

## **Abstract**

Nonprofit governance responsibilities are expanding rapidly as financial instability, regulatory scrutiny, technology risks, and workforce pressures converge across the sector. Federal grant restructuring, rising operating costs, increasing directors' liability exposure, cybersecurity threats, artificial intelligence adoption, and shifting donor behavior are collectively transforming nonprofit oversight responsibilities. These developments signal a structural shift in governance expectations: nonprofit boards must increasingly operate as enterprise-risk stewards responsible for ensuring compliance, financial resilience, operational continuity, and mission protection. Organizations whose boards proactively strengthen compliance systems, diversify revenue sources, oversee technology risks, and plan strategically for funding volatility will be better positioned to sustain mission delivery in an increasingly unpredictable operating environment.

# **NMN Executive Intelligence Briefing**

## **Governance and Board Responsibilities in a Time of Disruption**

**Week of March 16, 2026**

**From Nonprofit Management Navigator**

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### **Why This Matters for Boards in 2026**

The nonprofit operating environment is entering a period of sustained disruption. Federal funding policy changes, rising costs, donor volatility, technology risks, and workforce pressures are converging to create governance challenges that extend far beyond traditional board oversight. Boards that treat these developments as isolated operational issues risk missing the broader governance shift underway.

A useful framework for understanding this shift is enterprise risk management. In the nonprofit governance context, enterprise risk management means that a board does not evaluate funding, operations, compliance, technology, and workforce issues as separate problems. Instead, it identifies and monitors the full range of risks that could impair mission delivery, financial stability, legal compliance, and organizational reputation, and it considers how those risks interact as part of the board's fiduciary duty of care and oversight.

Seen through that lens, federal grant volatility, rising service demand, operating-cost pressure, changing donor incentives, cybersecurity exposure, and AI governance are not independent topics. They are interconnected elements of the broader risk environment nonprofit boards must now oversee, and each of those elements is discussed below.

## **Governance in a Period of Sector Disruption**

One of the most immediate governance challenges involves federal funding policy. Executive Order 14332 significantly expands oversight of federal grantmaking by introducing political review of discretionary awards and termination-for-convenience provisions that allow agencies to cancel grants during the funding cycle.<sup>1</sup> These changes increase compliance expectations and require nonprofit boards to ensure stronger documentation, monitoring, and contingency planning for potential funding disruptions.

At the same time, reductions in federal funding combined with rising service demand are placing substantial financial strain on many nonprofit organizations. As government support declines and community needs increase, nonprofits are experiencing what sector analysts describe as a “double-crunch” environment that requires boards to closely monitor financial sustainability and organizational capacity.<sup>2</sup>

Together, these developments show why grant compliance, liquidity, service capacity, and strategic prioritization must be treated as connected risks within a single enterprise risk framework rather than as isolated management concerns.

## **Financial and Workforce Pressures**

Financial pressures are compounded by rising operating costs and funding volatility. Grassi Advisors reports that eight in ten nonprofit organizations experienced cost increases of 13–15%, far above the general inflation rate, while 56% depend on federal funding and many leaders are responding with stronger focus on revenue generation, reserve-building, and scenario planning.<sup>3</sup>

New charitable giving rules beginning in 2026 may create opportunities to reengage small and mid-level donors, but they also introduce complexity for donor communication and gift planning. PBMAres notes that standard deduction filers will be eligible for an above-the-line charitable deduction of up to \$1,000 for single filers and \$2,000 for joint filers, while itemizers will only be able to deduct contributions above 0.5% of adjusted gross income.<sup>4</sup>

In enterprise risk terms, these financial and fundraising pressures intersect directly with workforce capacity because strained budgets, delayed hiring, and difficult allocation decisions can reduce an organization’s ability to sustain programs even before a formal financial crisis becomes visible.

## **Technology and Governance Risk**

Technology governance represents another expanding board responsibility. KLR emphasizes that cybersecurity oversight is now a core board governance function and that boards should confirm that cybersecurity policies are documented, that incident-response plans exist and are tested, and that directors participate in tabletop breach exercises.<sup>5</sup>

Artificial intelligence adoption introduces related governance considerations. Forvis Mazars advises nonprofit boards to treat AI governance as a board responsibility rather than merely an IT function, with oversight that addresses mission alignment, data privacy, algorithmic bias, vendor accountability, and the risks associated with unapproved or poorly governed AI use.<sup>6</sup>

These technology issues reinforce the broader enterprise risk point: cyber incidents and weak AI controls can quickly become operational, legal, financial, and reputational events, which is why board oversight must connect technology governance to the organization's overall risk posture.

## **Key Actions for Nonprofit Boards**

- Strengthen federal grant compliance monitoring and contingency planning
- Implement multi-scenario budgeting and realistic reserve policies
- Accelerate revenue diversification and donor-communication planning around 2026 tax changes
- Strengthen cybersecurity oversight and incident-response readiness
- Establish board-level policies governing AI use, vendor accountability, and data protection
- Regularly review how financial, operational, compliance, and technology risks interact across the organization

## **Summary**

The central governance lesson from these developments is that nonprofit boards can no longer rely on a narrow oversight model focused only on budgets, compliance checklists, and periodic strategy review. The more realistic framework for 2026 is enterprise risk management: boards must understand how funding instability, rising costs, service demand, technology vulnerabilities, and changing donor incentives can compound one another and affect mission continuity at the same time.

Federal grant policy changes increase the risk of mid-cycle disruption; rising demand and operating-cost pressure make that disruption harder to absorb; new charitable-giving rules require organizations to communicate more clearly with donors; and cyber and AI governance failures can quickly turn operational strain into legal, reputational, or financial harm. For boards, the issue is not simply whether each individual risk exists, but whether the organization has the governance discipline to recognize how those risks reinforce one another.

Boards that respond well will ask management for integrated reporting, not siloed updates. They will want to see how grant exposure affects liquidity, how financial stress affects staffing and service capacity, how technology controls protect donor and client information, and how all of those factors influence the organization's ability to advance its mission. In that sense, the governance challenge of 2026 is not only oversight. It is coordinated oversight grounded in the board's fiduciary obligation to preserve mission, protect assets, and sustain organizational resilience during a period of continuing disruption.

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## **Endnotes**

1. Government Computer News, A New Chapter in Federal Grant Oversight: Executive Order 14332. <https://gcn.org/policy-a-new-chapter-in-federal-grant-oversight-executive-order-14332/>
  2. United Way Worldwide, Nonprofit Face Double Crunch As Shutdown Follows Severe Funding Cuts. <https://www.unitedway.org/news/nonprofit-face-double-crunch-as-shutdown-follows-severe-funding-cuts>
  3. Grassi Advisors, Financial Priorities for Nonprofits in 2026: Aligning Resources with Mission. <https://www.grassiadvisors.com/blog/nonprofit-financial-priorities-2026/>
  4. PBMares, Nonprofit Outlook for 2026. <https://www.pbmares.com/nonprofit-outlook-for-2026/>
  5. KLR, *What Nonprofit Board Members Need to Know About Cybersecurity (Updated for 2025)* <https://kahnlitwin.com/blogs/mission-matters-blog/what-nonprofit-board-members-need-to-know-about-cybersecurity-updated-for-2025>
  6. Forvis Mazars, AI Governance for Nonprofit Boards. <https://www.forvismazars.us/forsights/2026/02/ai-governance-for-nonprofit-boards>
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