A MESSAGE FROM

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No university in the world exhibits such a spirit in such a concentrated form. It is what causes every student who passes through this community, whether undergraduate or graduate, to be changed for life and to leave it with an intellectual armament equal to unimagined challenges and opportunities. To return to the language of other kinds of annual reports, this is the value-added proposition of this enterprise. It is a kind of value that society around the world needs as it has never needed it before.

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THE PRESIDENT

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President Don Michael Randel stands in the three-story atrium of the new Center for Integrative Science. The atrium is the structure’s central point of synthesis, the largest of many spaces in the center where scientific investigators can meet to exchange ideas.
The results of the study were amazing: Among one hundred young Nigerian women with breast cancer, 80 percent had the most aggressive form of the disease. “I could hardly believe it,” says Olufunmilayo Falusi Olopade, Professor in Medicine and Director of the Center for Clinical Cancer Genetics at the University of Chicago Hospitals. “So we sampled another hundred women, then another and another. We looked at the tumors of four hundred women, and I kept seeing the same results, so finally I believed it.”

The research, which compared women of African and European ancestry, showed that the tumors in African women were very different—they were more likely to originate from basal-like cells than from the milk-secreting cells in the breast, they did not depend on estrogen for growth, and they were unresponsive to drugs such as tamoxifen.

“We were able to show that African women actually get a different disease than women of European ancestry,” says Olopade. “While most white women get slow-growing breast cancers, African and African-American women more often get the fastest growing and perhaps the deadliest form of breast cancer.”

These extraordinary insights contributed to Olopade’s being named a 2005 MacArthur Fellow—an honor popularly known as the “genius grant.” In the September announcement of Olopade’s selection, the John D. and Catherine T. MacArthur Foundation cited her work “translating findings on the molecular genetics of breast cancer in African and African-American women into innovative clinical practices in the United States and abroad.”

“In bridging continents with her innovative research and service models,” the foundation continued, “Olopade is increasing the probability of improved outcomes for millions of women of African heritage at risk for cancer.”

The root of the problem
Although in the United States it has long been known that young black women are much more likely to get breast cancer and to die from it than white women, the inequity is often blamed on such environmental factors as poverty or lack of access to health care. Olopade’s team and their
colleagues at the University of Calabar in Nigeria and the University of North Carolina overturned this idea by discovering that nature plays a very significant role in determining who gets breast cancer and who survives. The team also challenged two other long-held assumptions: that breast cancer is one disease—it may well be five or six, Olopade believes—and that researchers should not look at black women and white women differently—in fact, black women experience breast cancer so differently that they must have new methods of prevention, diagnosis, and treatment.

“We’ve thrown out assumptions and gone to the roots of the problem, literally,” Olopade says. “Now that we know why some women are so much more likely to get breast cancer, we can do something about it.”

The implications of the team’s discovery for health care practices are enormous, Olopade says. For example, white women in the United States tend to get breast cancer in their fifties and sixties, and their tumors are more easily detected by mammograms. But for women with the most aggressive form of breast cancer, beginning mammography at age forty—the standard recommended practice in the United States—is far too late. Physicians need to rethink how soon and how often to screen women at risk for the most aggressive forms of breast cancer, she says. In her Cancer Risk Clinic at the University of Chicago Hospitals, high-risk women and their daughters begin annual mammograms at age twenty-five, plus they are screened every six months with both ultrasound and magnetic resonance imaging.

Thinking differently

Olopade, who grew up in Nigeria, was a postdoctoral fellow at Chicago when she became interested in genetics. “One of the first things I learned about Chicago is that you’re expected to think differently and not accept the conventional wisdom,” she says. “Genetics seemed to offer a great number of new answers to many of the questions I was interested in.”
One year, returning to Nigeria for Christmas, she found herself spending a lot of time talking with and teaching African physicians about breast cancer. “If you come from the University of Chicago, that’s what you do—you teach,” she says. “You can’t help it; it stems from the spirit of inquiry you find here among faculty and students alike, with everybody learning from each other.” It was on that trip that Olopade observed that the Nigerian physicians seemed to be treating a different kind of disease. “That’s what started this whole project,” she says.

Olopade’s work exploring differences in breast cancer among black and white women is the first project of the Center for Interdisciplinary Health Disparities Research based at the University’s Institute for Mind & Biology. The center, one of eight in the United States funded by the National Cancer Institute, was established to understand and eliminate health differences among populations. Olopade is one of four principal investigators working to sort out all the genetic and environmental (lifestyle, socioeconomic, and social) factors that contribute to breast cancer and to differences in its incidence and nature among black and white women. She and her team are now developing ways to detect these cancers earlier and creating an integrated breast cancer program for women at risk.

“Most researchers are afraid to engage the community in research about genetics and race,” says Olopade. “But I don’t see this as a question of black or white but rather a question of genetics—what genes are common to what groups. In Chicago, we can have that conversation because of the incredible diversity of the community. Everyone understands that my interest in this research is to find cures for everybody.”

Coming full circle back to Olopade’s homeland, the University is now partnering with Nigeria’s University of Ibadan to establish a modern pathology laboratory. This is the first laboratory in a sub-Saharan African country (other than South Africa) that can detect the kind of cancer women have and diagnose it early.
Richard A. Epstein, the James Parker Hall Distinguished Service Professor in the Law School, covered an extraordinary and ecumenical range of subjects over a recent breakfast, and inevitably each topic stood trial in the court of his libertarian philosophy. The relentless rigor of his opinion notwithstanding, Epstein is a warm and generous conversationalist. A chatty question about where he biked in from—the stately Kenwood neighborhood—is happily met with a brief treatise on the propensity of state-imposed preservation controls to discourage owners from maintaining their historically significant property.

In the course of a hectic hour, Epstein offered opinions on eminent domain, theories of sexual dimorphism and their role in gendered decision-making, Thomas Hobbes and the antecedents of various strains of libertarianism, trade unionism and whether the ten-hour day is really in the best interest of workers, gay marriage, law school pedagogy, and, of course, the University of Chicago . . . among other topics. Midstream he takes a call from CNBC’s Kudlow & Company. A producer invites him to debate—that afternoon—the merits of the $253-million verdict against Merck over the painkiller Vioxx (a transcript of the August 23 debate can be found on the Web at http://www.law.uchicago.edu/news/epsteinlanier.html).

For Epstein, 2005 has been a typically prolific year. He was widely quoted as a fierce critic of the Supreme Court’s judgment in Kelo v. New London, which upheld the right of that city to condemn fifteen owner-occupied properties in the service of a private development initiative. He finished two manuscripts: one for the Cato Institute titled “How the Progressives Rewrote the Constitution” and a second on the regulatory travails of the pharmaceutical industry that will be published next year by Yale University Press. He has maintained an active consulting practice, working not only on pharmaceuticals, but also on high-tech, credit card, and communications issues—often as the champion of what he terms “afflicted industries.” And he keeps to a demanding teaching schedule with a bewildering array of old and new courses.
Refining the framework

But Epstein is perhaps most famous as the “intellectual guru” (a title bestowed by the New York Times) of the so-called “Constitution in Exile” movement. Epstein disdains participation in any intellectual movement, save his own. He defends his criticism of the New Deal social-democratic state not out of nostalgia, but because he believes it serves our nation less well than the classical liberal constitutional order that pays greater respect to the federalism and individual liberties enshrined in the Constitution. In essence, Epstein’s “limited government libertarianism” asserts that voluntary transactions between individuals produce the best social outcomes except where the state must intercede to effect a functioning society (such as in preserving social order and constructing and maintaining public roadways and other social infrastructure). As a scholar whose eclectic academic interests range from Roman law to employment discrimination to intellectual property, Epstein’s voice is critical in the most influential and complex legal debates of our era.

Despite, or perhaps because of, his broadly-cited opinions, Epstein must constantly work to refine his understanding of his own political framework. From one side comes the (partly deserved, he admits) stigma of the libertarian label. “Half the time I have to run from hard-line libertarians,” he laments, divorcing himself from the radical anti-statists. From the other side he cheerfully faces accusations that he is in the pocket of big business. To date, however, no one has seen fit to call him a Republican, as he is socially liberal on such questions as same-sex marriages and affirmative action. He insists that his small-government libertarian approach can support or undermine positions on all points of the political spectrum. He is a truth-teller, a commitment that governs his entire manner of being. “The single best way to deal with people who hold fundamentally different views is not to be apologetic about your opinions, but to go right after them,” he says.
“My attitude is talk is cheap, so let’s debate,” Richard A. Epstein said in an interview with Reason magazine (available online at http://reason.com/9504/epstein.apr.shtml). “I’m perfectly used to living in a world in which most people disagree. My intellectual style has always been that of a contrarian. I think that if there’s a position everybody thinks is right and is happy with, then they’re probably wrong.”

Getting ideas to the public
This is hardly the position of a partisan player, and his feisty independence has earned him the respectful fellowship of academics, students, and opinion makers alike. Reviewing Epstein’s book Principles for a Free Society: Reconciling Individual Liberty with the Common Good (Perseus Books, 1998), Paul A. Weissman wrote in the New York Times Book Review, “A common reaction to the writings of the conservative legal scholar Richard A. Epstein is that they are simultaneously outrageous and completely convincing.”

Epstein takes his job as a public intellectual seriously and notes that it’s an ever more demanding vocation. “It used to be that a person with a good education in the humanities could make an easy transition into public life and talk about political and social affairs. Now the basic vocabulary of discourse is such that you have to know the fundamentals of decision theory, psychology, economics, and mathematics in order to be a public intellectual—to try to figure out how the antidiscrimination or antitrust laws ought to work.”

Epstein holds that such an individual can only develop in a university and that for thirty-three years the University of Chicago has provided him the best possible home. The University’s culture and structure have fostered a remarkably stimulating environment where people are “evaluated not just on where they have been but on what they do now”—a spirit of cooperation and competition at the same time. “Chicago is a home of generalists, which includes people who are constantly jousting over four or five different fields.”

“Another advantage of this place is its physical closeness,” Epstein adds. “Walking from my office to the quad, I can have five nice conversations each lasting two minutes. The ability to have these short, spontaneous bursts helps make our campus very distinctive.”

How many such jousts does Richard Epstein get into daily? “Many,” he says with a smile.
UNEXPECTED NEW DATA
ABOUT SUICIDE TERRORISTS

“Terrorists are driven primarily by a political agenda. They may use religion as a recruiting tool, but their motivation is political.”
—Robert Pape

In the twenty years between 1981 and 2001, terrorists committed 187 suicide attacks worldwide. In the two years between 2001 and 2003, the number of suicide attacks reached an astonishing 128. This statistic, along with other striking revelations, is a result of Robert Pape’s research with the Chicago Project on Suicide Terrorism.

If the United States government ends up rethinking its current policy of fighting terrorists “where they live,” it may well be because of Robert Pape. The Chicago political scientist enjoyed a good deal more than fifteen minutes of fame following the May release of his book Dying to Win: The Strategic Logic of Suicide Terrorism (Random House, 2005), which sparked dozens of stories and editorials in the national media. But even before that he had gained the ear of senior government officials—he addressed Congressional leaders in a closed-door session, among others—with a painstaking analysis of suicide terrorism that reveals unexpected insights about perpetrators’ identities and motives.

Suicide terrorists are willing to kill themselves not because they are Islamic fundamentalists or have nothing to live for, according to Pape, but because suicide attacks have proved the most effective way for nationalist groups to repel occupying forces from their homelands. And they target democracies because democracies respond to public pressure. Under the circumstances, Pape concludes, the United States can expect continued suicide attacks as long as it maintains combat troops in the Persian Gulf region.

“The reaction has been, ‘Wow, this is really new and hard to take in,’ but they are taking it in,” says Pape of his government audiences, which have included Senator Richard Lugar, chairman of the Senate Committee on Foreign Relations; Congressman Henry Waxman, ranking member on the Government Reform Committee; former Secretary of Homeland Security Tom Ridge; the Department of Defense (which is being "astonishingly supportive"); and the Department of Justice. United Nations Secretary-General Kofi Annan has also reviewed Pape’s findings. “I’ve been asked some tough questions, but I’m getting a hearing on the data.” (Former President Bill Clinton included Dying to Win as one of his top five books for summer reading, as reported in the New York Observer.)
Filling an empirical “black hole”

Pape, who is Professor in Political Science and the College, first undertook his research in the wake of September 11. Like other national security experts, he was alarmed by an apparent increase in suicide terrorism, and he was surprised to discover that no one else—no think tank, no government, no scholar—was studying the phenomenon in isolation from terrorism in general. “Suicide terrorism was an empirical black hole,” he says.

It was a hole Chicago was uniquely situated to fill. Drawing from departments across the University—History, Economics, Political Science, and Near Eastern Languages & Civilizations, among others—Pape quickly assembled a multilingual team to investigate every instance of suicide terrorism that has occurred since Hezbollah started using the tactic in Lebanon twenty-five years ago. The fourteen professors and students of the Chicago Project on Suicide Terrorism have sifted through thousands of Arabic, Russian, Hebrew, and other foreign-language publications to gather critical demographic data about who commits suicide attacks and why.

“I had a hunch information might be available in local communities because these terrorist groups are trying to recruit people, and it turned out to be fantastically right,” says Pape. For instance, Sri Lanka’s Tamil Tigers, a secular group that created the suicide belt and has committed more suicide attacks than either Hamas or Islamic Jihad, puts out a celebratory annual “yearbook”—a treasure trove plumbed by a linguistics student from the 1960s who came back to the University to work on the project.

The Chicago Project’s first-of-its-kind database—which Pape has turned over to the United States government—yielded surprising
patterns. Pape assumed he would find that suicide terrorists were “depressed individuals living on the margins of society,” but “most are socially integrated, middle-class, and working as technicians, teachers, waitresses, and the like,” he says. The research also dispelled the conventional wisdom that Islamic fundamentalism is the driving force behind suicide attacks. “Terrorists are driven primarily by a political agenda,” says Pape. “They may use religion as a recruiting tool, but their motivation is political.” Following the July 2005 bombings in London, Prince Hassan of Jordan cited Pape’s research to support his contention that the perpetrators were motivated at least in part by a desire to change British foreign policy in the Middle East.

Where else but Chicago?

Policy makers might expect breakthrough ideas in international affairs to come more readily from New York or Washington, D.C., than from the American heartland, but the city of Chicago and the University have proved the ideal base for Pape and his team. “Chicago provides an independence from the East Coast activity traps that allows for quite profound rethinking and for the confidence to pursue new lines of logic,” he says. In addition, by providing start-up funding and taking over the “heavy-duty administrative functions,” the University enabled Pape to complete both his voluminous research and his book in just two years.

Investigators at Argonne National Laboratory, the University’s research partner throughout the lab’s history, are using the project’s data to inform the development of computer models that can help anticipate where acts of suicide terrorism are likely to occur. “Good, solid empirical work is the key to modeling work,” says Charles Macal, Co-Director of the federally funded Joint Threat Anticipation Center, a collaboration between the University and Argonne. “We’re looking into the social processes that may be relevant to producing suicide terrorism. We are trying to find the deeper relationships in the numbers: Pape has developed an understanding of the relationships that exist, and that gives us the grist to model the dynamics of the process.”

According to Macal, the social sciences have not historically been computationally intensive disciplines because computers haven’t been powerful enough, and “it takes years to establish durable and sustainable working relationships among investigators.” With both pieces in place at the Joint Threat Anticipation Center, there’s a “unique opportunity to make breakthroughs in this area,” he says.

Pape concurs. “My hope,” he says, “is that Chicago will become known nationally and internationally as the place to study suicide terrorism—in the United States if not the world.”
For most healthy people, a cut finger is no big deal. Hemostasis, a complex biochemical reaction network that regulates blood flow throughout the body, ensures that a clot occurs at the wound and nowhere else.

But introduce a clotting agent into a flask of blood, and the entire contents quickly turn into a mass of clots. Like many other dynamic biochemical networks, hemostasis has long eluded re-creation in the lab.

The problem, explains Rustem Ismagilov, Associate Professor in Chemistry and the College, is that hemostasis is a dynamic process. “It’s not an object—it’s defined by time and space, and it’s always in a flux of input and output, with all the components talking to one another. You can’t re-create that in a stirred flask.”

But rather than dismiss the challenge as too complex—as other researchers had—Ismagilov and his research team in the Department of Chemistry and Institute for Biophysical Dynamics tried a different tactic: they sought to mimic the “time and space” of hemostasis using inorganic compounds and the relatively new field of technology called microfluidics. Their successful results were announced in February 2005.

Something else equally notable is unfolding in Ismagilov’s lab—and it’s very much part of a venerable University of Chicago tradition. The Ismagilov Group, as the team calls itself, is a true democracy of ideas, and undergraduates are treated as full-fledged members of the lab along with graduate students and postdoctoral fellows.

“Everyone’s ideas are considered, and we work through problems together,” says Elena Lucchetta, a fourth-year Ph.D. student. “The undergraduates work with the graduate students, not for them.”

The level of participation for undergraduates is such that Ismagilov doubts it could happen at many other universities. “The undergraduates at Chicago are motivated, intellectually driven students,” he says. “They’re absolutely fantastic.”

Got ideas?
Bethany Johnson-Kerner, S.B.’05, was one of the coauthors (along with Ismagilov and graduate student Matt Runyon) of the paper published in
February outlining the blood-clotting simulation. “Every week we met to talk about what everyone else was doing,” she says. “Dr. Ismagilov holds us accountable for each other’s research, so even though I was working on one project with two other people, I had to be able to talk about the research of the entire lab as a whole.” This collaborative spirit convinced Johnson-Kerner to pursue a medical degree as well as a doctoral degree.

Joshua Tice, S.B. ’05, graduated with nine published Ismagilov Group papers to his name. He describes himself as “something of a loner in high school” who hated labs because “you had to have a partner.” That perspective was turned completely around at Chicago. “I really enjoyed the group mentality and the interactivity,” says Tice, who is now pursuing a doctorate in chemistry at Caltech. “You could just walk over to someone’s desk and find out what they were working on.”

Inspiring young investigators is hard work, Ismagilov says. “It isn’t about teaching people material, but rather how to interact, how to think independently and collaboratively at the same time. I spend eighty to a hundred hours a week maintaining the atmosphere in the lab, but it’s exceptionally rewarding.”

For the graduate students and postdoctoral fellows in the lab, Ismagilov’s example is a powerful one. “He’s not just interested in training great researchers,” says Lucchetta. “He wants you to be a great leader—a mentor to the next generation of academic researchers. It’s a much more expansive definition of what it means to be a professional scientist.”

**Breaking down big problems**

A signature of the Ismagilov Group is breaking down a complex biological system into simple components. “What the boss has done,” says Tice of Ismagilov, “is model a complex thing with a simple thing, which in turn enables him to make predictions about complex systems.”

Hemostasis encompasses some eighty different reactions, but the Ismagilov Group deconstructed them into a three-step process: initiation (clotting is triggered at the wound), inhibition (clotting is prevented from forming elsewhere), and precipitation (the clot forms).

Microfluidic technology provided the proving ground for the theory. On microchips made of silicone rubber, the team etched a bed of channels—thinner than human hair—that mimicked capillaries, arteries, and veins. Minute amounts of inorganic compounds (hence the name “microfluidics”) were then sent through the channels; thanks to innovative dispersion techniques developed by the group (and reported in a paper by Tice), the chemical reactions could
be precisely controlled to mimic those that occur in real hemostasis. When the researchers deliberately damaged one of the “capillaries,” the “clotting” occurred only at the vessel, while the rest of the flow continued.

The breakthrough gave scientists everywhere a new model for looking at other biochemical reaction networks. But the real-world applications are never far from Ismagilov’s mind—in fact, he’s working with Thuong G. Van Ha, Assistant Professor in Radiology, “to frame the right questions and translate these fundamental findings into something that could really change medicine.” The possibilities include everything from more effective anticoagulants to actual organ cultivation.

Just getting started

With its ability to both control and elucidate complex chemical and biological systems—as well as make research in these areas more efficient and cost-effective—the potential of microfluidics does indeed seem limitless.

In an April issue of Nature, the group announced another breakthrough, this time shedding new light on the robustness of cell differentiation. Once again employing microfluidics, a team led by Elena Lucchetta discovered that the biochemical networks controlling where body parts like wings and legs develop—a process known as patterning—persist even when fluctuations in temperature and environment are introduced.

Among other work underway in Ismagilov’s lab is a National Institutes of Health–funded collaborative project called the Accelerated Technologies Center for Gene to 3D Structure. The center is bringing together several promising instrumental, methodological, and software technologies to make genetic-based drug research more cost-effective.

Ismagilov was also a corecipient of a 2005 seed grant designed to encourage collaborations between Argonne National Laboratory and the University. A team co-led by Philip Laible of Argonne’s Biosciences Division is exploring the three-dimensional structure of membrane proteins, which help regulate what goes into or out of a cell. Currently, once the sample materials are obtained using Argonne’s membrane protein expression techniques, it takes weeks or months to produce crystals suitable for structural analysis. Ismagilov and Laible aim to cut down crystal-production time to days.

For all his lab has accomplished, Ismagilov remains convinced that it’s only the beginning. “I’m quite optimistic that the really important stuff is still out there,” he says. “We don’t know what cool, world-changing applications will come out of this.”


**NEVER SAY “NO”**

*Chicago talks about the world as it really is and uses that to figure out how the world could be.*—Nirav Shah

From 2002 to 2003, the chief economist at Cambodia’s National Institute of Public Health was a second-year student at the Pritzker School of Medicine—a self-described “brash kid” with no formal training in economics but with a wide-ranging intellect, an expansive global view of the world, and a passion for making things happen.

He was Nirav Shah, a Henry Luce Scholar who left the medical school for a year and a half to work within Cambodia’s public health system. Luce Scholars are recent college graduates of high intellectual and professional promise who are given internships in Asia in order to promote awareness of Asia in the United States. Although Shah intended to “be a fly on the wall” in Cambodia, within a few months he had been named to his government post and was directing a project that decreased corruption in the country’s troubled health care system by reducing bureaucracy at the local and national levels.

“It didn’t take me long to know that I didn’t just want to learn something; I wanted to do something,” he says. It helps that he speaks the language; he took an intensive Khmer course the summer before his first trip (he also speaks French, Spanish, Hindi, Gujarati, Mandarin, and some Thai).

Transformed by the Cambodia experience, Shah returned to Chicago with the idea of pursuing a Ph.D. in economics in addition to his M.D. “But then I realized that what I really wanted was to understand how large, complex systems work and how to make them more efficient,” he says. In response to this idea, law professor Richard A. Epstein—who has called Shah “possibly the eighth wonder of the world”—replied: “If that’s what you want, you should come to the Law School.”

Shah returned to Cambodia in the summer of 2005—this time as a fourth-year medical student, a second-year law student, and a new recipient of a Paul & Daisy Soros Fellowship for New Americans. The Soros Fellowship is designed to help students who are immigrants or the children of immigrants finance their graduate education. Shah’s goal was to study legal systems in Cambodia, with the intention of recommending reforms to a justice system that is in considerable disarray. He also planned to expand the scope of his work in the public health sector, a project he expects will be with him for life.
Shah says. “From the first time I came to the University of Chicago, no one has ever said ‘no’ to me. I had a grand plan—which eventually called for studying both law and medicine, and taking time off in between—and everyone supported me. When I announced my plan to leave medical school to study public health in a developing country, the response was, ‘That’s great.’ When I decided I really needed to know about the law, and that meant going to law school, the response was, ‘That’s great.’

“Chicago provides an environment where you are told you can do great things if you want to, and you believe it.”

On his first trip to Cambodia, Shah experienced a turning point when he went to the countryside to inspect a hospital called the Emerald Eye of the Buddha. “It was in a beautiful area, and it had a beautiful name,” he says. “But it was just a shell. I thought, ‘What’s going on here? The government is sending thousands of dollars, and there’s nothing here.’” He tracked down the hospital administrator, who reported that the hospital received no money at all because of corruption in the system. Shah learned that before funding allocated to a local hospital could reach its destination, it had to travel through as many as thirteen different levels. Because someone took a cut at each step, there was finally no allocation left for this particular hospital.

Shah’s solution: slim down the supply chain. He obtained a stopgap grant from a French nongovernmental organization, tapered off the salaries of the middlemen, and gradually eliminated seven administrative steps in the disbursement supply chain. As this happened, the dollars available for the hospitals expanded.

Making a difference

Three decades after the Khmer Rouge began a campaign of terror characterized by starvation, mass killings, and the obliteration of nearly every civil institution in the country, Cambodia’s health
care and legal systems have become riddled with chaos and corruption. A reform process is underway, and in the last few years Cambodia has begun to invite outside experts to speed the country’s path toward modernization, Shah says. Serving with him this summer were a South African lawyer and economist educated in London, another U.S. citizen who was formerly with the State Department, and three Cambodians who are among the first of a generation trained as lawyers. Shah’s idea to begin reform at the appellate level—encouraging judges to get training, adhere to precedent, commit to just outcomes—is based on the principle that “you start at the level where the hardest cases are tried and hope it goes down the chain.”

This kind of pragmatic, reality-based thinking is essential for anyone working in the developing world, Shah says. And it’s an attitude he believes has been nurtured at Chicago. “The University isn’t really about dogma or ideology. It’s about evidence and empiricism. Chicago talks about the world as it really is and uses that to figure out how the world could be.”

Shah says he’s also learned “there is no such thing as a foreign problem. Anything that happens anywhere in the world can affect us here. The University teaches you to look at a problem critically and examine what the data show. Don’t shy away from a hard problem or from hard questions.”

Back in Chicago, Shah is completing both his degrees. He hopes to one day become director of operations in Southeast Asia for an organization such as the World Health Organization or the World Bank. “I believe that institutions matter if we’re going to achieve development that is reliable and dependable,” he says. “I’d like to be at an organization where I can really make things happen.”
Highlights

Work of Center on Race Will Expand with $1 Million in Grants
The Center for the Study of Race, Politics, and Culture and its faculty affiliates were awarded more than $1 million in grants from the Ford, Mellon, and Robert Wood Johnson Foundations. The grants will support the research on African-American youth of Cathy Cohen, Professor in Political Science and former center Director, as well as graduate student fellowships and the Student Democracy Project.

Improved Cosmic Clock Calculates the Milky Way’s Age
Nicolas Dauphas, Assistant Professor in Geophysical Sciences, has developed a new way to calculate the age of the Milky Way, which eliminates the unvalidated assumptions found in previous methods. Dauphas compared the decay of two long-lived radioactive elements to more accurately estimate the age of our galaxy at 14.5 billion years, plus or minus more than 2 billion years.

Fighting the Plague: Research Points to Vaccine
Two studies funded by the National Institute of Allergy and Infectious Disease have shown how the bacteria that cause the plague outsmart the immune system and how slight alterations in one of the microbe’s tools may yield the first safe and effective vaccine. The research teams included Olaf Schneewind, Professor in Microbiology and Director of the Great Lakes Regional Center of Excellence for Biodefense and Emerging Infectious Diseases Research, and other University of Chicago scientists.

Tracking the Success of CPS Graduates
The Consortium on Chicago School Research will study the progress of Chicago Public Schools (CPS) students after they enter college and the workforce, and help CPS develop a system to track post-secondary students. The project led by Melissa Roderick, Professor in the School of Social Service Administration and consortium Co-Director, is funded by $2 million in grants from the Bill & Melinda Gates Foundation.

Human Brains Developed by “Intense Selection”
Researchers led by Bruce Lahn, Assistant Professor in Human Genetics, found that genes involved in brain development and function evolved much more rapidly in humans than in non-human primates or mammals. An enormous number of mutations acquired through exceptionally intense selection favored more complex cognitive abilities in humans, Lahn said.

Life-Changing Research and Discovery

Notable Achievements
Air Adds to Liquid Splash
Physicists have found that removing air eliminates the splash that occurs when liquid crashes onto a flat surface. The discovery by Sidney Nagel, the Stein-Freier Distinguished Service Professor in Physics; Wendy Zhang, Assistant Professor in Physics; and graduate student Lei Xu could lead to improvements in practical applications such as fuel combustion, ink-jet printing, and industrial washing.

Hope for Disease Prevention in DNA Research
The W. M. Keck Foundation named Chuan He, Assistant Professor in Chemistry, one of five Distinguished Young Scholars in Medical Research for 2004, supporting his work on DNA repair with a $1-million grant. He developed a new method to study the interactions between DNA and the repair proteins that try to protect genetic material from damage that can lead to cancer and other diseases.

Progress Stalls in Narrowing of Black-White Educational Achievement Gap
Research conducted by Derek Neal, Professor in Economics, has revealed that the narrowing of the educational achievement gap between African Americans and whites stalled during the past fifteen years. Neal contends that the gap is likely to persist for generations unless improvements are made in the early learning environments of African-American children.

Inhibiting Anthrax Toxins Leads to Therapies
Using new screening tools, researchers Wei-Jen Tang, Associate Professor in the Ben May Institute for Cancer Research, and Milan Mrksich, Professor in Chemistry, found three compounds that inhibit the toxins—edema factor and lethal factor—that have made anthrax a potentially deadly bioterror agent. Tang was awarded a Project BioShield grant of $440,000 to develop therapies to block the action of edema factor.

Ancient Mesopotamia Goes Online
The Oriental Institute’s Diyala Project—which excavated archeological sites northeast of Baghdad dating from 3200 to 1800 B.C.—will be published electronically in the largest online collection of excavated artifacts from ancient Mesopotamia. The Web site will include photographs of items on display at the Oriental Institute Museum, as well as previously unpublished portions of the collection and artifacts stolen from the Iraq National Museum.

Religious Beliefs Linked to Better Health
Researchers from the social and biological sciences and the Divinity School are examining the connection between physical health and religious beliefs under the direction of John Cacioppo, the Tiffany and Margaret Blake Distinguished Service Professor in Psychology. Early findings indicate that strong spirituality can yield measurable improvements in physiological functioning, health, and well-being, especially in difficult times. The study was launched with $1.8 million from the John Templeton Foundation.

Digital Imaging Recreates Chinese Art
The Center for the Art of East Asia is working with scholars in China to recreate the Xiangtangshan Caves, using 3-D imaging technology to digitally reconstruct the art in the sixth-century Buddhist cave temples that were ravaged by looters. The center also has digitized handscroll paintings that are too delicate to be viewed by hand. Wu Hung, the Harrie A. Vanderstappen, S.V.D., Distinguished Service Professor of Chinese Art History, is Director of the center. Funding from the Carpenter Foundation and the J. Paul Getty Trust supports the project.
Mellon Achievement Award to Opera Expert
Philip Gossett, the Robert W. Reneker Distinguished Service Professor in Music and one of the world’s foremost experts on Italian opera, was one of four humanities scholars to receive a 2004 Distinguished Achievement Award from the Andrew W. Mellon Foundation. The award provides $1.5 million to honorees and their institutions to extend humanistic research.

Jensen Cited for Transforming Cancer Treatment
The 2004 Lasker Award for Basic Medical Research was given to Elwood V. Jensen, the Charles B. Huggins Distinguished Service Professor Emeritus in the Ben May Institute for Cancer Research. The Lasker Foundation noted that the work of Jensen and his colleagues “transformed the treatment of breast cancer patients and saves or prolongs more than 100,000 lives annually.”

Divinity School Scholars Share Kluge Prize
Two former Divinity School professors shared the John W. Kluge Prize for Lifetime Achievement in the Human Sciences. The Library of Congress presented the $1-million award in December 2004 to religious historian Jaroslav Pelikan, Ph.D.’46; and Paul Ricoeur, the John Nuveen Professor Emeritus and one of the world’s leading philosophers, who died in May 2005.

Randel Cited for Academic Leadership
President Don Michael Randel was one of three university presidents nationwide to receive the inaugural Academic Leadership Award from the Carnegie Corporation, which provides $500,000 to support Chicago’s academic priorities. Randel was recognized for his leadership in enhancing undergraduate research opportunities and his work to create a unique school-community-University network on Chicago’s South Side.

Fellowships to Advance Liberal Arts Teaching
The estate of the late Katharine Graham, A.B.’38, former publisher of the Washington Post, gave $5.5 million to the University, designating $4 million to support the Society of Fellows in the Liberal Arts. The Katharine Graham Fellowships will support four, four-year positions, bringing some of the world’s most promising young scholars to teach liberal arts courses in the College.

MacArthur Taps Two for “Genius Grants”
Kevin Murphy and Olufunmilayo F. Olopade were named 2005 MacArthur Fellows by the John D. and Catherine T. MacArthur Foundation. Murphy, the George J. Stigler Distinguished Service Professor of Economics in the Graduate School of Business, was chosen for “revealing economic forces shaping vital social phenomena, such as wage inequality, unemployment, addiction, medical research, and economic growth.” Olopade, Professor in Medicine, was selected for her research on breast cancer in African and African-American women. (See page 3 for more on Olopade.)
Two Win Truman Scholarships for Public Service
College third-year students Anyu Fang and Kristin Greer Love were named Harry S. Truman Scholars. Fang, an Economics major, plans to use the $30,000 award to study human rights law. Love, a joint History and Law, Letters, and Society major, intends to pursue a career in children’s rights law.

Elie Wiesel Prize in Ethics Awarded to Fourth-Year Student
Peter Erickson was named a winner of the Elie Wiesel Prize in Ethics for an essay that earned him second place among 600 entrants in the competition. Erickson, a major in Interdisciplinary Studies in the Humanities, wrote about the relationship between ethics and literature. Erickson appears at left with author Wiesel.

Chicago Tops Fulbrights for Nineteenth Straight Year
For the nineteenth consecutive year, the University produced more winners of Fulbright-Hays Doctoral Dissertation Research Abroad fellowships than any other U.S. educational institution. Thirty Chicago graduate students received the fellowships. Awarded by the U.S. Department of Education, the fellowships support study in non-Western countries for periods of six to twelve months.

University Theater Team Takes Silver in Tech Olympics
Three undergraduates took second place for the second year at the Tech Olympics of the United States Institute of Theater Technology. Catharine Kollros, Keith Skretch, and Peter Sloan bested larger teams from theater powerhouse schools, demonstrating their prowess in such skills as costume quick change, light instrument focus, and sound system set-up.

Model UN Team Wins “Triple Crown” of College Diplomacy
The twenty-nine-member University of Chicago Model United Nations Team captured first place in the three leading competitions in simulated diplomacy. After taking first at the University of Pennsylvania and Yale University, the team capped the year by winning Harvard University’s National Model United Nations conference, attended by more than 2,000 student delegates.
Chicago Scholar-Athletes Hit the Record Books

The Maroons wrestling team won the 2005 University Athletic Association (UAA) Championship, marking their eleventh win in the eighteen-year history of the event and their fifth in as many years. Fourth-year Al Nguyen shared the UAA Most Outstanding Wrestler award. Head Coach Leo Kocher and his assistants were recognized as the UAA Coaching Staff of the Year.

The men’s cross-country team won the 2004 UAA Championship, the team’s second win in the past three seasons. Five Chicago runners placed among the top twenty-one, with fourth-year Jerome Tharaud taking fifth place.

Five Chicago athletes gained recognition as All-Americans in NCAA Division III: Ward Bortz in men’s tennis; pitcher Hannah Roberts in softball; Susie Gutowski in women’s basketball; Northe Saunders in men’s swimming; and midfielder Jacqui DeLeon in women’s soccer.

New Alliance Will Enhance Argonne’s Scientific Capabilities

The University has established a Science Policy Council in collaboration with Northwestern University and the University of Illinois, which will oversee the scientific mission of Argonne National Laboratory. The council is also expected to strengthen the state’s technological base and workforce preparation, and improve Illinois’ ability to gain federal research funding. The University has been Argonne’s manager and partner throughout the lab’s history and continues as its sole manager for the U.S. Department of Energy.

Marsh Returns as Dean of SSA

Jeanne Marsh, the George Herbert Jones Professor, was named Dean of the School of Social Service Administration. An expert on social services for children and families, Marsh had recently served as Acting Dean and earlier as Dean from 1988 to 1998.
Rosner Leads Argonne National Laboratory
Robert Rosner was named Director of Argonne National Laboratory in April 2005. As Associate Laboratory Director and Chief Scientist since 2002, he invigorated multiple areas of research and developed the lab’s twenty-year strategic plan for science and technology. The William E. Wrather Distinguished Service Professor in Astronomy & Astrophysics, Rosner will provide strategic vision, while developing effective partnerships between the U.S. Department of Energy, other government agencies, industry, and academia.

Holgate Is Senior Vice-President for University Resources
Randy L. Holgate, who has served as Vice-President for Development & Alumni Relations since 1994, was promoted to Senior Vice-President for University Resources. In this new position, she will direct University planning and efforts to increase gifts at the highest levels.

Schiller Appointed Vice-President for Development & Alumni Relations
Ronald J. Schiller joined the University as Vice-President for Development & Alumni Relations. With an outstanding record of creative and successful fund raising, he most recently served as associate vice-president and campaign director at Carnegie Mellon University.

Stein Named Vice-President and Chief Investment Officer
Peter D. A. Stein was named Vice-President and Chief Investment Officer. Formerly managing director of the Princeton University Investment Company, he is now responsible for the investment of the University’s $4.1-billion endowment and other financial assets.

Vázquez Leads Minority Student Affairs
Ana Vázquez was appointed Deputy Dean of Students in the University and Director of the Office of Minority Student Affairs. Previously director of multicultural student affairs at DePaul University, she will guide OMSA’s services and support for students of color.
Faculty Appointments: Professorships

The following faculty members were appointed to distinguished service and named professorships during academic year 2004–05.

Distinguished Service Professorships

Michael Dawson, the John D. MacArthur Distinguished Service Professor, Department of Political Science and the College

Larry Hedges, the Stella M. Rowley Distinguished Service Professor, Departments of Sociology and Psychology, Irving B. Harris Graduate School of Public Policy Studies, and the College

John Huizinga, the Walter David “Bud” Fackler Distinguished Service Professor, Graduate School of Business

Alan L. Kolata, the Neukom Family Distinguished Service Professor, Department of Anthropology and the College

Charles Larmore, the Raymond W. and Martha Hilpert Gruner Distinguished Service Professor, Department of Philosophy and the College

Wen-Hsiung Li, the James D. Watson Distinguished Service Professor, Department of Ecology & Evolution, Committee on Evolutionary Biology, and the College

James L. Madara, the Sara and Harold Lincoln Thompson Distinguished Service Professor, Department of Pathology; Dean, Division of the Biological Sciences and Pritzker School of Medicine; Vice-President for Medical Affairs

Kevin Murphy, the George J. Stigler Distinguished Service Professor, Graduate School of Business and Department of Economics
Thomas Pavel, the Gordon J. Laing Distinguished Service Professor, Departments of Romance Languages & Literatures and Comparative Literature, Committee on Social Thought, and the College

Robert B. Pippin, the Evelyn S. Nef Distinguished Service Professor, Department of Philosophy, Committee on Social Thought, and the College

Sheldon Pollock, the George V. Bobrinskoy Distinguished Service Professor, Department of South Asian Languages & Civilizations and the College

Raghuram G. Rajan, the Joseph L. Gidwitz Distinguished Service Professor, Graduate School of Business

Stephen Raudenbush, the Lewis-Sebring Distinguished Service Professor, Department of Sociology and the College

Richard Thaler, the Ralph and Dorothy Keller Distinguished Service Professor, Graduate School of Business

Kenneth W. Warren, the Fairfax M. Cone Distinguished Service Professor, Department of English Language & Literature, Committees on African & African-American Studies and the History of Culture, and the College

Named Professorships

Muzaffar Alam, the Carl Darling Buck Professor, Department of South Asian Languages & Civilizations and the College

Shadi Bartsch, the Ann L. and Lawrence B. Buttenwieser Professor, Department of Classical Languages & Literatures, Committees on the Ancient Mediterranean World and the History of Culture, and the College

Lauren Berlant, the George M. Pullman Professor, Department of English Language & Literature, Committees on African & African-American Studies, and the College

John R. Birge, the Jerry W. and Carol L. Levin Professor, Graduate School of Business

Emil Coccaro, the Ellen C. Manning Professor, Department of Psychiatry

James Conant, the Chester D. Tripp Professor, Department of Philosophy and the College

Peter Constantin, Louis Block Professor, Department of Mathematics and the College

Christopher Faraone, the Frank Curtis Springer and Gertrude Melcher Springer Professor, Departments of Classical Languages & Literatures and New Testament & Early Christian Literature, Committees on the Ancient Mediterranean World and Interdisciplinary Studies in the Humanities, and the College

Joe G. N. Garcia, the Lowell T. Coggeshall Professor, Department of Medicine

T. Conrad Gilliam, the Marjorie I. and Bernard A. Mitchell Professor, Department of Human Genetics and the College

Austan Goolsbee, the Robert P. Gwinn Professor, Graduate School of Business

Jeffrey Grogger, the Irving B. Harris Professor in Urban Policy, Irving B. Harris Graduate School of Public Policy Studies

Jonathan Hall, the Phyllis Fay Horton Professor, Departments of Classical Languages & Literatures and History, Committee on the Ancient Mediterranean World, and the College

Ziyad M. Hijazi, the George M. Eisenberg Professor, Departments of Pediatrics and Medicine

Robert Kottwitz, the William J. Friedman and Alicia Townsend Friedman Professor, Department of Mathematics and the College

Marta Ptaszynska, the Helen B. and Frank L. Sulzberger Professor, Department of Music and the College

José Quintans, William Rainey Harper Professor in the College and Department of Pathology; Associate Dean and Master, Biological Sciences Collegiate Division

S. Murray Sherman, the Maurice Goldblatt Professor, Department of Neurobiology, Pharmacology & Physiology and the College

Kazuo Yamaguchi, the Hanna Holborn Gray Professor, Department of Sociology and the College
The Chicago Initiative—the University's bold $2-billion capital campaign—reached the $1.3-billion milestone in June, thanks to the overwhelming support of more than 90,000 alumni and friends. This was one of the most successful years of fund raising in the history of the University, with gifts and pledges totaling $217 million. The University's Board of Trustees continues to provide extraordinary leadership for the campaign, giving a total of $252 million since the Initiative's launch.

This fiscal year marked the final year of service as campaign chair for Edgar D. Jannotta, LL.D.'04, whose leadership set the tone for the University's fund-raising efforts throughout the course of the first half of the Chicago Initiative. Jannotta leaves the Initiative chair position in the capable hands of Andrew M. Alper, A.B.'80, M.B.A.'81, who also serves as Vice-Chairman of the Board of Trustees and co-chair of the Graduate School of Business's capital campaign. Under the able leadership of the new campaign chair and other Trustees, the campaign continues to gain momentum and is gearing up for a strong finish.

Campaign Invests in Human Capital
During the coming years, the Chicago Initiative will focus on strengthening the University's most precious resource—its human capital. By investing in the people at the heart of this institution, the campaign will magnify the capacity of Chicago's exceptional faculty and students to creatively pursue ideas that improve lives and bring the world into sharper focus. When successfully completed, the Chicago Initiative will secure the financial resources to recruit and retain extraordinary faculty and support their groundbreaking research; enrich our commitment to undergraduate and graduate students, through scholarship support, fellowships, and programs and facilities designed to enhance the learning experience; and reaffirm our engagement with the community through initiatives in public education, precollege programs, and the Chicago Public Schools Scholarship Program.

University Recognizes the Generosity of Alumni and Friends
In May, the University honored the tremendous generosity of its leading supporters during Chicago Convenes, a daylong event that drew more than 500 Trustees, alumni, and friends back to campus for stimulating lectures with world-renowned faculty, classroom sessions in the College, and tours of some of Chicago's newest facilities. The occasion culminated in an elegant dinner in Rockefeller Memorial Chapel, where Gerald Ratner, Ph.B.'35, J.D.'37, was awarded the University of Chicago Medal for distinguished
service of the highest order. Additionally, twenty-three individual members and eighteen corporations and foundations were inducted into the Harper Society Founders Circle in recognition of cumulative gifts to the University of $1 million or more.

Chicago Society Acknowledges Annual Donors
Starting in 2004–05, the University’s top leadership donors were acknowledged by membership in the Chicago Society, a new University-wide initiative that recognizes generous alumni and friends who, each year, support the University of Chicago with leadership gifts of $2,500 or more. These annual gifts have enormous impact on the well-being of the University, fortifying programs of central importance to the University’s fundamental mission of teaching and learning, including undergraduate financial aid, graduate fellowships, and faculty support.

Thanks to the generosity of these and other donors, the campaign’s unqualified success thus far has enabled the University to build some of the finest academic facilities in the world.

Center for Integrative Science Advances Groundbreaking Research
The largest and most technologically advanced science facility ever built at the University, the Center for Integrative Science opened its doors in June. Designed in consultation with Chicago’s leading scientists, the 430,000-square-foot facility was built to accommodate research at the increasingly fertile intersections of biology, chemistry, physics, and computation. The facility’s custom-built laboratories support the high-impact research of 100 senior faculty and 700 students, while the center’s public spaces are designed to bring diverse specialists into daily contact to share ideas and findings. A world-class facility for a world-class faculty, the center is knitting the community of scientists at Chicago closer than ever before while fostering innovation and accelerating discovery.

Hy Milgrom, A.B. ‘35, made a $5-million gift to the Center for Urban School Improvement.
Trustee Scholarship Challenge Supports Student Aid

Recognizing the fundamental importance of investing in the brightest students, a group of University Trustees has issued a bold challenge to alumni and friends of the College: Make a gift for undergraduate scholarships and it will be matched with $1 for every $2 given. The challenge provides a unique opportunity to establish endowed scholarship funds at two-thirds the usual cost because the match will be added to the donor’s gifts. This means that, while the challenge continues, a donor can create a $1-million endowed scholarship with a contribution of just $667,000. Gifts of all sizes are welcome during the challenge; there is no minimum required to participate.

The Trustee Scholarship Challenge is expected to provide momentum toward reaching the College’s ambitious $100-million overall goal for student aid during the Chicago Initiative. It also empowers alumni and friends to have an even greater impact on opening the doors of a Chicago education to current and future generations of young scholars by magnifying the amount of their gifts.

Community Initiatives Enrich Campus, Surrounding Neighborhoods

The Chicago Initiative will strengthen the University’s ties to its most immediate community by developing human capital in South Side neighborhoods with a focus on educational leadership, economic development, and academic
A major institutional priority is improving urban public education through the University’s Urban Education Initiative (UEI). Comprised of interdisciplinary teams from virtually all of the University’s schools and units, UEI hones the skills of current and future teachers to better serve students in surrounding communities. The program is directly improving the quality of education offered to local students on Chicago’s South Side and generating models of success for other urban educators nationwide.

Since 1998, the University has operated the North Kenwood/Oakland Charter School, now under the auspices of UEI. This highly successful school provides an excellent education to Chicago Public Schools children while serving as a dynamic site for teacher training, research, and faculty development. In the coming years, the University plans to create four additional schools on the South Side under the same charter, including Donoghue for prekindergarten through eighth grade, which opened in fall 2005.

**In Recognition**

The University is grateful for all gifts made in support of the Chicago Initiative. Notable gifts this year include the following: Hy Milgrom, A.B.’35, made a $5-million gift to establish the Lillian Endowed Fund for the Urban Teacher Education Program in the Center for Urban School Improvement, the University’s multifaceted program to research and enact solutions to pedagogical, economic, and cultural problems that affect urban schools. John W. Rogers, Jr., LAB’76, together with his wife, Sharon Rogers, made a $2-million gift in support of a host of initiatives on campus, including scholarships at the Laboratory Schools, facilities at the Law School, and research at the Center for the Study of Race, Politics, and Culture. Jon Winkelried, A.B.’81, M.B.A.’82, made a $5-million gift in support of student scholarships, internships, and endowed professorships in the College and the Graduate School of Business.

Foundations and corporations also generously provided support for the campaign. Most notably, the John D. and Catherine T. MacArthur Foundation announced a $5-million endowment grant to the Center for Urban School Improvement in support of its work strengthening urban schools. Similarly, the Bill & Melinda Gates Foundation awarded the University a grant of $6 million to support the design and start-up of up to seven new high schools on the city’s South Side. Two of the schools will be University sponsored, and up to five additional schools will be started by other groups with assistance from the Center for Urban School Improvement.
The fiscal year that ended on June 30, 2005, was a very good year for the University of Chicago and the University of Chicago Hospitals. The financial performance of the University and the Hospitals was very strong, with a consolidated surplus from operations of $98.8 million or 4.7 percent of total revenue. In addition, both the University and the Hospitals opened important new facilities; the University completed a comprehensive review and extension of its master-planning process; and, through its capital campaign, the Chicago Initiative, the University raised a total of $217.1 million in gifts and pledges, the third highest single-year total in the history of fund raising at the University. During fiscal year 2005, the University prudently managed its endowment, invested in its physical plant, and successfully solicited gifts from alumni, parents, and friends. The bottom-line result is that the University of Chicago is in a stronger financial position than it was one year ago, with consolidated net assets of $5,205.4 million, an increase of $533.7 million or 11.4 percent.

In this narrative, the fiscal year 2005 activities of the University and the Hospitals are presented separately. In the accompanying excerpts from the audited financial statements (see STATEMENT OF OPERATING REVENUE AND EXPENSES AND BALANCE SHEET), the year-end results are displayed both separately and on a consolidated basis. While the financial statements present the University’s formal financial position in accordance with generally accepted accounting principles (GAAP), the discussion and figures on the following pages describe the University’s fiscal year 2005 revenue and expenditures on an operating budget basis. The underlying rules and conventions used in developing the operating budget are distinct from those in the audited financial statements. Similar terms are used in both, but the definitions and the specific amounts may be quite different.

The University’s Operating Budget
For the tenth consecutive year, the University’s operating budget was balanced. With revenues of $1,439.2 million against expenditures of $1,430.8 million, the University ended the fiscal year with a modest surplus of $8.4 million or .6 percent of total revenue (see FIGURE 1). During fiscal year 2005, revenues grew 7.9 percent, while expenditures increased 8.6 percent. On a GAAP basis, the results were also positive, with revenues exceeding expenditures by $9.6 million or .7 percent of revenue. The GAAP results include restricted endowment payout and gift revenue that was not spent.
**Revenue**

The principle sources of revenue were student tuition and fees; distribution from endowment; government and private gifts, grants, and contracts; and patient revenue (see figure 2).

For fiscal year 2005, total student charges (tuition, room, board, and fees) for the typical student in the College increased by 5.1 percent, to $40,353. Tuition and fees in fiscal year 2005 totaled $420.4 million, the largest single source of revenue, and accounted for 29.2 percent of the University’s total revenue. When financial aid for undergraduate and graduate students—a total of $174.7 million—is considered, net tuition totaled $245.7 million, an increase of $18.7 million or 8.2 percent over fiscal year 2004.

During fiscal year 2005, there were 13,602 full-time equivalent students enrolled at the University, including 4,515 in the College. In keeping with the University’s commitment to admit students to the College without regard to their ability to pay, the University provided more than $45.1 million in financial aid to 46.4 percent of the undergraduate student body. The average University scholarship for a first-year student with aid in the College was $19,273 (see figure 3).

For fiscal year 2005, the University’s Trustees authorized a distribution from endowment that was equal to 5.1 percent of the average market value of the endowment during the fiscal years 2001, 2002, and 2003. The 5.1 percent distribution excluded a special payout of .1 percent to support the Chicago Initiative. The Trustee-approved distribution provided a total of $176.8 million for operations, a decrease of 1.4 percent from the previous year. Of this total, $172.3 million was expended. In fiscal year 2005, the endowment’s contribution to the operating budget totaled 12 percent, down slightly from the fiscal year 2004 level of 12.4 percent.
Revenue from federal, state, and private gifts, grants, and contracts totaled $404.4 million, an increase of 7.8 percent over the previous year. This includes funding from government agencies, private corporations, individuals, and foundations to support the direct and indirect costs associated with research projects, instructional programs, and student aid. In fiscal year 2005, sponsored program funding accounted for 28.1 percent of total revenue. Federal grant and contract funding, principally for research, totaled $286.9 million. This included $218.4 million in direct support and an additional $68.5 million in reimbursement from research sponsors for facilities and administrative costs (also called indirect cost recovery). The Division of the Biological Sciences (BSD) accounted for $133.3 million or 61 percent of the direct support, an increase of 9.5 percent over fiscal year 2004. As a result, a large share of the reimbursement—57.1 percent—was generated by the BSD.

Patient care revenue is the second largest unrestricted revenue source behind tuition and fees. In fiscal year 2005, revenue from the clinical practices within the BSD generated $161.9 million, an increase of $14.7 million or 10 percent over fiscal year 2004. The increase was due largely to activity in the Department of Medicine, which experienced 16.7 percent growth. Radiation Oncology and Surgery also experienced large increases of 23.5 percent and 4.5 percent, respectively.

During fiscal year 2005, alumni, friends, parents, corporations, and foundations gave generously to the University of Chicago. Funds raised from all sources totaled $217.1 million, bringing the amount raised towards the campaign goal of $2 billion to more than $1.295 billion (see Figure 4). The
Figure 5.
Cash Gifts 1991–2005 Year-end Totals
(in millions of dollars)

Figure 6.
Operating Budget Expenditures

Figure 7.
Federal Funding by Agency
Chicago Initiative, the largest fund-raising effort in the history of the University, is scheduled to run through 2008. Of the total raised during fiscal year 2005, $18.4 million came as unrestricted support through the Annual Funds. Fiscal year 2005 was also a very good year in terms of cash gifts. Cash raised during 2005 of $184.5 million was the highest single-year total (see Figure 5).

**Expenditures**

During fiscal year 2005, spending totaled $1,430.8 million, an increase of 8.6 percent over fiscal year 2004 levels (see Figure 6). The University records spending in two ways—by purpose or function and by type of expenditure. For example, we track the funds that are expended for the purpose of instruction and patient care based on the activities those funds support. The cost of instruction therefore includes compensation and all other costs directly related to supporting that function. At the same time, we track and report compensation as a separate expenditure category.

Spending in support of instruction and patient care is the largest functional category of expense in the University’s budget. This category includes both regular and clinical instruction, patient care, departmentally funded research, and the administrative costs of the academic units. In fiscal year 2005, instruction and patient care expenses totaled $547.6 million or 38.3 percent of total spending.

Research costs, which include all of the direct costs associated with sponsored research, totaled $212.6 million or 14.9 percent, an increase of more than $26.7 million over fiscal year 2004 spending levels. Over the last five fiscal years, spending on research has increased from $131.1 million to $212.6 million, an average of 12.8 percent per year (see Figure 7 for the federal portion of research funding).

Providing financial assistance to undergraduate and graduate students is critical to the successful recruitment and retention of the nation’s brightest talent. During fiscal year 2005, the University devoted $174.7 million to financial aid, including $1.3 million for precollegiate, $45.1 million for undergraduate scholarships, and $128.3 million for graduate fellowships. Total spending for undergraduate financial aid rose 7 percent over the previous year, an increase that is, in part, due both to the increase in the cost of attending the University and to the University’s commitment to need-blind admissions. During fiscal year 2005, the total aid provided to an undergraduate student in the College from University and outside grants averaged $20,530, meaning that the average student on scholarship paid 50.3 percent of the total cost of attending the University of Chicago.

A total of $94.5 million was spent to support academic and student activities. This includes $16.1 million spent on the Library, $32.8 million for student life and athletics, and $45.6 million for computing. Combined, these funds represent about 6.6 percent of total spending.

Expenditures for the operation and maintenance of the physical plant totaled $84.1 million or 5.9 percent of total spending and included the costs to operate and maintain 136 buildings located on the 211-acre campus. Also included are the costs of utilities which totaled $32.2 million, an increase of $3.7 million over fiscal year 2004 spending. The increase in utility expense is due primarily to the increased cost of natural gas and to the costs of bringing the Center for Integrative Science, the GSB Hyde Park Center, and Comer Children’s Hospital on line. The operating expenses for Facilities Services totaled $13.8 million in fiscal year 2005, an increase of $.5 million or 4 percent over the prior year.

Embedded within the functional reporting categories are compensation costs. Salaries and benefits for faculty and staff totaled $769.7 million or 53.8 percent of total spending, up more than 7.4 percent over fiscal year 2004 levels. The increase is a result of pay raises for faculty and staff, which in fiscal year 2005 averaged 4.7 percent and 3.5 percent, respectively, an increase in the costs of benefits, and the added costs of new positions. Spending for employee benefits during fiscal year 2005 totaled $141.4 million, an increase of 8.7 percent or $11.3 million over fiscal year 2004 levels. This increase reflects the savings initiatives that resulted from the comprehensive review of
the benefits program conducted in 2003 and implemented over the last two years. In addition, both the University and the Hospitals made end-of-year contributions of $7 million to the defined-benefit pension plan. Based on current actuarial assumptions, it is anticipated that future contributions will be required to maintain the fund’s required funding status.

Other Financial Highlights and Issues
During the summer and fall of 2004, the University completed a series of tax-exempt bond financing transactions, all of which were designed to provide low-cost capital to underwrite the University’s aggressive capital projects agenda. These transactions included:

• the advance refunding of a $75-million, 5.1-percent issue. Used to purchase debt in the variable-rate market, it was swapped to fixed-rate debt at a long-term rate of 3.8 percent. The present value savings of the transaction was $11.4 million at 16.1 percent of the refunded bonds. The transaction resulted in gross savings of almost $22 million and annual savings of approximately $.6 million;

• the issuance of $100 million in fixed-rate bonds, the Series 2004A, with an average maturity of nineteen years. The true interest rate cost of this transaction was 4.6 percent; and

• the issuance of $100 million of weekly reset variable rate bonds. The initial interest rate was 1.7 percent.

The issuance of the new bonds and the refinancing of the older issue brought the total outstanding facilities-related debt to $991 million. The blended rate of the portfolio at June 30 stood at 4 percent, down from 4.1 percent at the end of fiscal year 2004 and 4.7 percent five years ago.

In preparation for these transactions, the University’s credit rating was reviewed by the three major rating agencies—Moody’s, Standard & Poor’s, and Fitch—and each agency maintained its rating at Aa1, AA, and AA+, respectively.

Insurance costs continue to rise. The cost of the University’s comprehensive insurance program for fiscal year 2005 was $29 million; of this about 85 percent or approximately $24.9 million was for medical malpractice coverage for the University’s clinical faculty. The University and the Hospitals share the cost of medical malpractice insurance. The University’s share is 55 percent of the total, which for fiscal year 2005 was $45 million, an increase of $7.5 million over fiscal year 2004. While the University’s total insurance expense increased by 17.1 percent over the prior year’s cost, this increase was considerably lower than the 55.2 percent increase experienced in fiscal year 2004. That fact notwithstanding, the University’s insurance program expense continues to be adversely affected by liability costs that are rising well above general inflation. Other major Cook County, Illinois, health care providers have had similar experiences.

The cost of supporting the Chicago Initiative and the University’s ongoing fund-raising activities totaled $26 million or 1.8 percent of total spending. Total spending for the Development operation included a $5-million special allocation from the endowment that was approved by the Trustees to support the campaign.

The Endowments
The University of Chicago has three endowments—one is financial, one is physical, and one is human. The first is comprised of financial assets. The second is comprised of the 136 buildings that shape and define the University campus. The third is our distinguished faculty. These three endowments serve the same purpose, but in different ways. The purpose of the financial assets is to provide a steady stream of income to the operating budget in support of the academic mission of the University. The physical endowment supports the same mission by providing the space in which the teaching and research activities of the University take place. The faculty is the principal agent for achieving the University’s twin mission of research and teaching. They are all enduring assets that, if managed carefully, will serve the University for generations to come.
The Total Return Investment Pool (TRIP)
The University of Chicago’s financial endowment, 98 percent of which is invested in the Total Return Investment Pool (TRIP), finished fiscal year 2005 with a market value of $4,113.9 million, including $155.3 million of Hospitals’ endowment. This represents an increase of $513.4 million from the June 30, 2004, value of $3,600.5 million. TRIP’s return, net of outside management fees, was 18.1 percent and was driven by strong capital markets. In contrast to recent years, every major asset class provided positive returns. Diversification further boosted returns, as alternative asset classes generally outperformed U.S. stocks and bonds. For instance, a benchmark-weighted 75 percent in U.S. stocks (based on the Russell 3000 Index) and 25 percent in U.S. bonds (using the Lehman Brothers Long-Term Treasury Index) would have returned only 10.3 percent. The University’s strong performance can be attributed to high returns in international markets, private equity, real assets, and high-yield bonds.

TRIP’s fiscal year 2005 performance compared very favorably when measured against the preliminary endowment returns of peer institutions. Based on these preliminary reports, the University’s performance ranks near the top among the nation’s twenty-five largest endowments and compares favorably among the Ivy Plus schools, our peer group (see Figure 8). Over longer periods, through fiscal year 2004, the University’s mean performance relative to the top twenty-five endowments has been consistently strong.

The endowment’s long-term performance is especially important given its dual role of providing support for current operations and for future generations. Between July 1, 1996, and June 30, 2005, with the help of solid investment returns, generous alumni support, and prudent spending, the endowment increased from $1,681.1 million to $4,113.9 million. During that period, Chicago earned an average annual return of 13 percent while gifts to endowment totaled $398.3 million.

Endowment Management and Asset Allocation
The Investment Committee of the Board of Trustees is responsible for overseeing the investment management of the funds. The committee’s all-volunteer members, most of whom have significant professional experience managing investments, are Trustees and alumni of the University.

Fiscal year 2005 presented special oversight challenges. Following the departure of the Vice-President and Chief Investment Officer in June 2004, the committee worked closely with
Investment Office staff and developed a set of interim policies that were designed to keep the University’s assets fully invested while the search for a new Chief Investment Officer proceeded. These policies and a close committee dialogue allowed staff to take a “business as usual” approach and to actively oversee the endowment’s asset allocation and investment managers. The interim period’s success was underscored by the strong return of 18.1 percent. The Investment Committee capped the year by announcing the appointment of Peter D. A. Stein as the new Vice-President and Chief Investment Officer starting in July 2005.

The endowment is well diversified among a variety of asset classes with the investment objective of earning equity-like returns with less volatility (see Table 1 and Figure 9). The strategic asset allocation is reviewed regularly and approved by the Investment Committee. Staff manage the allocations within specific committee-approved ranges. Deviations from the strategic asset allocation are the result of structural factors, such as:

### Table 1. Endowment Asset Allocation

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Strategic Target</th>
<th>Actual Allocation as of June 30, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Equity</td>
<td>23%</td>
<td>22.6%</td>
</tr>
<tr>
<td>International-Developed Market</td>
<td>9%</td>
<td>8.8%</td>
</tr>
<tr>
<td>International-Emerging Market</td>
<td>7%</td>
<td>9.6%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>20%</td>
<td>16.3%</td>
</tr>
<tr>
<td>Absolute Return</td>
<td>15%</td>
<td>18%</td>
</tr>
<tr>
<td>High-Yield Bonds</td>
<td>5%</td>
<td>4.9%</td>
</tr>
<tr>
<td>Total Equity and Equity-like Investments</td>
<td>79%</td>
<td>80.2%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>4%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Natural Resources</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>13%</td>
<td>11.8%</td>
</tr>
<tr>
<td>Cash</td>
<td>0%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Total Hedges</td>
<td>21%</td>
<td>19.8%</td>
</tr>
</tbody>
</table>

### Figure 9. Endowment Portfolio as of June 30, 2005

- Private Equity: 16.3%
- Developed International Equity: 8.8%
- Emerging International Equity: 9.6%
- Absolute Return: 18%
- High-Yield Bonds: 4.9%
- Real Estate: 3.5%
- Natural Resources: 4.0%
- Fixed Income: 11.8%
- Cash: 0.5%
- U.S. Equity: 22.6%
as the difficulty of accessing quality investment opportunities in sectors such as private equity, and active decisions by staff.

In order to meet the return objective, the asset allocation is biased in favor of a broad range of asset classes with equity-like characteristics. To reduce volatility and hedge against adverse equity markets, the endowment also has allocations to high-grade fixed income, real estate, and other real assets.

The Role of the Endowment
The fundamental purpose of the University’s endowed funds is to support the core academic mission of the University by supplying a steady source of income to supplement the operating budget. Currently, the endowment provides approximately 12 percent of total revenue. One of the goals in managing the endowment is to increase its contribution to the operating budget. To the extent that University operations can be supported from the endowment, scarce unrestricted funds can be allocated to other University priorities.

Spending from the endowment is used primarily for academic purposes, going toward faculty salary support, library acquisitions, maintenance of the buildings and classrooms, academic program support, and student aid (see Table 2).

Maintaining and growing the value of the endowment over time is critical to ensuring that the steady source of income the endowment provides will not be eroded. At the University of Chicago that is accomplished in a number of ways, including a well-diversified portfolio and a conservative spending policy.

Endowment Spending
The control of endowment spending, a critical factor in maintaining value over time, is a responsibility that is vested in the Trustees of the University. Each year as part of the budget process, the Trustees are asked to approve a level of spending that is within a range of 4.5 percent to 5.5 percent of a twelve-quarter average market value, lagged a year. The flexibility afforded the Trustees by virtue of the range allows them to lower the rate of spending during periods of market appreciation and to increase it during periods of decline. This spending rule, which was implemented with the fiscal year 2004 budget, is fairly conservative in its intent and is designed to strike a healthy balance between long-term asset preservation and prudent spending for current operations. It has the added benefit of cushioning the payout to the budget from sudden swings or shocks in the financial markets.

Facilities
At Chicago, the physical campus and the academic mission are inseparable. With a replacement value of over $3 billion, the campus is the center of University life. Comprised of approximately 11 million gross square feet of space in 136 buildings located on 211 acres, the facilities include libraries and museums, laboratories and hospitals, dormitories and classrooms, and dining halls and athletic facilities, all of which are crucial to meeting the institution’s research and educational goals and objectives. It is a great challenge to maintain and update our historic campus while preserving the traditional setting of the University. The total operating expense in fiscal year 2005 for maintenance of the buildings and grounds was $25.8 million, an increase of $3.5 million or 16 percent over the prior year. In addition, the University spent over $24 million to maintain and upgrade the existing buildings; this included substantial roof and façade repairs on three dormitories, roof replacements on several buildings,

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Market Value (in millions of dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td>$1,035.5</td>
</tr>
<tr>
<td>Instruction and Research</td>
<td>1,355.6</td>
</tr>
<tr>
<td>Professorships and Visiting Professors</td>
<td>853.3</td>
</tr>
<tr>
<td>Student Aid and Prizes</td>
<td>609.0</td>
</tr>
<tr>
<td>Hospitals</td>
<td>155.3</td>
</tr>
<tr>
<td>Library</td>
<td>106.0</td>
</tr>
<tr>
<td>Facilities</td>
<td>96.5</td>
</tr>
<tr>
<td>Lectureships</td>
<td>22.9</td>
</tr>
<tr>
<td>Loan Funds</td>
<td>3.7</td>
</tr>
<tr>
<td>Other</td>
<td>121.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$4,113.9</strong></td>
</tr>
</tbody>
</table>
and upgrades to the steam and chilled water distribution systems. Another $.5 million was spent on campus beautification projects, including the restoration of Botany Pond and the renovation of the corners at 57th Street and Ellis and University Avenues.

The University addressed the long-term physical needs of the campus in two significant ways during fiscal year 2005. It opened three new state-of-the-art facilities, and it embarked upon the fourth master planning effort in the history of the University.

**New Facilities**

During fiscal year 2005, the University and the Hospitals added three new facilities to the Hyde Park campus:

- The University of Chicago Graduate School of Business opened its new Hyde Park Center. At a cost of $125 million, the 415,000-square-foot building accommodates 1,100 full-time M.B.A. students, 110 Ph.D. students, and 200 staff members. The building includes 12 classrooms, 2 seminar rooms, 31 group study rooms, 42 interview rooms, and 167 faculty offices. The new space replaces space that the program occupied in five other campus buildings.

- In February 2005, the University of Chicago Hospitals opened the $148-million Comer Children’s Hospital. The 242,000-square-foot, 155-bed, 7-story facility provides an ultramodern, child-friendly setting for all inpatient children’s health services at the University Hospitals, including nationally recognized programs in cardiology, neurology, neonatology, transplantation, and other medical and surgical specialties.

- During the spring of 2005, the University opened the Center for Integrative Science. At a cost of approximately $200 million, the new facility provides 430,000 square feet of research space for faculty from the Divisions of the Biological Sciences and Physical Sciences, significantly strengthening our interdisciplinary research efforts.

**Master Planning**

Early in fiscal year 2005, the University embarked upon a comprehensive update of its campus master plan, the fourth such effort in its history. With the assistance of Ayers Saint Gross, the Baltimore-based architecture and planning firm, a process was launched that sought to merge the various planning efforts that were underway under the leadership of the deans and senior officers of the University and the administration of the University of Chicago Hospitals, to identify shared goals and potential conflicts, and to bring these efforts together as institutional priorities. From this process, which sought input from the entire University and Hospitals community, including our neighbors in the surrounding residential communities of Hyde Park, South Kenwood, North Kenwood, and Woodlawn, as well as the City of Chicago, the University was able to identify projects and establish guidelines to manage campus growth, in two phases, over the next two decades.

The plan will add approximately 2.3 million gross square feet of space, bringing the total to more than 13.5 million. During the first phase, to be completed by 2009, larger planned projects include a new research building for the BSD; an addition to Regenstein Library; and a new pediatric emergency department for the Hospitals. The south campus will see many new projects, including a new 900-bed undergraduate residence hall and dining facility; the Midway South Winter Garden; an office and Hospitals parking structure at Drexel Avenue and 61st Street; a University office and parking structure with retail at Woodlawn Avenue and 61st Street; and renovation of the Law School Tower and the Illinois Bell Building at 6035 South Kenwood Avenue. Renovations to the Research Institutes and Searle Chemistry Laboratory buildings for the Division of the Physical Sciences are also planned for phase one, as are expanded chilling capacity and other infrastructure improvements to support the increased demand that the new facilities will generate.

The new research building for the BSD—the Center for Biomedical Discovery (CBD)—is scheduled to open in 2008 as a 330,000-gross-square-foot facility located at Drexel Avenue and 57th Street. The $162.5-million building will
provide state-of-the-art laboratories for cancer, pediatrics, and medicine. The CBD will be physically connected to the Biological Sciences Learning Center, the Jules F. Knapp Medical Research Building, and the Center for Integrative Science.

The Regenstein Library Shelving Addition is scheduled to open in 2009 and will add 38,200 gross square feet to the west side of the Regenstein Library at Ellis Avenue and 57th Street. The $35.8-million addition will house an automated storage and retrieval shelving facility that will increase the library’s overall shelving capacity by approximately 3.5 million volumes and provide shelf space for approximately twenty-two years of new print acquisitions. The addition will also contain consultation space for users of the collections and space for the library’s preservation program.

The Hospitals’ new pediatric emergency department will be connected to the recently-opened Comer Children’s Hospital. This $50-million project is scheduled to relocate the current department from Mitchell Hospital by September 2006. The building is planned for 142,000 square feet and will be located on the west side of Drexel Avenue between 57th and 58th Streets, between Comer and the new Center for Integrative Science. Planning will soon begin for a new hospital pavilion to be located along Drexel Avenue just north of the pediatric emergency department building; this project is expected to be completed in 2011.

The new residence hall and dining facility is scheduled to open for the beginning of the 2008 academic year. The $125-million project will house 900 students in 391,000 square feet and will be located on a currently vacant site at the corner of Ellis Avenue and 61st Street, just south of the Burton-Judson Courts residence hall and dining facility.

During the second phase of the master plan extension, which extends to 2020, planned projects include a new center for creative and performing arts; Computer Science and Astronomy & Astrophysics buildings for the Division of the Physical Sciences; a new hospital pavilion (discussed above); an office building for the BSD; and a Graduate School of Business portal and residential commons. Other projects include the renovation and expansion of spaces for the Irving B. Harris Graduate School of Public Policy Studies, the Law School, and the School of Social Service Administration; renovation of Stagg Field and a new parking structure adjacent to the field; expansion of space for the Smart Museum of Art and Court Theatre; a north campus residence hall and dining facility; and a hotel/residential/parking facility on a site to be determined.

The Faculty
The University’s faculty constitutes an extraordinary asset that is harder to build or rebuild than its financial and physical assets. Many of the schools and departments are ranked in the top ten in the country, and several are in the top five. The faculty, in one way or another, have made an enduring impact on the world through their discoveries and transmission of new knowledge. Driven by an intense curiosity and work ethic, they are among the very best, whether judged by the receipt of Nobel Prizes and other honors, by the rate and quality of publications, by the impact of those publications, or by the influence of their ideas. Indeed, a credible claim can be made that in proportion to size and endowment support the University’s faculty accomplishes more than any other in the country (see Figure 10).

Figure 10.
Faculty Size by Area: Fiscal Years 2001 to 2005

<table>
<thead>
<tr>
<th>Year</th>
<th>BSD</th>
<th>Arts and Sciences</th>
<th>Other</th>
<th>Professional Schools</th>
</tr>
</thead>
<tbody>
<tr>
<td>00-01</td>
<td>1,166</td>
<td>1,164</td>
<td>1,157</td>
<td>1,169</td>
</tr>
<tr>
<td>01-02</td>
<td>1,166</td>
<td>1,164</td>
<td>1,157</td>
<td>1,169</td>
</tr>
<tr>
<td>02-03</td>
<td>1,166</td>
<td>1,164</td>
<td>1,157</td>
<td>1,169</td>
</tr>
<tr>
<td>03-04</td>
<td>1,166</td>
<td>1,164</td>
<td>1,157</td>
<td>1,169</td>
</tr>
<tr>
<td>04-05</td>
<td>1,166</td>
<td>1,164</td>
<td>1,157</td>
<td>1,169</td>
</tr>
</tbody>
</table>
Results for the University of Chicago Hospitals and Health System

The University of Chicago Hospitals and Health System achieved another year of excellent financial performance in 2005. Following the University’s basis of accounting, the Hospitals’ excess of revenues over expenses totaled $89 million. This compares to $55 million in 2004. These earnings provide the resources to invest in human capital, clinical programs, technology, and facilities at a nationally competitive level, on the course set forth in the Vision 2010 strategic plan adopted by the Hospitals’ Board of Trustees in April 2004.

In 2005, the inpatient census rose by 2 percent and emergency room visits grew by 9 percent. While overall admissions and clinic visits were essentially flat, the Hospitals saw a significant shift in the complexity of care provided; for example, the volume and intensity of outpatient cancer treatment increased by 30 percent.

Revenues, including payout from endowments and other investments, totaled $837 million in 2005. Net of the new Medicaid provider tax paid, revenue was up 13 percent. This growth reflects the continuing strength of programs in complex care that draw patients from throughout the region, as well as the $15-million positive net impact from the provider tax and the larger recoveries from prior year reserves.

Expenses for compensation, supplies, services, depreciation, interest and other operating costs (net of the provider tax) increased by 9 percent. The higher spending is a direct result of the greater intensity of care provided, as well as competitive salaries and benefits for highly skilled staff, the introduction of new drugs and medical technology, rapidly rising insurance expense, clinical program investments, and operating costs for the new Comer Children’s Hospital, which opened in February.

The Hospitals provided $50 million of charity care in 2005; without support from the new Medicaid provider tax, this would have been $65 million. These figures compare to $53 million in charity care provided in 2004, before the provider tax. The Division of the Biological Sciences of the University provided an additional $20 million of charity care in 2005, bringing the total charity care provided by the University and Hospitals in fiscal year 2005 to $70 million. Charity care includes the unreimbursed cost of care to those with no insurance, plus the amount by which costs exceed payments for patients covered by Medicaid. The University of Chicago Hospitals is among the largest providers of care to the poor and uninsured in Illinois.

In 2005, the Hospitals again transferred $15 million from net assets to the University’s BSD to fund academic renewal in clinical and basic sciences. In addition, operating expenses included over $56 million for program development, outpatient and specialty practice support, primary care, medical direction of hospital services, and supervision of residents. At over 8 percent of revenues, these funds represent a continuing commitment to the human capital represented by the division’s faculty, who serve as the medical staff for the Hospitals.

On the balance sheet, net assets increased by $94 million or more than 19 percent, to $577 million. Net property, plant, and equipment rose by $54 million, primarily due to spending on Comer Children’s Hospital. Excluding the application of $16 million of bond funds to the Comer project, investments increased by $73 million, building the capital base for future facility projects.

At a time of heightened uncertainty in the financing of health care, the University of Chicago Hospitals and Health System has sustained and funded a balanced commitment to patient care, community service, education, and research, and continues to secure the resources required to remain at the forefront of medicine.

Change in Net Assets

The consolidated balance sheet of the University and Hospitals at the end of fiscal year 2005 is substantially stronger than it was one year ago, with net assets increasing to $5,205.4 million.
from $4,671.7 million at the end of the prior year, an increase of 11.4 percent (see Figure 11). The consolidated total assets increased by $1,175.1 million or 17 percent, to $8,071.2 million at the end of the fiscal year (see Balance Sheet). The largest asset categories were cash and investments of $5,210.7 million (primarily the endowment) and net land, building, equipment, and books of $1,690 million. The increase in asset value was due in large part to the increase in endowment market value discussed above and an increase in land, buildings, equipment, and books of $164.1 million.

The consolidated total liabilities increased by $641.4 million or 28.8 percent, to $2,865.8 million. The largest liability category was notes and bonds payable, which increased by 21.8 percent to $1,492.8 million. This increase resulted largely from the increase in facilities-related debt to underwrite the capital projects agenda. Other factors contributing to the increase were an increase of $59.5 million or 13.8 percent in accounts payable and accrued expenses, and an increase of $15.2 million, or 9.9 percent in self-insurance liability due largely to increases in malpractice insurance discussed above.

**Conclusion**

The financial performance of both the University and the University of Chicago Hospitals during fiscal year 2005 was very strong. The operating surpluses and the increases in net assets in both the University and the Hospitals are strong indicators of improved financial strength. For the University, the growth in assets, primarily in the form of a larger endowment, will enable our aggressive agenda for academic and campus renewal to proceed unimpeded. The Hospitals performed well against the backdrop of the unrelenting fiscal pressures that characterize the health care environment. This performance is laying the fiscal foundation required to simultaneously invest in the future of academic medicine and sustain its vital role in providing service to the community. For each institution, the strong results achieved in fiscal year 2005 provide the needed foundation upon which our continued success will depend in the years to come.

Donald J. Reaves
Vice-President for Administration and
Chief Financial Officer

### Statement of Operating Revenue and Expenses (in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross tuition and fees</td>
<td>$420,361</td>
<td>$420,361</td>
<td>$393,186</td>
<td></td>
</tr>
<tr>
<td>Less: Undergraduate student aid</td>
<td>(46,259)</td>
<td>(46,259)</td>
<td>(43,123)</td>
<td></td>
</tr>
<tr>
<td>Graduate student aid</td>
<td>125,477</td>
<td>125,477</td>
<td>125,477</td>
<td>125,477</td>
</tr>
<tr>
<td>Net tuition and fees</td>
<td>241,791</td>
<td>241,791</td>
<td>227,023</td>
<td></td>
</tr>
<tr>
<td>Government grants and contracts</td>
<td>301,241</td>
<td>301,241</td>
<td>286,350</td>
<td></td>
</tr>
<tr>
<td>Private gifts, grants, and contracts</td>
<td>93,531</td>
<td>5,139</td>
<td>93,060</td>
<td>84,312</td>
</tr>
<tr>
<td>Endowment payout</td>
<td>176,840</td>
<td>7,074</td>
<td>159,914</td>
<td>186,700</td>
</tr>
<tr>
<td>Earnings on other investments</td>
<td>1,410</td>
<td>13,786</td>
<td>11,276</td>
<td>13,301</td>
</tr>
<tr>
<td>Patient care</td>
<td>161,873</td>
<td>783,862</td>
<td>945,715</td>
<td>821,905</td>
</tr>
<tr>
<td>Auxiliaries</td>
<td>165,725</td>
<td>160,725</td>
<td>160,576</td>
<td></td>
</tr>
<tr>
<td>Other income</td>
<td>127,504</td>
<td>53,479</td>
<td>160,759</td>
<td>149,221</td>
</tr>
<tr>
<td><strong>Total Operating Revenue</strong></td>
<td><strong>1,185,789</strong></td>
<td><strong>856,750</strong></td>
<td><strong>2,120,539</strong></td>
<td><strong>1,935,120</strong></td>
</tr>
</tbody>
</table>

### Compensation Expenses

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<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Academic salaries</td>
<td>350,219</td>
<td>350,219</td>
<td>331,348</td>
<td></td>
</tr>
<tr>
<td>Staff salaries</td>
<td>298,186</td>
<td>251,273</td>
<td>263,459</td>
<td>312,816</td>
</tr>
<tr>
<td>Benefits</td>
<td>141,366</td>
<td>68,416</td>
<td>208,802</td>
<td>187,609</td>
</tr>
<tr>
<td><strong>Total Compensation Expenses</strong></td>
<td><strong>769,681</strong></td>
<td><strong>359,709</strong></td>
<td><strong>1,653,590</strong></td>
<td><strong>1,670,743</strong></td>
</tr>
</tbody>
</table>

### Other Operating Expenses

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Utilities, alterations, and repairs</td>
<td>39,035</td>
<td>20,737</td>
<td>59,772</td>
<td>52,733</td>
</tr>
<tr>
<td>Depreciation</td>
<td>77,074</td>
<td>43,994</td>
<td>112,068</td>
<td>109,469</td>
</tr>
<tr>
<td>Interest expense</td>
<td>27,692</td>
<td>9,391</td>
<td>36,285</td>
<td>31,744</td>
</tr>
<tr>
<td>Supplies, services, and other</td>
<td>332,344</td>
<td>319,272</td>
<td>398,636</td>
<td>441,444</td>
</tr>
<tr>
<td>Insurance</td>
<td>28,977</td>
<td>20,905</td>
<td>49,882</td>
<td>41,957</td>
</tr>
<tr>
<td><strong>Total Other Operating Expenses</strong></td>
<td><strong>304,522</strong></td>
<td><strong>356,099</strong></td>
<td><strong>786,622</strong></td>
<td><strong>779,393</strong></td>
</tr>
</tbody>
</table>

### Total Operating Expenses

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td><strong>1,174,103</strong></td>
<td><strong>747,808</strong></td>
<td><strong>2,012,031</strong></td>
<td><strong>1,830,076</strong></td>
</tr>
</tbody>
</table>

### Excess of Operating Revenue over Expenses

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gain (Loss) from operation and sale of discontinued units</td>
<td>303</td>
<td>303</td>
<td>(916)</td>
<td></td>
</tr>
<tr>
<td><strong>Excess of Operating Revenue over Expenses and Gain (Loss) from Sale of Discontinued Units</strong></td>
<td><strong>9,586</strong></td>
<td><strong>89,922</strong></td>
<td><strong>98,508</strong></td>
<td><strong>83,144</strong></td>
</tr>
</tbody>
</table>

### Balance Sheet (in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$232,670</td>
<td>109,711</td>
<td>341,841</td>
<td>311,491</td>
</tr>
<tr>
<td>Notes and accounts receivable</td>
<td>571,734</td>
<td>571,734</td>
<td>288,662</td>
<td>288,662</td>
</tr>
<tr>
<td>Inventories</td>
<td>2,439</td>
<td>6,135</td>
<td>14,554</td>
<td>12,300</td>
</tr>
<tr>
<td>Prepaid expenses and other assets</td>
<td>12,573</td>
<td>48,071</td>
<td>60,644</td>
<td>104,660</td>
</tr>
<tr>
<td>Pledges receivable</td>
<td>163,988</td>
<td>17,785</td>
<td>181,773</td>
<td>159,364</td>
</tr>
<tr>
<td>Investments</td>
<td>4,678,855</td>
<td>481,890</td>
<td>5,162,732</td>
<td>4,442,297</td>
</tr>
<tr>
<td>Land, buildings, equipment, and books</td>
<td>1,233,519</td>
<td>466,455</td>
<td>1,690,974</td>
<td>1,521,877</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>6,941,788</strong></td>
<td><strong>1,179,435</strong></td>
<td><strong>8,072,223</strong></td>
<td><strong>8,696,135</strong></td>
</tr>
</tbody>
</table>

### Liabilities and Net Assets

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>246,218</td>
<td>241,213</td>
<td>495,441</td>
<td>431,944</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>71,728</td>
<td>71,728</td>
<td>60,320</td>
<td>60,320</td>
</tr>
<tr>
<td>Payable under securities loan agreements</td>
<td>571,734</td>
<td>571,734</td>
<td>288,662</td>
<td>288,662</td>
</tr>
<tr>
<td>Assets held in custody for others</td>
<td>27,347</td>
<td>27,347</td>
<td>24,402</td>
<td>24,402</td>
</tr>
<tr>
<td>Self-insurance liability</td>
<td>167,001</td>
<td>7,238</td>
<td>169,249</td>
<td>154,067</td>
</tr>
<tr>
<td>Notes and bonds payable</td>
<td>1,345,731</td>
<td>300,095</td>
<td>1,492,782</td>
<td>1,233,978</td>
</tr>
<tr>
<td>Refundable U.S. government student loan funds</td>
<td>39,312</td>
<td>39,312</td>
<td>39,312</td>
<td>39,312</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>2,163,291</strong></td>
<td><strong>602,512</strong></td>
<td><strong>2,365,803</strong></td>
<td><strong>2,224,423</strong></td>
</tr>
</tbody>
</table>

### Net Assets:

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td>3,439,077</td>
<td>351,347</td>
<td>3,794,414</td>
<td>3,515,005</td>
</tr>
<tr>
<td>Temporarily restricted</td>
<td>339,018</td>
<td>351,347</td>
<td>364,937</td>
<td>351,347</td>
</tr>
<tr>
<td>Permanently restricted</td>
<td>860,942</td>
<td>5,697</td>
<td>866,640</td>
<td>831,943</td>
</tr>
<tr>
<td><strong>Total Net Assets</strong></td>
<td><strong>4,668,037</strong></td>
<td><strong>756,935</strong></td>
<td><strong>5,205,220</strong></td>
<td><strong>4,671,221</strong></td>
</tr>
</tbody>
</table>

### Total Liabilities and Net Assets

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$6,941,788</td>
<td>$1,179,435</td>
<td>$8,072,223</td>
<td>$8,696,135</td>
<td>$8,696,135</td>
</tr>
</tbody>
</table>
## Selected Statistics

<table>
<thead>
<tr>
<th></th>
<th>04–05</th>
<th>03–04</th>
<th>02–05</th>
<th>01–02</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Enrollment (Autumn Quarter)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Undergraduate men</td>
<td>2,258</td>
<td>2,163</td>
<td>2,104</td>
<td>2,005</td>
</tr>
<tr>
<td>Undergraduate women</td>
<td>2,257</td>
<td>2,181</td>
<td>2,112</td>
<td>2,059</td>
</tr>
<tr>
<td>Graduate programs</td>
<td>8,655</td>
<td>8,335</td>
<td>8,197</td>
<td>8,071</td>
</tr>
<tr>
<td>Prizker School of Medicine</td>
<td>432</td>
<td>426</td>
<td>415</td>
<td>426</td>
</tr>
<tr>
<td><strong>Total Enrollment</strong></td>
<td>13,602</td>
<td>13,103</td>
<td>12,828</td>
<td>12,561</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Undergraduate Tuition</strong></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition per full-time undergraduate (non-BSD)</td>
<td>$30,123</td>
<td>$28,689</td>
</tr>
<tr>
<td>Tuition revenue (in thousands)</td>
<td>$131,260</td>
<td>$120,610</td>
</tr>
<tr>
<td>University scholarship recipients (undergraduates)</td>
<td>2,097</td>
<td>2,055</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Undergraduate Admissions</strong></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Applications</td>
<td>8,711</td>
<td>9,100</td>
<td>8,139</td>
<td>7,454</td>
</tr>
<tr>
<td>Acceptances</td>
<td>3,503</td>
<td>3,601</td>
<td>3,379</td>
<td>3,261</td>
</tr>
<tr>
<td>Matriculations</td>
<td>1,206</td>
<td>1,172</td>
<td>1,114</td>
<td>1,082</td>
</tr>
<tr>
<td>Mean SAT of entering first-year students</td>
<td>1,415</td>
<td>1,394</td>
<td>1,394</td>
<td>1,393</td>
</tr>
<tr>
<td>Top 20% of high school class</td>
<td>95%</td>
<td>92%</td>
<td>94%</td>
<td>93%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Graduate Admissions</strong></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Applications</td>
<td>22,833</td>
<td>23,923</td>
<td>24,540</td>
<td>21,658</td>
</tr>
<tr>
<td>Acceptances</td>
<td>5,917</td>
<td>5,875</td>
<td>5,680</td>
<td>5,144</td>
</tr>
<tr>
<td>Matriculations</td>
<td>2,126</td>
<td>2,349</td>
<td>2,212</td>
<td>2,169</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Degrees Awarded</strong></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Baccalaureate</td>
<td>1,072</td>
<td>1,034</td>
<td>1,001</td>
<td>948</td>
</tr>
<tr>
<td>Master’s level</td>
<td>1,210</td>
<td>1,131</td>
<td>1,091</td>
<td>1,046</td>
</tr>
<tr>
<td>M.B.A.</td>
<td>1,244</td>
<td>1,273</td>
<td>1,235</td>
<td>1,288</td>
</tr>
<tr>
<td>Ph.D.</td>
<td>327</td>
<td>331</td>
<td>332</td>
<td>331</td>
</tr>
<tr>
<td>J.D.</td>
<td>209</td>
<td>191</td>
<td>212</td>
<td>190</td>
</tr>
<tr>
<td>M.D.</td>
<td>102</td>
<td>101</td>
<td>91</td>
<td>110</td>
</tr>
<tr>
<td><strong>Total Degrees Awarded</strong></td>
<td>4,164</td>
<td>4,043</td>
<td>3,962</td>
<td>3,935</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Auxiliary Operations</strong></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Students with board contracts (Autumn Quarter)</td>
<td>2,622</td>
<td>2,755</td>
<td>2,711</td>
<td>2,683</td>
</tr>
<tr>
<td>Board rate (20-meal plan)</td>
<td>84,108</td>
<td>84,008</td>
<td>83,816</td>
<td>82,634</td>
</tr>
<tr>
<td>Resident undergraduate students</td>
<td>2,537</td>
<td>2,604</td>
<td>2,159</td>
<td>2,408</td>
</tr>
<tr>
<td>Room rate (standard double)</td>
<td>84,929</td>
<td>84,695</td>
<td>84,472</td>
<td>84,259</td>
</tr>
</tbody>
</table>
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