



How do Nonprofits Function Financially, and What Motivates Donor Support

Jordyn Hurwitz

Abstract

The paper will start with general information on nonprofits, how they operate without actually making a profit, their goals, and the specifics that come with running a nonprofit. Then, the paper will go into the finances of a nonprofit; how they are able to make money from donors, how they distribute their money, and how they record transactions. Bouncing off from the ideas of how a nonprofit makes money, the paper then analyzes how a nonprofit can get donors, why donors would want to donate to a nonprofit, and the psychology behind that; it will also discuss the different types of donors and how a nonprofit can attract that specific donor. Lastly, the paper will explore more specific examples of homeless nonprofits in the New Jersey/ New York area, like the Apostles' House, and analyze how effective their efforts are to get donors.

Introduction

In 2022, there were 1.97 million nonprofits operating in the United States (USA). In that same year, there were more than 16,000 nonprofits specifically helping individuals facing homelessness (Giving Compass Insights). The purpose of these nonprofits is to provide relief and support to individuals or families facing this issue. This paper analyzes the strategies of 5 nonprofits focused on homelessness and discusses the psychology behind the tactics each organization uses to gain donors. It is vital for nonprofits to understand the psychology behind donating because this will help them appeal to donors, and in turn make more money, which they need to operate.

Additionally, this paper delves into the general way a nonprofit functions financially. It will conclude with recommendations backed by the most successful strategies that these nonprofits used to gain this participation.

Background

A nonprofit is an organization that operates for a charitable or public cause rather than for profit. In order for a company to be considered a nonprofit, it must serve the public in some way, and all money it receives must go back into its business and the people they are serving. The only way any business can operate is through funding. Nonprofits receive funding in numerous ways. This can be done through individual donations from people who donate money, time, or goods to an organization. Funding can also come through grants from foundations, corporations, or the government. However, a nonprofit must meet certain requirements or conditions to be awarded grants. A nonprofit can also receive corporate gifts, which is when corporations donate time, money, or goods. Donations can be restricted, which means that they are intended



for a specific purpose, or unrestricted, which means that they can be used for anything. (Kenton).

Financial Benefits and Techniques of Nonprofits

In order to understand how a nonprofit is able to operate, it is key to understand the financials. A key advantage for nonprofits is that they can become tax-exempt (Kenton). To become tax-exempt, the organization must meet several requirements, such as proving that it serves the public in some way. This process also usually involves filling out legal forms, applying for an Employer Identification Number (EIN), and submitting IRS Form 1024 (Fraraccio). After this, tax-exempt organizations can spend more of their money on their cause rather than on state and federal taxes. However, there are specific regulations that come with being tax-exempt. Additionally, because of their nonprofit status, donations to nonprofits are frequently tax-deductible for donors. A tax deduction is an expense that can be subtracted from your income, which reduces the amount of taxes you owe (Kagan). All nonprofits must act with transparency through all of their expenses and donations (Bichachi).

Nonprofit accounting is a technique that all nonprofits use to track their money in order to stay transparent and within regulations. They use a system called fund accounting, which tracks revenue. Fund accounting separates money into different accounts based on its purpose, including whether it can be used for anything or is restricted to a specific program (Bichachi). This system helps internal managers and external stakeholders clearly see how funds are being used and ensures that donations go toward their intended purposes.

Organizations also implement strong internal checks and regular financial reviews to ensure integrity. Accounting professionals within the organization verify entries, prepare reports, interpret financial data, and file IRS forms. Nonprofits also use their financial statements to evaluate donation trends, forecast revenue, adjust budgets, and improve donor management strategies. Best practices in nonprofit accounting include keeping administrative costs efficient, regularly reviewing budgets, and planning strategically for long-term growth (Bichachi).

Nonprofits typically generate four main financial statements: the statement of financial position, which shows assets and liabilities; the statement of activities, which tracks revenue and expenses; the statement of cash flows, which monitors the movement of money in and out of the organization; and, the statement of functional expenses, which breaks down spending into program services, general management, and fundraising. These documents help assess the organization's financial status, operational efficiency, and alignment with its mission. They are essential for donor relations, long-term planning, and guaranteeing regulatory compliance (Bichachi).



Nonprofit Operations

While many nonprofits must rely on financial resources to operate, volunteer labor is also vital. Volunteer labor keeps costs low and engages community members who are passionate about the cause. However, many nonprofits employ paid staff to manage day-to-day functions or oversee specialized areas. Furthermore, nonprofits are all governed by a board of directors rather than being owned by individuals or shareholders. The board is responsible for overseeing the organization's adherence to its mission, ensuring compliance with regulations, and guiding strategic direction (Kenton).

Nonprofits face benefits and challenges while operating. Some benefits are that they are exempt from state and federal taxes, have access to a great range of funding sources, create change in the world, and give purpose to those contributing to the cause. However, some challenges are that revenue streams can be unpredictable, it can be hard to get donations, nonprofits must comply with many regulations, and they often face competition when trying to hire employees (Kenton).

Donation Strategy

Most importantly, it can be hard for nonprofits to gain donors and people who want to contribute to the cause. There are a lot of psychological factors that play a role in donations. Many people experience altruism. This is when people donate simply because they care about others, and they do this without expecting anything in return.

Another reason that people donate is because of social validation: they enjoy that donating gives them social recognition and makes them feel part of a tight-knit community. Lastly, donors who feel a personal connection and strong emotion towards the cause are more likely to donate to it (Marie). In fact, Harvard psychologist Lucius Caviola said that even after people hear that one charity is more effective than another, they are still more likely to donate to the cause that they have a stronger connection to (Pazzanese). As shown in the chart below from Bank of America, donors whose values or beliefs align with the charity's, or donors who feel a personal interest in the charity, are more likely to donate to it.

Reasons wealthy donors give to organizations:



Source: Bank of America

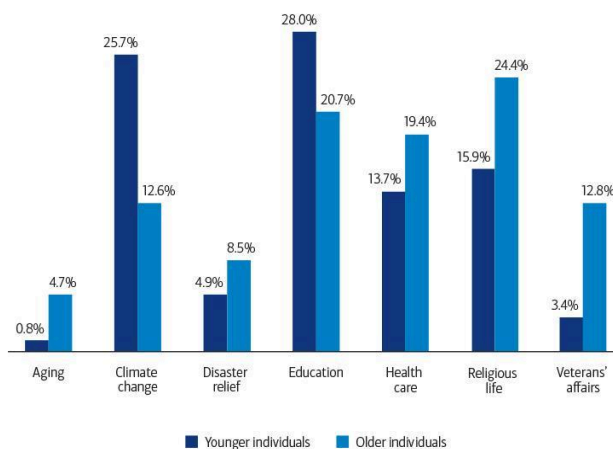
There are many different things that nonprofits can do to obtain donors. One approach is to build trust and transparency within the organization. Clear communication regarding the goals and values of the nonprofit can help assure donors of the integrity of the organization. Additionally, donors want to know exactly how their money is being used. Fund accounting helps to ensure transparency, leaving donors feeling secure (Marie).

Nonprofit storytelling is also very important. Sharing impactful stories can help donors to feel more connected to a fundraising campaign and make them more likely to donate. While stories of the actual cause are effective, telling stories of other people giving can also make donors more likely to contribute. This follows the principle of social proof. Social proof is the fact that humans make decisions based on the actions of others (Arizona State University). Nonprofits can trigger social proof in different ways by sharing how many people have donated and how those donations have made a difference (Reis).

Additionally, donor segmentation allows a nonprofit to reach out to every supporter of the organization in a personalized way, without having to individually reach out. Different people connect with causes in different ways, so it is very important for nonprofits to adjust their message based on specific factors. Things like age, gender, culture, and past giving history all affect the way that donors connect to nonprofits (Bloomerang). The chart below shows how younger (born after 1981) and older (born before 1981) individuals align with different issues.



Important Causes/Issues by Age:



Source: Bank of America

Donor Types

This idea of donor segmentation is very important because there are different types of donors, and every donor comes with a specific fundraising strategy to attract them. Moral donors give out of a sense of duty, often driven by personal values or faith, so organizations should clearly explain the impact of the donation and appeal to their strong morals. Ego-driven donors give because it makes them feel good, so recognizing their generosity and showing them how appreciated and admired they are is key. Social dynamic donors are motivated by connection and community, so fundraisers should focus on events and group activities that create a sense of belonging. Fear of missing out (FOMO) donors respond to urgency and exclusivity, making limited-time campaigns and exciting experiences effective. Additionally, nonprofits can use the concept of social proof to get FOMO donors to donate. If these donors see how other people have contributed to a cause, it could make them want to contribute as well. Relatable donors are drawn to causes that reflect their own lives, so asking about their stories and sharing similar ones builds emotional connection. It's essential to make them feel like their donation directly impacts a cause that they understand. Trust-based donors need transparency and proof that their money is used wisely, so clear reporting and professional communication matter. Providing evidence, testimonials, statistics, and financial breakdowns entice the donors. Impact donors want to see real results, as they donate to see the effect that their contribution has. Showing them the personal and measurable effects of their support, and using visual storytelling through photos and



videos, is also important. Finally, obtainable goal donors are inspired by achievable targets, so progress bars, milestone updates, and specific benchmarks help motivate them to give (Charity link).

The final things organizations can do to increase the chances of getting contributions is to make donating an easy process for everyone. No one wants to have to overcome hurdles to give to charity. Allow easy payments and reduce steps for donors who want to give. This will help streamline the giving process, making supporters more likely to donate (Bloomerang).

To lower the barrier of entry for donors, nonprofits must use tactical marketing strategies. Marketing is important to reach the rising population of people staying in homeless shelters. In fact, in the year 2022-2023, there was a 14 percent increase in the number of people staying in homeless shelters on the night of the Point-in-Time (PIT) count. (Soucy, Janes, Hall). PIT count is a one-night census of people experiencing homelessness, conducted annually (National Alliance to End Homelessness). In order for these shelters to provide for this increase in people, they had to obtain donors to do so. Different nonprofits addressing homelessness use different strategies to appeal to these donors.

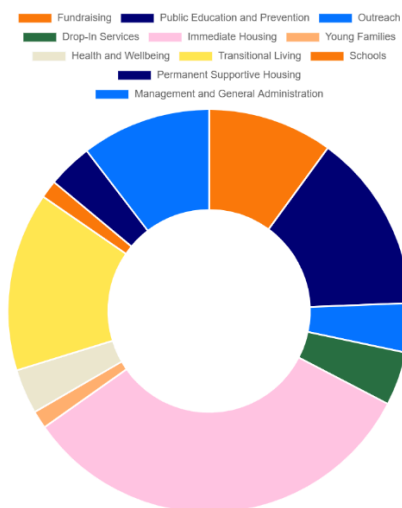
Homeless Nonprofits

First, the Covenant House is a homeless shelter with locations throughout the New Jersey and New York area. They are the largest provider of runaway and homeless youth services in New York City. Their goal is to help every young person find safety and to warn them about the dangers of living on the streets. The Covenant House serves 1,600 kids a year, and to do this, they must generate a lot of donations. This is apparent in their 2024 financial report, which displays that the Covenant House has spent \$28 million out of a total of \$284 million on fundraising. Thus, fundraising accounts for 9.9% of their total expenses. Out of their total revenue of \$284 million, they received \$154 million from private contributors, or 54.2% of their total revenue (Covenant House New York). This shows how vital donors are to the Covenant House's success, as more than half of its funding comes from these private contributors. Because of this, the Covenant House needs strong strategies to connect with donors and to keep them giving.

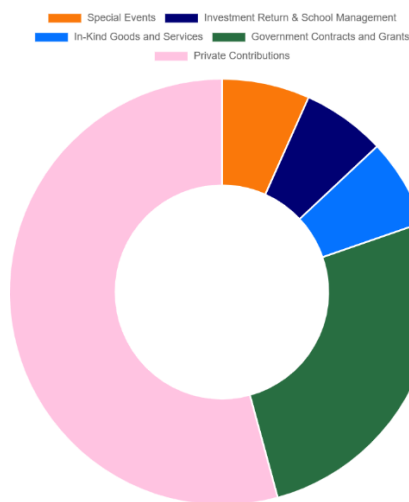
Their Instagram (@Covenant_House) highlights some recent campaigns aimed at raising awareness and engaging the public. In 2022, the Covenant House partnered with the NFL to spotlight youth homelessness. Additionally, in 2023, they partnered with Delta Airlines and NBA Superstar Jalen Brunson to distribute food and provide aid to those in need. These different partnerships reflect the Covenant House's strategies in collaborating with organizations and high-profile individuals to increase donors and highlight their mission of ending youth homelessness.



Total Expenses (in millions) - \$284.00



Total Revenue (in millions) - \$284.00



Source: Covenant House New York

These two pie charts are from the Covenant House's website, showing the breakdown of their total expenses and revenue in the year of 2024.

The YMCA is another homeless shelter, located in the New Jersey and New York area. Unlike some other nonprofits, the YMCA values volunteer work over donations, which is apparent from their website. On their website, they have a whole section where people can look at volunteering opportunities to get involved. The YMCA also connects with potential donors and volunteers by showing the wide age range of people staying at their shelter, from babies to grandparents. By doing this, they appeal to a variety of supporters (The YMCA).

The YMCA targets a few different donors. They target the social dynamic donor by creating a sense of community and connection through donating. They also appeal to the egoism donor by recognizing their desire to create change in the community. The YMCA exemplifies the concept of donor segmentation by reaching out to different donors and creating personalized messages that appeal to both groups, without individually reaching out. For example, on their website, the YMCA has a "Volunteering page." On this page, they are able to appeal to multiple types of donors by creating a sense of community, explaining the benefits of donating, and giving real statistics about the people who have been helped at the shelter. Just that specific page appeals to three different types of donors—showing how they clearly value donor segmentation.

The Hoboken Shelter is another nonprofit shelter located in Hoboken, New Jersey. The Hoboken Shelter provides meals and shelter to those who need it and

services to support people in finding housing. The Hoboken shelter lists the many materials they use each day to give possible donors a better sense of their daily operations. For example, 850 cups and napkins, 650 plates, 250 bowls, and more. Ultimately, they serve up to 500 meals daily, and they house 50 guests. These specific numbers help appeal to the trust-based donors, who need to see exactly how their contributions are being used. Knowing exactly what the Hoboken House uses daily helps ease the trust-based donors' nerves about where their money is going. Additionally, in 2024, over 1,900 unique volunteers donated more than 12,500 hours to serve meals to Hoboken House guests. This applies to the principle of social proof: the idea that others are more likely to take action when they see others doing the same. By showcasing this strong volunteer turnout, the Hoboken Shelter shows that they value community-centered work- making donors even more likely to get involved (The Hoboken Shelter).

Homefront is another homeless nonprofit operating in Central Jersey. Their goal is to end homelessness in Central Jersey by providing their clients with the skills necessary to get jobs and make housing more affordable (Homefront). They help reduce the pain of homelessness and help families staying at Homefront become more self-sufficient. On their website, Homefront displays the slogan, "By the numbers," to show their commitment to transparency and providing numerical data. For example, they show the number of individuals they have helped, meals they have served, and so on. Additionally, on their 2023-2024 financial report, Homefront lists every donor they have had that year, thanking them for all they do. This strategy appeals to the egoistic donor, who likes to be thanked and admired for their good deeds. Their financial report also features Homefront's breakdown of the year's assets and liabilities. According to the report, Homefront only spent 5% of their total expenses on fundraising this year, showing that they allocate the rest of their budget on more mission-focused expenses like housing services or basic necessities, which account for 73% of their total budget. When breaking down their operating revenue, the majority of it comes from in-kind contributions and individual contributions. In-kind contributions are donations of non-cash items (YPTC). This can be anything from goods, services, or other resources the company needs. In-kind donations having such a large percentage of the total revenue shows that Homefront has strong community engagement. Lastly, 18% of their revenue also comes from government grants—indicating reliance on public funding that can tend to vary with policy changes (Homefront).

Lastly, The Apostles' House is a homeless shelter in Newark, New Jersey. Its goals are to not only give children and their parents a safe shelter but also break the homeless cycle to provide them with the opportunity for a successful future. The shelter helps integrate those staying in it back into society by treating every individual under its care with the dignity and respect they deserve. The Apostles' House wants to empower its residents through effective programs. The Apostles' House has numerous funders



that help make the work they do possible. Businesses like M&T Bank, the Prudential Foundation, and more all provide grants to the Apostles' House to keep it running (The Apostles' House).

The Apostles' House has assisted over 356 individuals through its emergency shelter and transitional living programs. Additionally, they have served over 5,200 individuals through their food pantry. In order to help this many people, funds are required. The Apostles' House states that it costs \$13,140 for one person to simply stay at the shelter for six months. This does not include the costs of meals, programs, or any other essentials. The Apostles' House encourages those visiting their website to donate, by including how much it costs to help just one person. By stating this and actually providing the cost necessary to house one individual, the Apostles' House is appealing to the impact donor, who likes to see the tangible effects of their donations. The Apostles' House also provides a link to their Amazon registry, making it very easy for eager donors. This link brings donors to Amazon and lets them choose from countless items—from toothbrushes to soap—that would be useful. The Amazon registry shows how the Apostles' House streamlines the process to make giving easy, making donors more likely to give (The Apostles' House).

The Apostles' House also values the concept of storytelling. They share countless impactful and motivating stories on their website that motivate people to get involved. They have a portion of their website dedicated to real stories from previous residents at the Apostles' House, sharing how the shelter changed their lives. This section of the website appeals to the relatable donor. These real examples of different appeals to various donors show how Apostles' House not only effectively uses donor segmentation, but they value getting donors. However, their website isn't the only way they attract donors. When I interviewed the Vice President of Apostles' House, Rachel Beck, she stated that they "find volunteers through many channels." The Apostles' House utilizes social media, word of mouth, and finds connections in neighboring communities. This organization uses many ways to find and connect with donors. The Apostles' House has seen a lot of success with these strategies, which was apparent through the interview. Beck stated that they could not pinpoint a specific number of volunteers that the Apostles' House has because they "have individuals as well as groups that pull together to support." In fact, she stated that they had hundreds of students, parents, and teachers that were all involved in their Thanksgiving food drive. These successful numbers show that the strategies the Apostles' House is using to get donors are working.

When it comes to a nonprofit, the question to be answered is: Is it more helpful for volunteers to donate their time or goods? During the interview, Beck stated that they welcome people who donate their time or people who donate items. The Apostles' House is appreciative of everything they receive, whether that's a tangible item or someone physically coming to the shelter. She stated that anyone who wants to come

to the house is welcome because “offering activities for the children and mothers gives them opportunities to socialize, learn, grow, and have fun!”

Conclusion

Successful nonprofits are the ones that reach out to as many donors as possible using a mix of smart strategies. Financial reports are important because they give clear numbers that help build trust with donors. But just as important are the stories behind those numbers—people want to see the impact in a way they can relate to. Listing specific stats, like how many people an organization helps each year, can make a big difference. Homefront and The Hoboken Shelter do a good job of listing specific statistics about their daily operations and budget- helping to build trust. The Apostles’ House uses a variety of approaches to connect with different kinds of donors—like social media, their website, word of mouth, and more. Along with the Apostles’ House, the Covenant House has creative marketing strategies, helping to bring in more donors. Lastly, The YMCA does a good job of using donor segmentation to their advantage, as they target multiple types of donors. Overall, understanding the psychology behind giving is key. Knowing which types of donors are more likely to connect with your message can help shape how you communicate and who you target. That’s what really makes a difference in the long run.

References

- Bank of America Private Bank: Private Wealth Solutions*,
<https://www.privatebank.bankofamerica.com>. Accessed 24 August 2025.
- Charity Link*, <https://www.charitylink.net>. Accessed 24 August 2025.
- “Donor Psychology and Fundraising.” *Nonprofit Fundraising*,
<https://nonprofitfundraising.com/donor-psychology-and-fundraising/>. Accessed 24 August 2025.
- Fundraising Software for NonProfit Donor Management by DonorPerfect*,
<https://www.donorperfect.com>. Accessed 24 August 2025.
- Hoboken Homeless Shelter*, <https://www.hobokenshelter.org>. Accessed 24 August 2025.
- Investopedia*, <https://www.investopedia.com>. Accessed 24 August 2025.
- HomeFront NJ | Break the Cycle of Poverty*, <https://www.homefrontnj.org>. Accessed 24 August 2025.
- “How many nonprofits are there in the US?” *USAFacts*, 16 November 2023,
<https://usafacts.org/articles/how-many-nonprofits-are-there-in-the-us/>. Accessed 24 August 2025.
- Investopedia*, <https://www.investopedia.com>. Accessed 24 August 2025.
- Love, Jay. “Donor segmentation | Comprehensive guide + tips for success.”
Bloomerang, <https://bloomerang.co/blog/donor-segmentation/>. Accessed 24 August 2025.
- NetSuite: Business Software, Business Management Software*,



<https://www.netsuite.com>. Accessed 24 August 2025.

Soucy, Daniel, et al. "State of Homelessness: 2024 Edition." *National Alliance to End Homelessness*, 5 August 2024,

<https://endhomelessness.org/state-of-homelessness/>. Accessed 24 August 2025.

"Strategic Plan 2024." *Covenant House*,

<https://www.covenanthouse.org/about-us/strategic-plan>. Accessed 24 August 2025.

The Apostles' House | Newark NJ - NJ Shelter & Social Service Agency,

<https://theapostleshouse.org>. Accessed 24 August 2025.

"The gentle science of persuasion, part three: Social proof | W. P. Carey News." *W. P. Carey News*, 3 January 2007,

<https://news.wpcarey.asu.edu/20070103-gentle-science-persuasion-part-three-social-proof>. Accessed 24 August 2025.

"The US Nonprofit Landscape: Human Services Insights 2022." *Giving Compass Insights*, <https://x4i.org/us-nonprofit-landscape-human-services-insights>.

Accessed 24 August 2025.

The YMCA, <https://www.newarkymca.org/main/volunteering/>. Accessed 24 August 2025.

U.S. Chamber of Commerce | U.S. Chamber of Commerce,

<https://www.uschamber.com>. Accessed 24 August 2025.

"What Is an In-Kind Donation? The Ultimate Nonprofit Guide - Your Part-Time Controller, LLC." *YPTC*, 29 March 2024, <https://www.yptc.com/in-kind-donation/>. Accessed 24 August 2025.

Whitaker, Mark. *Harvard Gazette – Official news from Harvard University covering innovation in teaching, learning, and research — Harvard Gazette*,

<https://news.harvard.edu>. Accessed 24 August 2025