

Abstract

Nonprofit organizations enter February 2026 facing sustained operational volatility driven by federal funding uncertainty, expanded regulatory oversight, workforce strain, and rising compliance expectations. This week's Navigator News Update examines Congress's rejection of proposed nonprofit program cuts in the FY 2026 spending package, the operational fallout from another brief federal shutdown, and intensifying federal enforcement activity affecting governance, DEI programs, and financial controls. Human resources developments highlight escalating burnout, recruitment challenges, evolving volunteer engagement models, and renewed legal uncertainty around harassment guidance and student loan forgiveness. IRS, accounting, and finance updates underscore heightened scrutiny of payroll, UBIT, audits, and new disclosure requirements, while state developments reveal tighter grant controls, new filing obligations, and targeted relief efforts. Together, these developments signal a demanding operating environment requiring proactive planning, disciplined compliance, and strategic resilience.

February 9, 2026 Navigator News Update: Including FY 2026 Nonprofit Federal Spending Protections, Growing Federal Oversight, New Volunteer Models and Much More!

From Nonprofit Management Navigator

Please see Understanding This Information and Disclaimer at the conclusion of the article.

Introduction

Stability has become the exception rather than the norm for nonprofit organizations in early 2026. Federal funding decisions continue to fluctuate, regulatory scrutiny is intensifying, and workforce pressures are compounding long-standing operational challenges. While Congress rejected sweeping cuts to core nonprofit programs in the FY 2026 spending package, recent shutdown disruptions, enforcement

expansions, and administrative actions demonstrate how quickly conditions can change.

This week's Navigator News Update highlights the growing gap between short-term funding relief and long-term operating risk. Federal agencies are signaling a new era of accountability focused on governance, financial controls, compliance documentation, and program alignment with evolving policy priorities. At the same time, nonprofit leaders are navigating unprecedented burnout levels, recruitment constraints, and shifting expectations around volunteers and technology.

At the state level, tighter grant oversight, new filing requirements, and targeted emergency funding reflect both rising fraud concerns and growing recognition of nonprofits' essential role. Taken together, these developments underscore the importance of disciplined management, forward-looking planning, and organizational resilience as nonprofits prepare for continued uncertainty in 2026.

Priority Legend

Priority indicators help nonprofit leaders quickly identify which developments require their most immediate attention based on urgency and operational impact.

 Immediate Action  Requires Organizational Response  Monitor and Prepare

Nonprofit News and Federal Regulatory Developments

Executive Summary

Federal action in early February 2026 delivered mixed signals for nonprofit organizations. Congress rejected proposed eliminations of major nonprofit-serving programs in the FY 2026 spending package, offering short-term funding stability, while a brief federal shutdown again disrupted grant processing and exposed ongoing volatility. At the same time, enforcement risk is rising as expanded False Claims Act authority, intensified oversight initiatives, and renewed scrutiny of DEI-related activities increase legal and compliance exposure. Demand-side pressures are also growing. New SNAP work requirement expansions will potentially strain

food banks and emergency assistance providers. Sector-wide data highlights mounting operating risks, consolidation pressures, cybersecurity threats, and evolving fundraising and partnership strategies that require proactive planning and disciplined governance.

Key Actions for This Section:

- Review federal grants and contracts for compliance exposure tied to expanded enforcement authorities
- Strengthen cash flow planning and reserves in anticipation of continued funding disruptions
- Conduct governance, financial control, and documentation reviews in response to heightened oversight
- Prepare for increased service demand linked to SNAP eligibility changes
- Reassess cybersecurity readiness and insurance coverage
- Evaluate fundraising, recurring giving, and partnership strategies to improve revenue stability

FY 2026 Federal Spending Package Rejects Proposed Nonprofit Sector Cuts

President Trump signed FY 2026 appropriations on February 3, 2026, funding all departments except Homeland Security through September 30. Congress rejected administration proposals to eliminate Community Development Block Grants, Community Services Block Grants, and HOME affordable housing programs. The legislation preserves SNAP funding through September and includes statutory language strengthening program protections against unilateral administrative changes, though it rescinds \$11.6 billion in IRS modernization funds previously allocated for workforce rebuilding.

Source: LeadingAge Fiscal Year 2026 Funding

Brief Partial Federal Shutdown Delays Nonprofit Grant Processing

A partial government shutdown from January 31 to February 3, 2026, affected agencies without enacted appropriations including Defense, HHS, Labor, Education, and Transportation. Approximately 670,000 federal workers were furloughed while 730,000 worked without pay. Nonprofits experienced delayed grant payments, suspended contract modifications, and inaccessible program officers. The brief

three-day duration limited disruption compared to fall 2025's 43-day shutdown, but organizations should strengthen cash reserves anticipating recurring funding volatility.

Source: Partial Shutdown Ended, Trump Signs Package

False Claims Act Enforcement Expands with DEI Compliance Threats

The Justice Department reported record \$6.8 billion in FY 2025 False Claims Act recoveries, with healthcare organizations comprising \$5.7 billion. The Trump administration now threatens FCA actions against federal contractors and grantees operating diversity programs, claiming civil rights law violations despite courts' historical rejection of such theories. The FY 2025 National Defense Authorization Act expanded the Administrative False Claims Act, effective February 27, 2026, creating streamlined administrative enforcement for claims up to \$1 million.

Source: Charity & Security Network False Claims Act Update

Trump Administration Demands \$1 Billion from Harvard in Antisemitism Dispute

President Trump doubles previous settlement demand to \$1 billion, escalating year-long standoff over alleged campus antisemitism failures. Administration previously cut billions in research funding and attempted blocking international student enrollment. Federal judge ruled in Harvard's favor December 2025, calling antisemitism argument a "smokescreen." Other universities reached settlements: Columbia (\$200M), Brown (\$50M workforce development), Cornell (\$30M agricultural research). The dispute demonstrates administration's willingness to use federal funding leverage for policy compliance. Universities and large nonprofits should assess vulnerability to political targeting and develop legal strategies for protecting institutional autonomy and federal funding relationships.

Source: CNN

Enhanced Federal Oversight Signals New Era of Nonprofit Accountability

Multiple high-profile fraud investigations have prompted federal agencies to implement comprehensive oversight enhancements including specialized IRS task forces targeting pandemic-era incentive abuse and 501(c)(3) status misuse. The Treasury Department issued Geographic Targeting Orders requiring enhanced transaction reporting in affected jurisdictions. Federal authorities are scrutinizing nonprofits' financial management practices, board governance structures, and subrecipient monitoring capabilities more intensively. Organizations should

immediately strengthen internal controls, enhance documentation standards, and implement rigorous conflict-of-interest policies to withstand heightened regulatory examination.

Source: U.S. Treasury Department Press Release

Minnesota Fraud Investigations and 2026 Implications for Nonprofits—Immediate Action

Treasury Secretary previously announced investigations into Minnesota fraud schemes involving nonprofits, with IRS forming task force to probe 501(c)(3) status abuse related to pandemic-era programs. Vice President Vance creates new DOJ assistant attorney general position reporting directly to White House. FinCEN issues Geographic Targeting Order requiring Minnesota money services businesses to report international wire transfers exceeding \$3,000. Heightened IRS scrutiny of tax-exempt organizations requires nonprofits to review immediately their financial controls, international wire procedures, and program documentation to ensure compliance and demonstrate legitimate use of tax-exempt status.

Source: National Council of Nonprofits Champion

SNAP Work Requirements Expand to Ages 18-64

Effective February 1, 2026, SNAP work requirements expand to adults aged 18-64, eliminating exemptions for veterans, homeless individuals, and former foster youth. Recipients must work, train, or volunteer 80 hours monthly. Congressional Budget Office estimates 2.4 million people will lose benefits over ten years. Food banks anticipate significant demand increases as newly ineligible individuals seek emergency food assistance. Food banks and emergency assistance providers should prepare for substantial client increases, potentially requiring additional staff, volunteers, and food supplies while advocacy organizations may mobilize opposition to these restrictions.

Source: ABC News

2026 Operating Risks: 61% of Nonprofits Face Moderate to Significant Threat

Center for Effective Philanthropy reports 61% of nonprofits face moderate-to-significant operational risk. Key challenges include funding volatility with uneven 2-4% giving growth, rising operating costs, increased compliance scrutiny, cybersecurity vulnerabilities, and technology infrastructure gaps. Organizations struggle with data-driven decision-making capabilities while boards demand

greater performance transparency. Smaller nonprofits particularly vulnerable to operational disruptions. Risk management requires scenario planning, strengthened reserves, cybersecurity investments, and modernized technology infrastructure. Boards should institutionalize risk assessment, financial forecasting, and stress-testing as regular governance practices rather than crisis responses.

Source: BDO

Nonprofits Consolidate Operations Amid Funding Cuts and Economic Headwinds

BDO reports 37% of nonprofits consolidated operations responding to federal policy changes. Sector faces bifurcated landscape: larger diversified organizations build resilience while smaller organizations dependent on single funding sources risk restructuring or closure. Organizations prioritize operational efficiency, scenario planning, and revenue diversification. Competition intensifies for limited philanthropic dollars as federal funding remains unpredictable. Strategic planning must include merger assessments, shared service arrangements, and operational streamlining. Organizations should strengthen reserves, diversify funding streams, and consider collaborative arrangements to achieve scale advantages and operational sustainability.

Source: BDO

Church Mutual Survey Shows 75% Will Maintain or Increase 2026 Giving

December 2025 survey of 1,010 adults reveals 75% plan maintaining or increasing charitable giving in 2026, while 25% anticipate reductions. Survey shows 54% express concern about nonprofit financial health. Giving methods remain traditional: cash/check (68%), physical items (45%), online (40%). Results suggest donor base remains committed despite economic uncertainties, though organizations face persistent concerns about financial sustainability. Donor retention strategies should emphasize financial transparency and organizational stability. Organizations must balance maintaining traditional giving methods while investing in online platforms to accommodate all donor preferences.

Source: Philanthropy News Digest

Monthly Giving Reaches 31% of Online Revenue as Sustainability Strategy Emerges

Monthly recurring donations now account for 31% of all online nonprofit revenue in 2024, up from 27% the previous year, according to M+R Benchmarks 2025, while

one-time giving revenue remained flat year-over-year. Monthly giving revenue increased 5% in 2024, demonstrating consistent growth as donor behavior shifts toward subscription-based support. Monthly donors provide significantly higher lifetime value, averaging \$288 annually (\$24 per month) compared to \$115 for one-time gifts, and demonstrate substantially better retention rates with nonprofits retaining 53% of repeat donors compared to only 19% of one-time donors year-over-year. GivingTuesday and New Year's Eve represent optimal conversion opportunities, with 35% more recurring donations starting on GivingTuesday and 57% more beginning on New Year's Eve. Despite this growth trend, only 14% of nonprofits prompt donors to convert one-time gifts to recurring donations during the giving process, and 91% of organizations stop acknowledging recurring gifts by the third month.

Source: M+R Benchmarks

Be The People Campaign Launches July 4, 2026 with Potential Opportunities for Nonprofits

Charles Koch-backed Stand Together launches Be The People campaign with \$200 million first-year budget and 10-year commitment, supported by 50 foundations. Partners include GivingTuesday, Goodwill Industries, Habitat for Humanity, NBA Foundation, and MacArthur Foundation. Campaign aims connecting millions of Americans with community problem-solving opportunities through coordinated national infrastructure supporting local civic engagement and volunteerism. Organizations should explore partnership opportunities with Be The People infrastructure to access volunteer pipelines and funding streams. Campaign represents significant new funding source focused on community-based solutions.

Source: PBS News

Strategic Corporate-Nonprofit Partnerships Shift Toward Value-Based Collaboration in 2026

Corporate philanthropy evolves beyond transactional sponsorships toward strategic partnerships requiring clear accountability, measurable outcomes, and mutual value. Popular arrangements include cause marketing campaigns, employee volunteer programs, joint ventures, and skills-based pro bono services. Companies increasingly demand ROI evidence and mission alignment. Small/mid-sized businesses expand corporate giving programs traditionally limited to Fortune 500 companies. Partnerships provide revenue diversification amidst funding uncertainty. Organizations should develop compelling value propositions demonstrating business benefits beyond logo placement. Partnerships require

capacity for impact measurement, stakeholder engagement data, and authentic storytelling connecting corporate values to nonprofit mission. Legal review essential for joint ventures ensuring tax compliance.

Source: Double the Donation

OpenAI Foundation's \$130 Billion Stake Raises Governance and Sector Concerns

OpenAI restructured in October 2025 from a nonprofit to a public benefit corporation, creating the OpenAI Foundation with a 26% equity stake valued at approximately \$130 billion in the for-profit OpenAI Group PBC, instantly making it one of the wealthiest philanthropic organizations in America, surpassing the Gates Foundation's \$86 billion. The foundation announced an initial \$25 billion commitment focused on health and curing diseases plus AI resilience and safety solutions. In late 2025, the foundation disbursed \$40.5 million in unrestricted grants to 208 nonprofits through its People-First AI Fund, reviewing nearly 3,000 applications in two months, representing a 440% increase over its previous year's \$7.5 million in grantmaking. Eight board members serve on both the foundation and PBC boards, prompting concerns from sector leaders about conflicts of interest and whether the foundation will prioritize commercial interests over public benefit.

Source: Inside Philanthropy

Record 3,322 Data Breaches in 2025 Demands Nonprofit Cybersecurity Investment

The Identity Theft Resource Center released its 20th Annual Data Breach Report on January 29, 2026, documenting record 3,322 data compromises in 2025, a 5% increase from 2024 and 79% jump over five years. Professional Services industry experienced the most significant growth in attacks, with 478 compromises, making them stepping stones to compromise multiple clients. Healthcare sector recorded 534 breaches while Financial Services led with 739 incidents. The report reveals 80% of consumers received data breach notices in the past 12 months, with nearly 40% receiving three to five separate notices. Eighty-eight percent of breach notice recipients experienced negative consequences including increased phishing attempts (40%), spam (49%), and account takeover attempts (40%), causing immediate anxiety (60%) and frustration (59%). Nonprofits must immediately strengthen cybersecurity investments, implement robust monitoring systems, conduct comprehensive staff training, maintain adequate cyber insurance coverage, and develop incident response plans. Organizations collecting donor data, client information, or operating online systems face significant legal exposure,

reputational damage, and operational disruption without proper cybersecurity infrastructure.

Source: Identity Theft Resource Center

Nonprofit Human Resources Developments

Executive Summary

Nonprofit workforce pressures intensified entering 2026 as burnout, recruitment challenges, and regulatory uncertainty converge. Federal actions have rescinded key workplace harassment guidance, creating compliance ambiguity for employers operating across jurisdictions, while litigation over Public Service Loan Forgiveness seeks to save an important recruitment and retention tool. Survey data confirms that staffing challenges now surpass funding concerns for many organizations, with leaders reporting unprecedented burnout levels and persistent vacancy rates. At the same time, volunteer engagement models are evolving toward flexibility, corporate partnerships are returning with more structure, and artificial intelligence is reshaping both staff and volunteer roles—often without adequate governance policies in place. Together, these developments demand immediate attention to workforce strategy, compliance readiness, and organizational culture.

Key Actions for This Section:

- Review harassment, DEI, and employment policies in light of shifting federal guidance and state law obligations
- Monitor PSLF litigation developments and assess recruitment messaging tied to loan forgiveness eligibility
- Implement retention strategies addressing burnout, workload management, and compensation competitiveness
- Modernize volunteer management systems to support flexible and skills-based engagement
- Review volunteer liability insurance coverage for adequacy and gaps
- Establish or update artificial intelligence governance policies affecting staff and volunteers

● EEOC Rescinds Workplace Harassment Guidance on Gender Identity During Late January

The Equal Employment Opportunity Commission voted 2-1 on January 22 to rescind its comprehensive 2024 workplace harassment guidance. The action eliminates agency interpretations addressing gender identity discrimination, including guidance on misgendering and restroom access. Nonprofits face uncertainty about harassment claim enforcement priorities, even as Title VII protections under Bostock remain legally binding. Organizations must navigate conflicting guidance while state laws may impose stricter obligations, creating compliance complexity particularly for employers operating across multiple jurisdictions.

Source: <https://www.littler.com/news-analysis/asap/eeoc-rescinds-enforcement-guidance-harassment>

● Status of Challenges to PSLF Restrictions—Implications for Nonprofit Recruitment and Retention

The National Council of Nonprofits leads a coalition lawsuit arguing the PSLF disqualification rule violates the Higher Education Act, Administrative Procedure Act, and First Amendment rights. The challenge joins multiple parallel lawsuits from 21 states, District of Columbia, individual nonprofits, and municipal coalitions all contesting federal authority to implement these employer restrictions. The litigation could protect workforce recruitment advantages nonprofits gain from PSLF eligibility, particularly important given sector-wide challenges in compensation competitiveness and staff retention documented in recent workforce surveys.

Source: National Council of Nonprofits

● Employee Retention Emerges as Top Challenge Surpassing Funding Concerns

Fifty-eight percent of nonprofits identify hiring and retention as their biggest external barrier, exceeding concerns about funding at 55 percent and economic instability at 49 percent. Staffing challenges are exacerbated by burnout, competitive labor markets, and limited compensation budgets. AI automation offers partial relief by reducing administrative burdens, yet cannot address underlying workforce sustainability issues. Nonprofits must develop comprehensive retention strategies including competitive compensation, professional development opportunities, and workplace culture improvements to maintain operational capacity amid persistent staffing shortages.

Source: <https://www.sigmaprofices.com/post/nonprofits-ai-social-impact-2025>

2026 Nonprofit Workforce Crisis: 95% of Leaders Report Burnout Concerns

Center for Effective Philanthropy finds 95% of nonprofit leaders cite burnout as major concern, with 50% struggling to fill vacancies. Contributing factors include salary competition (72.2% of organizations affected), stress from excessive workloads, and 22% of nonprofit workers unable to afford basic necessities. The sector faces vicious cycle: vacancies increase remaining staff workload, accelerating burnout and further turnover. Organizations must prioritize wellness programs, competitive compensation, and workload management. Leadership should implement structured support systems, flexible work policies, and succession planning to prevent burnout-driven talent loss that undermines mission delivery.

Source: Nonprofit Learning Lab

Volunteer Engagement Strategies Evolve as 2026 Trends Emphasize Flexibility

Volunteer recruitment patterns are shifting toward micro-volunteering, episodic commitments, and hybrid arrangements as organizations adapt to post-pandemic engagement preferences. The estimated national value of volunteer time reached \$34.79 per hour in 2024, increasing pressure on nonprofits to quantify volunteer contributions for funders. Organizations face recruitment bottlenecks and retention challenges requiring streamlined processes, skills-based matching, and flexible scheduling. Nonprofits must modernize volunteer management systems and eliminate friction in the recruitment-to-retention lifecycle to maintain adequate volunteer support in 2026.

Source: <https://www.nonprofitlearninglab.org/post/volunteer-engagement-in-2025-how-to-plan-for-2026>

Nonprofits Confront Complex Volunteer Liability Insurance Requirements

Volunteers face exposure to personal liability claims for negligence, wrongful employment practices, and fiduciary breaches despite federal and state volunteer protection laws. Nonprofits must maintain adequate public liability insurance as a prerequisite for volunteer protections. Coverage gaps exist for specialized volunteer activities, sexual misconduct allegations, and directors and officers liability. Organizations operating without comprehensive volunteer insurance face

significant legal exposure, reputational damage, and volunteer recruitment challenges, making adequate coverage essential despite budget constraints.

Source: <https://www.worldinsurance.com/blog/nonprofit-insurance-coverage-for-volunteers>

Artificial Intelligence Raises Questions About Volunteer Labor's Future Role

AI automation saves organizations 15-20 hours weekly on administrative tasks traditionally performed by volunteers, prompting strategic questions about workforce composition. While AI handles data entry, scheduling, and routine communications, it cannot replicate volunteers' emotional intelligence, community connections, and mission advocacy. Organizations must balance technology investments against volunteer recruitment needs, considering that 76 percent of volunteers also donate financially. The optimal approach integrates AI for efficiency while preserving meaningful volunteer engagement opportunities that deepen donor relationships and community support.

Source: <https://biztechmagazine.com/article/2025/12/tech-trends-2026-what-anticipate-nonprofit-sector>

AI Adoption in Nonprofits but Governance Policies Lag Behind

Eighty-two percent of nonprofits now utilize artificial intelligence tools, yet only ten percent have established governance policies, creating significant ethical and operational risks. AI applications range from donor segmentation and fundraising automation to chatbots handling beneficiary inquiries. Organizations face challenges balancing efficiency gains against concerns about data privacy, algorithmic bias, and potential displacement of human relationships central to nonprofit missions. Nonprofits must develop AI policies addressing ethical use, privacy protections, and staff training before expanding deployment beyond pilot programs.

Source: <https://www.sigmaprofes.com/post/nonprofits-ai-social-impact-2025>

Corporate Volunteer Programs Return with Strategic, Structured Approaches

Seventy-seven percent of companies reported increased workplace volunteerism in 2024 as corporate volunteer participation rebounds from pandemic lows. Companies now emphasize measurable impact, structured programs, and strategic alignment with business objectives rather than ad-hoc volunteering. Nonprofits can capitalize on this trend by developing corporate partnership programs with clear

metrics, skills-based opportunities, and flexible engagement options. Organizations offering well-designed corporate volunteer experiences position themselves to access significant volunteer capacity and potential corporate funding while meeting companies' desire for demonstrated social impact.

Source: <https://www.nonprofitlearninglab.org/post/volunteer-engagement-in-2025-how-to-plan-for-2026>

IRS, Accounting and Finance Developments

Executive Summary

IRS, accounting, and finance developments entering 2026 reflect a clear shift toward tighter compliance expectations and expanded disclosure obligations for nonprofit organizations. New income tax transparency requirements take effect for fiscal years beginning after December 15, 2025, while auditors report heightened IRS scrutiny of payroll tax compliance, unrelated business income, and Form 990 accuracy. Ongoing enforcement of UBIT silo rules continues to complicate tax planning for organizations with multiple revenue-generating activities. Media investigations into missed Single Audit requirements and new IRS procedural updates—including reopened group exemption rules—underscore the increasing importance of documentation, internal controls, and proactive compliance planning to protect funding eligibility and tax-exempt status.

Key Actions for This Section:

- Assess readiness for expanded income tax disclosure requirements under new FASB standards
- Review payroll tax, worker classification, and UBIT reporting practices for accuracy
- Confirm Single Audit obligations and engage qualified auditors early
- Evaluate accounting systems to ensure activity-level tracking for UBIT silo compliance
- Review determination letter and group exemption procedures for alignment with updated IRS guidance
- Strengthen Form 990 preparation and internal review processes

New Income Tax Disclosure Requirements Take Effect for Nonprofits

FASB's ASU 2023-09 mandates enhanced income tax transparency for nonprofits with fiscal years beginning after December 15, 2025. Organizations must provide qualitative disclosures explaining significant differences between statutory and effective tax rates, disaggregate income taxes paid by federal, state, and foreign jurisdictions, and present detailed rate reconciliation information. While public entities face tabular requirements, all nonprofits must expand narrative disclosures. Organizations should assess data collection capabilities now to meet these expanded reporting obligations and avoid audit adjustments.

Source: RSM Insights on ASU 2023-09

Year-End Audits Reveal Heightened IRS Focus on Payroll and UBIT Compliance

Recent year-end accounting insights emphasize intensified IRS scrutiny of nonprofit payroll tax reporting, worker classification accuracy, unrelated business income calculations, and Form 990 filing timeliness. Organizations face increased examination risks related to independent contractor versus employee determinations and proper UBIT reporting for revenue-generating activities. Auditors recommend strengthening financial controls, maintaining comprehensive documentation supporting worker classifications, and implementing robust review procedures for Form 990 preparation. Proactive compliance measures are essential to avoid penalties and potential status challenges.

Source: Brady Martz Tax Considerations for Nonprofits

UBIT Silo Rules Require Separate Tracking of Multiple Business Activities

The 2017 tax law's requirement to calculate unrelated business income taxes separately for each distinct trade or business activity continues affecting nonprofit tax planning in 2026. Organizations cannot aggregate profits from one unrelated activity against losses from another to reduce overall UBIT liability. This silo approach demands sophisticated accounting systems tracking revenue and expenses by specific business line. Nonprofits operating multiple unrelated activities face complex reporting obligations requiring professional tax guidance. Organizations should evaluate activity segmentation strategies and establish robust tracking mechanisms before year-end.

Source: National Council of Nonprofits

Investigations Highlight Nonprofit Single Audit Failures

There have been reports of failures by nonprofits to complete federally mandated Single Audits despite receiving substantial public funds. Missing or delayed audits trigger automatic findings, jeopardize future funding eligibility, and attract regulatory attention. Nonprofits should immediately verify audit requirements, engage qualified auditors early in fiscal years, and establish systems ensuring timely completion to protect funding relationships and organizational reputation.

Source: General Nonprofit Audit Guidance (IRS Resources)

IRS Advisory Council Recommends Reforms for Exempt Organizations

The IRS Advisory Council released its annual report on January 14, 2026, presenting 29 recommendations addressing tax administration challenges. Key proposals include reducing prohibitive costs for private letter rulings that burden smaller nonprofits and clarifying unrelated business income tax definitions. The Council emphasizes harmonizing terminology across regulations to prevent confusion and compliance errors. These recommendations signal potential regulatory shifts that could reshape nonprofit tax obligations and administrative burdens over the coming year.

Source: IRS News Release IR-2026-07

IRS Updates Determination Letter Procedures for Tax-Exempt Organizations

Revenue Procedure 2026-5, effective December 29, 2025, modernizes how nonprofits request determination letters on tax-exempt status. The updated process streamlines application procedures while maintaining rigorous oversight. Organizations seeking 501(c)(3) recognition face revised documentation requirements and updated user fees. These changes affect both new applicants and existing entities requesting status modifications. Nonprofits must review current application strategies to ensure compliance with the modernized framework and avoid processing delays.

Source: IRS Internal Revenue Bulletin 2026-01

IRS Reopens Group Exemption Program with Stricter Oversight Requirements

Revenue Procedure 2026-8, effective January 20, 2026, reopens the group exemption program after a six-year hiatus with significantly enhanced requirements. Central organizations must now demonstrate meaningful supervision over at least five subordinates and maintain only one group exemption letter. The

IRS expects stronger governance documentation, annual information updates, and proof of ongoing control relationships. Organizations with existing group letters have until January 2027 to align with new standards. This fundamental restructuring demands immediate strategic planning to maintain consolidated tax-exempt status.

Source: Larson and Company Analysis

CPAs Outline Essential Steps for Starting Tax-Exempt Organizations

The Journal of Accountancy published practical guidance in February 2026 detailing six critical steps for establishing compliant 501(c)(3) organizations. The article emphasizes forming diverse boards with professional expertise, implementing sound financial controls from inception, understanding IRS public support tests, and preparing thorough Form 1023 applications. CPAs advising nonprofit startups should focus on establishing proper governance structures, developing fund accounting systems, and ensuring IRS recognition before soliciting donations. This comprehensive resource helps professionals guide clients through complex formation requirements while avoiding common pitfalls.

Source: Journal of Accountancy

Nonprofit State News

Executive Summary

State-level developments entering 2026 reveal a clear tightening of grant oversight, reporting obligations, and compliance enforcement affecting nonprofit organizations nationwide. Fraud investigations and forensic audits are driving stricter documentation requirements, expanded subrecipient monitoring, and enhanced pre-award risk assessments. States are also implementing new administrative systems, filing deadlines, solicitation rules, and donor-restriction enforcement statutes that require immediate operational adjustments. Budget stalemates and funding shortfalls threaten service continuity in certain states, while targeted relief programs and reform initiatives highlight the uneven fiscal landscape nonprofits must navigate. These developments reinforce the importance of compliance calendars, internal controls, and proactive engagement with state regulators.

Key Actions for This Section:

- Review state grant management, documentation, and subrecipient monitoring practices
- Update compliance calendars to reflect new annual report and registration deadlines
- Assess exposure to donor-restriction enforcement and solicitation law changes
- Monitor state budget developments affecting reimbursement-dependent services
- Verify trade name, corporate status, and charitable registration compliance
- Strengthen internal controls in anticipation of heightened state oversight

Connecticut Forensic Audit Exposes Systemic Grant Management Failures and Necessary Remedial Steps

As previously reported, the January 2026 forensic audit revealed the Blue Hills Civic Association mismanaged over \$15 million in Connecticut state grants through pervasive governance failures and inadequate internal controls. The audit uncovered \$208,000 in unsupported disbursements, missing subrecipient agreements, backdated contracts, and delayed fraud reporting. Connecticut subsequently implemented stricter statewide grant policies requiring enhanced pre-award due diligence, risk assessments, and authority to withhold funds. This case demonstrates how internal control weaknesses trigger intensive regulatory scrutiny, funding freezes, and potential criminal prosecution across all jurisdictions.

Source: WFSB Connecticut News

States in 2026 Implement Stricter Documentation Requirements for Grant Recipients

Following multiple fraud exposures, state agencies nationwide are tightening grant administration protocols including mandatory pre-award risk assessments, enhanced subrecipient monitoring requirements, and documented justification for fund withholding. Connecticut's new framework requires grant recipients to provide comprehensive due diligence documentation before award execution. States are implementing real-time compliance monitoring rather than relying solely on year-end reporting. Nonprofits must prepare for increased scrutiny of subrecipient relationships, contract execution timing, and expenditure substantiation. Strong documentation practices are essential to maintain state funding eligibility.

Source: Connecticut Public Radio

North Carolina Budget Stalemate Threatens Nonprofit Medicaid Providers

North Carolina remains the only state without an enacted budget as Republican leaders deadlock over tax cuts and healthcare funding. Without additional appropriations, Medicaid faces a \$319 million shortfall and will exhaust funds before June 30, 2026. Nonprofits providing Medicaid services risk payment disruptions or rate cuts, threatening their financial viability and ability to serve vulnerable populations across the state.

Source: NC Council of State to General Assembly

Colorado AI Act Implementation Delayed to June 30, 2026

Colorado's comprehensive artificial intelligence legislation, originally scheduled for February 1, 2026, has been postponed until June 30, 2026, following failed special session negotiations. The law imposes strict requirements on nonprofits deploying high-risk AI systems in consequential decisions like employment or services. Organizations must now prepare compliance programs including risk management policies, impact assessments, and consumer notices before the new deadline.

Source: Enforcement of Colorado AI Act Delayed Until June 2026

Delaware Launches Statewide Online Trade Name Registration System

Effective February 2, 2026, Delaware nonprofits must register trade names (DBAs) through the Division of Revenue's online OneStop portal rather than county offices. The streamlined system eliminates notarization requirements and reduces fees to a single \$25 statewide charge. Existing registrations remain valid but organizations needing official certificates must re-register. Nonprofits should verify registration status to avoid administrative complications with banking or contracting relationships.

Source: Delaware Trade Names FAQs

Pennsylvania Nonprofits Face Annual Report Filing Through June 30

Pennsylvania nonprofit corporations must file 2026 annual reports by June 30 through the Department of State's online portal. The new requirement, which replaced the previous decennial system, carries no fee for nonprofits but mandates disclosure of principal office addresses, board members, and officer information. Organizations face administrative dissolution beginning in 2027 if they miss

deadlines, creating operational and fundraising complications that require immediate attention to compliance calendars.

Source: Pennsylvania Annual Reports - Department of State

Rhode Island Annual Report Window Opens February 1 for Nonprofits

Rhode Island nonprofit corporations and LLCs must file annual reports between February 1 and May 1, 2026, through the Secretary of State's online system. Nonprofits pay a \$20 filing fee while failing to file triggers \$25 penalties and potential revocation proceedings. Organizations formed in 2025 must file their first report during this 2026 window. The state mails reminders to registered agents but nonprofits should proactively calendar deadlines to maintain good standing.

Source: Rhode Island File Your Annual Non-Profit Report

California Commission Urges Reforms to Nonprofit Contracting Practices

The Little Hoover Commission has issued recommendations to improve California's state contracting with nonprofits, highlighting that 40% of surveyed nonprofits never received upfront payment despite recent legislation authorizing advance payments. The Commission emphasizes reducing administrative burdens and ensuring fair, timely reimbursements. California nonprofits should monitor implementation of these recommendations as they advocate for improved contracting processes that would strengthen organizational financial stability and service delivery capacity.

Source: Little Hoover Commission Report Library

Florida Legislation Strengthens Donor-Imposed Restriction Enforcement

Florida Senate Bill 1338, effective July 1, 2026, prohibits charitable organizations from violating terms of written donor-imposed restrictions without facing potential penalties. The legislation requires organizations to notify donors or their legal representatives when restricted contributions cannot be used as intended. Florida nonprofits must review gift acceptance policies, strengthen internal controls over restricted funds, and ensure development and finance teams coordinate on donor intent documentation to avoid compliance violations.

Source: Florida Senate Bill 1338 (2026)

Michigan Senate Passes Comprehensive Telephone Solicitation Act

The Michigan Senate unanimously passed Senate Bills 351-355 on January 29, 2026, establishing the Telephone Solicitation Act with strict consumer protection requirements. While charitable organizations receive partial exemptions from do-not-call provisions, they must ensure volunteers or employees make calls and immediately disclose organizational identity. The legislation imposes civil fines up to \$75,000 for targeting vulnerable populations. Michigan nonprofits conducting phone fundraising must urgently review compliance requirements before House consideration.

Source: Michigan Senate Passes Telephone Solicitation Act

Maryland Nonprofits Navigate Charitable Solicitation Audit Thresholds

Maryland charitable organizations receiving contributions exceeding \$500,000 must submit independent audits with annual solicitation registrations, while organizations receiving \$300,000 to \$750,000 require CPA reviews. Late filings incur \$25 monthly penalties plus standard registration fees. As recently confirmed by Maryland Nonprofits, these thresholds create compliance challenges for growing organizations approaching audit requirements. Organizations should budget for professional accounting services well before crossing revenue thresholds to ensure timely, compliant filings with the Secretary of State.

Source: When Does My Nonprofit Organization Need an Audit?

Summary

As nonprofit organizations move deeper into 2026, this week's Navigator News Update highlights an operating environment defined by persistent volatility rather than episodic disruption. While Congress preserved funding for several core nonprofit programs in the FY 2026 spending package, repeated shutdown disruptions, expanded enforcement authority, and heightened oversight signal ongoing financial and compliance risk. Workforce challenges now rival—or exceed—funding concerns, with burnout, recruitment difficulties, and evolving volunteer expectations placing sustained pressure on organizational capacity. At the same time, new IRS disclosure rules, intensified audit scrutiny, and reopened exemption programs require greater precision in financial management and governance. State developments reinforce this trend, as tighter grant controls, new filing obligations, and donor restriction enforcement expand compliance demands. Collectively, these developments underscore the need for disciplined planning,

proactive compliance, and resilient leadership as nonprofits navigate an increasingly unpredictable regulatory and funding landscape.

About Nonprofit Management Navigator

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