

# Net Tuition Revenue and “The Gap” in K-12 Schools™

BY KATIE TURNER



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Chief Financial Officers at K–12 private and independent schools have a tough job. Many fill the roles of both CFO and Chief Operations Officer, keeping an eye on the financial business as well as school operations. While this has its drawbacks, it also has its benefits. An enterprise view of school finances and operations can offer insight into the day-to-day activities that drive revenue and expenses and provide inspiration for managing both. Let’s consider the number one revenue stream for most private and independent K–12 schools: **tuition**.

The National Business Officers Association (NBOA) reports that, on average, tuition makes up 74% of a private school’s revenue. The National Association of Independent Schools (NAIS) says it could be as high as 81% for smaller schools. With tuition as the primary revenue stream, schools heavily depend on the admissions and enrollment process. CFOs, Heads of Schools, and School Boards carefully calculate what to charge for tuition each year. In doing so, they must consider their enrollment goals—including class sizes and student demographics—and account for the impact of financial aid on net tuition revenue.

## What is Net Tuition Revenue?

In simple terms, net tuition revenue (NTR) is realized after subtracting financial aid from gross tuition revenue. You can also think about this as the cash flow from tuition collected. An NTR model recognizes financial aid not as an expense but as a tuition discount. When tuition and inflation outpace family income, the right mix of full-pay and partial-pay students can increase enrollment and build upon a school's financial sustainability.

### Questions to ask during your budgeting and forecasting process:

- How much financial aid is funded?
- Is it funded by an endowment or restricted giving?
- How dependent is the school on that funding?
- What happens if that revenue stream dries up?

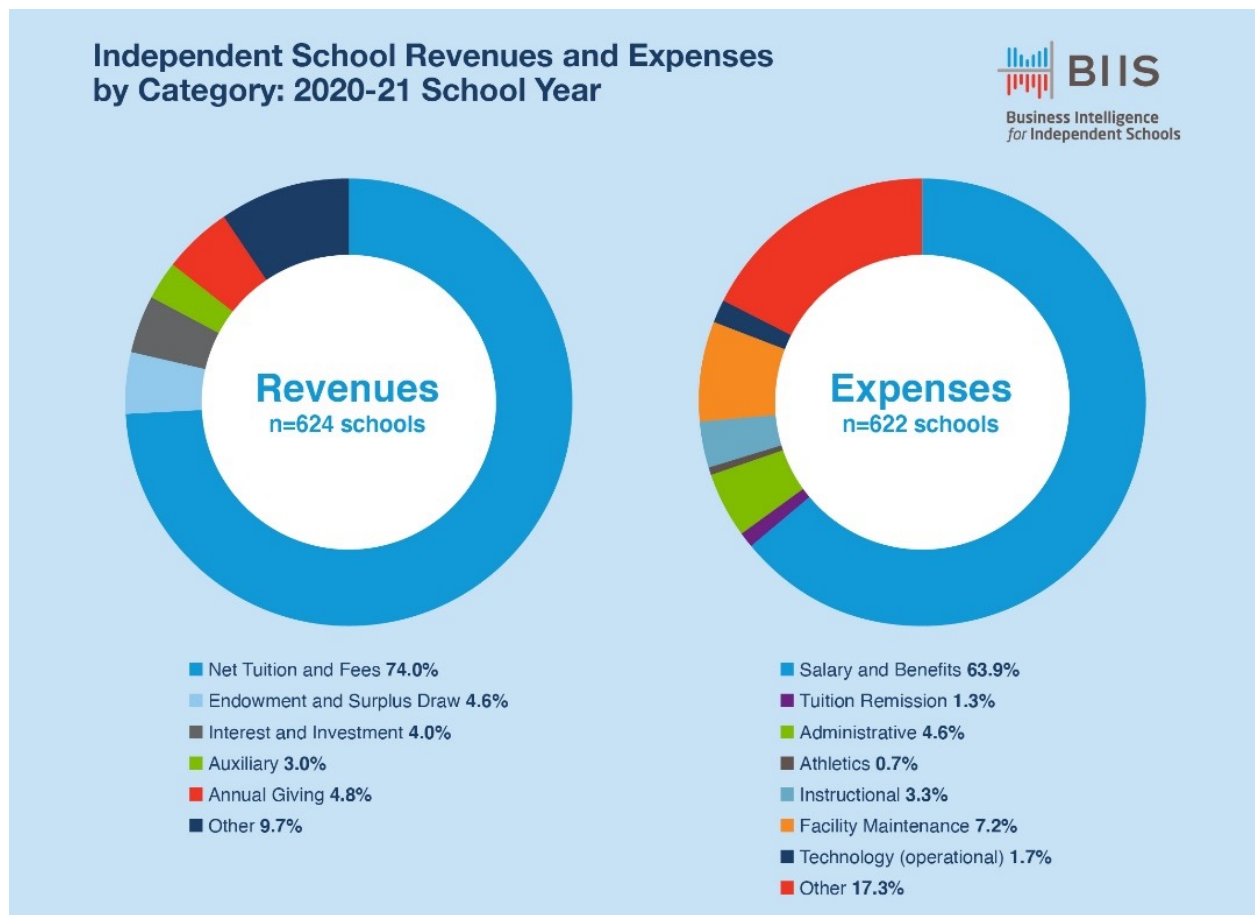
When we talk about financial sustainability, we are also talking about business continuity.

A school must consider the risks to funding and explore alternative revenue streams to support school operations and enrollment.

## What is “The Gap?”

In private and independent schools, “The Gap” represents the difference between net tuition and fees per student and the total operating expenses per student. Another way of thinking about this is the difference between how much it costs to educate a child and how much we charge to educate a child.

The NBOA's Business Intelligence for Independent Schools estimates a median gap per student of \$4,315, with revenue and expenses categorized below.





## Questions to ask when discussing the gap:

- How do you close the gap if NTR only covers 2/3 of operating costs?
- Are you dependent on unpredictable fundraising?
- Have you diversified your revenue streams to include auxiliary programs?

To address financial sustainability, you must first calculate the cost of educating each child. That cost should include all expenses, from teacher salaries to facility maintenance. Understanding costs on a per-student basis can help frame discussions with School Boards and Heads of Schools regarding tuition, financial aid, fundraising, and alternative revenue proposals. Transparency and collaboration can help close the gap and lead to a more financially sustainable outcome.

## Benefits of an NTR Model

Every admissions office has students on a waitlist. When the financial aid budget is capped at a specific dollar amount, these students may not make the cut due to funding, even though they are mission-fit, meet academic criteria, and the school wants to enroll them. But when a school takes a strategic approach to net tuition revenue, it can fill seats otherwise left empty.

When a school's business office knows the cost of educating each child and has calculated its net tuition revenue based on current enrollment, it may find a surplus. In that case, the admissions and financial aid officers can look where seats in the school aren't filled and choose to apply additional aid strategically. Fully integrated enrollment, tuition, and financial aid management software can simplify this process.

For example, let's say the school's fourth grade is under-enrolled. One family on the waitlist can only afford 20% of tuition, while another can pay 60%. If the NTR works out, the school can accept both students and bill those families according to need. The partial tuition from those two families adds to the school's NTR for the year, and two more children get a quality education.

## A More Sustainable Future

Whether you use an NTR model for awarding financial aid or not, knowing that number and managing the gap are essential for budgeting and forecasting. At the end of the day, having your fingers on the pulse of school finances allows for strategic consideration of new programs and how they may affect not only enrollment—and thus revenue—but also how those programs could potentially lead to a more financially sustainable future for your school.



## About the Author

Katie Turner's motto is "Let the machines work so the people can think!" As a former Controller and Business Manager in K–12 independent schools, she was instrumental in affecting technological change to drive efficiency in school operations, including migrating the business office to Blackbaud Financial Edge NXT®. She is a Certified Public Accountant and an expert in school and nonprofit accounting, tax preparation, cash flow, tuition and financial aid management, and K–12 school software solutions. Katie's passion for financial efficiency and helping others led her to Blackbaud, where she is now a Senior Solutions Consultant.



Top private schools across the US and Canada use Blackbaud's Total School Solution to empower the business office with the information they need to make data-driven decisions. From website to enrollment, financial aid, and academics to tuition management, cash flow analysis, fundraising, and accounting, Blackbaud has your school covered.

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