



**UNITAS INVESTMENT FUND, INC.**

Financial Statements

August 31, 2011 and 2010

(With Independent Auditors' Report Thereon)



**KPMG LLP**  
Suite 200  
1305 Walt Whitman Road  
Melville, NY 11747-4302

## **Independent Auditors' Report**

The Board of Directors  
Unitas Investment Fund, Inc.:

We have audited the accompanying statements of net assets of Unitas Investment Fund, Inc. (Unitas), including the condensed schedules of investments as of August 31, 2011 and 2010, and the related statements of operations and changes in net assets for the years then ended. These financial statements are the responsibility of Unitas' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Unitas' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Unitas Investment Fund, Inc. as of August 31, 2011 and 2010, and the results of its operations and the changes in its net assets for the years then ended, in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

December 19, 2011

**UNITAS INVESTMENT FUND, INC.**

Statements of Net Assets

August 31, 2011 and 2010

<b>Assets</b>	<b>2011</b>	<b>2010</b>
Investments (note 3):		
Common stock (cost \$49,663,285 and \$44,337,485, respectively)	\$ 49,951,962	42,122,731
Commingled fund (cost \$9,452,855 and \$9,496,213, respectively)	11,998,882	10,576,100
Real estate investment trust (cost \$840,131 and \$795,973, respectively)	879,060	798,076
Fixed income securities (cost \$138,442,030 and \$138,930,929, respectively)	141,996,778	144,415,347
Total investments	204,826,682	197,912,254
Cash and cash equivalents	565	77,400
Receivable for investment securities sold	694,930	7,791,433
Total assets	\$ 205,522,177	205,781,087
<b>Liabilities and Net Assets Available for Participants</b>		
Liabilities:		
Payable for investments purchased	\$ 466,215	833,120
Other liabilities	565	77,430
Total liabilities	466,780	910,550
Net assets available for participants	205,055,397	204,870,537
Total liabilities and net assets available for participants	\$ 205,522,177	205,781,087

See accompanying notes to financial statements.

**UNITAS INVESTMENT FUND, INC.**

Condensed Schedule of Investments

August 31, 2011

	<u>Percentage of investments</u>	<u>Percentage of net assets</u>	<u>Fair value</u>
Common stock:			
Common stock – United States:			
Materials	0.63%	0.63%	\$ 1,294,599
Industrials	1.91	1.91	3,911,168
Consumer nondurables	2.27	2.27	4,658,115
Consumer services	2.31	2.31	4,736,902
Energy	2.79	2.78	5,706,236
Financial services	3.27	3.27	6,701,537
Healthcare	3.29	3.29	6,744,259
Telecommunication	1.02	1.02	2,091,922
Technology	4.12	4.11	8,433,193
Utilities	0.91	0.90	1,853,914
Miscellaneous	0.53	0.53	1,081,092
Total common stock – United States (cost \$46,906,607)	<u>23.05</u>	<u>23.02</u>	<u>47,212,937</u>
Common stock – international (cost \$2,756,678)	<u>1.34</u>	<u>1.34</u>	<u>2,739,025</u>
Total common stock (cost \$49,663,285)	<u>24.39</u>	<u>24.36</u>	<u>49,951,962</u>
Commingled fund:			
International – Sprucegrove (cost \$9,452,855)	5.86	5.85	11,998,882
Real estate investment trusts:			
United States (cost \$840,131)	0.43	0.43	879,060
Fixed income securities:			
Fixed income securities - United States:			
U.S. Treasury bonds and notes	4.04	4.05	8,298,939
U.S. Treasury bills	0.66	0.66	1,344,933
U.S. agencies	4.11	4.10	8,411,653
Certificates of deposit	9.84	9.83	20,164,806
Corporate obligations	10.69	10.67	21,887,513
Municipal bonds	0.74	0.74	1,523,059
Prime obligations fund – Federated	4.25	4.24	8,696,807
Prime obligations fund – Vanguard	14.23	14.21	29,138,760
Taxable fixed income funds – Pimco	16.13	16.11	33,043,111
Government money market funds	3.43	3.43	7,031,061
Total fixed income securities – United States (cost \$136,276,447)	<u>68.12</u>	<u>68.04</u>	<u>139,540,642</u>
Fixed income securities - international:			
Government issued	0.25	0.25	511,045
Corporate bonds	0.95	0.95	1,945,091
Total fixed income securities - international (cost \$2,165,583)	<u>1.20</u>	<u>1.20</u>	<u>2,456,136</u>
Total fixed income securities (cost \$138,442,030)	<u>69.32</u>	<u>69.24</u>	<u>141,996,778</u>
Total investments (cost \$198,398,301)	<u>100.00%</u>	<u>99.88%</u>	<u>\$ 204,826,682</u>

See accompanying notes to financial statements.

**UNITAS INVESTMENT FUND, INC.**

Condensed Schedule of Investments

August 31, 2010

	<u>Percentage of investments</u>	<u>Percentage of net assets</u>	<u>Fair value</u>
Common stock:			
Common stock – United States:			
Materials	0.39%	0.38%	\$ 775,199
Industrials	1.98	1.91	3,915,020
Consumer nondurables	2.76	2.66	5,457,759
Consumer services	2.17	2.10	4,301,865
Energy	2.02	1.95	3,992,301
Financial services	2.87	2.78	5,688,949
Healthcare	1.76	1.70	3,480,892
Telecommunication	0.93	0.90	1,838,040
Technology	3.77	3.64	7,458,102
Utilities	1.11	1.07	2,188,428
Total common stock – United States (cost \$41,202,609)	<u>19.76</u>	<u>19.09</u>	<u>39,096,555</u>
Common stock – international (cost \$3,134,876)	<u>1.53</u>	<u>1.48</u>	<u>3,026,176</u>
Total common stock (cost \$44,337,485)	<u>21.29</u>	<u>20.57</u>	<u>42,122,731</u>
Commingled fund:			
International – Sprucegrove (cost \$9,496,213)	5.34	5.16	10,576,100
Real estate investment trusts:			
United States (cost \$795,973)	0.40	0.39	798,076
Fixed income securities:			
Fixed income securities - United States:			
U.S. Treasury bonds and notes	6.30	6.08	12,462,940
U.S. agencies	5.37	5.19	10,625,738
Certificates of deposit	10.11	9.77	20,009,514
Corporate obligations	11.21	10.83	22,192,105
Municipal bonds	0.67	0.65	1,332,129
Prime obligations fund – Federated	4.27	4.13	8,454,401
Prime obligations fund – Vanguard	16.22	15.66	32,084,083
Taxable fixed income funds – Pimco	16.33	15.78	32,322,521
Government money market funds	1.63	1.57	3,223,861
Total fixed income securities – United States (cost \$137,430,190)	<u>72.11</u>	<u>69.66</u>	<u>142,707,292</u>
Fixed income securities - international:			
Government issued	0.24	0.23	481,222
Corporate bonds	0.62	0.60	1,226,833
Total fixed income securities - international (cost \$1,500,739)	<u>0.86</u>	<u>0.83</u>	<u>1,708,055</u>
Total fixed income securities (cost \$138,930,929)	<u>72.97</u>	<u>70.49</u>	<u>144,415,347</u>
Total investments (cost \$193,560,600)	<u>100.00%</u>	<u>96.61%</u>	<u>\$ 197,912,254</u>

See accompanying notes to financial statements.

**UNITAS INVESTMENT FUND, INC.**

Statements of Operations

Years ended August 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Revenues:		
Investment income:		
Dividends and interest	\$ 3,934,104	4,924,471
Investment income	<u>3,934,104</u>	<u>4,924,471</u>
Net realized and unrealized gains on investments:		
Net realized gain on investments	7,689,189	5,715,891
Net unrealized gain on investments	<u>2,076,772</u>	<u>1,307,254</u>
Net realized and unrealized gain on investments	<u>9,765,961</u>	<u>7,023,145</u>
Total revenues	<u>13,700,065</u>	<u>11,947,616</u>
Expenses (note 5):		
Investment fees	710,502	313,481
Mission fees	494,250	184,029
General and administrative expenses	<u>160,515</u>	<u>185,112</u>
Total expenses	<u>1,365,267</u>	<u>682,622</u>
Net increase in net assets from operations	<u>\$ 12,334,798</u>	<u>11,264,994</u>

See accompanying notes to financial statements.

**UNITAS INVESTMENT FUND, INC.**

Statements of Changes in Net Assets

Years ended August 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Net assets available for participants at beginning of year	\$ 204,870,537	229,070,884
Net increase in net assets from operations	12,334,798	11,264,994
Add investor deposits	19,898,799	71,413,431
Less investor withdrawals	<u>(32,048,737)</u>	<u>(106,878,772)</u>
Net assets available for participants at end of year	<u>\$ 205,055,397</u>	<u>204,870,537</u>

See accompanying notes to financial statements.

## UNITAS INVESTMENT FUND, INC.

### Notes to Financial Statements

August 31, 2011 and 2010

#### (1) Organization

Unitas Investment Fund, Inc. (Unitas) is a not-for-profit corporation organized under the laws of the State of New York. Unitas is classified as a 501(c)(3) organization and is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code and a similar provision of the New York State income tax laws. Unitas is a separately incorporated, nonregulated investment fund organized for the purpose of offering the Roman Catholic Diocese of Rockville Centre (the Diocese), its parishes, and other Roman Catholic organizations the opportunity to invest in harmony with the teachings and beliefs of the Roman Catholic Church.

Unitas offers its investors the following investment options, individually referred to as a “fund” and collectively referred to as “funds”:

- The Unitas Money Market Fund, which invests in short-term debt securities and money market instruments.
- The Unitas Capital Preservation Fund, which invests in a combination of money market securities and short-term, investment-grade fixed income securities.
- The Unitas Long-Term Funds, comprising of:
  - The Unitas Total Fixed Income Fund, which invests the majority of its assets in fixed income securities, mutual funds, and other investment pools that invest in fixed income securities;
  - The Unitas Balanced Fund, which invests approximately 50% of its assets in the Unitas Total Fixed Income Fund and approximately 50% of its assets in equity securities;
  - The Unitas Income Weighted Fund, which invests approximately 60% of its assets in the Unitas Total Fixed Income Fund and approximately 40% of its assets in equity securities;
  - The Unitas Equity-Weighted Fund, which invests approximately 40% of its assets in the Unitas Total Fixed Income Fund and approximately 60% of its assets in equity securities; and
  - The Unitas Structured Debt Fund, which is closed to new investors and invests in residential mortgage-backed securities, credit/bank loans, and investment-grade corporate debt and asset-backed securities.

All financial assets are held for Unitas in custody accounts by a commercial bank and are actively managed by third-party investment managers.

#### (2) Summary of Significant Accounting Policies

##### (a) Basis of Presentation

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles, including the guidance provided by the American Institute of Certified Public Accountants, *Audit and Accounting Guide for Investment Companies*.

##### (b) Cash Equivalents

Cash equivalents include highly liquid instruments with original maturities of three months or less.

## UNITAS INVESTMENT FUND, INC.

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### (c) *Fair Value Measurements*

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement. The classification of an asset or liability in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of the asset or liability.

### (d) *Investments*

Investments in equity securities with readily determinable fair values are reported at fair value based on quoted market prices. Investments in debt securities are measured using quoted market prices where available. If quoted market prices for debt securities are not available, the fair value is determined using an income approach valuation technique that considers, among other things, rates currently observed in publicly traded markets for debt of similar terms to companies with comparable credit risk, the issuer's credit spread, and illiquidity by sector and maturity.

Investments in nonmarketable funds (i.e., the commingled fund) are reported at net asset value. Because the net asset value reported by the fund is used as a practical expedient to estimate the fair value of Unitas' interest therein, its classification in Level 2 or 3 is based on Unitas' ability to redeem its interest at or near fiscal year-end. If the interest can be redeemed in the near term, the investment is classified as Level 2.

Realized gains and losses are calculated on a trade-date basis using the first-in, first-out method.

### (e) *Participants' Balances*

Unitas allows for weekly (short-term funds) and quarterly (long-term funds) additions to and withdrawals from the funds. Investment income as well as net gains (losses) on sales of securities and unrealized appreciation (depreciation) in fair value of investments is credited (charged) monthly to the participants' balances, based on their pro rata participation in the funds.

### (f) *Estimates*

Certain estimates and assumptions are required to be made regarding assets, liabilities, and changes in net assets available for participants when financial statements are prepared. Changes in the

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Notes to Financial Statements

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economic environment, financial markets, and any other parameters used in determining these estimates could cause actual results to differ.

**(g) Risks and Uncertainties**

Investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of net assets.

**(h) Income Taxes**

Unitas accounts for uncertainties in income taxes recognized in Unitas' financial statements using a threshold of more likely than not. Income generated from activities unrelated to Unitas' exempt purpose is subject to tax. Unitas did not have any unrelated business income tax liability at August 31, 2011 and 2010.

**(3) Investments**

The following tables present the fair value hierarchy of investments as of August 31, 2011 and 2010:

<b>Fair value measurements at August 31, 2011</b>				
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Common stock	\$ 49,951,962	49,951,962	—	—
Commingled fund	11,998,882	—	11,998,882	—
Real estate investment trusts	879,060	879,060	—	—
Fixed income securities	141,996,778	118,586,206	23,410,572	—
Total	\$ 204,826,682	169,417,228	35,409,454	—

<b>Fair value measurements at August 31, 2010</b>				
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Common stock	\$ 42,122,731	42,122,731	—	—
Commingled fund	10,576,100	—	10,576,100	—
Real estate investment trusts	798,076	798,076	—	—
Fixed income securities	144,415,347	120,891,113	23,524,234	—
Total	\$ 197,912,254	163,811,920	34,100,334	—

In 2011 and 2010, fixed income securities classified as Level 2 are corporate obligations and municipal bonds.

The investment strategy for the commingled fund (an international, developed markets equity fund) is an emphasis on long-term investments and a focus on the selection of individual common stocks using a bottom-up, research-driven approach. Country and sector exposures are a residual of this stock selection

## UNITAS INVESTMENT FUND, INC.

### Notes to Financial Statements

August 31, 2011 and 2010

process. Portfolio holdings must meet the fund's standards of investment quality including a leadership position, a history of above average financial performance, a secure financial position, reputable management, and a growth opportunity in terms of sales, earnings, and share price.

The commingled fund is valued on a monthly basis and investments held in this fund are redeemable on the first business day of each month with 12 business days' notice. Redemptions of \$5 million or more can be made on the first business day of each month with 10 business days' notice.

#### (4) Financial Highlights

Financial highlights for the years ended August 31, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Total return (1)	6.82%	5.50%
Rates to average plan participant's balance:		
Expenses, excluding mission fees (2)	0.42%	0.23%
Mission fees (2)	0.24%	0.08%
Net investment income (2)	5.97%	5.48%

Financial highlights are calculated for the participant balances taken as a whole.

- (1) Total return is measured by comparing the ending value of the participants' capital accounts to the beginning value of such participants' capital accounts adjusted for cash flows related to contributions or withdrawals during the period. Returns are geometrically linked based on the timing of cash flows during the period. An individual participant's return may vary from these returns based on the timing of transactions and the investment options chosen.
- (2) The net investment income and the expense ratios for individual participants may vary from these ratios based on participation in different funds and the timing of capital transactions. Net investment income is net of all expenses, including mission fees.

#### (5) Fees and Expenses

##### (a) Investment Fees

Investment fees include management, custodial, and administration fees. These costs are assessed to each participant quarterly.

##### (b) Mission Fees

A mission fee that is used for parish assistance to further the mission and ministry of the Diocese may be charged quarterly to investors. This fee is paid to the Mission Assistance Corporation, a Diocesan entity.

## UNITAS INVESTMENT FUND, INC.

### Notes to Financial Statements

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In December 2009, the Unitas Board suspended the mission fee for the remaining three quarters of the fiscal year 2010. Effective September 1, 2010, the mission fee was reinstated.

The mission fee is only charged if, net of investment and administrative fees, the return exceeds 12.5 basis points (bps) per month on the Unitas Money Market Fund or 37.5bps per quarter on the Unitas Capital Preservation Fund and/or the Unitas Long-Term Funds (150 basis points annualized). Each month/quarter is independent of prior or future months'/quarters' performance when determining if this mission fee has met the assessment criteria. The mission fee to participants in the Unitas Money Market Fund is 0.0042% monthly (0.05% annualized); the mission fee to participants in the Unitas Capital Preservation Fund is 0.0125% quarterly (0.05% annualized), while the mission fee to participants in the Unitas Long-Term Funds is 0.125% quarterly (0.50% annualized).

**(c) *General and Administrative Expenses***

Unitas has no employees and pays no compensation directly. The Diocese and Unitas have entered into an administrative contract that sets forth the terms upon which Unitas will reimburse the Diocese for the expense of its employees who assist in the management and administration of the funds on a part-time basis. For the years ended August 31, 2011 and 2010, the Diocese charged Unitas \$103,520 and \$110,762, respectively, for administrative services.

**(6) *Subsequent Events***

In connection with the preparation of the financial statements, Unitas evaluated events subsequent to August 31, 2011 through December 19, 2011, which was the date the financial statements were available to be issued, and concluded that no additional disclosures were required.