

Duke Kunshan University Update **May 2013**

We are delighted to report that the completed application for Establishment Approval for Duke Kunshan University was submitted on April 19 to the Jiangsu Education Bureau (JEB). On April 25, the JEB issued an affirmative recommendation on our application to the Governor of Jiangsu Province, who will formally transmit the application to the Ministry of Education in Beijing after review. The entire application package totals almost 400 pages, including numerous pages describing our newly approved undergraduate courses, and a new proposed master's program in medical physics, which is currently being reviewed by Duke faculty. The DKU, Duke, Wuhan, and Kunshan teams will be working hard over the summer to try and advance the progress of the application. We hope to have a positive response by the early fall.

In mid-April, Duke hosted delegations from Kunshan and Wuhan, including the Mayor of Kunshan and members of the future DKU Board of Trustees. Provost Lange chaired a meeting of the future DKU Board, and visiting DKU Board members toured the Duke campus, met with faculty members and administrative leaders, and held a session with the Kunshan Student Advisory Committee. Mayor Lu of Kunshan met with Durham city leaders as well as Duke University and Duke Health System leaders: in fact, Kunshan is now a sister city of Durham!

Recent updates to the DKU financial model include the addition of a third year of preparation prior to the inauguration of educational programming in the fall of 2014. This adjustment has increased the Phase I period from seven years to eight years. While an additional preparation year adds to the expense side of the ledger without any corresponding revenue, we are managing hires and delaying operating expenses to the extent possible, while still enabling the necessary planning and implementation required to launch our programs effectively. In addition, we have broadened the portfolio of graduate and undergraduate programs that will be available during the first year of operations. The net impact of all changes to the financial model is an increase in Duke's estimated subsidy requirement from \$38.1M over seven years as calculated a year ago, to \$40.3M over eight years. While the ratio of "known" versus "unknown" data inputs for the DKU financial model has remained relatively unchanged since we last commented on the DKU financials in early 2012, the *range* of variability around our assumptions has narrowed, and our understanding of tuition pricing and scholarship strategy has advanced based on conversations with relevant bureaus in China. Under the leadership of Chancellor Liu and Executive Vice Chancellor Mary Bullock, we also have a clearer understanding of staffing and compensation levels.

Continued improvements in the construction management process have increased confidence that all core facilities will be available by July 2014 to enable the start of classes for the fall semester 2014. Kunshan has also continued to augment and shift project management staffing in order to meet the Duke quality standards. The senior leadership of Kunshan has formally increased the project budget to 1.3 Billion RMB, which approximates the amount that Duke estimated the value of construction would be. The construction and lease agreements have been combined into a single document, completed and signed by all parties. Kunshan and Duke have been conducting regular site inspections to ensure that construction deficiencies are addressed and that new work is being constructed per approved drawings. Duke continues to push the Kunshan

team to complete as much construction work as they can in order to be further along when the final construction documents are released.

Next Steps

- Maintain communication with MOE as their review of the DKU process begins.
- Continue to work with pricing bureaus regarding DKU tuition and scholarship levels.
- Finalize marketing launch plans for DKU's first admission cycle.
- Finalize operators for conference center and campus facilities.
- Further develop proposed graduate programs in bio-ethics, visual studies and environmental policy.