



UNITAS INVESTMENT FUND, INC.

Financial Statements

August 31, 2010 and 2009

(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, 2010 and 2009, 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, 2010 and 2009, 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

February 4, 2011

UNITAS INVESTMENT FUND, INC.

Statements of Net Assets

August 31, 2010 and 2009

Assets	2010	2009
Investments (note 3):		
Common stock (cost \$44,337,485 and \$41,915,193, respectively)	\$ 42,122,731	46,541,016
Commingled fund (cost \$9,496,213 and \$10,000,000, respectively)	10,576,100	10,546,990
Real estate investment trust (cost \$795,973 and \$964,846, respectively)	798,076	1,094,978
Fixed income securities (cost \$138,930,929 and \$169,953,352, respectively)	144,415,347	167,695,610
Total investments	197,912,254	225,878,594
Cash and cash equivalents	77,400	289,413
Receivables for investment securities sold	7,791,433	3,879,309
Total assets	\$ 205,781,087	230,047,316
Liabilities and Net Assets Available for Participants		
Liabilities:		
Payable for investments purchased	\$ 833,120	594,557
Other liabilities	77,430	381,875
Total liabilities	910,550	976,432
Net assets available for participants	204,870,537	229,070,884
Total liabilities and net assets available for participants	\$ 205,781,087	230,047,316

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)	<u>5.34</u>	<u>5.16</u>	<u>10,576,100</u>
Real estate investment trusts:			
United States (cost \$795,973)	<u>0.40</u>	<u>0.39</u>	<u>798,076</u>
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>
Foreign:			
Government issued (cost \$454,444)	0.24	0.23	481,222
Corporate bonds (cost \$1,046,295)	0.62	0.60	1,226,833
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.

Condensed Schedule of Investments

August 31, 2009

	<u>Percentage of investments</u>	<u>Percentage of net assets</u>	<u>Fair value</u>
Common stock:			
Common stock – United States:			
Materials	0.74%	0.73%	\$ 1,666,765
Industrials	2.94	2.90	6,635,032
Consumer nondurables	1.57	1.54	3,538,307
Consumer services	2.30	2.27	5,193,374
Energy	1.97	1.94	4,451,408
Financial services	2.85	2.81	6,445,486
Healthcare	2.80	2.76	6,324,795
Telecommunication	0.91	0.89	2,044,361
Technology	3.39	3.34	7,656,590
Utilities	0.92	0.91	2,086,357
Total common stock – United States (cost \$41,458,495)	<u>20.39</u>	<u>20.09</u>	<u>46,042,475</u>
Common stock – international foreign (cost \$456,698)	<u>0.22</u>	<u>0.22</u>	<u>498,541</u>
Total common stock (cost \$41,915,193)	<u>20.61</u>	<u>20.31</u>	<u>46,541,016</u>
Commingled fund:			
International – Sprucegrove (cost \$10,000,000)	<u>4.67</u>	<u>4.60</u>	<u>10,546,990</u>
Real estate investment trusts:			
United States (cost \$964,846)	<u>0.48</u>	<u>0.48</u>	<u>1,094,978</u>
Fixed income securities:			
United States:			
U.S. Treasury bonds and notes	2.57	2.54	5,815,618
U.S. Treasury bills	1.06	1.05	2,395,342
U.S. agencies	5.39	5.31	12,176,664
Corporate obligations	13.81	13.61	31,196,265
Municipal bonds	0.51	0.50	1,141,855
Prime obligations fund – Federated	21.25	20.96	48,005,967
Prime obligations fund – Vanguard	12.40	12.22	28,007,443
Taxable fixed income funds – Pimco	12.65	12.47	28,569,967
Government money market funds	4.60	4.53	10,386,489
Total fixed income securities (cost \$169,953,352)	<u>74.24</u>	<u>73.19</u>	<u>167,695,610</u>
Total investments (cost \$222,833,391)	<u>100.00%</u>	<u>98.58%</u>	<u>\$ 225,878,594</u>

See accompanying notes to financial statements.

UNITAS INVESTMENT FUND, INC.

Statements of Operations

Years ended August 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Revenues:		
Investment income:		
Dividends and interest	\$ 4,924,471	7,502,983
Investment income	<u>4,924,471</u>	<u>7,502,983</u>
Realized and unrealized gains (losses) on investments:		
Net realized gain (loss) on investments	5,715,891	(24,761,072)
Net unrealized gain on investments	<u>1,307,254</u>	<u>7,916,163</u>
Net gain (loss) on investments	<u>7,023,145</u>	<u>(16,844,909)</u>
Total revenues	<u>11,947,616</u>	<u>(9,341,926)</u>
Expenses (note 5):		
Investment fees	313,481	595,221
Mission fees	184,029	444,804
General and administrative expenses	<u>185,112</u>	<u>116,327</u>
Total expenses	<u>682,622</u>	<u>1,156,352</u>
Net increase (decrease) in net assets from operations	<u>\$ 11,264,994</u>	<u>(10,498,278)</u>

See accompanying notes to financial statements.

UNITAS INVESTMENT FUND, INC.

Statements of Changes in Net Assets

Years ended August 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Net assets available for participants at beginning of year	\$ 229,070,884	284,693,208
Net increase (decrease) in net assets from operations	11,264,994	(10,498,278)
Add investor deposits	71,413,431	55,260,785
Less investor withdrawals	(106,878,772)	(100,384,831)
Net assets available for participants at end of year	<u>\$ 204,870,537</u>	<u>229,070,884</u>

See accompanying notes to financial statements.

UNITAS INVESTMENT FUND, INC.

Notes to Financial Statements

August 31, 2010 and 2009

(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 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, 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;
 - 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.

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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 marketable securities are reported in the financial statements at fair value based on published market quotations.

In 2009, Unitas early adopted the measurement provisions of Financial Accounting Standards Board Accounting Standards Update No. 2009-12, *Fair Value Measurements and Disclosures – Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)* (ASU No. 2009-12), with respect to investments within its scope (including the commingled fund). This guidance allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent. In 2010, Unitas adopted the disclosure provisions of ASU No. 2009-12 (note 3). Because the net asset value reported by each 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 economic

UNITAS INVESTMENT FUND, INC.

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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

In 2010, Unitas adopted ASU No. 2009-06, *Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities*, in conjunction with its adoption of FASB Interpretation No. 48, *Accounting for Uncertainties in Income Taxes* (FIN 48) (now included in Accounting Standards Codification (ASC) Subtopic 740-10, *Income Taxes – Overall*). In accordance with FIN 48 and ASU No. 2009-06, Unitas accounts for uncertainties in income taxes recognized in Unitas’ financial statements using a threshold of more likely than not. The adoption of FIN 48 and ASU No. 2009-06 had no impact on Unitas’ financial statements.

(3) Investments

The following tables present the fair value hierarchy of investments as of August 31, 2010 and 2009:

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

Fair value measurements at August 31, 2009				
	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Common stock	\$ 46,541,016	46,541,016	—	—
Commingled fund	10,546,990	—	10,546,990	—
Real estate investment trust	1,094,978	1,094,978	—	—
Fixed income securities	167,695,610	135,357,490	32,338,120	—
Total	<u>\$ 225,878,594</u>	<u>182,993,484</u>	<u>42,885,110</u>	<u>—</u>

In 2010 and 2009, fixed income securities classified as Level 2 are corporate obligations and municipal bonds.

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As of August 31, 2010, the investment strategy for the commingled fund (an international, developed markets equity fund) is an emphasis on long term investments and focuses 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.

(4) Financial Highlights

Financial highlights for the years ended August 31, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Total return (1)	5.50%	(2.07)%
Rates to average plan participant's balance:		
Expenses (2)	0.31%	0.50%
Net investment income (2)	5.48	(4.06)

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.

(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 Diocese may be charged quarterly to investors. This fee is paid to the Mission Assistance Corporation, a Diocesan entity.

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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 (0.0500% annually) and 0.1250% quarterly (0.5000% annually), respectively.

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.

(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, 2010 and 2009, the Diocese charged Unitas \$110,762 and \$116,313, respectively, for administrative services.

(6) Subsequent Events

In connection with the preparation of the financial statements, Unitas evaluated events subsequent to the balance sheet date of August 31, 2010 through February 4, 2011, which was the date the financial statements were available to be issued, and concluded that no additional disclosures were required.