

Abstract

The nonprofit operating environment in 2026 continues to shift rapidly under the weight of federal funding instability, intensifying regulatory scrutiny, workforce disruption, and escalating compliance risk. This week's Navigator News Update highlights urgent developments including the Department of Homeland Security funding stalemate affecting FEMA and security grants, sweeping legal exposure tied to federal DEI certifications and False Claims Act enforcement, and state-level cascading pressures from Medicaid cuts. Nonprofit leaders must simultaneously manage grant volatility, HR instability, IRS oversight, fiduciary litigation exposure, and rising cybersecurity threats. The March 2 update provides curated, actionable intelligence to help boards and nonprofit executives protect funding stability, governance integrity, and long-term organizational resilience in an increasingly unpredictable policy landscape.

March 2, 2026 Navigator News Update: Including DHS Funding Stalemate, “Illegal DEI” Certification Comment Deadline, DEI Update, and More!

From Nonprofit Management Navigator

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

Introduction

Nonprofit leaders enter March 2026 navigating a convergence of regulatory escalation, funding compression, workforce strain, and growing legal exposure. Federal funding disruptions are no longer episodic—they are structural. DEI compliance uncertainty now intersects with False Claims Act enforcement risk. State governments face mounting fiscal constraints driven by federal Medicaid cuts. Meanwhile, IRS oversight, fiduciary litigation exposure, and cybersecurity threats continue to intensify.

This week's Navigator integrates critical developments across federal regulatory activity, human resources, IRS and finance oversight, state compliance issues, and **our weekly theme section topic which takes a closer look at the major operating risks facing nonprofits in 2026**. Each section includes executive-level summaries and practical action guidance to support informed board governance and senior management decision-making.

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Priority Legend

Priority indicators have been assigned to each of the following summaries. The 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 instability has moved from episodic disruption to structural risk. DHS funding lapses are freezing reimbursements and security grants. DEI certification ambiguity now intersects with False Claims Act exposure. Congressional scrutiny of foreign influence and pending Johnson Amendment litigation may reshape governance obligations. Executive Order–driven “termination for convenience” clauses increase discretionary grant volatility. Compliance expectations under Uniform Guidance are intensifying while funding interruptions continue. Boards must elevate grant oversight, legal review, and contingency liquidity planning to immediate governance priorities.

Key Actions for This Section:

- Activate cash-flow contingency planning for delayed federal reimbursements
- Conduct privileged legal review of DEI certifications and policies

- Audit federal grant portfolios for termination clauses
 - Review governance documentation relating to foreign funding
 - Reassess indirect cost rates and Uniform Guidance compliance systems
 - Strengthen board-level oversight of federal grant dependency
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● **DHS Funding Stalemate Freezes Critical Nonprofit Grant Programs**

The Department of Homeland Security entered a partial shutdown on February 14, 2026 — the second federal funding lapse in five months — leaving FEMA, TSA, the Coast Guard, and CISA without full appropriations. For nonprofits, the impact is direct: FEMA grant reimbursements are halted, new award reviews are frozen, and the FY 2026 Nonprofit Security Grant Program — proposed at \$335 million in the pending House appropriations bill — remains unresolved. Organizations dependent on FEMA preparedness grants or the Urban Area Security Initiative should activate contingency cash-flow strategies and contact program officers for status updates immediately. Delays are most acute for state and tribal cost-sharing models, where expenses go unreimbursed for weeks, disrupting staffing and service delivery. A prolonged stalemate risks a chilling effect on the entire FY 2026 grant cycle well beyond DHS-funded programs.

Sources: Granted AI — DHS Shutdown Begins: What Grant Seekers Need to Know (February 18, 2026) | H.R.4213 — DHS Appropriations Act, 2026, Sec. NSGP (\$335M), 119th Congress

● **Federal DEI Rollback: What Executive Orders Can — and Cannot — Change**

Executive orders issued in January 2025 eliminated all federal DEI programs and require every federal grantee to certify it does not operate "illegal DEI." A Seventh Circuit panel noted in February 2026 oral argument that the administration has yet to define what that term means — leaving nonprofits without clear compliance guidance. Critically, Title VII and the Civil Rights Act of 1964 remain fully intact and unchanged by any executive action. Nonprofits with federal funding face potential False Claims Act liability — including treble damages — for non-compliance with the certification requirement, which extends across the entire organization, not just federally funded programs. A privileged legal audit of DEI practices is essential before making operational changes. The government's own acknowledgment that educational and cultural observances promoting awareness "without engaging in exclusion or discrimination" remain lawful gives organizations a viable path forward

.Source: Ogletree Deakins — Still No Answers: Seventh Circuit Oral Argument Leaves DEI Questions Unresolved (February 18, 2026)

● **House Ways & Means Committee Hearing on Foreign Influence in Nonprofits — Governance and Disclosure Review Required**

On February 10, 2026, the full Ways & Means Committee held a hearing on foreign money funneled through tax-exempt organizations. Chairman Smith sent demand letters to two nonprofits questioning their tax-exempt status and has already referred eleven organizations to the IRS for investigation. Witnesses identified a loophole allowing foreign nationals to contribute to 501(c)(4)s that then fund Super PACs without disclosure. Nonprofits with international partnerships, foreign funding, or global advocacy should immediately review governance, board composition, and all foreign funding disclosures.

Source: House Ways & Means Committee — Official Hearing Page

Additional Source: Ways & Means — Six Key Moments from the Hearing

● Johnson Amendment Consent Decree — Federal Court Decision Imminent, All Nonprofits Should Monitor

A ruling is expected before spring 2026 in *National Religious Broadcasters v. Bessent* (E.D. Texas), where the IRS agreed to exempt churches from Johnson Amendment enforcement for candidate endorsements made during religious services. U.S. District Judge J. Campbell Barker denied intervention by opponents in December 2025; the court reopened the case in early February 2026. If approved, the decree could create a new "dark money" vehicle through religious nonprofits and trigger equal-protection challenges from secular organizations. All nonprofit boards should be briefed.

Source: Nonprofit Quarterly — IRS Weakens Johnson Amendment, Nonprofits Push Back

Additional Source: Perlman & Perlman — Can New York Save the Johnson Amendment? (February 2026 status)

● Federal “Termination for Convenience” Grant Risk Requires Monitoring in 2026

Executive Order 14332 requires agencies to embed “termination for convenience” clauses into all discretionary grants, allowing termination whenever an award “no longer advances agency priorities or the national interest.” Agencies must also designate a senior political appointee to review all new awards and require written justification for each fund drawdown. Nonprofits relying on federal grants face sudden termination risk even when fully compliant. Organizations should immediately audit their federal grant portfolios, strengthen compliance documentation, and develop contingency plans for potential funding loss.

Source: Georgia Center for Nonprofits: Executive Order 14332 (GCN, Oct. 2025)

Building Financial Resilience After Federal Funding Disruption

Urban Institute data from October 2025 confirmed one in three nonprofits experienced federal funding disruption during 2025, exposing dangerous single-source dependencies. Building resilience requires: (1) a board-approved operating reserve policy targeting 3–6 months of expenses; (2) scenario budgets reflecting 10%, 25%, and 50% revenue reductions; (3) earned income strategies; (4) individual major-donor cultivation; and (5) working capital lines of credit as a short-term cash flow bridge.

Source: Urban Institute — Nonprofit Sector Findings 2025

Federal Grant Compliance Under Uniform Guidance: A 2026 Refresher

With the federal government intensifying scrutiny of grantee spending and terminating grants for alleged noncompliance, mastery of 2 CFR Part 200 Uniform Guidance is essential. Key risk areas include cost allowability, indirect cost rate agreements, and single audit thresholds. Grant recipients should: (1) review indirect cost rate agreements; (2) ensure financial systems meet internal control standards; (3) complete single audits on time; and (4) retain all supporting documentation for at least three years post-closeout.

Source: Nonprofit Finance Fund — Federal Grants Management Resources

Nonprofit Human Resources Developments

Executive Summary:

The nonprofit workforce crisis is no longer cyclical—it is structural. Job losses tied to federal funding instability exceed 20,000. Burnout levels remain elevated. Staffing shortages persist as experienced leaders approach retirement. Meanwhile, workforce reductions in the federal government create a unique recruitment opportunity. Compensation pressure, pay transparency expectations, AI adoption risks, and skills-based hiring trends require immediate HR modernization. Boards must treat workforce strategy as a governance-level resilience issue tied directly to funding volatility and long-term mission capacity.

Key Actions for This Section:

- Elevate succession planning to a formal board agenda item
- Conduct compensation benchmarking and pay equity audits
- Implement structured burnout monitoring and retention tracking

- Evaluate federal workforce talent pipelines for recruitment
 - Establish AI governance policies for HR tools
 - Update job descriptions to reflect skills-based hiring frameworks
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● Nonprofit Sector Workforce Crisis Deepens — 20,000+ Jobs Lost, Succession Planning Now a Board-Level Priority

The Chronicle of Philanthropy reports more than 20,000 nonprofit employees lost jobs in 2025 due to federal funding cuts and operational contractions. Hub International's 2026 Nonprofit Outlook finds 65% of organizations face active staffing shortages, with over half of nonprofit employees age 45+ and most board members age 50+. Federal service cuts are simultaneously increasing service demand. Boards must treat succession planning as a governance priority, audit leadership pipelines, review compensation competitiveness, and model capacity against continued funding uncertainty.

Source: Chronicle of Philanthropy — 5 Trends That Will Shape Fundraising in 2026
Additional Source: Hub International — 2026 Nonprofit Outlook

● Funding Instability Has Become a Workforce Crisis: 40% of Nonprofits Report Staffing Cuts

Forty percent of nonprofits now report staffing reductions directly tied to funding instability, compounding an already severe retention challenge. The traditional “mission premium”—willingness to accept lower wages for purpose-driven work—is eroding among younger workers who expect both purpose and competitive compensation. Development and program management roles see the highest attrition. Leaders who fail to fundamentally rethink total rewards strategies, flexible work arrangements, and career development pathways face accelerating talent loss at precisely the moment when organizational capacity is under its greatest stress

Source: Career Blazers Nonprofit Search: 2026 Nonprofit Compensation & Talent Strategies Report

● Nonprofit Staff Burnout Reaches Crisis Levels: An Action Agenda

Sector-wide research confirms nonprofit employee burnout is a leading HR risk, amplified by funding instability, political turbulence, and rising service demand. Boards and executives should: (1) conduct anonymous staff wellbeing surveys; (2) evaluate employee assistance

program access and utilization rates; (3) establish workload-monitoring systems tied to budget planning; (4) build structured peer supervision and support structures; and (5) include burnout and retention metrics in regular board reporting.

Source: Nonprofit Learning Lab, December 26, 2025

● **DOGE Cuts Create Unprecedented Nonprofit Hiring Opportunity**

More than 350,000 federal employees separated from government in 2025 through DOGE-driven workforce reductions. Nonprofit organization Work for America has launched an initiative to connect these displaced workers — many with deep policy, grant administration, and program management expertise — with mission-driven employers. Leaders should: (1) review current vacancies for alignment with federal skill sets; (2) contact Work for America’s placement service; and (3) update job postings to highlight mission value and PSLF eligibility.

Source: CNBC, February 12, 2026

● **Skills-Based Hiring: A Competitive Advantage for Nonprofits**

ADP’s 2025 HR Trends Guide found 90% of organizations reported fewer hiring errors when focusing on skills over degrees, and skills-based hires outperformed credential-based hires in 94% of cases. Nonprofits competing against better-paying employers can gain a talent edge by: (1) rewriting job descriptions to foreground competencies; (2) piloting skills assessments in screening; (3) creating internal upskilling pathways; and (4) showcasing career development and mission impact in all recruitment materials.

Source: Foundation List — 2025 HR Trends for Nonprofits

● **AI in Nonprofit HR: Practical Gains, Real Risks**

More than half of nonprofits have integrated AI into operations, and HR is among the fastest-growing adoption areas, from automated screening and reference checks to predictive turnover analytics. Risks include algorithmic bias and the erosion of relational judgment central to mission-driven cultures. HR leaders should: (1) audit AI tools for bias; (2) maintain human review at final hiring stages; (3) train staff on AI-assisted workflows; and (4) establish a written AI usage policy for HR processes.

Pay Equity and Compensation Transparency: No Longer Optional

Widening pay gaps between nonprofit and for-profit sectors, combined with growing legal and donor pressure for compensation transparency, are straining recruitment and retention. Deloitte research shows skills-based organizations are 98% more likely to retain top performers. Nonprofits should: (1) commission a compensation benchmarking study; (2) adopt a written compensation philosophy approved by the board; (3) conduct an annual pay equity audit; and (4) add pay ranges to all job postings to remain competitive.

Source: ADP — 2026 HR Trends Guidebook

IRS, Accounting, and Finance Developments

Executive Summary:

Financial oversight expectations are intensifying. Form 990 transparency now functions as a governance credibility test. UBIT scrutiny is increasing as nonprofits pursue earned income diversification. Fiduciary litigation risk surrounding 403(b) plans is expanding following recent Supreme Court precedent. IRS staffing reductions are delaying determination letters and complicating compliance timelines. Meanwhile, 1099 reporting threshold changes require immediate systems updates. Boards must elevate financial governance and documentation standards to mitigate regulatory, litigation, and reputational exposure.

Key Actions for This Section:

- Schedule full board review of Form 990 before filing
 - Audit earned revenue streams for UBIT exposure
 - Benchmark 403(b) recordkeeping and investment oversight practices
 - Update accounting software for new 1099 thresholds
 - Adjust fundraising launch timelines for IRS determination delays
 - Strengthen fiduciary process documentation
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403(b) Fiduciary Litigation Exposure

Plaintiff firms filed a near-record 155 ERISA fiduciary lawsuits in 2025—more than 30 settled at an average exceeding \$3 million. The Supreme Court's 2025 ruling in *Cunningham v. Cornell*

University permits prohibited transaction claims with minimal pleading, broadening exposure for nonprofit 403(b) plan sponsors. The Northwell Health 403(b)—with 50,000+ participants—settled for \$2.75 million in 2025. Nonprofits sponsoring 403(b) plans must benchmark recordkeeping fees against comparable plans, document a rigorous fiduciary review process, monitor investment options, and consider fiduciary liability insurance.

Source: 155 ERISA Fiduciary Suits Filed in 2025, Encore Report Finds (401k Specialist, Feb. 2026)

See also: Cornell Supreme Court Decision Sanctions ERISA Fiduciary-Breach Lawsuits (Encore Fiduciary, Apr. 2025)

Form 990: Your Most Important Public Governance Document

The IRS Form 990 is scrutinized by donors, watchdog organizations, major grant makers, and regulators — yet many boards treat it as a routine tax filing. Finance committees should: (1) review the 990 before filing, not after; (2) ensure Part VI governance questions accurately reflect board practices; (3) use program expense ratios proactively in donor communications; (4) confirm Schedule D properly discloses donor-advised fund arrangements; and (5) engage auditors early to reconcile financial statements with 990 reporting.

Source: IRS — 2025 Form 990 Instructions

Unrelated Business Income Tax: Hidden Liability Traps for Nonprofits

The IRS continues scrutinizing UBIT compliance, especially as nonprofits pursue earned revenue to offset federal funding losses. Any activity generating \$1,000 or more annually from a trade or business not substantially related to the exempt mission may require Form 990-T and tax payment. Finance staff should: (1) audit all revenue streams; (2) assess whether activities are regularly carried on; (3) apply applicable exclusions; and (4) file 990-T where required alongside the annual return.

Source: Brady Martz — Tax Considerations for Nonprofits 2025

Form 1099 Reporting Threshold Rises from \$600 to \$2,000 for 2026 — Update Systems Now

Effective for the 2026 tax year, the filing threshold for Forms 1099-NEC and 1099-MISC rises from \$600 to \$2,000 per payee, indexed for inflation from 2027 forward. While this reduces filing volume, nonprofits must update accounting software, vendor tracking systems, and year-end procedures to reflect the new threshold. Confirm that software vendors have applied the update, verify early 2026 payment logs, and notify any outsourced accounting or bookkeeping partners of the change.

Source: CapinCrouse — What Nonprofits Need to Know About the OBBBA

IRS Determination Letter Delays

DOGE-driven cuts reduced IRS staffing from approximately 102,000 to 74,000—a 27% drop—compounded by the 43-day government shutdown that ended November 2025. The IRS now reports that 80% of full Form 1023 determinations take up to 191 days; paper return backlogs exceeded 294,000 items as of December 2025. Leadership vacancies and OBBBA tax changes add further pressure. New nonprofits should file electronically, submit complete applications to avoid information requests, and plan for extended delays before launching fundraising or applying for grants.

Source: Where's My Application for Tax-Exempt Status? (IRS.gov)

See also: A Depleted IRS May Turn to Expedited Processes (Skadden, Jan. 2026)

State Nonprofit News

Executive Summary:

State-level fiscal and enforcement pressures are accelerating in response to federal funding contraction. Medicaid reductions are cascading into provider reimbursement volatility. Multi-state solicitation compliance risk is expanding due to digital fundraising exposure. Several states have intensified enforcement actions and reporting requirements. Charity registration portals have been restructured, creating hidden delinquency risk. As states face structural deficits and reduced fiscal flexibility, nonprofits must strengthen state compliance calendars, monitor legislative sessions closely, and proactively brief boards on state-level exposure.

Key Actions for This Section:

- Model Medicaid reimbursement risk at the state level
- Conduct multi-state solicitation registration audit
- Confirm compliance with updated state charity portals

- Review fundraising platform compliance (California AB 488)
 - Update Illinois AG990-IL reporting thresholds
 - Strengthen board reporting on state-level regulatory exposure
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● Federal Medicaid Cuts Triggering State-Level Cascading Service Demand — Nonprofit Providers Must Scenario Plan Now

The OBBBA is projected to reduce federal Medicaid spending by an estimated \$911 billion over ten years, creating immediate state-level fiscal pressure on nonprofit human services, behavioral health, and home care providers. North Carolina illustrates the risk: the state imposed across-the-board Medicaid rate cuts in October 2025, reversed only after legislative intervention, with funding again projected to run short by April 2026. Nonprofits should model state-specific Medicaid exposure scenarios, engage state government affairs contacts, and communicate financial risk proactively to boards and funders.

Source: NC Center for Nonprofits — 2025 Nonprofit Policy Year in Review and Preview for 2026

Additional Source: Fisher Phillips — How Will Non-Profits Be Impacted by the Big Beautiful Bill?

● Multi-State Charitable Solicitation Registration: The Online Fundraising Trap

Forty-one states plus the District of Columbia require nonprofits to register before soliciting charitable contributions, and a ‘Donate Now’ button on your website may constitute solicitation in every state. Boards resisting registration should note that increased regulatory oversight and digital transparency make non-compliance riskier than ever. Leaders should: (1) conduct a registration gap analysis; (2) register in all active solicitation states; (3) update solicitation disclosure language; (4) set a compliance calendar; and (5) consider a compliance filing service.

Source: Cogency Global, January 8, 2026

● California AB 488 Enforcement — Fundraising Platform Compliance Is Mandatory

Enforcement actions under California’s AB 488 demonstrate that fundraising platform compliance requirements are actively applied, including verification of a charity’s good standing with the California Attorney General, Franchise Tax Board, and IRS before solicitation occurs. Platforms must also provide required donor disclosures and obtain written consent from listed charities. Nonprofits using third-party fundraising platforms should confirm platform registration

status, verify their own registry compliance, review donor receipt disclosures for required language, and ensure ongoing adherence to Attorney General registry obligations to avoid disruption of online fundraising activities.

Source: Charity Lawyer Blog

● **Illinois Adds New Grant Transparency Requirements**

Illinois Public Act 635 requires nonprofits reporting grants of \$1 million or more on their AG990-IL annual report to submit additional disclosures to the Illinois Attorney General within 30 days of the annual submission. National organizations receiving Illinois-source grants may be subject to this requirement. Leaders should review filing timelines with legal and finance staff, update compliance calendars, designate a responsible officer for state disclosure, and ensure reporting systems flag threshold triggers to avoid missed deadlines and potential enforcement exposure.

Source: The Nonprofit Alliance — 2025 State Law Update

● **New York AG 2026 Enforcement Activity**

On February 12, 2026, New York AG Letitia James secured a \$1.3 million settlement from St. Margaret's Center—a nonprofit pediatric nursing facility in Albany—for years of Medicaid fraud and resident neglect. The facility faces five years of HHS-OIG federal monitoring. The AG's Charities Bureau simultaneously held nonprofit guidance webinars and continues active litigation to restore federal funding cuts. New York nonprofits must maintain current CHAR500 annual filings, robust program compliance records, and strong governance practices to avoid enforcement exposure.

Source: AG James Secures \$1.3 Million from Albany Pediatric Nursing Home (NY AG, Feb. 2026)

● **States Are Struggling to Fill the Federal Funding Void—Fiscal Constraints Are Severe**

H.R. 1 has created new fiscal pressures on states as rising Medicaid and SNAP cost burdens compound existing budget deficits. New Mexico projects new recurring costs exceeding \$1 billion by 2029; multiple states face structural shortfalls. As states lose fiscal flexibility, their capacity to replace federal funding through direct grants or nonprofit partnerships is severely

constrained. Nonprofit leaders seeking state and local government partnerships must now monitor legislative sessions closely and build rigorous, outcome-driven funding cases well in advance of each budget cycle.

Source: The Pew Charitable Trusts: How States Are Assessing the Impact of Federal Policy Changes, November 24, 2025

Weekly Theme Section: The Nonprofit Leadership Landscape in 2026—Funding Disruption, Compliance Risk, and Strategic Resilience

The following represents a new section which we are adding to the weekly Nonprofit Management Navigator News Update. Every week, we will be devoting this section to a single topic of critical importance to the success of nonprofits in 2026 and beyond. This week the focus is on the strategic and operating challenges threatening current and future nonprofit performance. The summaries which follow represent a sample of the many different aspects of this critically important issue.

Executive Summary

Nonprofit leadership in 2026 requires integrated risk governance across funding, legal compliance, workforce stability, cybersecurity, AI adoption, and political targeting risk. False Claims Act enforcement, DEI certification ambiguity, revenue concentration, and donor attrition are reshaping board responsibilities. Economic volatility and federal policy instability create asymmetric downside exposure. Organizations must move from reactive compliance to proactive resilience planning. Governance, liquidity management, AI oversight, and strategic consolidation discussions are no longer optional—they are structural survival imperatives.

Key Actions for This Section:

- Commission legal review of DEI certifications and FCA exposure
 - Stress-test budgets under recession and revenue concentration scenarios
 - Evaluate AI governance frameworks and cybersecurity readiness
 - Review executive compensation exposure under OBBBA
 - Conduct board-level resilience and merger scenario discussions
 - Elevate endowment governance and liquidity monitoring
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● **URGENT: New SAM.gov “Illegal DEI” Certification Comment Deadline Is March 30, 2026**

On January 28, 2026, the General Services Administration proposed requiring all federal financial assistance recipients—including nonprofits—to add new “illegal DEI” certifications in SAM.gov. False certifications could trigger False Claims Act liability. The public comment window closes March 30, 2026, leaving very little time to respond. Every nonprofit receiving federal grants or cooperative agreements must immediately review its programs with qualified legal counsel and evaluate whether to submit comments before this unprecedented and potentially far-reaching compliance deadline.

Source: Venable LLP: GSA Proposes Adding “Illegal DEI” Certifications to SAM.gov, February 2026

● **The False Claims Act as an Anti-DEI Weapon: Every Federal Grantee Is Now a Potential Target**

The DOJ’s May 2025 “Civil Rights Fraud Initiative” has transformed the False Claims Act into the administration’s primary anti-DEI enforcement tool, explicitly encouraging whistleblower actions against any federal grantee that “knowingly violates federal civil rights laws.” Active FCA investigations of companies’ DEI programs were confirmed by December 2025, and a January 2026 DOJ fraud division signals accelerating enforcement through 2026. Nonprofits receiving federal grants face treble-damage exposure if hiring, promotion, or service delivery practices are deemed racially preferential. Boards must commission immediate legal review of employment and program policies.

Source: WilmerHale: False Claims Act—Year in Review: Enforcement Trends and Predictions, February 9, 2026

● **The One Big Beautiful Bill Act: Sweeping Changes Every Nonprofit Leader Must Act On Now**

The One Big Beautiful Bill Act, signed July 4, 2025, significantly reshapes the nonprofit operating environment. The 21% excise tax on executive compensation now extends to all current and former employees earning over \$1 million—not just the top five. Medicaid cuts of approximately \$911 billion over a decade will surge demand for services while reducing patients’ ability to pay. A new \$1,000 universal charitable deduction for non-itemizers takes effect in 2026. Leaders must urgently reassess compensation structures, cash flow forecasts, and grant compliance strategies to navigate this complex new legal and financial landscape.

Source: Fisher Phillips: How Will Non-Profits Be Impacted by the Big Beautiful Bill?, 2025

● **Revenue Concentration Risk Is Rising Sharply as Donor Retention Rates Collapse**

Total fundraising grew modestly in early 2025, yet donor numbers fell—concentrating revenue risk into fewer relationships. Average donor retention rates have dropped to just 42.6%. CFOs and boards must now prioritize financial agility over growth: building multi-scenario budgets, monitoring liquidity in real time, and establishing predefined response triggers before shortfalls materialize. Organizations overreliant on any single funding stream face asymmetric downside risk. Endowment governance must also be elevated to a primary board responsibility, with formal investment oversight policies and independent performance benchmarking.

Source: BDO: 2026 Nonprofit Sector Outlook—Predictions and Priorities for Boards, CEOs, CFOs, and Controllers, December 19, 2025

● **AI-Powered Cyberattacks Are Escalating—And Most Nonprofits Are Dangerously Unprepared**

AI is dramatically intensifying cybersecurity threats in 2026, enabling more convincing deepfake attacks, high-volume phishing, and sophisticated social engineering at unprecedented scale. Ransomware increasingly involves double extortion—encrypting data while threatening public disclosure. Most nonprofits remain severely under-resourced for defense. Data breaches damage donor trust, trigger regulatory penalties, and can cost organizations critical funding relationships. A formal, board-governed cybersecurity strategy with regular staff training and an incident response plan is now a fiduciary necessity, not an optional overhead investment.

Source: Weinlander Fitzhugh / Aprio LLP: Cybersecurity Risk Management for Nonprofits, February 3, 2026

● **Economic Uncertainty in 2026: The Double Squeeze on Nonprofit Funding and Service Demand**

Slowing GDP growth, Pesky inflation levels, and sustained policy uncertainty are converging to create the nonprofit sector's most dangerous funding environment in decades. Economic uncertainty suppresses charitable giving at every income level—donors postpone decisions and reduce gifts—while a softening labor market simultaneously drives higher demand for housing, food security, and social services. Federal and state budget pressures compound the problem. Nonprofits face shrinking supply from government, private, and corporate funders precisely as

community need escalates. Leaders must stress-test budgets under multiple recession scenarios and act now before reserves are depleted.

Source: Brookings Institution / Chronicle of Philanthropy: Economic Issues to Watch in 2026 / How a Tariff-Induced Downturn Might Change Giving, January 13, 2026 / October 30, 2025

● Nonprofits Under Fire: Political Targeting of Tax-Exempt Status Signals a New Risk Era

The Trump administration has publicly targeted Harvard University, the Wikimedia Foundation, and the Open Society Foundations with calls to revoke their 501(c)(3) status, testing the outer limits of IRS authority. While procedural safeguards remain intact and formal revocations remain rare, the chilling effect on advocacy and mission delivery is already measurable sector-wide. Nonprofits perceived as opposing administration priorities must strengthen governance documentation, conduct proactive compliance reviews, and engage qualified legal counsel to safeguard their exempt status and organizational independence in this volatile environment.

Source: Tenenbaum Law Group PLLC: Nonprofits Under Fire—How the IRS Can and Cannot Revoke Federal Tax-Exempt Status, November 21, 2025

● AI Adoption Is Near-Universal Among Nonprofits—But Governance Is Dangerously Absent

Over 80% of nonprofits now use AI in some form, yet only 10–24% have formal governance frameworks—creating serious exposure around donor data security, algorithmic bias, and loss of institutional knowledge when individuals depart. AI is saving teams an estimated 15–20 administrative hours per week, but gains evaporate without shared policies and documented workflows. In 2026, AI governance ranks alongside cybersecurity and financial oversight as a core board-level responsibility. Leaders must urgently establish ethical AI frameworks and data protection protocols before regulators, funders, or donors demand them.

Source: Cerini & Associates, LLP: AI Trends for Nonprofits in 2026, February 2026

● Nonprofit Mergers and Consolidations Are No Longer Optional—They Are a Strategic Imperative

Escalating funding pressures, leadership transitions, and compliance burdens are accelerating merger and consolidation conversations sector-wide. With revenue streams shrinking and overhead costs rising, many organizations can no longer sustain independent operations without compromising mission delivery. Yet the pool of viable merger partners is also narrowing as peer organizations face identical constraints. Leaders must reframe consolidation as responsible stewardship rather than organizational failure. Boards should proactively explore shared service agreements, networked partnerships, and fiscal sponsorships as intermediate alternatives before a full merger becomes the only viable option.

Source: Inc.: Why Nonprofit Mergers Are No Longer Optional, January 2026

Summary

The March 2, 2026 Navigator News Update reflects a nonprofit sector operating under structural pressure rather than episodic disruption. Federal funding volatility, DHS shutdown effects, DEI certification uncertainty, and False Claims Act exposure are reshaping compliance risk. Medicaid cuts and state fiscal strain intensify service demand while weakening reimbursement reliability. Workforce contraction, fiduciary litigation exposure, AI governance gaps, donor retention decline, and cybersecurity escalation compound the challenge.

For boards and executive leaders, 2026 is a governance year—not simply a management year. Liquidity planning, legal review, HR modernization, AI oversight, and consolidation strategy must move to the forefront of organizational decision-making. Resilience is no longer optional—it is a fiduciary obligation.

About Nonprofit Management Navigator

Nonprofit Management Navigator is a trade name of PMG46, LLC doing business as Nonprofit Management Navigator. Nonprofit Management Navigator provides this complimentary weekly subscription service designed for nonprofit leaders. This essential resource provides curated news updates on the legal, regulatory, and operational developments impacting organizations, saving executives time while keeping them informed about the important changes directly impacting their organizations. In addition to timely news, Nonprofit Management Navigator also offers in-depth reports and practical management guidance to help leaders navigate an increasingly unpredictable operating environment. What makes Nonprofit Management Navigator particularly valuable is its commitment to accessibility—the entire service is available as a complimentary subscription, ensuring critical operational intelligence reaches nonprofit leaders regardless of budget limitations during these chaotic regulatory times.

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