

The Financial Status of KU Lawrence / Edwards and the Five-Year Financial Plan

Jeff DeWitt, CFO & Executive Vice Chancellor
March 2022



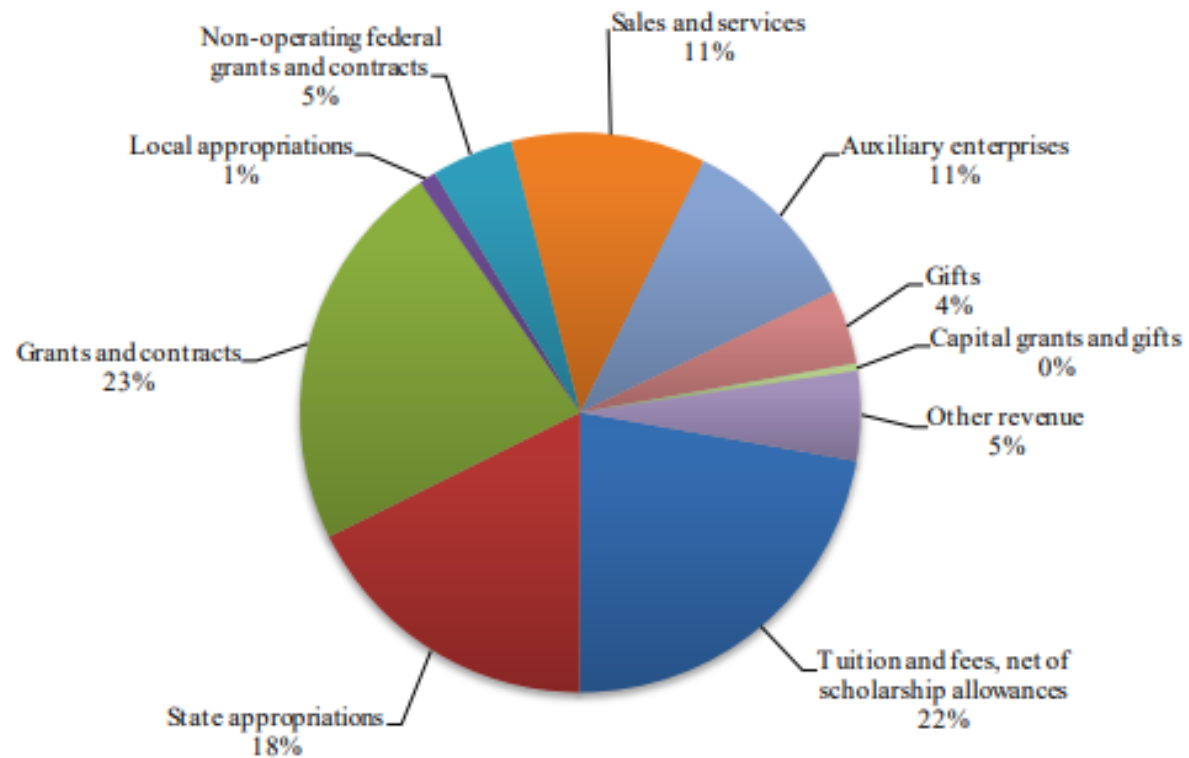
Financial Status of KU Lawrence/Edwards and the Five-Year Financial Plan

- **Big Picture of KU Finances**
- **Lawrence/Edwards Campus Historical View of State General Fund and Tuition**
- **Financial Status Update & 5 Year Financial Plan (Structural Deficit)**
- **How do We Address the Structural Deficit?**
- **Revised Five-Year Financial Plan with Strategic Initiatives**
- **What are Our Risks?**
- **Challenges of Implementation**
- **Other Initiatives We are Working On**

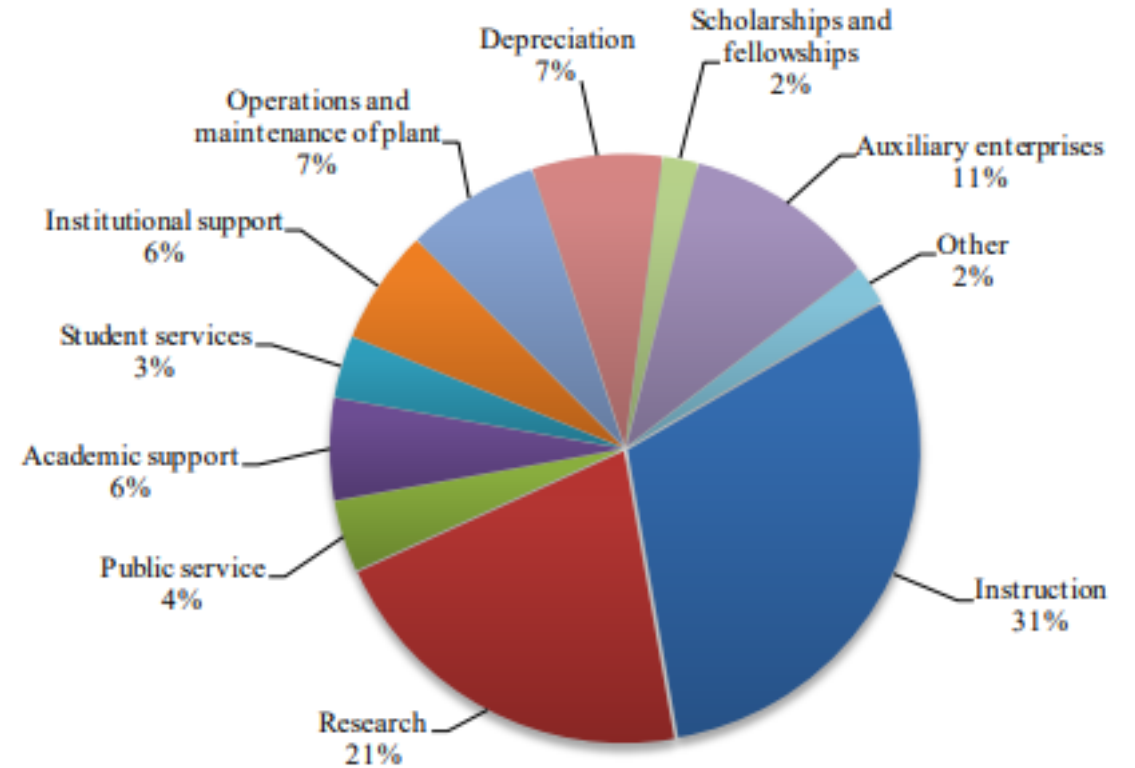
Big Picture of KU Finances

Big Picture - KU Generated Revenues of \$1.4 Billion in FY 2021

Where Does the Money Come From?



Where Does the Money Go?



What Makes Up KU's Combined Financial Report?

University of Kansas – Lawrence/Edwards

- ✓ Supported by State Funding and Tuition
- ✓ Supported by Other Revenues

Kansas University Medical Center and Affiliates

University of Kansas - Affiliates: (501-C3s)

1. Kansas University Endowment Association (KUEA)
2. Kansas Athletics
3. KU Center for Research (KUCR)
4. Kansas Memorial Union Corporation (Union)
5. KU Campus Development Corp. (Central District)
6. Jayhawk Community Partners (JCP)

University of Kansas - Auxiliaries:

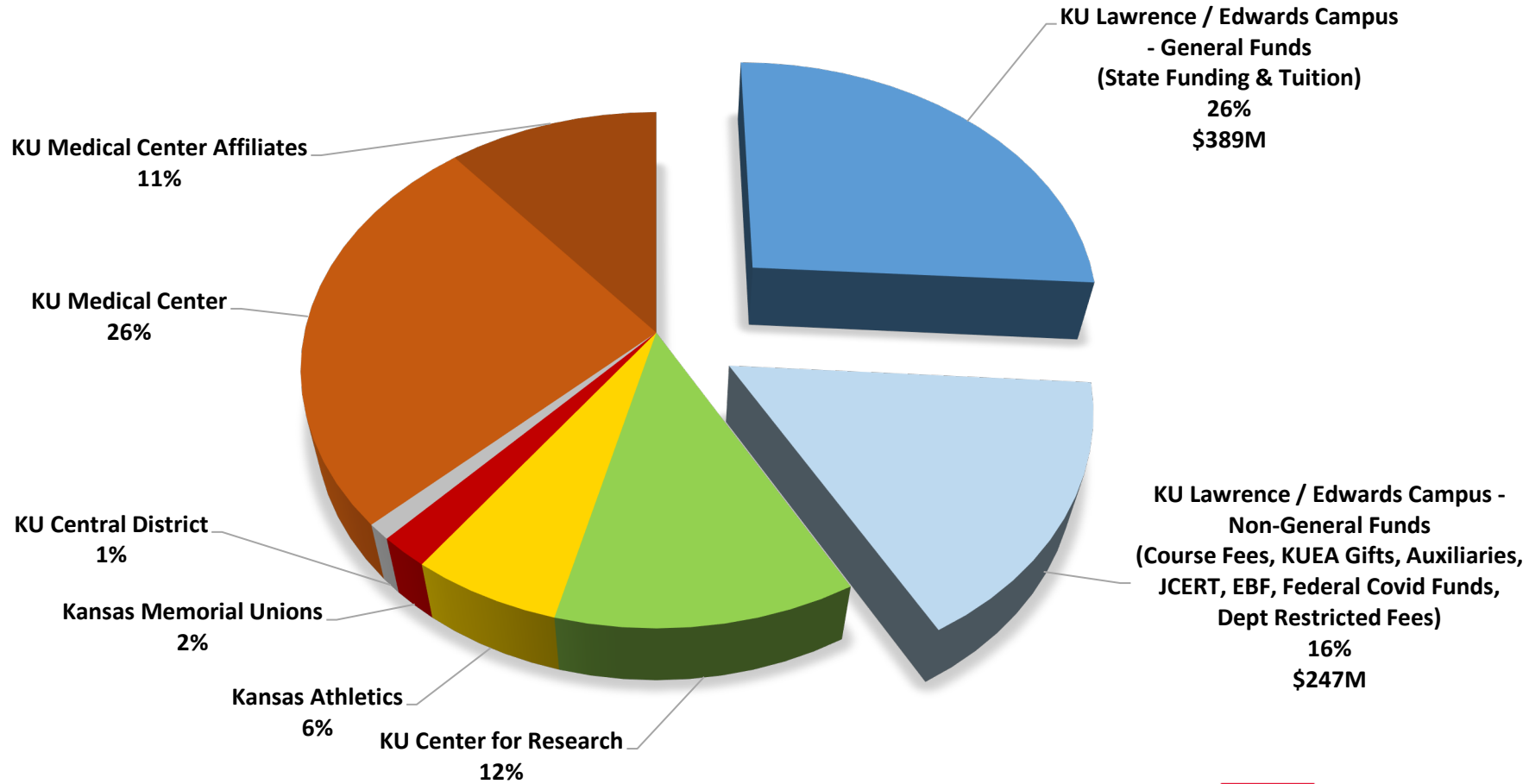
1. Student Housing
2. Watkins Health Services
3. KU Recreation Services
4. Parking & Transit



Mostly Restricted
(Self Supporting)

Picture of KU's Combined Financial Revenues

KU Revenues by Entity



FY 2021 Total Consolidated Revenues = \$1.4 Billion

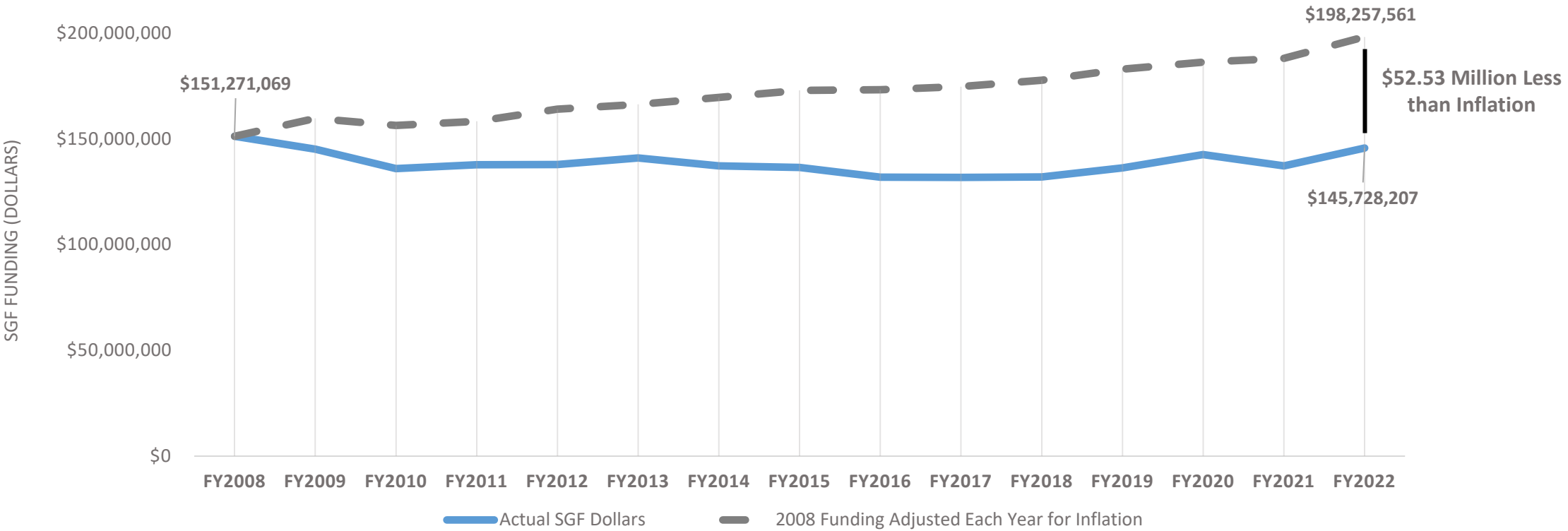
Historical View of State General Fund and Tuition Lawrence/Edwards Campus

KU Lawrence/Edwards State General Fund (SGF) Support

Inflation*:

\$1.00 in FY 2008 is equal to \$1.36 in FY 2022

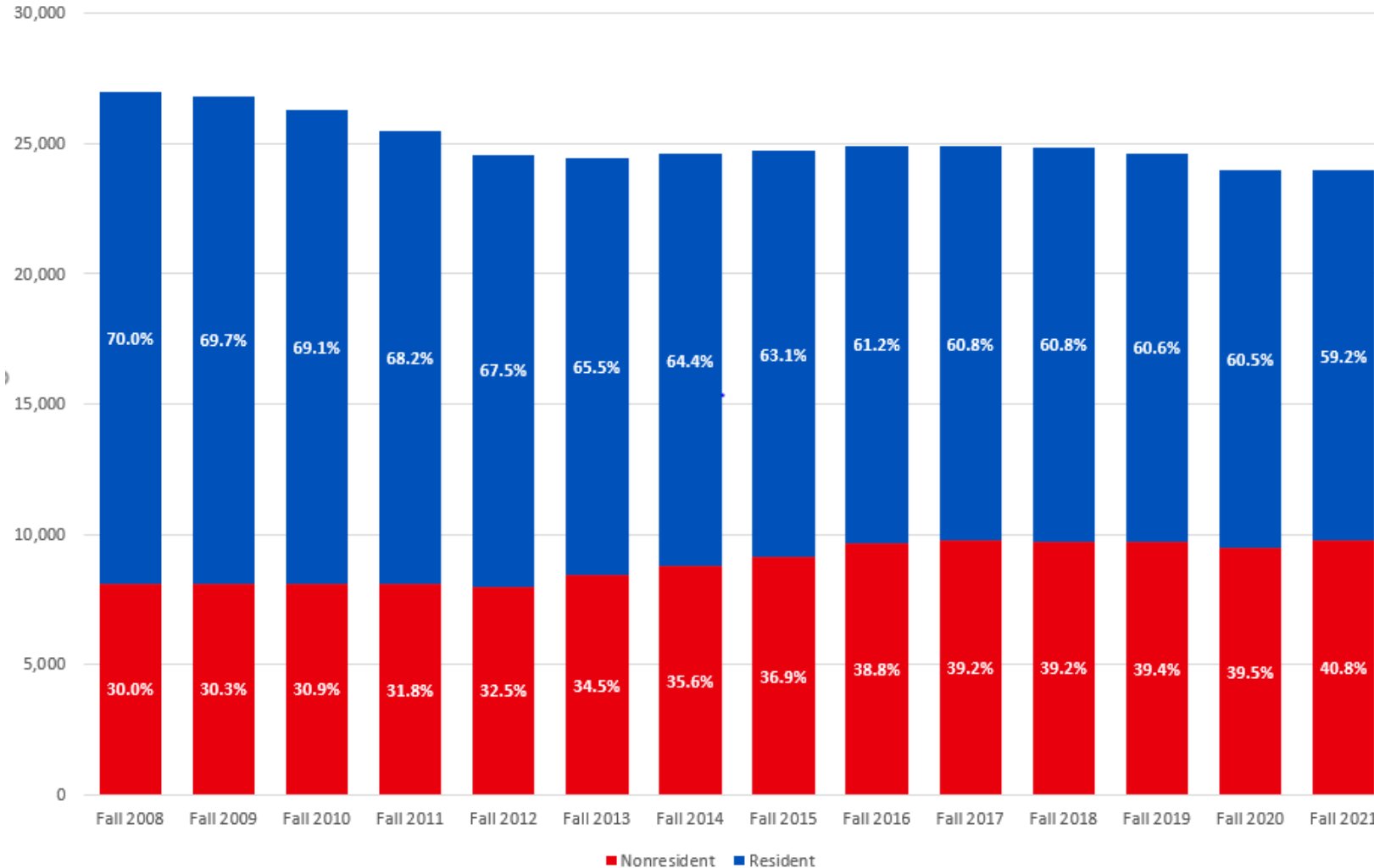
\$151.27 Million in FY 2008 is equal to \$198.26 Million in FY 2022



*Based on CPI Rates
Includes All Lawrence & Edwards Campus State General Funds, Including the Kansas Geological Survey

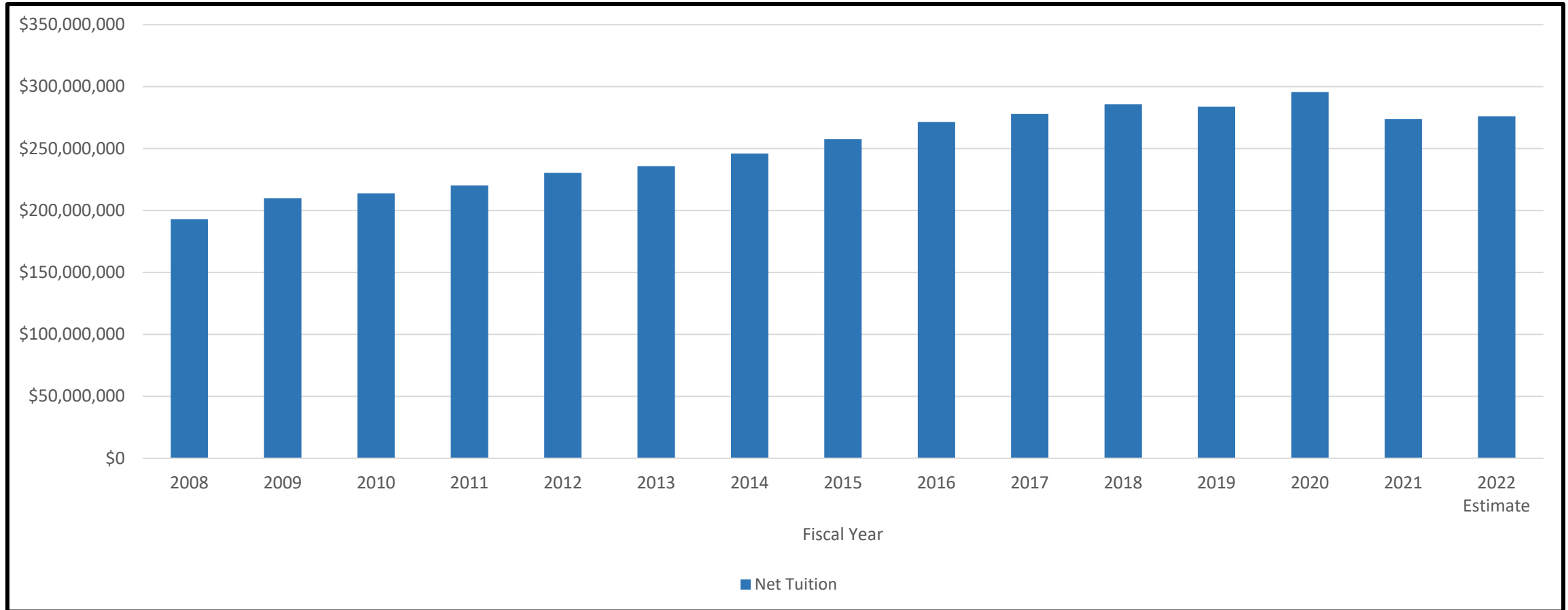


KU Lawrence/Edwards Student Headcount

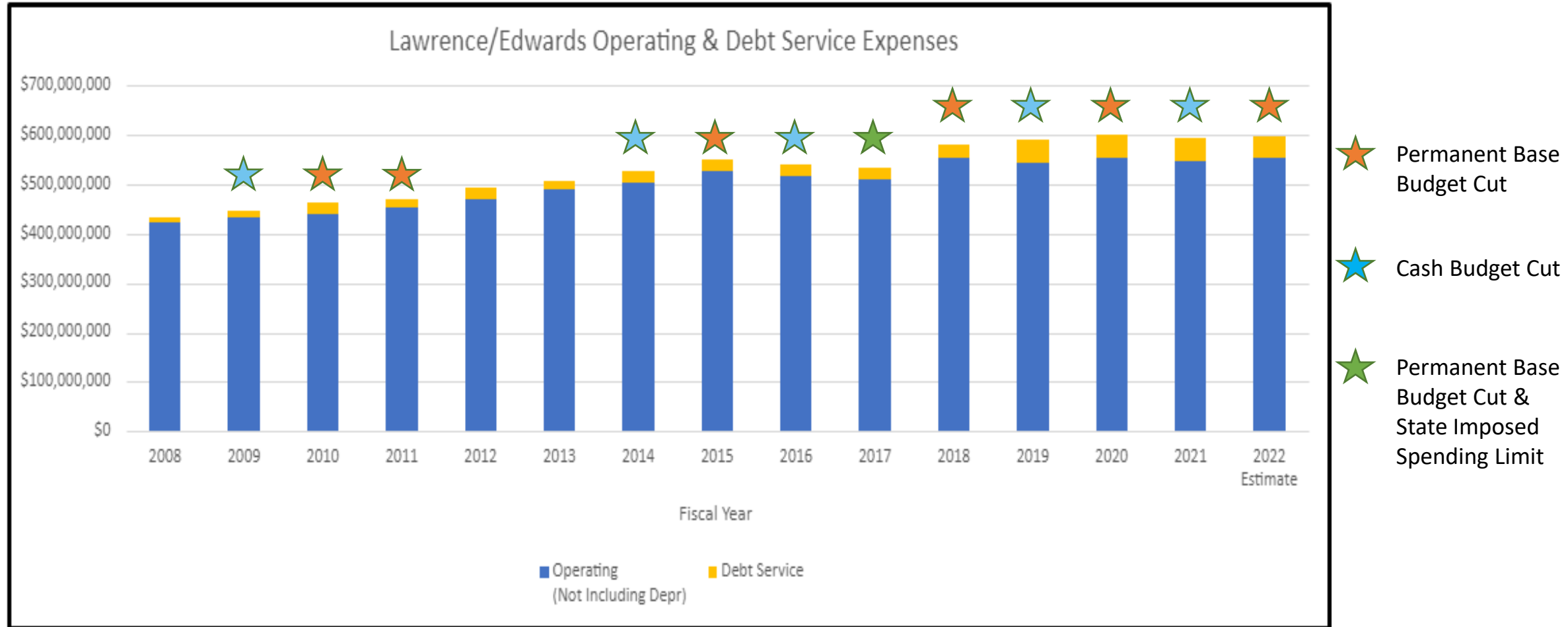


- ✓ Student Headcount has Remained Relatively Flat From 2012 Through 2019
- ✓ Headcount Declined 4.96% From Fall 2019 to Fall 2021
- ✓ Resident Undergraduate Tuition Rates Held Flat Since Fall 2018; Other Cohorts Held Flat Since Fall 2019

KU Lawrence/Edwards Net Tuition Revenue



KU Lawrence/Edwards Historical Expenses & Budget Cuts



FY2021: Hiring freeze, employee pay cuts, carry forward sweeps, restricted travel, voluntary retirement payout

FY2022: \$24.8M permanent reduction: approximately half of estimated structural deficit

Financial Status Update & Five-Year Financial Plan Lawrence/Edwards Campus

Governor's Proposed Budget – KU Forecasted Result

In January 2022, the Governor released her recommended budget report. The Governor's budget restores higher education funding to FY 2021 levels, increases state portion of payroll by 5%, increases financial aid, and includes one-time investments in IT, deferred maintenance and economic development. In exchange, Kansas Board of Regents (KBOR) universities agree to freeze tuition.

Governor's Recommended Budget	
FY2022 KU-Lawrence SGF Budget	\$135,531,729
KU-Lawrence Share of \$45.7M	\$9,945,259
KU-Lawrence Share of \$24.1M (Employee Pay)	5,487,144
Estimated FY2023 KU-Lawrence SGF Budget	\$150,964,132
Other Recommended Budget Additions:	
Financial Aid	\$25,000,000
Investment in IT (one-time)	\$20,000,000
Deferred Maintenance (one-time)	\$25,000,000
Econ Dev Grants (one-time)	\$10,000,000

KBOR Facility Maintenance Assessment

In June 2021, KBOR approved a required maintenance assessment to address annual and deferred maintenance. The assessment is phased in over the next six years and universities are allowed a credit for current in-house expenditures. Additionally, any spend over the assessment can be carried forward to the following fiscal year.

Fiscal Year	Maintenance Assessment	In-House Expenditure Credit	Assessment Net of Credit
FY 2023 (1/4%)	\$4,203,258	\$1,898,983	\$2,304,275
FY 2024 (1/2%)	\$8,406,516	\$3,855,511	\$4,551,005
FY 2025 (3/4%)	\$12,609,774	\$5,754,494	\$6,855,280
FY 2026 (1%)	\$16,813,032	\$5,754,494	\$11,058,537
FY 2027 (1 1/2%)	\$25,219,547	\$5,754,494	\$19,465,053
FY 2028 (2%)	\$33,626,063	\$5,754,494	\$27,871,569

Financial Forecast Key Assumptions – FY2023

Key Assumptions - FY 2023

- **State Funding Level - FY2022 Level Plus KU's Portion of Additional Governor's Recommended \$45.7M and State General Fund Payroll Portion of a 5% Increase**
- **Enrollment Stays Flat Relative to FY 2022 and No Increase in Tuition Rates**
- **Salary Costs - 5% Pool Increase**
- **Operating Costs - 5% Increase**
- **Reflects KBOR Deferred Maintenance Policy**
- **Use of \$46 Million General Fund Carryforward from FY2021 to Help Sustain FY2022 and FY2023 Without Additional Cuts**
- **Creation of a University Contingency Reserve Fund to Minimize Mid-Year Budget Cuts and Address Unexpected Expenses**
- **KUEA Funding Provides Start-up for Key Strategic Growth Initiatives**
- **Auxiliaries and Affiliates Carry Themselves**

Financial Forecast Key Assumptions: FY2024 - FY2026

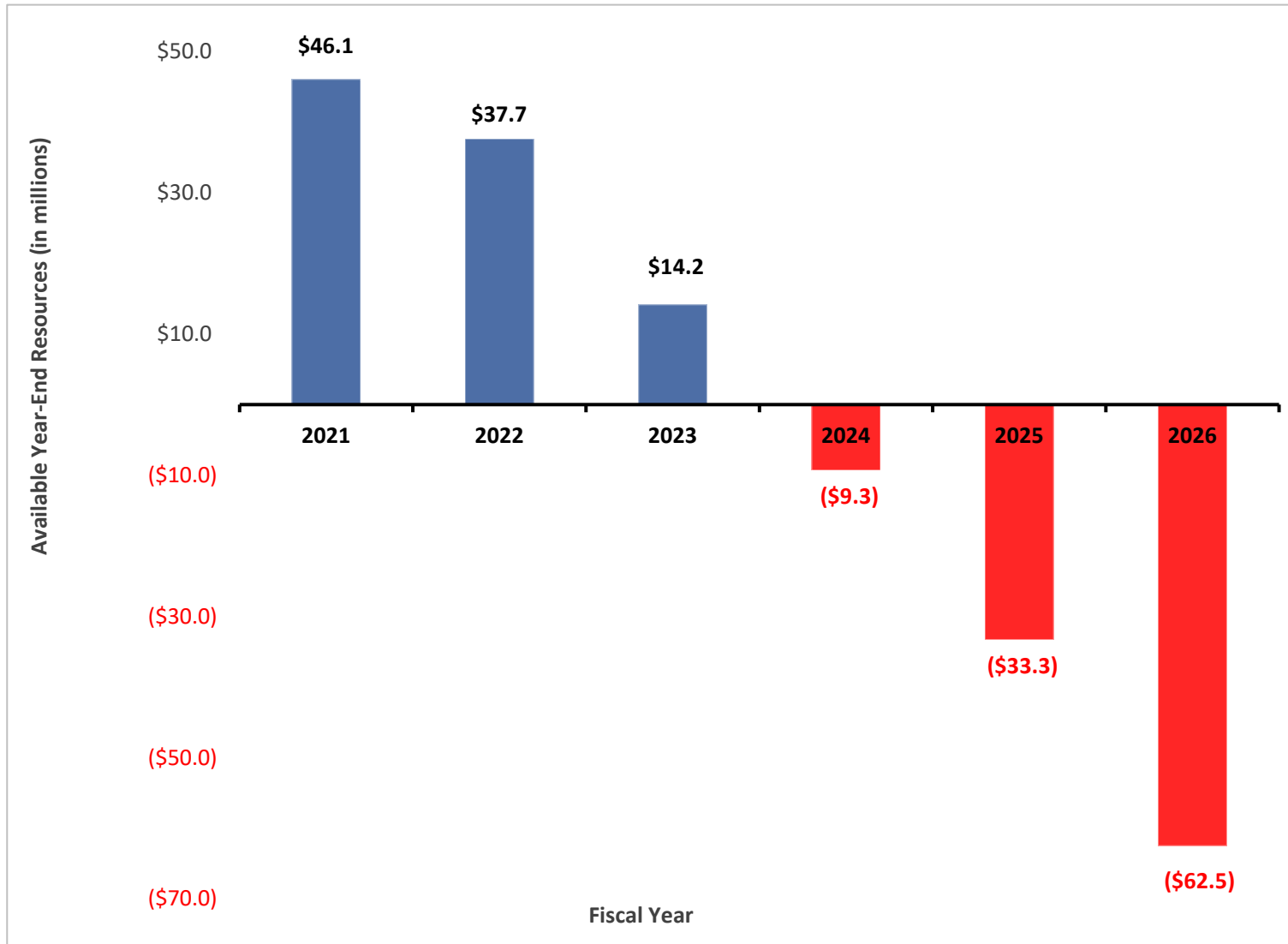
Assumption	FY2024 - FY2026
State General Funding	1.5% Increase Over Prior Year
Tuition Rate Growth	3% Rate Increase
Salary Costs	2.5% Pool Increase
Operating Costs	2.5% Increase
Deferred Maintenance	KBOR Policy
Auxiliary & Affiliate Financial Support	None needed

The Five-Year Forecast – Structural Deficit

KU - Lawrence & Edwards Campuses General Fund in millions

	FY2021 Actuals	FY2022 Projected	FY2023 Projected	FY2024 Projected	FY2025 Projected	FY2026 Projected
Sources						
State Appropriations	\$137.2	\$140.9	\$151.0	\$153.2	\$155.5	\$157.9
Tuition & Fees	263.9	263.6	263.6	271.5	279.6	288
Other	12.1	11.6	11.8	12.4	12.6	12.6
Total	\$413.2	\$416.1	\$426.4	\$437.1	\$447.7	\$458.5
Uses						
Salary & Fringes	\$309.6	\$295.3	\$313.7	\$321.9	\$330.6	\$339.4
OOE	58.3	81.6	88.5	90	91.6	97.9
Utilities	13.7	16.3	17.0	17.5	18.0	18.6
Scholarships	8.9	11.6	11.7	12.1	12.4	12.7
Debt Service	18.4	19.7	19.0	19.1	19.1	19.1
Total	\$408.9	\$424.5	\$449.9	\$460.6	\$471.7	\$487.7
Operating Margin	\$4.3	(\$8.4)	(\$23.5)	(\$23.5)	(\$24.0)	(\$29.2)
Carryforward	\$41.8	\$46.1	\$37.7	\$14.2	(\$9.3)	(\$33.3)
Available Year-End Resources	\$46.1	\$37.7	\$14.2	(\$9.3)	(\$33.3)	(\$62.5)

The Five-Year Forecast – Structural Deficit



Current Financial Plan

- Increase to State Funding Based on Governor's Proposed Budget in Fiscal Year 2023 and 1.5% Ongoing Increases
- Freeze Tuition Rates in Fiscal Year 2023 and 3% Rate Increase Ongoing
- 5% Increase in Salary Pool in Fiscal Year 2023 and 2.5% Ongoing
- 5% Increase in Operating Costs in Fiscal Year 2023 and 2.5% Ongoing to Reflect Inflation

How Do We Address the Structural Deficit?

Lawrence/Edwards Campus

How Do We Address the Structural Deficit?

By Implementing Strategic Initiatives that Align with Jayhawks Rising Strategic Plan and Increase Revenue or Decrease Expenditures:

- Strategic Enrollment Management
- Continuous Improvement
- Conventions & Events
- All Funds Budgeting

How Do We Address the Structural Deficit?

Strategic Enrollment Management

(Areas Targeted for Enhancement)

- ✓ Growth in Programs Demanded by the Market
- ✓ Increased and Focused Marketing to Prospective Students
- ✓ Expansion of Online Programs
- ✓ Pricing and Student Aid Optimization
- ✓ Increased Support Toward Retention and Graduation

Financial Plan Impact

	FY2023	FY2024	FY2025	FY2026
	Projected	Projected	Projected	Projected
Net Impact	\$0	\$0	\$7,200,000	\$12,300,000

How Do We Address the Structural Deficit?

Conventions & Events

- ✓ Implement a Central Conventions & Events Office
- ✓ Develop Marketing Strategies and Social Media Prospects to Attract the Market
- ✓ Implement Centralized Schedules of University Spaces
- ✓ Develop 3 to 5 Year Use of Space Schedule
- ✓ Develop a Collaborative Process Allowing All Essential Areas to Work Together
- ✓ Expand Opportunities for Corporate Partnerships and Sponsorships

Financial Plan Impact (General Fund Share)

	FY2023	FY2024	FY2025	FY2026
	Projected	Projected	Projected	Projected
Net Impact	\$0	\$1,250,000	\$2,000,000	\$5,000,000

How Do We Address the Structural Deficit?

Continuous Improvement

- ✓ Create a Culture of Collaboration Where Ideas for Improvement are Welcome
- ✓ Examine Opportunities for Improvements to Lower Purchasing Costs
- ✓ Review Business Processes and Policies for Efficiencies and Redundancies
- ✓ Review Opportunities to Consolidate Systems University-Wide

Financial Plan Impact

	FY2023	FY2024	FY2025	FY2026
	Projected	Projected	Projected	Projected
Net Impact	\$2,500,000	\$5,000,000	\$7,500,000	\$7,500,000

How Do We Address the Structural Deficit?

All Funds Budgeting

- ✓ Develop Process to Plan & Budget All Funding Sources
- ✓ Efficient Use of All Funds (KUEA Funds, Course Fees, etc.) Prior to Use of Limited General Funds
- ✓ Provide Guidance and Reporting for Units to Examine and Leverage All Sources of Funding
- ✓ Supplement a Portion of the General Fund Gap from Available Sources

Financial Plan Impact

	FY2023	FY2024	FY2025	FY2026
	Projected	Projected	Projected	Projected
Net Impact	\$10,000,000	\$10,000,000	\$10,000,000	\$10,000,000

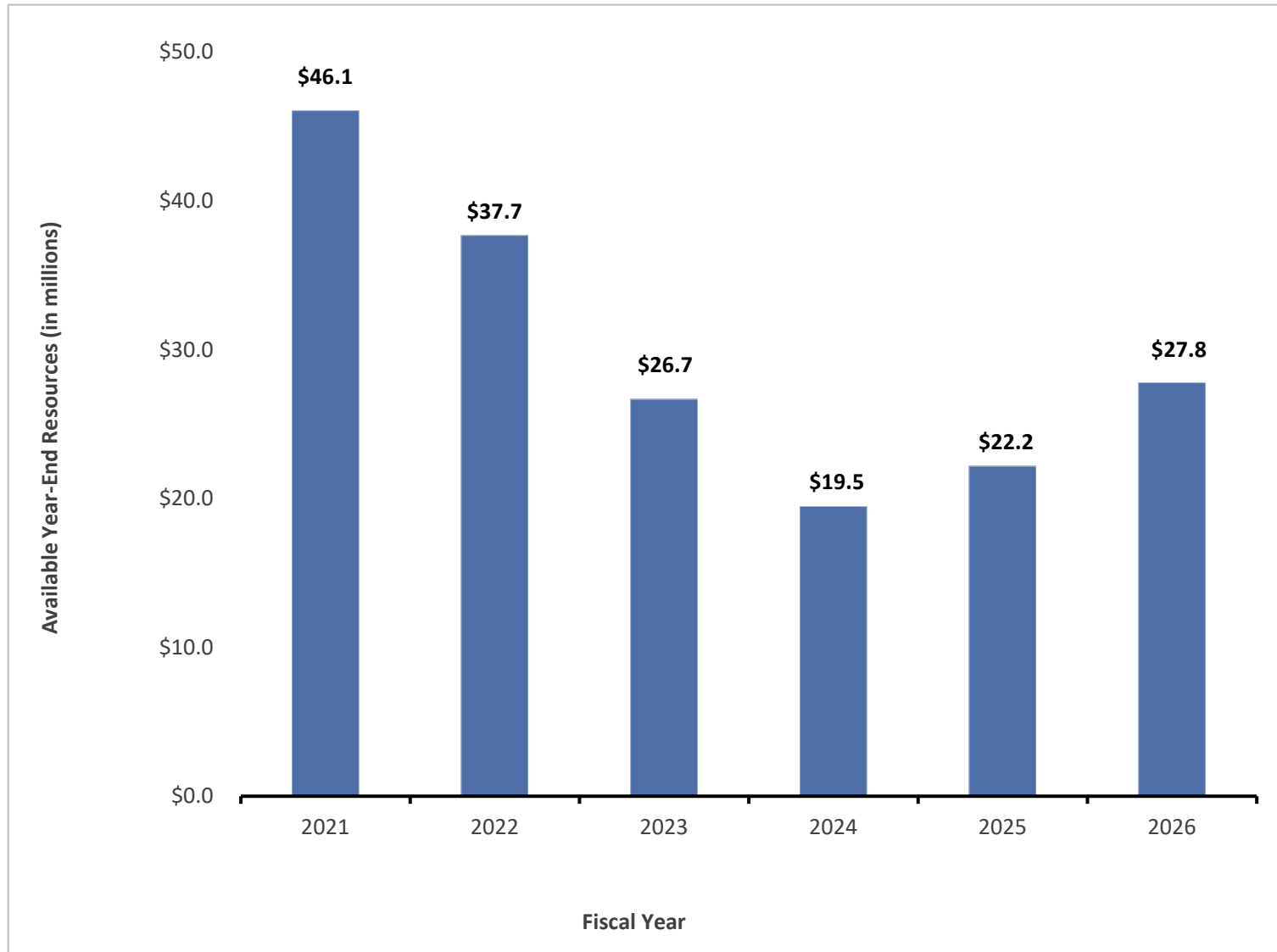
Revised Five-Year Financial Plan with Strategic Initiatives Lawrence/Edwards Campus

Revised Five-Year Forecast with Strategic Initiatives

KU - Lawrence & Edwards Campuses General Fund in millions

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Total	\$408.9	\$424.5	\$449.9	\$460.6	\$471.7	\$487.7
Operating Margin	\$4.3	(\$8.4)	(\$23.5)	(\$23.5)	(\$24.0)	(\$29.2)
Net Impact of Strategic Initiatives (SI)	-	-	\$12.5	\$16.3	\$26.7	\$34.8
Operating Margin With SI	\$4.3	(\$8.4)	(\$11.0)	(\$7.2)	\$2.7	\$5.6
Carryforward	\$41.8	\$46.1	\$37.7	\$26.7	\$19.5	\$22.2
Available Year-End Resources	\$46.1	\$37.7	\$26.7	\$19.5	\$22.2	\$27.8

Revised Five-Year Forecast with Strategic Initiatives



Revised Financial Plan with Strategic Initiatives

- Increase to State Funding Based on Governor's Proposed Budget in Fiscal Year 2023 and 1.5% Ongoing Increases
- Freeze Tuition Rates in Fiscal Year 2023 and 3% Rate Increase Ongoing
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- 5% Increase in Operating Costs in Fiscal Year 2023 and 2.5% Ongoing to Reflect Inflation

What Are Our Risks

- Governor's Budget is not Approved by the Legislature
- Inflation Increases Beyond Current Levels & Persists for Multiple Years
- Future State Support Diminished Below the Forecast
- Future Mandates Placed on the University
- Affiliates and Auxiliaries Cannot Remain Self-Supporting
- Strategic Initiatives Underperform, are Delayed, or not Embraced

Challenges of Implementing Strategic Initiatives

What Do We Need From Everyone:

- Increased Collaboration Across All Academic and Administrative Areas - Remove “Silos”
- Collaboration to Address Market Challenges of Declining Prospective Students
- Efficiently Deploying All Sources of Funds – Not Only State and Tuition Dollars
- Strategic Collaboration of Purchases University-Wide
- Eliminate Redundancies and Review Current Processes
- Shared Use and 3-Year Planning of University Space

Ever-Curious Stewards of KU

Other Initiatives We Are Working On

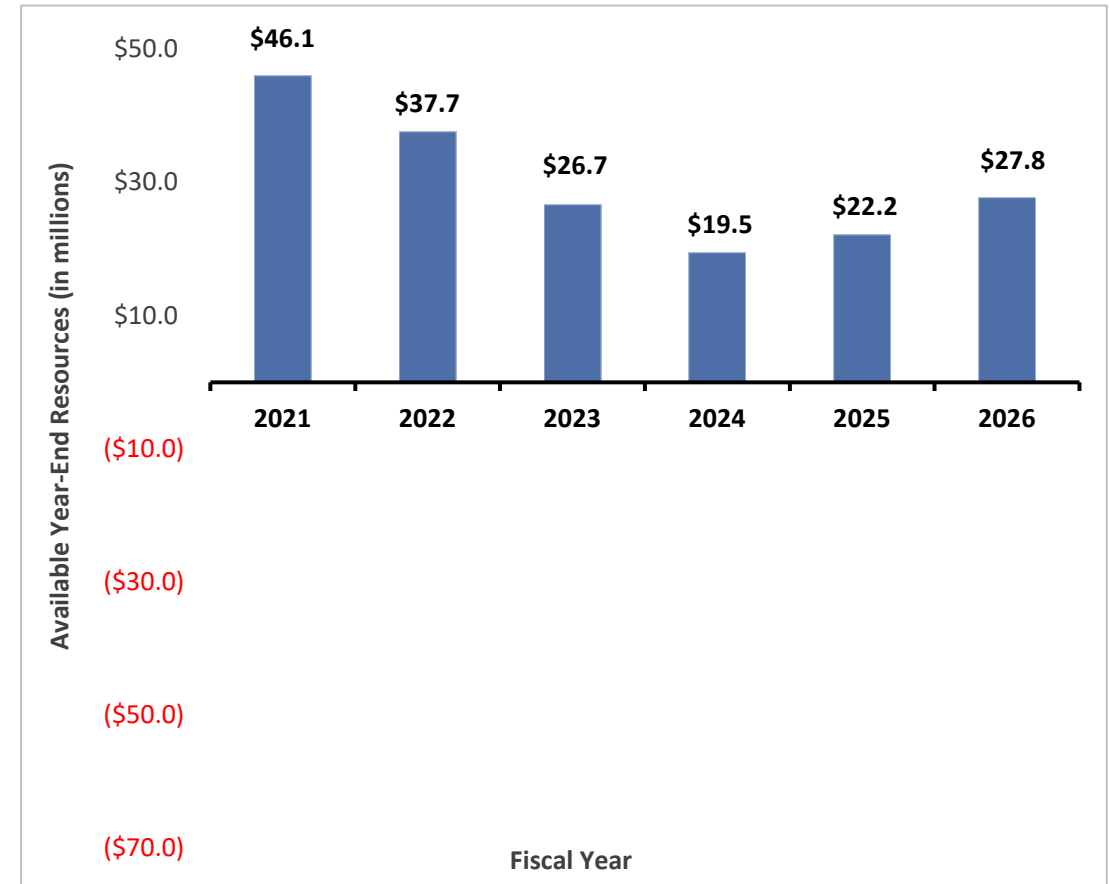
- Competitive Pay Study and Plan for Implementation
- System to Reward High Performing Employees
- Long Range Financial Plan for Infrastructure, Facilities and Technology
- Reaccreditation and Our Obligation to the Higher Learning Commission (HLC)
- Development of KUMC Strategic Plan and Financial Plan

Current Path Versus a Future with Strategic Initiatives

Current Path



Embracing Strategic Initiatives





Questions And Answers

Presentation Available at:
<https://finance.ku.edu/reports>

KU THE UNIVERSITY OF
KANSAS

A night-time photograph of the University of Kansas campus, featuring the Old Chapel and the Campanile tower. The image is overlaid with a dark blue tint and several red diagonal lines. The text "OUR CHANT RISES" is written in a white, serif font, with "OUR" and "CHANT" in all caps and "RISES" in a larger, italicized font. A vertical white line separates this text from the "KU" logo on the right.

OUR
CHANT
RISES

KU®

Appendix

Getting to the State Funding and Tuition Supported Part of KU

Statement of Revenues, Expenses, and Changes in Net Assets for the Year Ended June 30, 2021

(Natural Classification)

	CONSOLIDATED TOTAL	KU CTR FOR RESEARCH	KANSAS ATHLETICS	KU MEMORIAL UNIONS	KU CAMPUS DEV COPR	JAYHAWK COMM PRTRNS	KU MEDICAL CENTER	KU MED CTR RESEARCH INST	KU MED UNIONS	KS HEALTH PARTNERS	ACCOUNTING ADJUSTMENTS	LAWRENCE CAMPUS
OPERATING REVENUES												
Tuition and fees, net	320,359,776	-	-	-	-	-	57,298,713	-	-	-	(11,697,498)	274,758,561
State appropriations	253,428,437	-	-	-	-	-	116,126,688	-	-	-	-	137,301,749
Federal grants and contracts	203,269,007	105,365,766	-	-	-	-	55,456	94,232,407	-	-	(1,909,118)	5,524,496
State and local grants and contracts	48,634,859	27,321,944	-	-	-	-	-	5,549,609	-	-	(112,433)	15,875,739
Nongovernmental grants and contracts	73,855,959	12,246,416	-	-	-	-	-	60,923,812	-	-	(1,234,297)	1,920,028
Sales and services of educational departments	82,426,559	13,761,965	-	-	-	-	55,035,356	-	-	-	(17,303,039)	30,932,277
Sales and services of medical and administrative activities	79,094,783	-	-	-	-	-	79,094,783	-	-	-	-	-
Auxiliary enterprises:												
Housing	21,471,834	-	-	-	-	-	-	-	-	-	(3,118,782)	24,590,616
Athletics	76,657,607	-	78,681,455	-	-	-	-	-	-	-	(2,023,848)	-
Parking	16,951,457	-	-	-	-	-	7,841,199	-	-	-	(174,569)	9,284,827
Student unions	27,966,182	-	-	30,433,986	-	-	-	-	70,223	-	(4,230,678)	1,692,651
University health services	7,925,923	-	-	-	-	-	-	-	-	-	-	7,925,923
Other auxiliary enterprises	1,869,652	-	-	-	-	-	-	-	-	454,239	(248,633)	1,664,046
Other operating revenues	6,673,538	1,379,704	-	-	13,995,092	15,000	4,710,668	3,196,471	-	-	(17,461,755)	838,358
Local appropriations	14,058,578	-	-	-	-	-	7,029,289	-	-	-	-	7,029,289
Gifts	61,870,560	-	-	-	-	-	36,258,075	-	-	-	(808,303)	26,420,788
Investment income (loss)	43,540,353	15,254,104	11,254,816	194,896	3,419	-	1,871,400	(718,736)	-	-	(253,884)	15,934,338
Nonoperating Federal grants and contracts	67,888,748	-	-	-	-	-	10,680,435	-	-	-	-	57,208,313
Other nonoperating revenues	9,627,061	1,486,288	-	-	-	-	4,928,672	-	-	-	(831,403)	4,043,504
Total Revenues	1,417,570,873	176,816,187	89,936,271	30,628,882	13,998,511	15,000	380,930,734	163,183,563	70,223	454,239	(61,408,240)	622,945,503
EXPENSES												
Compensation and benefits	(882,690,065)	(85,863,820)	(41,192,181)	(13,151,184)	-	-	(276,546,442)	(67,011,338)	(24,884)	(302,623)	196,806	(398,794,399)
Scholarships and fellowships	(26,638,163)	(6,460,089)	-	-	-	-	(3,345,489)	-	-	-	-	(16,832,585)
Utilities	(26,710,995)	(465,624)	(946,402)	(1,111,491)	-	-	(6,937,335)	-	-	-	-	(17,250,143)
Supplies and other services	(306,246,678)	(43,949,693)	(44,243,245)	(14,555,261)	(99,008)	-	(67,951,581)	(71,613,252)	(123,326)	(156,518)	49,237,010	(112,791,804)
Depreciation	(97,976,451)	(3,896,128)	(10,039,343)	(2,111,466)	-	-	(18,897,193)	(8,658)	-	-	9,256,914	(72,280,577)
Interest expense	(26,665,530)	(471,281)	(1,914,372)	(246,772)	(12,941,004)	-	(4,583,051)	-	-	-	13,952,873	(20,461,923)
Other nonoperating expense	(1,768,646)	(447,378)	(1,185,197)	-	-	-	(65,838)	-	(4,195)	-	-	(66,038)
Total expenses	(1,368,696,528)	(141,554,013)	(99,520,740)	(31,176,174)	(13,040,012)	-	(378,326,929)	(138,633,248)	(152,405)	(459,141)	72,643,603	(638,477,469)
Income (loss)	48,874,345	35,262,174	(9,584,469)	(547,292)	958,499	15,000	2,603,805	24,550,315	(82,182)	(4,902)	11,235,363	(15,531,966)
CAPITAL TRANSACTIONS												
Capital appropriations	14,139,702	-	-	-	-	-	3,089,108	-	-	-	-	11,050,594
Capital grants and gifts (expense)	6,408,637	2,328,102	2,042,766	-	-	-	395,661	2,941,731	-	-	(3,275,413)	1,975,790
Transfers (to)/from University	-	(298,906)	-	-	-	-	-	-	-	-	298,906	-
Additions to permanent endowments	1,504	-	-	-	-	-	-	-	-	-	-	1,504
Total Capital transactions	20,549,843	2,029,196	2,042,766	-	-	-	3,484,769	2,941,731	-	-	(2,976,507)	13,027,888
Total increase (decrease) in net assets	69,424,188	37,291,370	(7,541,703)	(547,292)	958,499	15,000	6,088,574	27,492,046	(82,182)	(4,902)	8,258,856	(2,504,078)

Getting to the State Funding and Tuition Supported Part of KU

Statement of Revenues, Expenses, and Changes in Net Assets for the Year Ended June 30, 2021

(Natural Classification)

	LAWRENCE CAMPUS	NON-GENERAL USE FUNDS	GENERAL USE FUNDS
OPERATING REVENUES			
Tuition and fees, net	274,758,561	34,200,686	240,557,875
State appropriations	137,301,749	6,399,130	130,902,619
Federal grants and contracts	5,524,496	5,524,496	-
State and local grants and contracts	15,875,739	12,375,739	3,500,000
Nongovernmental grants and contracts	1,920,028	1,920,028	-
Sales and services of educational departments	30,932,277	22,388,375	8,543,902
Auxiliary enterprises:			
Housing	24,590,616	24,590,616	-
Parking	9,284,827	9,284,827	-
Student unions	1,692,651	1,692,651	-
University health services	7,925,923	7,925,923	-
Other auxiliary enterprises	1,664,046	1,664,046	-
Other operating revenues	838,358	797,132	41,226
Local appropriations	7,029,289	7,029,289	-
Gifts	26,420,788	26,420,788	-
Investment income (loss)	15,934,338	15,884,074	50,264
Nonoperating Federal grants and contracts	57,208,313	50,891,720	6,316,593
Other nonoperating revenues	4,043,504	4,729,970	(686,466)
Total Revenues	622,945,503	233,719,490	389,226,013
EXPENSES			
Compensation and benefits	(398,794,399)	(89,137,370)	(309,657,029)
Scholarships and fellowships	(16,832,585)	(31,376,888)	14,544,303
Utilities	(17,250,143)	(3,105,945)	(14,144,198)
Supplies and other services	(112,791,804)	(60,789,735)	(52,002,069)
Depreciation	(72,280,577)	(65,372,846)	(6,907,731)
Interest expense	(20,461,923)	(12,183,435)	(8,278,488)
Other nonoperating expense	(66,038)	7,148,918	(7,214,956)
Total expenses	(638,477,469)	(254,817,301)	(383,660,168)
Income (loss)	(15,531,966)	(21,097,811)	5,565,845
CAPITAL TRANSACTIONS			
Capital appropriations	11,050,594	11,050,594	-
Capital grants and gifts (expense)	1,975,790	1,975,790	-
Additions to permanent endowments	1,504	1,504	-
Total Capital transactions	13,027,888	13,027,888	-
Total increase (decrease) in net assets	(2,504,078)	(8,069,923)	5,565,845

Getting to the State Funding and Tuition Supported Part of KU

Statement of Revenues, Expenses, and Changes in Net Assets for the Year Ended June 30, 2021

(Natural Classification)

	GENERAL USE FUNDS	FINANCIAL STMT TO BUDGET ADJUSTMENTS	BUDGET GENERAL USE FUNDS
OPERATING REVENUES			
Tuition and fees, net	240,557,875	23,359,562	263,917,437
State appropriations	130,902,619	6,316,593	137,219,212
State and local grants and contracts	3,500,000	-	3,500,000
Sales and services of educational departments	8,543,902	32,342	8,576,244
Other operating revenues	41,226	512,723	553,949
Investment income (loss)	50,264	-	50,264
Nonoperating Federal grants and contracts	6,316,593	(6,316,593)	-
Other nonoperating revenues	(686,466)	687,616	1,150
Revenue Interfund Transfers	-	(599,727)	(599,727)
Total Revenues	389,226,013	23,992,516	413,218,529
EXPENSES			
Compensation and benefits	(309,657,029)	-	(309,657,029)
Scholarships and fellowships	14,544,303	(23,473,888)	(8,929,585)
Utilities	(14,144,198)	448,764	(13,695,434)
Supplies and other services	(52,002,069)	(3,312,676)	(55,314,745)
Depreciation	(6,907,731)	6,907,731	-
Interest expense	(8,278,488)	3,740,760	(4,537,728)
Other nonoperating expense	(7,214,956)	7,214,956	-
Expense interfund transfer		(151,319)	(151,319)
Debt principal payments		(13,861,277)	(13,861,277)
Building and equipment purchases		(2,786,736)	(2,786,736)
Total expenses	(383,660,168)	(25,273,685)	(408,933,853)
Income (loss)	5,565,845	(1,281,169)	4,284,676