Independent Auditors' Report

The Commonwealth Fund

We have audited the accompanying statements of financial position of The Commonwealth Fund (the "Fund") as of June 30, 2008 and 2007 and the related statements of activities and of cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, such financial statements present fairly, in all material respects, the financial position of the Fund at June 30, 2008 and 2007 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Owen J. Flanagan & Co.

October 29, 2008

THE COMMONWEALTH FUND
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 and 2007

	2008	2007
ASSETS		
CASH	$328,107	$374,518
INVESTMENTS – At fair value (Notes 1 and 2)	748,342,094	771,312,919
INTEREST AND DIVIDENDS RECEIVABLE	133,819	163,748
PROCEEDS RECEIVABLE FROM SECURITY SALES – NET	360,880	484,863
TAXES REFUNDABLE	1,009,149	–
PREPAID INSURANCE AND OTHER ASSETS	23,908	20,196
RECOVERABLE GRANTS	59,665	86,891
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 $ 1,316,995 at		
June 30, 2008 and $1,134,297 at June 30, 2007 (Note 1)	4,325,799	3,973,430
TOTAL ASSETS	$754,858,421	$776,691,565
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	$1,123,751	$1,410,281
Taxes payable – net	–	181,201
Program authorizations payable (Note 3)	18,026,149	17,216,632
Accrued postretirement benefits (Note 4)	2,194,182	2,194,182
Deferred tax liability (Note 5)	2,953,974	4,275,720
Total liabilities	24,298,056	25,278,016
NET ASSETS:		
Unrestricted	730,560,365	751,413,549
Total net assets	730,560,365	751,413,549
TOTAL LIABILITIES AND NET ASSETS	$754,858,421	$776,691,565

See notes to financial statements.

THE COMMONWEALTH FUND
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2008 and 2007

	2008	2007
REVENUES AND SUPPORT:		
Interest and dividends	$18,527,914	$10,950,773
Contribution and other revenue	–	73,779
Total revenues and support	18,527,914	11,024,552
EXPENSES:		
Program authorizations and operating program	34,896,076	27,156,624
General administration	2,066,699	2,019,445
Investment management	4,872,386	3,986,702
Taxes (Note 5)	(378,796)	2,751,130
Unfunded retirement and other postretirement (Note 4)	75,298	241,803
Total expenses	41,531,663	36,155,704
EXCESS OF EXPENSES OVER REVENUES BEFORE NET INVESTMENT GAINS	(23,003,749)	(25,131,152)
NET INVESTMENT GAINS:		
Net realized gains on investments	68,238,483	80,022,275
Change in unrealized appreciation of investments	(66,087,918)	46,717,255
Total net investment gains	2,150,565	126,739,530
CHANGES IN UNRESTRICTED NET ASSETS	(20,853,184)	101,608,378
Net assets, beginning of year	751,413,549	649,805,171
Net assets, end of year	$730,560,365	$751,413,549

See notes to financial statements.

THE COMMONWEALTH FUND
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets:	$(20,853,184)	$101,608,378
Net investment gains	(2,150,565)	(126,739,530)
Depreciation expense and retirement of assets	248,897	928,643
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Decrease in interest and dividends receivable	29,929	16,547
Increase in taxes refundable – net	(1,009,149)	–
Decrease in proceeds receivable from securities sales – net	123,983	487,569
Decrease (increase) in prepaid insurance and other assets	(3,712)	52,167
Decrease in recoverable grants	27,226	13,109
Increase (decrease) in accounts payable and accrued expenses	(286,530)	446,823
Decrease in taxes payable – net	(181,201)	(702,414)
Increase in program authorizations payable	809,517	1,354,006
Increase (decrease) in deferred tax liability	(1,321,746)	934,345
Net cash used in operating activities	(24,566,535)	(21,600,357)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of furniture, equipment, and building improvements – net	(601,266)	(227,154)
Purchase of investments	(384,535,842)	(380,100,469)
Proceeds from the sale of investments	409,657,232	402,192,601
Net cash provided by investing activities	24,520,124	21,864,978
NET INCREASE (DECREASE) IN CASH	(46,411)	264,621
CASH, BEGINNING OF YEAR	374,518	109,897
CASH, END OF YEAR	$328,107	$374,518
SUPPLEMENTAL INFORMATION–		
Taxes paid: excise and unrelated business income	$2,133,300	$3,290,058

See notes to financial statements.

THE COMMONWEALTH FUND

Notes to Financial Statements

Years Ended June 30, 2008 and 2007

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.

In accordance with Financial Accounting Standards Board Statement No.133, *Accounting for Derivative Instruments and Hedging Activities,* the Fund records derivative instruments in the statements of financial position at their fair value, with changes in fair value being recorded in the statement of activities. The Fund does not hold or issue financial instruments, including derivatives, for trading purposes. Both realized and unrealized gains and losses are recognized in the statements of activities.

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 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 generally accepted accounting principles 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, 2008 and 2007 comprised the following:

	2008		2007	
	Fair Value	Cost	Fair Value	Cost
U.S. Equities	$127,147,784	$135,831,825	$178,200,640	$150,499,301
Non-U.S. Equities	163,647,060	129,060,300	186,180,119	109,367,300
Fixed income	113,058,535	102,600,613	114,529,147	105,097,342
Short-term	13,108,097	13,108,097	8,037,978	8,037,978
Marketable alternative equity	121,695,638	70,284,736	110,157,503	54,169,656
Nonmarketable alternative equity	51,223,975	50,055,506	46,905,079	38,349,529
Inflation hedge	158,461,005	99,702,330	127,302,453	92,005,808
	$748,342,094	$600,643,407	$771,312,919	$557,526,914

At June 30, 2008, the Fund had total unexpended commitments of approximatwely $91.0 million in various nonmarketable alternative equity investments.

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, 2008 and 2007, the Fund had no outstanding derivative positions.

3. Program Authorizations Payable

At June 30, 2008, program authorizations scheduled for payment at later dates were as follows:

July 1, 2008 through June 30, 2009	$14,556,082
July 1, 2009 through June 30, 2010	3,457,070
Thereafter	181,951
Gross program authorizations scheduled for payment at a later date	18,195,103
Less adjustment to present value	168,954
Program authorizations payable	$18,026,149

A discount rate of 4.64 % was used to determine the present value of the program authorizations payable at June 30, 2008.

4. Unfunded 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% and 18% of the participants' compensation for the years ended June 30, 2008 and 2007. Pension expense under this plan was approximately $951,000 and $895,000 for the years ended June 30, 2008 and 2007, respectively. 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.

The Fund also has a group of former employees who retired prior to the inauguration of the above plan and certain other former employees to whom pension benefits have been approved, on an individual case basis, by the Board of Directors. Benefits under this program are paid directly by the Fund to these retirees. These pension payments approximated $71,000 for each of the years ended June 30, 2008 and 2007 In addition, the Fund provides health and life insurance to certain former employees.

Effective July 1, 2001, the Fund established a fully-funded Key Employee Stock Option Plan ("KEYSOP") for certain key executives which exchanges deferred compensation benefits for options to purchase mutual funds. In addition, the KEYSOP awarded options to purchase mutual funds to certain employees in exchange for certain pension benefits. The Fund no longer makes contributions to the KEYSOP.

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 $121,000 for each of the years ended June 30, 2008 and 2007.

Expected contributions under the postretirement medical plan for the fiscal year ended June 30, 2009 are expected to be approximately $121,000. Additional required disclosure on the Fund's postretirement medical plan for the years ended June 30, 2008 and 2007 is as follows:

Benefit obligation at June 30	$2,194,182	$2,194,182
Fair value of plan assets at June 30	–	–
Status – unfunded	$2,194,182	$2,194,182
Actuarial loss	–	–
Accrued benefit cost recognized	$2,194,182	$2,194,182
Net periodic expense	$120,825	$120,480
Employer contribution	$120,825	$120,480

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

	2008	2007
Discount rate	4.80%	5.03%
Health care cost trend rates – Initial	7.3%	7.3%
Health care cost trend rates – Ultimate	7.1%	7.1%

At June 30, 2008, benefits expected to be paid in future years are approximately as follows:

Year ended June 30, 2009	$121,000
Year ended June 30, 2010	$131,000
Year ended June 30, 2011	$148,000
Year ended June 30, 2012	$188,000
Year ended June 30, 2013	$193,000
Five years ended June 30, 2018	$929,090

5. 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 years ended June 30, 2008 and 2007, that excise tax rate was 1% and 2% respectively. 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, 2008, distributions approximating $16.6 million are required to be made by June 30, 2009 to satisfy the minimum requirements of approximately $37.1 million for the year ended June 30, 2008.

In the Statements of Financial Position, the deferred tax liability of $2,953,974 and $4,275,720 at June 30, 2008 and 2007, respectively, resulted from expected Federal excise taxes on unrealized appreciation of investments.

For the years ended June 30, 2008 and 2007, the tax provision was as follows:

	2008	2007
Excise taxes – current	$869,980	$1,686,925
Excise taxes – deferred	(1,321,746)	934,345
Unrelated business income taxes – current	72,970	129,860
	$(378,796)	$2,751,130

6. 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.

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 years ended June 30, 2008 and 2007, Picker program grants totaled approximately $1,902,000 and $1,346,000 respectively.

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, 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, 2008 and 2007, the Frances Cooke Macgregor grants totaled approximately $299,000 and $314,000, respectively.

8. Subsequent Event

Since June 30, 2008, the financial markets have continued to experience downward pressure. As of the close of business on October 28, 2008, the Wilshire 5000 U.S. Equities index had declined by 28.6% and the MSCI EAFE index had declined by 23.5%.

The approximate value of the Fund's investments at the close of business on October 28, 2008 was $569,000,000.

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