



UNITAS INVESTMENT FUND, INC.

Financial Statements

August 31, 2007 and 2006

(With Independent Auditors' Report Thereon)



KPMG LLP
345 Park Avenue
New York, NY 10154

Independent Auditors' Report

The Board of Directors
Unitas Investment Fund, Inc.:

We have audited the accompanying statements of net assets of the Unitas Investment Fund, Inc. (Unitas), including the condensed schedule of investments as of August 31, 2007 and 2006, 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 the Unitas Investment Fund, Inc. as of August 31, 2007 and 2006, 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

March 31, 2008

UNITAS INVESTMENT FUND, INC.

Statements of Net Assets

August 31, 2007 and 2006

Assets	<u>2007</u>	<u>2006</u>
Investments, at fair value:		
Common stock (cost \$102,047,781 and \$84,710,645, respectively)	\$ 107,707,851	88,993,944
Commingled fund (cost \$10,000,000 and \$10,000,000, respectively)	14,298,418	11,917,628
Real estate investment trust (cost \$0 and \$1,592,038, respectively)	—	1,647,244
Fixed income securities (cost \$259,075,711 and \$223,428,595, respectively)	203,632,862	222,283,389
Futures contracts (cost \$97,054 and (\$11,582), respectively) (note 4)	<u>97,054</u>	<u>(41,944)</u>
Total investments, at fair value	325,736,185	324,800,261
Cash and cash equivalents	22,741,397	45,247,606
Receivables:		
Investment securities sold	48,902,509	26,201,467
Interest and dividends	<u>1,460,730</u>	<u>1,656,721</u>
Total assets	<u><u>\$ 398,840,821</u></u>	<u><u>397,906,055</u></u>
Liabilities and Net Assets Available for Participants		
Liabilities:		
Payable for investments purchased	\$ 49,938,552	66,375,909
Interest payable for short sales	—	47,783
Other liabilities	<u>140,000</u>	<u>407,048</u>
Total liabilities	50,078,552	66,830,740
Net assets available for participants	<u>348,762,269</u>	<u>331,075,315</u>
Total liabilities and net assets available for participants	<u><u>\$ 398,840,821</u></u>	<u><u>397,906,055</u></u>

See accompanying notes to financial statements.

UNITAS INVESTMENT FUND, INC.

Condensed Schedule of Investments

August 31, 2007

	<u>Percentage of investments</u>	<u>Percentage of net assets</u>	<u>Fair value</u>
Common stock:			
Common stock – United States:			
Basic industries	0.47%	0.44%	\$ 1,534,281
Materials	0.28	0.26	919,408
Capital goods	5.51	5.15	17,948,607
Insurance	0.25	0.24	827,287
Consumer nondurables	2.38	2.22	7,750,470
Consumer services	3.80	3.55	12,384,458
Energy	3.60	3.36	11,719,476
Financial services	6.31	5.90	20,569,469
Healthcare	3.73	3.48	12,147,997
Media	1.75	1.63	5,692,960
Technology	4.56	4.26	14,865,051
Utilities	0.41	0.39	1,348,387
Total common stock – United States (cost \$102,047,781)	<u>33.05</u>	<u>30.88</u>	<u>107,707,851</u>
Commingled fund:			
International (cost \$10,000,000)	<u>4.39</u>	<u>4.10</u>	<u>14,298,418</u>
Fixed income securities:			
United States:			
U.S. Treasury bonds and notes	11.91	11.12	38,783,100
Inflation-indexed securities	0.18	0.17	599,394
Mortgage and asset-backed securities	37.64	35.16	122,619,605
Corporate obligations	10.37	9.68	33,769,940
Municipal bonds	0.47	0.43	1,515,364
Total United States (cost \$252,700,300)	<u>60.57</u>	<u>56.56</u>	<u>197,287,403</u>
Canada:			
Government-issued (cost \$575,827)	<u>0.17</u>	<u>0.15</u>	<u>539,251</u>
Foreign:			
Corporate bonds (cost \$5,387,947)	<u>1.64</u>	<u>1.54</u>	<u>5,357,346</u>
Mexico:			
Government-issued (cost \$411,637)	<u>0.14</u>	<u>0.13</u>	<u>448,862</u>
Total fixed income securities (cost \$259,075,711)	<u>62.52</u>	<u>58.38</u>	<u>203,632,862</u>
Futures contracts:			
United States:			
Treasury notes (cost \$97,054)	<u>0.04</u>	<u>0.03</u>	<u>97,054</u>
Total investments (cost \$371,220,546)	<u>100.00%</u>	<u>93.39%</u>	<u>\$ 325,736,185</u>

See accompanying notes to financial statements.

UNITAS INVESTMENT FUND, INC.

Condensed Schedule of Investments

August 31, 2006

	<u>Percentage of investments</u>	<u>Percentage of net assets</u>	<u>Fair value</u>
Common stock:			
Common stock – United States:			
Equity index swap	(0.01)%	(0.01)%	\$ (35,376)
Basic industries	1.21	1.19	3,930,598
Business services	0.71	0.70	2,303,534
Capital goods	2.55	2.50	8,268,846
Chemicals	0.44	0.44	1,441,432
Consumer nondurables	1.83	1.80	5,948,859
Consumer services	2.73	2.68	8,867,271
Energy	2.23	2.19	7,254,274
Financial services	5.49	5.38	17,799,033
Health care	3.77	3.70	12,255,591
Media	0.99	0.97	3,213,473
Transportation	0.32	0.32	1,043,305
Technology	4.48	4.40	14,565,370
Utilities	0.66	0.65	2,137,734
Total common stock – United States (cost \$84,710,645)	<u>27.40</u>	<u>26.91</u>	<u>88,993,944</u>
Commingled fund:			
International (cost \$10,000,000)	<u>3.67</u>	<u>3.60</u>	<u>11,917,628</u>
Real estate investment trust:			
United States (cost \$1,592,038)	<u>0.51</u>	<u>0.50</u>	<u>1,647,244</u>
Fixed income securities:			
United States:			
U.S. Treasury bonds and notes	7.99	7.84	25,960,550
Inflation-indexed securities	1.69	1.38	5,489,470
U.S. agencies	0.84	0.83	2,739,223
Mortgage and asset-backed securities	30.40	29.83	98,746,932
Corporate obligations	24.30	23.84	78,913,033
Municipal bonds	0.36	0.35	1,160,920
Private placements	2.02	1.98	6,569,470
Total United States (cost \$220,810,501)	<u>67.60</u>	<u>66.05</u>	<u>219,579,598</u>
Canada:			
Government-issued (cost \$576,171)	<u>0.17</u>	<u>0.17</u>	<u>561,925</u>
Russia:			
Government-issued (cost \$629,304)	<u>0.20</u>	<u>0.19</u>	<u>645,250</u>
Mexico:			
Government-issued (cost \$517,323)	0.19	0.19	615,104
Yankee bonds (cost \$589,275)	0.18	0.17	579,206
International corporate bonds (cost \$306,021)	0.09	0.09	302,306
Total Mexico	<u>0.46</u>	<u>0.45</u>	<u>1,496,616</u>
Total fixed income securities (cost \$223,428,595)	<u>68.43</u>	<u>66.86</u>	<u>222,283,389</u>
Futures contracts:			
United States:			
Treasury notes (cost (\$10,028))	<u>(0.01)</u>	<u>(0.01)</u>	<u>(27,125)</u>
International:			
Currency futures	—	—	(10,544)
Eurodollar futures	—	—	(4,275)
Total international (cost (\$1,554))	<u>—</u>	<u>—</u>	<u>(14,819)</u>
Total futures contracts (cost (\$11,582))	<u>(0.01)</u>	<u>(0.01)</u>	<u>(41,944)</u>
Total investments (cost \$319,719,696)	<u>100.00%</u>	<u>97.86%</u>	<u>\$ 324,800,261</u>

See accompanying notes to financial statements.

UNITAS INVESTMENT FUND, INC.

Statements of Operations

Years ended August 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Revenues:		
Investment income:		
Dividends and interest	\$ 11,259,019	12,784,300
Investment income	<u>11,259,019</u>	<u>12,784,300</u>
Realized and unrealized gains on investments:		
Net realized gain on investments	11,855,151	4,628,513
Net unrealized gain on investments	<u>5,072,000</u>	<u>646,177</u>
Net gain on investments	<u>16,927,151</u>	<u>5,274,690</u>
Total revenues	<u>28,186,170</u>	<u>18,058,990</u>
Expenses (note 5):		
Investment fees	1,287,693	1,371,332
Mission fees	817,839	736,704
General and administrative expenses	<u>157,288</u>	<u>164,640</u>
Total expenses	<u>2,262,820</u>	<u>2,272,676</u>
Net increase in net assets available for participants	<u>\$ 25,923,350</u>	<u>15,786,314</u>

See accompanying notes to financial statements.

UNITAS INVESTMENT FUND, INC.

Statements of Changes in Net Assets

Years ended August 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Net assets available for participants at beginning of year	\$ 331,075,315	335,625,334
Net increase in net assets available for participants	25,923,350	15,786,314
Add investor deposits	30,045,914	47,865,871
Less investor withdrawals	<u>(38,282,310)</u>	<u>(68,202,204)</u>
Net assets available for participants at end of year	<u>\$ 348,762,269</u>	<u>331,075,315</u>

See accompanying notes to financial statements.

UNITAS INVESTMENT FUND, INC.

Notes to Financial Statements

August 31, 2007 and 2006

(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 was 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 Short-Term Fund, which invests in short-term debt securities and money market instruments; and
- The Unitas Long-Term Funds, comprised 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 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; and
 - 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.

All financial assets are held for Unitas in custody accounts by a commercial bank and are actively managed by third-party investment managers. Unitas changed its custody accounts from Mellon to M&T Bank on August 1, 2007.

(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.

(c) *Investments*

Investments in equity securities with readily determinable fair values, the real estate investment trust, and all investments in debt securities are reported at fair value based on quoted market prices. The fair value of the investment in the commingled fund is based on fair value provided by the fund manager, which is reviewed by management for reasonableness.

UNITAS INVESTMENT FUND, INC.

Notes to Financial Statements

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Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the financial statements.

(d) *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 are credited (charged) monthly to the participants' balances, based on their pro rata participation in the funds.

(e) *Derivative Instruments*

Unitas follows the provisions of Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. SFAS Nos. 133 and 149 require that all derivative financial instruments be recognized in the financial statements and measured at fair value regardless of the purpose or intent for holding them. From time to time investment managers may invest in derivative instruments such as futures contracts and equity index swaps. The fair value of the derivatives held is based upon values provided by a third-party financial institution, which is reviewed by management for reasonableness.

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

(3) Financial Highlights

Financial highlights for the years ended August 31, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Total return ⁽¹⁾	8.68%	5.68%
Rates to average plan participant's balance:		
Expenses ⁽²⁾	0.67%	0.68%
Net investment income ⁽²⁾	7.97%	5.01%

UNITAS INVESTMENT FUND, INC.

Notes to Financial Statements

August 31, 2007 and 2006

Financial highlights are calculated for the participant balances taken as a whole. An individual participant's return and ratios may vary based on participation in different funds and timing of capital transactions.

- (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 the timing of transactions.

(4) Derivatives

At August 31, 2007, the notional amount of cash and cash equivalents and fixed income futures and swaps held was \$48,450,462 and \$35,400,000, respectively. At August 31, 2007, these derivative instruments had a fair value of \$97,054 and \$228,979, respectively.

At August 31, 2006, the notional amount of cash and cash equivalents and fixed income futures and swaps held was \$65,604,288 and \$15,360,054, respectively. At August 31, 2006, these derivative instruments had a fair value of (\$41,944) and (\$96,802), respectively.

(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 will be used for parish assistance to further the mission and ministry of the Church may be charged quarterly to investors. This fee is paid to the Mission Assistance Corporation, a related party.

The mission fee will only be charged if, after the mission fee is imposed, the fund would still have a positive return. The mission fee in the Short-Term Fund and Long-Term Funds is equal to 0.0042% monthly (0.05% annually) and 0.125% quarterly (0.5% annually), respectively.

(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, 2007 and 2006, the Diocese charged Unitas \$157,288 and \$164,640, respectively, for administrative services.