Independent Auditor's Report
FINANCIAL STATEMENTS

Year Ended June 30, 2013 with Comparative Totals for 2012

The Commonwealth Fund

We have audited the accompanying financial statements of The Commonwealth Fund (the "Fund") which comprise the statement of position as of June 30, 2013 and the related statements of activities and of cash flows for the year then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditor's 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 such 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 The Commonwealth Fund as of June 30, 2013 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The Commonwealth Fund's June 30, 2012 financial statements, and we have expressed an unmodified audit opinion on those audited financial statements in our report dated December 4, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Owen J. Flanagan & Co.

November 11, 2013

THE COMMONWEALTH FUND

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013 with comparative totals for 2012

	2013	2012
ASSETS		
Cash	$1,443,033	$3,347,522
Investments - At fair value (Notes 1, 2, and 3)	694,716,888	629,441,692
Interest and dividends receivable	218,419	129,042
Proceeds receivable from security sales - net	7,136	6,000,000
Taxes refundable	50,423	292,583
Prepaid insurance and other assets	156,237	57,690
Landmark property at 1 East 75th Street - At appraised value during 1953, the date of donation	275,000	275,000
Furniture, equipment and building improvements - At cost, net of accumulated depreciation of $2,791,921 at June 30, 2013 (Note 1)	4,370,669	4,520,017
TOTAL ASSETS	$701,237,805	$644,063,546
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	$1,174,249	$2,109,807
Program authorizations payable (Note 4)	20,722,315	19,842,731
Accrued postretirement benefits (Note 5)	5,009,509	4,602,212
Deferred tax liability (Note 6)	1,504,917	1,539,655
Total liabilities	28,410,990	28,094,405
NET ASSETS - Unrestricted	672,826,815	615,969,141
Total net assets	672,826,815	615,969,141
TOTAL LIABILITIES AND NET ASSETS	$701,237,805	$644,063,546

See notes to financial statements.

THE COMMONWEALTH FUND

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013 with comparative totals for 2012

	2013	**2012**
REVENUES AND SUPPORT:		
Interest and dividends	$4,639,166	$8,331,057
Royalties and other revenue	18,255	866
Total revenues and support	4,657,421	8,331,923
EXPENSES:		
Program authorizations and operating program	28,563,076	28,830,493
General administration	2,018,124	1,908,510
Investment management	5,670,379	5,239,404
Taxes (Note 6)	1,784,374	(430,611)
Retirement and other postretirement (Note 5)	174,725	(163,462)
Total expenses	38,210,678	35,384,334
Excess of revenues over expenses before net investment gains (losses)	(33,553,257)	(27,052,411)
NET INVESTMENT GAINS (LOSSES)		
Net realized gains on investments	92,085,800	42,428,162
Change in unrealized appreciation of investments	(1,674,869)	(59,739,041)
Total net investment gains (losses)	90,410,931	(17,310,879)
CHANGES IN UNRESTRICTED NET ASSETS	56,857,674	(44,363,290)
Net assets, beginning of year	615,969,141	660,332,431
Net assets, end of year	$672,826,815	$615,969,141

See notes to financial statements.

THE COMMONWEALTH FUND

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2013 with comparative totals for 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash provided by interest, dividends and other	$4,568,044	$8,248,005
Cash used to pay grants and program expenses	(27,362,828)	(29,057,087)
Cash used to pay administrative expenses	(3,008,409)	(1,506,435)
Cash used to pay investment expenses	(5,670,379)	(5,239,404)
Cash used to pay taxes	(1,213,475)	(301,750)
Cash used to pay unfunded retirement expenses	(174,725)	(10,769)
Net cash used by operating activities	(32,861,772)	(27,867,440)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of furniture, equipment and building improvements - net	(171,316)	(176,123)
Purchase of investments	(929,370,184)	(153,382,225)
Proceeds from the sale of investments	960,498,783	183,486,934
Net cash provided by investing activities	30,957,283	29,928,586
Net increase (decrease) in cash	(1,904,489)	2,061,146
Cash, beginning of year	3,347,522	1,286,376
Cash, end of year	$1,443,033	$3,347,522
Adjustments to reconcile change in net assets to cash used in operating activities:		
Change in net assets for the year	$56,857,674	$(44,363,290)
Depreciation	320,664	318,765
Net investment (gains) losses	(90,410,931)	17,310,879
Decrease (increase) in interest and dividends receivable	(89,377)	(83,918)
Decrease (increase) in taxes refundable - net	242,160	462,425
Decrease (increase) in prepaid insurance and other assets	(98,547)	253,932
Increase (decrease) in accounts payable and accrued expenses	(935,558)	68,452
Increase (decrease) in program authorizations payable	879,584	(465,668)
Increase (decrease) in accrued postretirement benefits	407,297	(174,231)
Increase (decrease) in deferred tax liability	(34,738)	(1,194,786)
Net cash used in operating activities	$(32,861,772)	$(27,867,440)

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Commonwealth Fund (the "Fund") is a private foundation supporting independent research on health and social issues.

a. *Investments* - Investments in equity securities with readily determinable fair values and all investments in debt securities are carried at fair value, which approximates market value. Assets with limited marketability, such as alternative asset limited partnerships, are stated at the Fund's equity interest in the underlying net assets of the partnerships, which are stated at fair value as reported by the partnerships. Realized gains and losses on dispositions of investments are determined on the following bases: FIFO for actively managed equity and fixed income, average cost for commingled mutual funds, and specific identification basis for alternative assets.

b. *Fixed Assets* - Furniture, equipment, and building improvements are capitalized at cost and depreciated using the straight-line method over their estimated useful lives.

c. *Contributions, Promises to Give, and Net Assets Classifications* - Contributions received and made, including unconditional promises to give, are recognized in the period incurred. The Fund reports contributions as restricted if received with a donor stipulation that limits the use of the donated assets. Unconditional promises to give for future periods are recorded when authorized by the Board and are presented as program authorizations payable on the statement of financial position at fair values, which includes a discount for present value.

d. *Use of Estimates* - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Fund's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of additions to and deductions from the statement of activities. The calculation of the present value of program authorizations payable, present value of accumulated postretirement benefits, deferred Federal excise taxes and the depreciable lives of fixed assets requires the significant use of estimates. Actual results could differ from those estimates.

e. *Cash* – Cash consists of all checking accounts and petty cash.

   At times the Fund's cash exceeds federally insured limits. This risk is managed by using only large, established financial institutions.

2. INVESTMENTS

Investments at June 30, 2013 comprised the following:

	2013	
	Fair Value	**Cost**
	(in millions)	
Global Equity	$271.3	$223.7
Alternative Equity	193.5	173.5
Private Partnerships	149.1	147.3
Fixed Income	61.5	55.7
Cash and Miscellaneous	19.3	19.3
	$694.7	$619.5

At June 30, 2013, the Fund had total unexpended investment commitments of approximately $78.4 million in private partnerships.

The Fund's investment managers may use futures contracts to manage asset allocation and to adjust the duration of the fixed income portfolio. In addition, investment managers may use foreign exchange forward contracts to minimize the exposure of certain Fund investments to adverse fluctuations in the financial and currency markets. At June 30, 2013 the Fund had no outstanding derivative positions.

Accounting guidance establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories.

Level 1 Inputs – Quoted prices in active markets for identical investments. In the case of funds, a reported NAV and full liquidity.

Level 2 Inputs – Other significant observable inputs (including quoted prices for similar investments, interest rates, etc). Hedge funds with reported NAV are included in this category. The Fund requires investments classified as level 2 to have at least quarterly liquidity.

Level 3 Inputs – Prices determined using significant unobservable inputs. Unobservable inputs reflect the Fund's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available. Investments in this category generally include private equity, venture capital, real estate, natural resources, gas and oil, and hedge fund investments with limited liquidity. The Fund invests in these investments to diversify its portfolio. The Fund expects the terms of these investments to last up to eleven years.

Investments are carried at fair value.

The fair value of alternative investments, including private equity and real asset funds, has been estimated using the Net Asset Value ("NAV") as reported by the management of the respective alternative investment fund. FASB guidance provides for the use of NAV as a "Practical Expedient" for estimating fair value of alternative investments. NAV reported by each alternative investment fund is used as a practical expedient to estimate the fair value of the Fund's interest therein and their classification within level 2 or 3 is based on the Fund's ability to redeem its interest in the near term. Because some of these investments are not readily marketable, their estimated value is subject to uncertainty and therefore may be different from the value that would have been used had a ready market for such investments existed.

Global equity investments consist of three different investments. One, with a fair value of $15.9 million, has daily liquidity with 10 days notice. The second, with a fair value of $214.2 million, has monthly liquidity with 100 days notice. The final investment, with a fair value of $41.2 million, has quarterly liquidity with 120 days notice.

In the alternative equity category, of the level 2 investments which are primarily hedge funds, there is one investment (fair value of $136.4 million) that has quarterly liquidity with 90 days notice. The remaining level 2 investments, numbering six, will be liquidated in the near term.

In the alternative equity category, the level 3 assets are as follows: one private equity investment with a fair value of $23.6 million that has an annual redemption ability with 100 days notice; one investment in private equity that has no redemption provisions and will liquidate as the underlying investments are sold over approximately the next 10 years; and one hedge fund ($3.5 million) that is awaiting liquidation.

In the fixed income category, there is one level 2 investment which is being liquidated over the next two years.

The private partnerships consist of 55 investments in real estate, oil and gas, venture capital and private equity partnerships. These investments will return capital under the partnership agreements and the Fund expects that this will happen over the next eleven years.

Investments are categorized as follows:

	2013			
	Total	**Level 1**	**Level 2**	**Level 3**
Global Equity	$271.3		$271.3	
Alternative Equity	193.5		162.5	$31.0
Private Partnerships	149.1			149.1
Fixed Income	61.5	$38.1	23.4	
Cash and Miscellaneous	19.3	19.3		
	$694.7	$57.4	$457.2	$180.1

The change in level 3 assets for 2013 is as follows:

	Balance 6/30/2012	Capital Additions	Distributions	Income	Balance 6/30/2013
Alternative Equity	$1.4	$32.1	$7.5	$5.0	$31.0
Private Partnerships	140.8	8.3	8.8	8.8	149.1
	$142.2	$40.4	$16.3	$13.8	$180.1

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value amounts have been determined by the Fund, using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Fund could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

All Financial Instruments Other Than Investments - The carrying amounts of these items are a reasonable estimate of their fair value.

Investments - For marketable securities held as investments, fair value equals quoted market price, if available. If a quoted market price is not available, fair value is estimated using quoted market price for similar securities. For alternative asset limited partnerships held as investments, fair value is estimated using private valuations of the securities or properties held in these partnerships. The carrying amount of these items is a reasonable estimate of their fair value. For futures and foreign exchange forward contracts, the fair value equals the quoted market price.

4. PROGRAM AUTHORIZATIONS PAYABLE

At June 30, 2013, program authorizations scheduled for payment at later dates were as follows:

July 1, 2013 through June 30, 2014	$16,611,643
July 1, 2014 through June 30, 2015	3,945,265
Thereafter	207,647
Gross program authorizations scheduled for payment at a later date	20,764,555
Less adjustment to present value	42,240
Program authorizations payable	$20,722,315

A discount rate of 1.07% was used to determine the present value of the program authorizations payable at June 30, 2013.

5. RETIREMENT AND OTHER POSTRETIREMENT BENEFITS

The Fund has a noncontributory defined contribution retirement plan, covering all employees, under arrangements with Teachers Insurance and Annuity Association of America and College Retirement Equities Fund and Fidelity Investments. This plan provides for purchases of annuities and/or mutual funds for employees. The Fund's contributions approximated 17% of the participants' compensation for the year ended June 30, 2013. Pension expense under this plan was approximately $1,050,000 for the year ended June 30, 2013. In addition, the plan allows employees to make voluntary tax-deferred purchases of these same annuities and/or mutual funds within the legal limits provided for under Federal law.

Effective July 9, 2002, the Fund established a Section 457 Plan for certain employees that provides for unfunded benefits with employer contributions made within the legal limits provided for under Federal law.

The Fund provides postretirement medical insurance coverage for retirees who meet the eligibility criteria. The postretirement medical plan, which is measured as of the end of each fiscal year, is an unfunded plan, with 100% of the benefits paid by the Fund on a pay-as-you-go basis. Such payments approximated $128,000 for the year ended June 30, 2013.

Contributions under the postretirement medical plan for the fiscal year ended June 30, 2014 are expected to be approximately $157,000. Additional required disclosure on the Fund's postretirement medical plan for the years ended June 30, 2013 and 2012 are as follows:

	2013	2012
Benefit obligation at June 30	$5,009,509	$4,602,212
Fair value of plan assets at June 30	-	-
Status - unfunded	5,009,509	4,602,212
Actuarial loss	-	-
Accrued benefit cost recognized	$5,009,509	$4,602,212
Net periodic expense	$535,092	$(38,369)
Employer contribution	$127,795	$135,861

Significant assumptions related to postretirement benefits as of June 30 were as follows:

	2013	2012
Discount rate	8.20%	7.40%
Health care cost trend rates - Initial	6.00%	6.30%
Health care cost trend rates - Ultimate	6.00%	6.30%

At June 30, 2013, benefits expected to be paid in future years are approximately as follows:

Year ended June 30, 2014	$157,000
Year ended June 30, 2015	$178,000
Year ended June 30, 2016	$174,000
Year ended June 30, 2017	$165,000
Year ended June 30, 2018	$174,000
Five years ended June 30, 2023	$856,000

6. TAX STATUS

The Fund is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code, but is subject to a 1% or 2% (depending if certain criteria are met) Federal excise tax on net investment income. For the year ended June 30, 2013 that excise tax rate was 2%. The Fund is also subject to Federal and state taxes on unrelated business income. In addition, the Fund records deferred Federal excise taxes, based upon expected excise tax rates, on the unrealized appreciation or depreciation of investments being reported for financial reporting purposes in different periods than for tax purposes.

The Fund is required to make certain minimum distributions in accordance with a formula specified by the Internal Revenue Service. For the year ended June 30, 2013, the Fund was required to distribute approximately $31.3 million dollars. The Fund has an undistributed amount of $1.3 million carried over to the next fiscal year.

In the Statements of Financial Position, the deferred tax liability of $1,504,917 at June 30, 2013 resulted from expected Federal excise taxes on unrealized appreciation of investments.

For the year ended June 30, 2013 and 2012, the tax provision was as follows:

	2013	2012
Excise taxes - current	$1,819,112	$764,175
Excise taxes - deferred	(34,738)	(1,194,786)
Unrelated business income taxes - current	-	-
Total taxes	$1,784,374	$(430,611)

7. CONTRIBUTIONS RECEIVED

In fiscal years 1987 and 1988, the Fund received a total of $15,415,804 as a grant from the James Picker Foundation, with an agreement that a designated portion of the Fund's grants be identified as "Picker Program Grants by The Commonwealth Fund." The Fund fulfills this obligation by making Picker Program Grants devoted to specific themes approved by the Fund's Board of Directors. For the year ended June 30, 2013 Picker program grants totaled approximately $1,296,000.

In April 1996, the Fund received The Health Services Improvement Fund, Inc.'s ("HSIF") assets and liabilities, $1,721,016 and $57,198, respectively, resulting in a $1,663,818 increase in net assets. In accordance with the erms of an agreement with HSIF, this contribution enables the Fund to make Commonwealth Fund/HSIF grants to improve health care coverage, access, and quality in the New York City greater metropolitan region. During the year ended June 30, 2013 grants in the amount of $50,000 were awarded.

During the year ended June 30, 2002, the Fund received a bequest of $3,001,124 from the estate of Professor Frances Cooke Macgregor as a contribution to the general endowment, with the amount of annual grants generated by this addition to the endowment to be governed by the Fund's overall annual payout policies. An additional amount of $100,000 was received during the year ended June 30, 2004. This gift was made with the provisions that in at least the five-year period following its receipt, grants made possible by it will be used to address iatrogenic medicine issues, and that grants made possible by the gift be designated "Frances Cooke Macgregor" grants. During the years ended June 30, 2013 the Frances Cooke Macgregor grants totaled approximately $571,000.

8. UNCERTAIN TAX POSITION

The Fund has not entered into any uncertain tax positions that would require financial statement recognition. The Fund is no longer subject to audits by the applicable taxing jurisdiction for periods prior to June 30, 2010.

9. LINE OF CREDIT

The Fund has a line of credit in the amount of $20 million. The Fund did not use this facility during the year ending June 30, 2013.

10. SUBSEQUENT EVENTS

In connection with the preparation of the financial statements, the Fund evaluated subsequent events after the statement of financial position date of June 30, 2013 through November 11, 2013 which was the date the financial statements were available to be issued.

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