Independent Auditor's Report
FINANCIAL STATEMENTS

Year Ended June 30, 2015 with Comparative Totals for 2014

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, 2015 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, 2015 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, 2014 financial statements, and we have expressed an unmodified audit opinion on those audited financial statements in our report dated November 10, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Owen J. Flanagan & Co.

November 9, 2015

THE COMMONWEALTH FUND

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015 with comparative totals for 2014

	2015	2014
ASSETS		
Cash	$ 2,922,502	$ 1,436,048
Investments - At fair value (Notes 1, 2, and 3)	761,076,940	755,346,914
Interest and dividends receivable	82,464	177,357
Proceeds receivable from security sales - net	32,933	4,284
Taxes refundable	96,086	850,726
Prepaid insurance and other assets	258,407	285,958
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 $3,439,142 at June 30, 2015 (Note 1)	4,012,868	4,144,349
TOTAL ASSETS	$ 768,757,200	$ 762,520,636
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	$ 686,054	$ 1,070,839
Program authorizations payable (Note 4)	19,847,260	19,310,793
Accrued postretirement benefits (Note 5)	6,459,816	5,217,250
Deferred tax liability (Note 6)	2,789,685	2,825,123
Total liabilities	29,782,815	28,424,005
NET ASSETS - Unrestricted	738,974,385	734,096,631
Total net assets	738,974,385	734,096,631
TOTAL LIABILITIES AND NET ASSETS	$ 768,757,200	$ 762,520,636

See notes to financial statements.

THE COMMONWEALTH FUND

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015 with comparative totals for 2014

	2015	2014
INVESTMENT GAINS, REVENUES AND OTHER:		
Net realized gains on investments	$ 42,725,794	$ 27,912,520
Change in unrealized appreciation of investments	(1,913,969)	66,941,422
Interest and dividends	2,430,552	4,661,485
	43,242,377	99,515,427
Less: Investment expenses	5,076,323	5,633,345
Taxes (Note 6)	920,702	1,855,966
Net investment gains	37,245,352	92,026,116
Royalties and other losses	(17,378)	20,922
Total investment gains, revenues and other	37,227,974	92,047,038
EXPENSES:		
Program authorizations	19,393,707	18,985,127
Operating programs (Note 7)	9,375,210	9,500,457
General administration	2,118,878	2,081,756
Retirement and other postretirement (Note 5)	1,462,425	209,882
Total expenses	32,350,220	30,777,222
CHANGES IN UNRESTRICTED NET ASSETS	4,877,754	61,269,816
Net assets, beginning of year	734,096,631	672,826,815
Net assets, end of year	$ 738,974,385	$ 734,096,631

See notes to financial statements.

THE COMMONWEALTH FUND

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2015 with comparative totals for 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash provided by interest and dividends	$ 2,525,445	$ 4,702,547
Cash used by royalties and other	(17,378)	20,922
Cash used to pay grants	(18,857,240)	(20,396,649)
Cash used to pay program expenses	(9,732,443)	(9,357,873)
Cash used to pay administrative expenses	(1,756,668)	(2,133,347)
Cash used to pay taxes	(201,500)	(1,336,063)
Cash used to pay investment expenses	(5,076,323)	(5,633,345)
Cash used to pay unfunded retirement expenses	(219,859)	(2,141)
Net cash used by operating activities	(33,335,966)	(34,135,949)
CASH FLOWS FROM INVESTING ACTIVITES		
Purchase of furniture, equipment and building improvements - net	(230,730)	(97,804)
Purchase of investments	(145,073,460)	(121,799,933)
Proceeds from the sale of investments	180,126,610	156,026,701
Net cash provided by investing activities	34,822,420	34,128,964
Net increase (decrease) in cash	1,486,454	(6,985)
Cash, beginning of year	1,436,048	1,443,033
Cash, end of year	$ 2,922,502	$ 1,436,048

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

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, 2015 comprised the following:

	2015	
	Fair Value	Cost
Global Equity	$ 308,591,465	$ 216,829,247
Alternative Equity	215,381,731	166,753,580
Private Partnerships	180,496,564	187,816,978
Fixed Income	43,807,564	37,290,816
Cash and Miscellaneous	12,799,616	12,799,616
	$ 761,076,940	$ 621,490,237

At June 30, 2015, the Fund had total unexpended investment commitments of approximately $95.5 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, 2015 the Fund had $7,400,000 in outstanding derivative positions. The unrealized loss on these positions is $136,000, which is included in unrealized gains and losses.

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 $237.7 million, has monthly liquidity with 100 days notice. The second investment, with a fair value of $63.6 million, has quarterly liquidity with 120 days notice. The third investment, with a fair value of $7.4 million, is an account used as a short-term holding for funds in transition.

In the alternative equity category, the level 2 investment is a hedge fund of funds that has quarterly liquidity with 90 days notice.

In the alternative equity category, the level 3 investments are as follows: one investment in private equity that has no redemption provisions and will liquidate as the underlying investments are sold over approximately the next three years; and one hedge fund ($2.8 million) that is awaiting liquidation.

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 seven years.

In the fixed income category, there is one level 2 investment which has liquidity equal to approximately one-third of the account value with 90 days notice.

Investments are categorized as follows (in millions):

	2015			
	Total	**Level 1**	**Level 2**	**Level 3**
Global Equity	$ 308.6		$ 308.6	
Alternative Equity	215.3		212.4	$ 2.9
Private Partnerships	180.5			180.5
Fixed Income	43.8	$ 21.1	22.7	
Cash and Miscellaneous	12.8	12.8		
	$ 761.0	$ 33.9	$ 543.7	$ 183.4

The change in level 3 assets for 2015 is as follows (in millions):

	Balance 6/30/2014	Capital Additions	Distributions	Income	Balance 6/30/2015
Alternative Equity	$ 41.1	$	$ (38.2)	$	$ 2.9
Private Partnerships	157.6	27.6	(18.1)	13.4	180.5
	$ 198.7	$ 27.6	$ (56.3)	$ 13.4	$ 183.4

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, 2015, program authorizations scheduled for payment at later dates were as follows:

July 1, 2015 through June 30, 2016	$ 13,915,012
July 1, 2016 through June 30, 2017	3,975,718
Thereafter	1,987,859
Gross program authorizations scheduled for payment at a later date	19,878,589
Less adjustment to present value	31,329
Program authorizations payable	$ 19,847,260

A discount rate of 0.79% (based on LIBOR) was used to determine the present value of the program authorizations payable at June 30, 2015.

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, 2015. Contributions to the Fund's defined contribution retirement plan were approximately $1,126,000 for the year ended June 30, 2015. 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(b) 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 medical insurance payments approximated $163,000 for the year ended June 30, 2015. Additionally, $4,843 was directly paid for retiree medical expenses, resulting in a total employer contribution of $167,843.

Contributions under the postretirement medical plan for the fiscal year ended June 30, 2016 are expected to be approximately $120,000. Additional required disclosure on the Fund's postretirement medical plan for the years ended June 30, 2015:

		2015
Benefit obligation at June 30	$	6,459,816
Fair value of plan assets at June 30		–
Status - unfunded		6,459,816
Actuarial loss		–
Accrued benefit cost recognized	$	6,459,816
Net periodic expense[1]	$	1,405,853
Employer contribution	$	167,843

(1) Net periodic expense is the change in the benefit obligation from the previous year plus the employer contribution.

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

	2015
Discount rate[2]	7.2%
Health care cost trend rates - Initial	6.0%
Health care cost trend rates - Ultimate	6.0%

(2) Trailing 10-year return on the endowment.

At June 30, 2015, benefits expected to be paid in future years are approximately as follows:

Year ended June 30, 2016	175,000
Year ended June 30, 2017	208,000
Year ended June 30, 2018	226,000
Year ended June 30, 2019	244,000
Year ended June 30, 2020	253,000
Five years ended June 30, 2025	2,067,000

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, 2015 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, 2015, the Fund was required to distribute approximately $36.6 million. The Fund has an undistributed amount of $10.1 million carried over to the next fiscal year.

In the Statement of Financial Position, the deferred tax liability of $2,789,685 at June 30, 2015 resulted from expected Federal excise taxes on unrealized appreciation of investments.

For the year ended June 30, 2015, the tax provision was as follows:

	2015
Excise taxes - current	$ 919,202
Excise taxes - deferred	(35,438)
Unrelated business income taxes - current	–
Total taxes	$ 883,764

7. OPERATING PROGRAMS

The Commonwealth Fund is a value-added foundation, working directly with grantees to develop projects, carry them out effectively and communicate results to policymakers and institutional leaders. It also conducts a large program of intramural research including national and international health care surveys and development and production of scorecards on health system performance. Operating programs include the non-grant expenses related to these activities in areas such as International Health Policy, Communications, Health Care Coverage and Access, and Tracking Health System Performance.

8. 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, 2015 Picker program grants totaled approximately $1,480,000.

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 terms 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, 2015 a grant in the amount of approximately $250,000 was 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, 2015 the Frances Cooke Macgregor grant totaled approximately $457,000.

9. 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, 2012.

10. LINE OF CREDIT

The Fund has an unsecured, committed line of credit with Bank of America in the amount of $20 million. The Fund did not use this facility during the year ending June 30, 2015.

11. CASH FLOW STATEMENT

The Fund has presented cash flows from operating activities in the statement of cash flows using the direct method. The following table reconciles total changes in net assets to net cash provided by or used in operating activities.

Adjustments to reconcile change in net assets to cash used in operating activities:		
Change in net assets for the year	$ 4,877,754	$ 61,269,816
Depreciation	362,211	324,124
Net realized and unrealized investment (gains) losses	(40,811,825)	(94,853,942)
Decrease (increase) in interest and dividends receivable	94,893	41,062
Decrease (increase) in taxes refundable - net	754,640	(800,303)
Decrease (increase) in prepaid insurance and other assets	27,551	(129,721)
Increase (decrease) in accounts payable and accrued expenses	(384,785)	(103,410)
Increase (decrease) in program authorizations payable	536,467	(1,411,522)
Increase (decrease) in accrued postretirement benefits	1,242,566	207,741
Increase (decrease) in deferred tax liability	(35,438)	1,320,206
Net cash used in operating activities	$ (33,335,966)	$ (34,135,949)

12. 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, 2015 through November 9, 2015 which was the date the financial statements were available to be issued.

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