



UNITAS INVESTMENT FUND, INC.

Financial Statements

August 31, 2014 and 2013

(With Independent Auditors' Report Thereon)



KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Directors
Unitas Investment Fund, Inc.:

We have audited the accompanying financial statements of Unitas Investment Fund, Inc., which comprise the statements of net assets, including the condensed schedules of investments, as of August 31, 2014 and 2013, and the related statements of operations and changes in net assets for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2014 and 2013, and the results of its operations and the changes in its net assets for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

January 7, 2015

UNITAS INVESTMENT FUND, INC.

Statements of Net Assets

August 31, 2014 and 2013

Assets	2014	2013
Investments (note 3):		
Common stock (cost: \$83,616,295 and \$62,313,586, respectively)	\$ 96,699,221	67,724,746
Commingled fund (cost: \$9,324,611 and \$9,364,376, respectively)	16,194,217	14,029,397
Real estate investment trusts (cost: \$1,622,485 and \$1,440,675, respectively)	1,799,580	1,297,563
Fixed income securities (cost: \$153,710,598 and \$136,815,813, respectively)	156,607,610	137,336,206
Total investments	271,300,628	220,387,912
Cash and cash equivalents	100,000	—
Total assets	\$ 271,400,628	220,387,912
Liabilities and Net Assets Available for Participants		
Liabilities:		
Payable for investments purchased	\$ 3,896,457	432,159
Other liabilities	100,000	—
Total liabilities	3,996,457	432,159
Net assets available for participants (note 4)	267,404,171	219,955,753
Total liabilities and net assets available for participants	\$ 271,400,628	220,387,912

See accompanying notes to financial statements.

UNITAS INVESTMENT FUND, INC.

Condensed Schedule of Investments

August 31, 2014

	Percentage of investments	Percentage of net assets	Fair value
Common stock:			
Common stock – United States:			
Materials	0.59%	0.60%	\$ 1,608,965
Industrials	3.69	3.75	10,022,207
Consumer nondurables	2.78	2.82	7,534,548
Consumer services	3.21	3.25	8,700,309
Energy	3.63	3.69	9,860,589
Financial services	4.65	4.72	12,627,580
Healthcare	5.01	5.09	13,602,681
Telecommunication	1.43	1.45	3,882,876
Technology	7.15	7.26	19,405,762
Utilities	1.57	1.59	4,253,234
Total common stock – United States (cost: \$79,029,346)	<u>33.71</u>	<u>34.22</u>	91,498,751
Common stock – international (cost: \$4,586,949)	<u>1.92</u>	<u>1.94</u>	5,200,470
Total common stock (cost: \$83,616,295)	<u>35.63</u>	<u>36.16</u>	96,699,221
Commingled fund:			
International – Sprucegrove (cost: \$9,324,611)	5.97	6.06	16,194,217
Real estate investment trusts:			
United States (cost: \$1,622,485)	0.66	0.67	1,799,580
Fixed income securities:			
Fixed income securities – United States:			
U.S. Treasury bonds and notes	6.59	6.69	17,876,929
U.S. Treasury bills	1.13	1.15	3,065,939
U.S. agencies	2.11	2.14	5,732,858
Certificates of deposit	6.67	6.77	18,105,967
Corporate obligations	16.43	16.67	44,568,855
Money market fund	0.84	0.85	2,265,869
Municipal bonds	0.57	0.57	1,536,254
Prime obligations fund – Vanguard	2.22	2.25	6,021,018
Taxable fixed income funds – Pimco	13.42	13.61	36,396,218
Government money market funds	6.61	6.70	17,923,170
Total fixed income securities – United States (cost: \$150,762,369)	<u>56.59</u>	<u>57.40</u>	153,493,077
Fixed income securities – international:			
Government issued	0.19	0.19	501,987
Corporate bonds	0.96	0.98	2,612,546
Total fixed income securities – international (cost: \$2,948,229)	<u>1.15</u>	<u>1.17</u>	3,114,533
Total fixed income securities (cost: \$153,710,598)	<u>57.74</u>	<u>58.57</u>	156,607,610
Total investments (cost: \$248,273,989)	<u>100.00%</u>	<u>101.46%</u>	\$ <u>271,300,628</u>

See accompanying notes to financial statements.

UNITAS INVESTMENT FUND, INC.

Condensed Schedule of Investments

August 31, 2013

	Percentage of investments	Percentage of net assets	Fair value
Common stock:			
Common stock – United States:			
Materials	0.91%	0.92%	\$ 2,016,238
Industrials	2.95	2.96	6,499,302
Consumer nondurables	2.61	2.61	5,740,689
Consumer services	3.32	3.32	7,313,006
Energy	2.87	2.87	6,327,357
Financial services	4.62	4.63	10,174,182
Healthcare	4.45	4.46	9,816,095
Telecommunication	1.26	1.27	2,783,813
Technology	4.94	4.94	10,871,396
Utilities	1.33	1.33	2,934,860
Total common stock – United States (cost: \$59,343,215)	<u>29.26</u>	<u>29.31</u>	<u>64,476,938</u>
Common stock – international (cost: \$2,970,371)	<u>1.47</u>	<u>1.48</u>	<u>3,247,808</u>
Total common stock (cost: \$62,313,586)	<u>30.73</u>	<u>30.79</u>	<u>67,724,746</u>
Commingled fund:			
International – Sprucegrove (cost: \$9,364,376)	6.37	6.38	14,029,397
Real estate investment trusts:			
United States (cost: \$1,440,675)	0.59	0.59	1,297,563
Fixed income securities:			
Fixed income securities – United States:			
U.S. Treasury bonds and notes	6.28	6.30	13,850,821
U.S. Treasury bills	0.35	0.35	776,961
U.S. agencies	3.98	3.99	8,781,578
Certificates of deposit	7.71	7.73	16,998,816
Corporate obligations	15.05	15.08	33,172,353
Money market fund	3.27	3.28	7,206,130
Municipal bonds	0.43	0.43	940,629
Prime obligations fund – Vanguard	2.73	2.73	6,016,886
Taxable fixed income funds – Pimco	15.61	15.64	34,395,209
Government money market funds	4.63	4.64	10,205,143
Total fixed income securities – United States (cost: \$131,810,129)	<u>60.04</u>	<u>60.17</u>	<u>132,344,526</u>
Fixed income securities – international:			
Government issued	0.22	0.22	484,614
Corporate bonds	2.05	2.05	4,507,066
Total fixed income securities – international (cost: \$5,005,684)	<u>2.27</u>	<u>2.27</u>	<u>4,991,680</u>
Total fixed income securities (cost: \$136,815,813)	<u>62.31</u>	<u>62.44</u>	<u>137,336,206</u>
Total investments (cost: \$209,934,450)	<u>100.00%</u>	<u>100.20%</u>	<u>\$ 220,387,912</u>

See accompanying notes to financial statements.

UNITAS INVESTMENT FUND, INC.

Statements of Operations

Years ended August 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Revenues:		
Investment income:		
Dividends and interest	\$ 4,166,511	4,626,191
Investment income	4,166,511	4,626,191
Net realized and unrealized gains on investments:		
Net realized gains on investments	14,278,532	14,303,357
Net unrealized (losses) gains on investments	12,573,177	(2,591,066)
Net realized and unrealized gains on investments	26,851,709	11,712,291
Total revenues	31,018,220	16,338,482
Expenses (note 6):		
Investment fees	1,470,711	991,244
Mission fee	895,551	549,528
General and administrative expenses	165,268	171,793
Total expenses	2,531,530	1,712,565
Net increase in net assets from operations	\$ 28,486,690	14,625,917

See accompanying notes to financial statements.

UNITAS INVESTMENT FUND, INC.

Statements of Changes in Net Assets

Years ended August 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Net assets available for participants at beginning of year	\$ 219,955,753	211,811,887
Net increase in net assets from operations	28,486,690	14,625,917
Add investor deposits	54,523,389	22,816,928
Less investor withdrawals	<u>(35,561,661)</u>	<u>(29,298,979)</u>
Net assets available for participants at end of year	<u>\$ 267,404,171</u>	<u>219,955,753</u>

See accompanying notes to financial statements.

UNITAS INVESTMENT FUND, INC.

Notes to Financial Statements

August 31, 2014 and 2013

(1) Organization

Unitas Investment Fund, Inc. (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. On May 28, 2014, this Fund was terminated and all participant assets have been or will be transferred initially to the Unitas Money Market Fund. Participants have the option to reinvest the assets in one of the long-term funds described below.
- 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 fixed income pool and approximately 50% of its assets in the pool of equity securities
 - The Unitas Income-Weighted Fund, which invests approximately 60% of its assets in the fixed income pool and approximately 40% of its assets in the pool of equity securities
 - The Unitas Equity-Weighted Fund, which invests approximately 40% of its assets in the fixed income pool and approximately 60% of its assets in the pool of equity 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.

Notes to Financial Statements

August 31, 2014 and 2013

(c) *Fair Value Measurements*

Fair value is defined as the exchange price that would be received to sell 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

UNITAS INVESTMENT FUND, INC.

Notes to Financial Statements

August 31, 2014 and 2013

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 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 accounts for uncertainties in income taxes recognized in Unitas' financial statements using a threshold of more likely than not of being sustained. Income generated from activities unrelated to Unitas' exempt purpose may be subject to tax. Unitas did not have any material unrelated business income tax liability at August 31, 2014 and 2013.

(3) Investments

The following tables present the fair value hierarchy of investments as of August 31, 2014 and 2013:

	Fair value measurements at August 31, 2014			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Common stock	\$ 96,699,221	96,699,221	—	—
Commingled fund	16,194,217	—	16,194,217	—
Real estate investment trusts	1,799,580	1,799,580	—	—
Fixed income securities	156,607,610	110,502,501	46,105,109	—
Total	<u>\$ 271,300,628</u>	<u>209,001,302</u>	<u>62,299,326</u>	<u>—</u>

	Fair value measurements at August 31, 2013			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Common stock	\$ 67,724,746	67,724,746	—	—
Commingled fund	14,029,397	—	14,029,397	—
Real estate investment trusts	1,297,563	1,297,563	—	—
Fixed income securities	137,336,206	103,223,224	34,112,982	—
Total	<u>\$ 220,387,912</u>	<u>172,245,533</u>	<u>48,142,379</u>	<u>—</u>

In 2014 and 2013, fixed income securities classified as Level 2 are corporate obligations and municipal bonds. There were no transfers between levels during the years ended August 31, 2014 and 2013.

UNITAS INVESTMENT FUND, INC.

Notes to Financial Statements

August 31, 2014 and 2013

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 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) Net Assets Available for Participants

The following table presents the net asset available for participants by fund (investment option) as of August 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Money Market Fund	\$ 70,023,482	43,286,708
Capital Preservation Fund	6,756,832	21,887,343
Total Fixed Income Fund	9,571,085	11,301,152
Balanced Fund	117,730,660	92,727,028
Income-Weighted Fund	2,294,459	1,970,412
Equity-Weighted Fund	61,027,653	48,783,110
Total	<u>\$ 267,404,171</u>	<u>219,955,753</u>

(5) Financial Highlights

Financial highlights for the years ended August 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Total return (1)	13.53%	7.70%
Rates to average plan participant's balance:		
Expenses, excluding mission fee (2)	0.67%	0.54%
Mission fee (2)	0.37	0.25
Net investment income (2)	11.63	6.73

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.

UNITAS INVESTMENT FUND, INC.

Notes to Financial Statements

August 31, 2014 and 2013

- (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.

(6) Fees and Expenses

(a) *Investment Fees*

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

(b) *Mission Fee*

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.

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 and the Capital Preservation Fund or 37.5 bps per quarter on the Unitas Long-Term Funds (150 bps 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 and the Capital Preservation Fund is 0.0042% monthly (0.0500% annualized); while the mission fee to participants in the Unitas Long-Term Funds is 0.1250% quarterly (0.5000% 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, 2014 and 2013, the Diocese charged Unitas \$114,622 and 104,433, respectively, for administrative services.

(7) Subsequent Events

In connection with the preparation of the financial statements, Unitas evaluated events subsequent to August 31, 2014 through January 7, 2015, which was the date the financial statements were available to be issued, and concluded that no additional disclosures were required.