

SECURITIES AND EXCHANGE COMMISSION

FORM N-30D

Initial annual and semi-annual reports mailed to investment company shareholders pursuant to Rule 30e-1 (other than those required to be submitted as part of Form NCSR)

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FILER

HILLIARD LYONS GOVERNMENT FUND INC

CIK: **317872** | IRS No.: **610978881** | State of Incorpor.: **MD** | Fiscal Year End: **0831**
Type: **N-30D** | Act: **40** | File No.: **811-03070** | Film No.: **96545066**

Mailing Address
*PO BOX 32760
LOUISVILLE KY 40232*

Business Address
*HILLIARD LYONS CTR
LOUISVILLE KY 40232
5025888832*

March 28, 1996

Dear Shareholder:

We are pleased to present this report on the Hilliard-Lyons Government Fund, Inc. ("HLGF" or the "Fund") for the six months ended February 29, 1996.

Net assets grew \$118 million during the six months and \$210 million during the year ended February 29, 1996. Net assets have since increased to a new record high of \$462 million on March 27, 1996. This compares to net assets of \$244 million one year ago. The average seven day yield ranged from 4.72% to 5.06% during the six months. Distributions of \$.024817 were paid, equivalent to an annualized yield of 4.98%. For those shareholders in the dividend reinvestment plan, the distributions paid equate to a compound annual yield of 5.03%. As of the date of this letter, the seven day yield was 4.62%.

For the calendar year ended December 31, 1995, 100% of the dividends paid by the Fund were exempt from state income tax in all states. This is the first year in the history of the Fund that all the dividends paid in a year were fully exempt. While the percentage of dividends eligible for exemption will vary from year to year, the dividends paid by HLGF would be partially exempt from state income tax under current tax laws.

According to IBC/Donoghue Inc., the total return for the average taxable money market fund decreased 62 basis points from February 1995 to February 1996 including a 23 basis point drop in January alone. Interest rates fell in response to three quarter point rate cuts by the Federal Reserve ("Fed") during that time, the last in January 1996. During this same time period, total assets of taxable money market funds increased 30% to \$687 billion while HLGF's assets increased 86%.

We feel investor concern for investment safety has contributed to HLGF's above average increase in assets. Headlines such as the Orange County, California bankruptcy brought the issue of credit safety into public view. In the past year, several money market funds have had to scramble to maintain their net asset value of \$1.00 per share because of losses both realized and unrealized from owning troubled securities. While memories of particular incidents such as Orange County are fading, investors are wise to remember that all money market funds do not invest in the same types of securities.

As shown on the enclosed Schedule of Investments, on February 29, 1996 HLGF was fully invested in U.S. government agency discount note obligations with maturity dates of less than three months. The Fund has followed the same investment strategy as outlined in our letter last year. Investments are concentrated in discount notes with short maturities issued by the Federal Home Loan Banks, Federal Farm Credit Banks and the Student Loan Marketing Association. This investment strategy has allowed HLGF to provide its shareholders a competitive return coupled with a high degree of credit safety and income that is partially and in 1995, fully exempt from state income tax in all states.

1995 was an eventful year for financial markets. The Dow Jones Industrial Average ("DJIA") rose 33% in 1995 and reached several new highs. Before 1995,

a DJIA of 4000 seemed improbable to many but that level was reached and then surpassed by the end of the first quarter. 1996 started out where 1995 left off. With its fifth largest one day point gain on March 18, 1996, the DJIA closed at a record level of 5683.

After over a year of advance we would expect considerable volatility in both stock and bond markets as they struggle to reflect investor hopes and fears for the months ahead. We have lowered our expectations for 1996 (compared to 1995). It seems sensible to do so.

What happens next? The strength and direction of the economy are not clear despite certain indicators such as February's strong employment numbers. Further rate cuts that had once seemed certain are for now less likely. The Federal Reserve took no action at its most recent meeting. If the Fed does remain on the sidelines, short term interest rates may rise slightly.

Good health and luck to you all.

/s/ DONALD F. KOHLER
DONALD F. KOHLER
Chairman

/s/ JOSEPH C. CURRY, JR.
JOSEPH C. CURRY, JR.
President

/s/ DIANNA P. WENGLER
DIANNA P. WENGLER
Vice President and Treasurer

HILLIARD-LYONS GOVERNMENT FUND, INC.
SCHEDULE OF INVESTMENTS
(UNAUDITED)
FEBRUARY 29, 1996

<TABLE>

<CAPTION>

PRINCIPAL AMOUNT		PURCHASE YIELD	MATURITY DATE	VALUE
-----		-----	-----	-----
<C>	<S>	<C>	<C>	<C>
	U.S. GOVERNMENT AGENCY OBLIGATIONS --			
	100.1%			
\$ 8,500,000	Federal Home Loan Bank	5.644%	03/01/96	\$ 8,500,000
10,570,000	Federal Home Loan Bank	5.440	03/01/96	10,570,000
8,000,000	Federal Home Loan Bank	5.684	03/04/96	7,996,340
11,000,000	Federal Home Loan Bank	5.639	03/05/96	10,993,314
10,000,000	Federal Farm Credit Bank	5.448	03/06/96	9,992,625
10,500,000	Federal Farm Credit Bank	5.598	03/07/96	10,490,480
14,000,000	Federal Farm Credit Bank	5.467	03/08/96	13,985,491
8,000,000	Federal Farm Credit Bank	5.479	03/11/96	7,988,133
4,500,000	Federal Home Loan Bank	5.256	03/11/96	4,493,563
8,000,000	Federal Farm Credit Bank	5.465	03/13/96	7,985,787
12,000,000	Federal Home Loan Bank	5.607	03/14/96	11,976,427
8,000,000	Federal Farm Credit Bank	5.389	03/15/96	7,983,636
10,000,000	Federal Home Loan Bank	5.636	03/18/96	9,974,264
5,170,000	Federal Home Loan Bank	5.193	03/19/96	5,156,868
9,500,000	Federal Home Loan Bank	5.211	03/20/96	9,474,429

9,000,000	Federal Farm Credit Bank	5.190	03/21/96	8,974,650
12,000,000	Federal Home Loan Bank	5.498	03/22/96	11,962,620
7,500,000	Federal Farm Credit Bank	5.354	03/25/96	7,473,900
14,000,000	Federal Farm Credit Bank	5.341	03/26/96	13,949,347
8,000,000	Federal Home Loan Bank	5.466	03/27/96	7,969,320
	Student Loan Marketing			
15,500,000	Association	5.204	03/29/96	15,438,758
5,000,000	Federal Home Loan Bank	5.424	04/01/96	4,977,310
13,500,000	Federal Home Loan Bank	5.210	04/02/96	13,439,040
7,500,000	Federal Home Loan Bank	5.408	04/03/96	7,463,906
8,000,000	Federal Farm Credit Bank	5.192	04/04/96	7,961,618
9,000,000	Federal Home Loan Bank	5.389	04/05/96	8,954,150
10,000,000	Federal Farm Credit Bank	5.204	04/08/96	9,946,378
6,555,000	Federal Farm Credit Bank	5.190	04/09/96	6,519,068
14,500,000	Federal Farm Credit Bank	5.195	04/11/96	14,416,275
9,000,000	Federal Farm Credit Bank	5.197	04/12/96	8,946,660
10,000,000	Federal Farm Credit Bank	5.240	04/16/96	9,934,578
9,000,000	Federal Home Loan Bank	5.388	04/17/96	8,938,548
4,000,000	Federal Home Loan Bank	5.387	04/17/96	3,972,688
5,000,000	Federal Farm Credit Bank	5.390	04/18/96	4,965,133
10,000,000	Federal Home Loan Bank	5.164	04/22/96	9,927,344
10,000,000	Federal Home Loan Bank	5.335	04/24/96	9,922,300
8,365,000	Federal Home Loan Bank	5.343	04/24/96	8,299,878
5,500,000	Federal Farm Credit Bank	5.181	04/26/96	5,456,794
5,000,000	Federal Farm Credit Bank	5.198	04/29/96	4,958,454
10,000,000	Federal Home Loan Bank	5.081	05/01/96	9,916,294
10,000,000	Federal Farm Credit Bank	5.129	05/02/96	9,914,061
9,500,000	Federal Home Loan Bank	5.104	05/03/96	9,417,540
7,040,000	Federal Home Loan Bank	5.114	05/06/96	6,975,854
6,500,000	Federal Home Loan Bank	5.113	05/07/96	6,439,877
8,500,000	Federal Home Loan Bank	5.106	05/08/96	8,420,364
17,000,000	Federal Home Loan Bank	5.114	05/17/96	16,819,285
6,000,000	Federal Home Loan Bank	5.137	05/22/96	5,931,803
8,000,000	Federal Home Loan Bank	5.134	05/22/96	7,909,071
11,500,000	Federal Home Loan Bank	5.096	05/23/96	11,368,756
9,000,000	Federal Home Loan Bank	5.242	05/28/96	8,888,460

TOTAL U.S. GOVERNMENT AGENCY
OBLIGATIONS

(amortized cost -- \$454,331,439) 454,331,439

TOTAL INVESTMENTS (100.1%) (cost --
\$454,331,439*)

\$454,331,439

</TABLE>

*Also represents cost for federal income tax purposes.

The percentage shown for each investment category is the total value of that category as a percentage of the total net assets of the Fund.

See notes to financial statements.

(UNAUDITED)
FEBRUARY 29, 1996

<TABLE>

<S>

<C>

ASSETS

Investments in money market instruments, at value:	
United States Government Agency Obligations, at value (amortized cost--\$454,331,439).....	\$454,331,439

Total Investments.....	454,331,439
Cash.....	597,550
Prepaid expenses.....	23,143

TOTAL ASSETS.....	454,952,132
LIABILITIES	
Dividends payable.....	817,682
Due to J.J.B. Hilliard, W.L. Lyons, Inc.--Note B.....	137,256
Miscellaneous accrued expenses.....	6,201

TOTAL LIABILITIES.....	961,139

NET ASSETS (equivalent to \$1.00 per share; 500,000,000 shares authorized and 453,990,993 shares issued and outstanding)--Note C.....	\$453,990,993
	=====

HILLIARD-LYONS GOVERNMENT FUND, INC.
STATEMENT OF OPERATIONS
(UNAUDITED)
FOR THE SIX MONTHS ENDED
FEBRUARY 29, 1996

INVESTMENT INCOME	
Interest income.....	\$ 10,673,391
EXPENSES	
Investment Advisory fee--Note B.....	788,239
Transfer agent fees.....	268,905
Filing fees.....	49,140
Custodian fees.....	40,950
Insurance expense.....	16,674
Legal and Audit fees.....	15,834
Printing and other expenses.....	12,986
Directors' fees.....	6,734

Total expenses.....	1,199,462

Net investment income.....	9,473,929

Net increase in net assets resulting from operations.....	\$ 9,473,929
	=====

</TABLE>

See notes to financial statements.

HILLIARD-LYONS GOVERNMENT FUND, INC.
STATEMENTS OF CHANGES IN NET ASSETS

<TABLE>
<CAPTION>

	FOR THE SIX MONTHS ENDED FEBRUARY 29, 1996 (UNAUDITED)	FOR THE YEAR ENDED AUGUST 31, 1995
INCREASE IN NET ASSETS:		
<S>	<C>	<C>
FROM OPERATIONS		
Net investment income.....	\$ 9,473,929	\$ 13,049,588
Net increase in net assets resulting from operations.....	9,473,929	13,049,588
Dividends to shareholders (\$.024817 and \$.049286 per share, respectively).....	(9,473,929)	(13,049,588)
Undistributed net investment income.....	0	0
FROM CAPITAL SHARE TRANSACTIONS		
Net capital share transactions (at \$1.00 per share)--Note C.....	118,214,516	125,124,834
NET ASSETS		
Beginning of period.....	335,776,477	210,651,643
End of period.....	\$453,990,993	\$335,776,477

</TABLE>

FINANCIAL HIGHLIGHTS

The following table includes selected data for a share of capital stock outstanding throughout each period and other performance information derived from the financial statements. It should be read in conjunction with the financial statements and notes thereto.

<TABLE>
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	SIX MONTHS ENDED FEBRUARY 29, 1996 (UNAUDITED)	1995	YEAR ENDED 1994	AUGUST 31, 1993	1992	1991
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net asset value, Beginning of Period....	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
Net Investment income...	.03	.05	.03	.03	.04	.06
Total From Investment Operations.....	.03	.05	.03	.03	.04	.06

Less Distributions:						
Dividend Distributions.	(.03)	(.05)	(.03)	(.03)	(.04)	(.06)
	-----	-----	-----	-----	-----	-----
Total Distributions....	(.03)	(.05)	(.03)	(.03)	(.04)	(.06)
	-----	-----	-----	-----	-----	-----
Net asset value, End of Period.....	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
	=====	=====	=====	=====	=====	=====
Number of shares outstanding (000's omitted).....	453,991	335,776	210,652	221,050	234,600	232,660
Total Investment Return.	5.03%(a)	5.04%	2.85%	2.54%	3.87%	6.19%
SIGNIFICANT RATIOS AND SUPPLEMENTAL DATA						
Net assets, End of Period (000's omitted).....	\$453,991	\$335,776	\$210,652	\$221,050	\$234,600	\$232,660
Operating expenses to average net assets....	.63%(a)	.72%	.75%	.71%	.68%	.70%
Net investment income to average net assets.	4.97%(a)	4.97%	2.80%	2.51%	3.80%	6.01%

</TABLE>

(a) Annualized

See notes to financial statements.

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HILLIARD-LYONS GOVERNMENT FUND, INC.
NOTES TO FINANCIAL STATEMENTS
(UNAUDITED)

NOTE A--ACCOUNTING POLICIES

Hilliard-Lyons Government Fund, Inc. (the "Fund") is a diversified open-end management investment company registered under the Investment Company Act of 1940, as amended. The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements.

SECURITY VALUATION: The Fund employs the amortized cost method of security valuation for U.S. Government securities which, in the opinion of the Board of Directors, represents fair value of the particular security. The Board monitors deviations between net asset value per share as determined by using available market quotations and the amortized cost method of security valuation. If the deviation in the aggregate is significant, the Board considers what action, if any, should be initiated to provide fair valuation.

The Fund values repurchase agreements at cost and accrues interest into interest receivable. Normally, repurchase agreements are not subject to trading. Repurchase agreements are fully collateralized by U.S. Treasury and U.S. Government Agency obligations valued at bid prices plus accrued interest. U.S. Treasury and U.S. Government Agency obligations pledged as collateral for repurchase agreements are held by the Fund's custodian bank until maturity of the repurchase agreements. Provisions of the agreements provide that the market value of the collateral plus accrued interest on the collateral is greater than or equal to the repurchase price plus accrued interest at all times. In the event of default or bankruptcy by the other party to the agreements, the

Fund maintains the right to sell the underlying securities at market value; however, realization and/or retention of the collateral may be subject to legal proceedings.

FEDERAL INCOME TAXES: It is the policy of the Fund to continue to qualify under the Internal Revenue Code as a regulated investment company and to distribute all of its taxable income to shareholders, thereby relieving the Fund of federal income tax liability.

DIVIDENDS TO SHAREHOLDERS: The net investment income of the Fund is determined on each business day and is declared as a dividend payable to shareholders of record immediately prior to the time of determination of net asset value on each such day. Dividends declared since the preceding dividend payment date are distributed monthly.

The Fund's net investment income for dividend purposes includes accrued interest and accretion of original issue and market discounts earned and amortization of premiums, plus or minus any net realized gain or loss on portfolio securities, if any, occurring since the previous dividend declaration, less the accrued expenses of the Fund for such period.

INVESTMENT TRANSACTIONS: Investment transactions are accounted for on the date the securities are bought or sold. Net realized gains and losses on sales of investments, if any, are determined on the basis of identified cost.

The Fund may enter into repurchase agreements with financial institutions, deemed to be credit worthy by J.J.B. Hilliard, W.L. Lyons, Inc. (the "Adviser"), subject to the seller's agreement to repurchase and the Fund's agreement to sell such security at a mutually agreed upon date and price.

NOTE B--INVESTMENT ADVISORY AGREEMENT

On September 21, 1995, the Fund renewed its investment advisory agreement with the Adviser. Under the investment advisory agreement, the Adviser supervises investment operations of the Fund and the composition of its portfolio, and furnishes advice and recommendations with respect to investments and the purchase and sale of securities in accordance with the Fund's investment objectives, policies and restrictions; subject, however, to the general supervision and control of the Fund's Board of Directors. For the services the Adviser renders, the Fund has agreed to pay the Adviser an annual advisory fee of 1/2 of 1% of the first \$200 million of average daily net assets, 3/8 of 1% of the next \$100 million of average daily net assets, and 1/4 of 1% of the average daily net assets in excess of \$300 million. Such fee is accrued daily and paid monthly. The Adviser has agreed to reimburse the Fund if total operating expenses of the Fund, excluding taxes, interest and extraordinary expenses (as defined), exceed on an annual basis 1 1/2% of the first \$30 million of average daily net assets and 1% of average daily net assets over \$30 million. There was no reimbursement required for the six months ended February 29, 1996.

No compensation is paid by the Fund to officers of the Fund and Directors who are affiliated with the Adviser. The Fund pays each unaffiliated director an annual retainer of \$2,000, a fee of \$500 for each Board of Directors or committee meeting attended, and all expenses the Directors incur in attending meetings.

NOTE C--CAPITAL STOCK

The Fund was incorporated in June 1980 under the laws of the state of Maryland. At February 29, 1996, there were 500,000,000 shares of \$.01 par value Common Stock authorized, and capital paid in aggregated \$453,990,993. Transactions in Fund shares at \$1.00 per share were as follows:

<TABLE>
<CAPTION>

	SIX MONTHS ENDED FEBRUARY 29, 1996	YEAR ENDED AUGUST 31, 1995
	-----	-----
<S>	<C>	<C>
Shares sold	692,136,559	1,027,556,685
Shares issued to shareholders in reinvestment of dividends	9,235,782	12,403,090
	-----	-----
Less shares repurchased	701,372,341 (583,157,825)	1,039,959,775 (914,834,941)
	-----	-----
Net increase in capital shares	118,214,516	125,124,834
	=====	=====

</TABLE>

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HILLIARD-LYONS GOVERNMENT FUND, INC.

Hilliard Lyons Center
Louisville, Kentucky 40202
(502) 588-8400

Investment Adviser and Distributor

J.J.B. Hilliard, W.L. Lyons, Inc.
Hilliard Lyons Center
Louisville, Kentucky 40202
(502) 588-8400

Custodian and Transfer Agent

State Street Bank and Trust Company
225 Franklin Street
P.O. Box 1912
Boston, Massachusetts 02105

Legal Counsel

Greenebaum Doll & McDonald
3300 First National Tower
Louisville, Kentucky 40202

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS
Joseph C. Curry, Jr.
J. Henning Hilliard

Donald F. Kohler
Samuel G. Miller
Gilbert L. Pamplin
Dillman A. Rash
J. Robert Shine

OFFICERS

Donald F. Kohler
Chairman
Joseph C. Curry, Jr.
President
Gilbert L. Pamplin
Vice President
Dianna P. Wengler
Vice President and Treasurer
Michael L. Howard
Secretary

HILLIARD-LYONS
GOVERNMENT FUND, INC.
SEMI-ANNUAL REPORT
FEBRUARY 29, 1996
LOGO