment company," it will be treated as a regular corporation for federal income tax purposes. Accordingly, the Fund would be subject to federal income taxes on the full amount of its taxable income and gains, and any distributions that the Fund makes would not qualify for any dividends paid deduction. This would increase the cost of investing in the Fund for shareholders and would make it more economical for shareholders to invest directly in securities held by the Fund instead of investing indirectly in such securities through the Fund. If the Fund fails to distribute during each calendar year a sufficient amount of its ordinary income and capital gains, it will be subject to a 4% excise tax on a portion of its undistributed ordinary income and capital gains.

This section is not intended to be a full discussion of federal tax laws and the effect of such laws on shareholders. There may be other federal, state or local tax considerations applicable to a shareholder. Shareholders are urged to consult their own tax adviser.

ADDITIONAL INFORMATION

The prospectus and this SAI do not contain all the information included in the Registration Statement filed with the SEC under the Securities Act of 1933 with respect to the securities offered hereby, certain portions of which have been omitted pursuant to the rules and regulations of the SEC. The Registration Statement, including the exhibits filed therewith, may be examined at the office of the SEC in Washington, D.C. and is also available online at the SEC's website (http://www.sec.gov). You can also request these materials by writing the Public Reference Section of the SEC, Washington, D.C. 20549-6009, or by electronic request at the following email address: publicinfo@sec.gov and paying a duplication fee.

You may obtain additional information about the Fund, make general inquiries or receive a free copy of the Fund's shareholder reports, prospectus and this SAI by calling (800) 444-1854 from 8:00 a.m. to 5:00 p.m., Eastern Standard Time, Monday through Friday. You may also obtain these materials free of charge on the Fund's website at http://www.hilliard.com.

Statements contained in the prospectus and this SAI as to the contents of any contract or other document referred to are not necessarily complete, and, in each instance, reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement of which the prospectus and this SAI form a part, each such statement being qualified in all respects by such reference.

FINANCIAL STATEMENTS

The following audited financial statements of the Fund are incorporated herein by reference to the Fund's Annual Report to Shareholders dated August 31, 2009:

(a) Schedule of Investments as of August 31, 2009.

(b) Statement of Assets and Liabilities as of August 31, 2009.

(c) Statement of Operations for the year ended August 31, 2009.

(d) Statements of Changes in Net Assets for the years ended August 31, 2009 and August 31, 2008.

(e) Financial Highlights for the years ended August 31, 2009, August 31, 2008, August 31, 2007, August 31, 2006 and August 31, 2005.

(f) Notes to Financial Statements.

(g) Report of Independent Registered Public Accounting Firm dated October 15, 2009.

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