Abstract

This July 27, 2026 issue of the Navigator News Update surveys the federal, workforce, tax, and state developments most likely to affect nonprofit organizations this week. Federal highlights include a court ruling blocking arbitrary grant terminations, OMB's proposed rewrite of federal grant regulations, a federal judge's order forcing EPA to comply with a prior ruling restoring environmental justice grants, and fast-approaching FEMA and HUD funding deadlines. Human resources updates cover the EEOC's rescission of its affirmative-action safe harbor, a Supreme Court ruling accelerating Temporary Protected Status terminations, and shifting independent-contractor and joint-employer standards. IRS and finance news spans a Form 990 overhaul targeting government-grant transparency, rising tax-exempt audits, new executive-compensation excise tax relief, and guidance on cash reserves. State developments include Medicaid work-requirement litigation, budget cuts in North Carolina, Missouri, and Austin, Florida's nonprofit law overhaul, and new compliance laws in New York, Connecticut, Maryland, and Tennessee.

July 27, 2026 Navigator News Update: Including Federal Grant Termination Ruling, OMB's Proposed Grant Rule Overhaul and More!

From Nonprofit Management Navigator, a DBA of PMG46, LLC

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Introduction

Welcome to this week's Navigator News Update, a curated roundup of the legal, regulatory, workforce, tax, and state developments shaping nonprofit operations for the week of July 27, 2026. Federal grantmaking remains in flux, with courts, agencies, and OMB pulling in different directions on how and whether awarded funds can be terminated or restructured. At the same time, nonprofit employers face a shifting workforce compliance landscape, from EEOC rule rescissions to Supreme Court action on Temporary Protected Status. The IRS continues sharpening its oversight of tax-exempt organizations through expanded audits, new reporting forms, and updated guidance on executive compensation and credit-loss accounting, while finance advisors emphasize building stronger cash reserves. State legislatures and governors, meanwhile, are reshaping nonprofit funding and compliance obligations through new budgets, contracting reforms, and corporate-law overhauls. Each summary below is tagged with a priority indicator to help you quickly identify which developments demand immediate action versus ongoing monitoring. Executive summaries and key action items open each section to support fast decision-making by busy nonprofit leaders.

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

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Nonprofit News & Regulatory Developments

📋 **Executive Summary:** Federal grant policy remains contested this week. A Massachusetts court blocked mid-stream grant terminations based on shifting agency priorities, while OMB has proposed a sweeping rewrite of federal grant rules easing future terminations and recipient screening. A federal judge has ordered EPA to comply after the agency refused to restore $2.8 billion in environmental justice grants, and NSPM-7 enforcement continues targeting advocacy nonprofits, with the Southern Poverty Law Center's federal fraud case now headed to an October trial. FEMA security grant and HUD Continuum of Care Builds applications carry imminent deadlines, and new IRS rules flag certain charitable remainder trust arrangements as abusive tax shelters.

⚡ **Key Actions for This Section:**

- Review active federal grants and contracts for termination-clause exposure and weigh in on OMB's proposed 2 CFR Part 200 rewrite during the comment period
- Submit FEMA Nonprofit Security Grant Program applications before the July 24 federal deadline (and any earlier state deadline)
- Coordinate with your local Continuum of Care to meet the July 23 HUD Builds application deadline
- Adopt or update a written incident-response plan for unannounced visits from federal agents under NSPM-7 enforcement
- Review planned-giving and CRAT arrangements with counsel to ensure they do not resemble IRS-flagged listed transactions

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🟡 Federal Court Blocks Grant Terminations Based on "Agency Priorities"

A Massachusetts federal judge ruled the administration cannot cancel already-awarded federal grants simply because agency priorities changed, rejecting the government's broad reading of a termination clause used to pull billions from states and nonprofits. Nonprofits gain a measure of legal protection for existing awards, but the ruling will likely be appealed, and a related proposal could let political appointees screen future funding, so planning around federal dollars remains essential.

Source: News Channel 3-12 (KEYT), July 17, 2026 —
https://keyt.com/lifestyle/your-money/2026/07/17/federal-judge-rules-trump-administration-can-not-terminate-billions-in-federal-grants-due-to-change-in-administration-priorities/

🟡 **OMB Proposes Sweeping Rewrite of Federal Grant Rules Under 2 CFR Part 200**

OMB has proposed a sweeping rewrite of the rules governing federal grants, making it easier for agencies to terminate awards mid-stream, screen recipients for alignment with administration priorities, and shift more costs to reimbursement-only payment. Nonprofits that rely on federal contracts and cooperative agreements should expect longer compliance checklists and less funding certainty.

Source: NonProfit PRO, July 1, 2026 —
https://www.nonprofitpro.com/article/what-proposed-federal-grant-rule-changes-mean-for-nonprofits/

🟡 **Federal Grant Cancellations: Sector-Wide Impact on Nonprofits**

A new financial analysis finds nonprofits absorbing federal funding cuts, rising service demand, and workforce erosion all at once. Grant freezes and cancellations often arrive abruptly and without warning, and organizations that depend heavily on government dollars could exhaust cash reserves within months of losing that funding. The report urges nonprofits to build reserves and diversify revenue now rather than waiting for the next disruption.

Source: CityShift Finance, "The Economics of Nonprofit in 2026 and Beyond," May 7, 2026 —
https://cityshiftfinance.com/economics-of-nonprofit-report/

🔴 **Judge Orders EPA to Comply After Agency Defies Environmental Justice Grant Ruling**

After EPA told the court in writing it would not restore the $2.8 billion Environmental and Climate Justice Block Grant Program despite a ruling that its termination was unlawful, the presiding judge issued a new order on July 22 stating that "the EPA is defying this Court's prior order" and clarifying that the agency must "comply with its statutory obligations to administer the ECJ Program through September 30, 2026," the date through which Congress funded it. An EPA spokesperson said the agency is "reviewing the decision." Grantee nonprofits continue to face uncertainty over whether and when the funding will actually be restored before the program's funding authority lapses at the end of September.

Source: NOTUS, July 22, 2026 —
https://www.notus.org/climate-environment/epa-must-fund-environmental-grants-judge-rules

🟢 **Court Vacates Education Department's PSLF Employer Eligibility Rule**

A federal court vacated the Education Department's rule letting officials strip Public Service Loan Forgiveness eligibility from nonprofit employers deemed to have a "substantial illegal purpose," striking it down hours before its July 1 effective date. Nonprofit employers avoid new perjury-level certification demands and eligibility risk for now, but the department can appeal, so organizations should keep monitoring whether a revised rule follows.

Source: NASFAA, July 1, 2026 — https://www.nasfaa.org/news-item/39289/Federal_Court_Vacates_PSLF_Final_Rule_on_Employer_Eligibility_Hours_Before_July_1_Effective_Date

🔴 **DOJ's NSPM-7 Domestic-Terrorism Scrutiny of Nonprofits Continues**

Following the Justice Department's April indictment of the Southern Poverty Law Center and federal agents' attempts to access immigrant-services nonprofits' offices, attorneys warn NSPM-7 enforcement is accelerating. The SPLC case itself has advanced: after a June superseding indictment added detail without adding new charges, including allegations that $4.1 million in donations were used to pay informants who purchased Ku Klux Klan robes and materials for cross-burning ceremonies, the organization pleaded not guilty on July 7 to all 11 counts of wire fraud, false statements to a bank, and conspiracy to commit money laundering; the case is now scheduled for an October trial. Nonprofits, especially those in civil rights, immigration, and voter-engagement work, should adopt written incident-response plans now, identify counsel in advance, and train staff on how to handle an unannounced visit from federal agents before one occurs.

Source: Arnold & Porter, via Mondaq, June 26, 2026 — https://www.mondaq.com/unitedstates/terrorism-homeland-security-defence/1807292/what-to-do-if-the-government-comes-knocking-a-preparedness-guide-for-nonprofits-in-the-nspm-7-enforcement-environment*; and The Associated Press, via WSFA, July 8, 2026 —* https://www.wsfa.com/2026/07/08/southern-poverty-law-center-pleads-not-guilty-federal-fraud-case/

🟡 **Congressional Scrutiny of Politically Targeted Nonprofits Intensifies**

A May congressional hearing targeting the Southern Poverty Law Center and other nonprofits drew condemnation from civil rights and nonprofit groups, who called it an attempt to intimidate organizations the administration disfavors. Nonprofits engaged in advocacy, especially on DEI, immigration, or environmental issues, face a growing risk of being pulled into investigations or hearings, adding reputational and legal costs on top of program work.

Source: National Council of Nonprofits, Nonprofit Champion, June 1, 2026 — https://www.councilofnonprofits.org/nonprofit-champion-june-1-2026

🟢 **HHS Rescinds LGBTQI+ Designated-Placement Requirements for Foster Care**

HHS has formally rescinded the 2024 rule requiring federally funded foster care agencies to offer LGBTQI+ youth specially trained "designated placements," following a Texas court's earlier decision vacating it. Foster-care and child-welfare nonprofits no longer face that federal placement mandate, but advocates warn the change removes safeguards without a replacement, and organizations should review state-level requirements that may still apply.

Source: Federal Register (HHS Administration for Children and Families), July 14, 2026 — https://www.federalregister.gov/documents/2026/07/14/2026-14131/designated-placement-requirements-under-titles-iv-e-and-iv-b-for-lgbtqi-children-rescission

🔴 **FEMA's $300 Million FY2026 Nonprofit Security Grant Program: Applications Due July 24**

FEMA has opened $300 million in FY2026 Nonprofit Security Grant Program funding to help houses of worship, community centers, and other high-risk nonprofits harden facilities against terrorism and extremism, with awards up to $200,000 per site. The federal deadline is July 24, but state deadlines are often earlier, so organizations that have not yet applied through their State Administrative Agency should act immediately.

Source: FEMA.gov, June 24, 2026 — https://www.fema.gov/press-release/20260624/fema-announces-15-billion-empower-communities-prevent-terrorism-and-protect

🔴 **HUD's $100 Million Continuum of Care Builds Competition: Applications Due July 23**

HUD's Continuum of Care Builds competition makes $100 million available for new construction, acquisition, or rehabilitation of permanent supportive housing serving people experiencing homelessness. Nonprofit homelessness providers must apply through their local Continuum of Care, which must submit one combined application to HUD by July 23, leaving little time for organizations that have not already coordinated with their local CoC to participate.

Source: HUD.gov, Continuum of Care Program Competition — https://www.hud.gov/hud-partners/coc-program-competition

🟡 **IRS Flags Certain Charitable Remainder Annuity Trust Arrangements as Listed Transactions**

The IRS and Treasury issued final regulations identifying certain arrangements marketed as Charitable Remainder Annuity Trusts as "listed transactions," a designation reserved for abusive tax shelters. Nonprofits that rely on planned giving and CRATs as fundraising tools should review current gift arrangements and donor communications to ensure they do not resemble the flagged structures, since participants and advisors face new reporting obligations and penalty exposure.

Source: IRS.gov, News Release IR-2026-82, July 8, 2026 — https://www.irs.gov/newsroom/news-releases-for-current-month

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Nonprofit Human Resources Developments

📋 **Executive Summary:** Workforce compliance obligations are shifting quickly. The EEOC rescinded its 40-year-old affirmative-action safe harbor and released a regulatory agenda targeting hiring-validation and EEO reporting rules, while a Supreme Court ruling clears the way for faster Temporary Protected Status terminations. DOL and NLRB guidance offers modest relief on dual-role exempt status and joint-employer liability, but a narrower independent-contractor test may soon reclassify contract staff. Persistent challenges include misclassification risk, succession planning gaps, and volunteer retention.

⚡ **Key Actions for This Section:**

- Have counsel review DEI-related hiring and promotion programs in light of the EEOC's rescinded affirmative-action safe harbor

- Audit I-9 records now to identify employees affected by Temporary Protected Status terminations, without taking adverse action before USCIS issues guidance
- Document that exempt duties predominate for staff working dual exempt and hourly roles
- Monitor DOL's proposed independent-contractor rule before reclassifying coaches, teaching artists, or other contract staff
- Establish or update a board-level succession plan reviewed at least annually rather than only after a departure is announced

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🟡 EEOC Rescinds 40-Year-Old Affirmative Action Safe Harbor

The EEOC voted to rescind its 40-year-old guidelines permitting voluntary employer affirmative action plans, eliminating a good-faith legal defense nonprofits with diversity programs could previously rely on. Existing Supreme Court precedent still allows narrow voluntary plans, but nonprofits should have counsel review DEI-related hiring and promotion programs now, since the agency's enforcement priorities have shifted toward scrutinizing these initiatives directly.

Source: Brownstein Hyatt Farber Schreck, July 2026 — https://www.bhfs.com/insight/eeoc-rescinds-affirmative-action-guidelines-under-title-vii/

🔴 Supreme Court Ruling Forces Fast I-9 Action for TPS Workers

The Supreme Court ruled federal courts generally cannot review DHS decisions ending Temporary Protected Status, clearing the way for terminations affecting Haiti, Syria, and potentially other countries. Nonprofits employing TPS holders should audit I-9 records now to identify affected staff, but should not take adverse action before USCIS issues country-specific guidance, since premature terminations could themselves trigger discrimination liability.

Source: Gordon Rees Scully Mansukhani, June 2026 — https://www.grsm.com/insight/supreme-court-clears-path-for-termination-of-temporary-protected-status-what-employers-need-to-know/

🟢 EEOC Publishes Semiannual Regulatory Agenda With Ten Pending Rulemakings

The EEOC released a ten-item regulatory agenda proposing to rescind decades-old hiring-validation standards, affirmative-action guidance, and national-origin discrimination guidelines, with several actions targeted for this year. Nonprofit employers should not wait for final rules to take effect before reviewing hiring assessments and EEO policies, since the direction of travel is clear even though most items remain in early rulemaking stages.

Source: Ogletree Deakins, July 7, 2026 — https://ogletree.com/insights-resources/blog-posts/the-eeocs-regulatory-agenda-10-signs-of-intent/

🟢 EEOC Proposal to Rescind EEO-1 Through EEO-5 Reporting Advances at OMB

OMB approved the EEOC's proposal to eliminate the EEO-1, EEO-3, EEO-4, and EEO-5 workforce demographic reports, with a Federal Register notice expected soon given the September 30 filing deadline. Nonprofit employers with 100 or more staff should keep preparing 2025 data as if the filing will still be required, since the rescission is not final and reporting obligations remain in effect until it is.

Source: HR Daily Advisor, July 9, 2026 —
https://hrdailyadvisor.hci.org/2026/07/09/omb-approves-eeo-1-rescission/

🟢 DOL Opinion Letters Clarify Compensable Time and Dual-Role Exempt Status

The Labor Department clarified that an exempt nonprofit employee, such as a nursing or program specialist, does not lose overtime-exempt status simply by picking up extra hourly shifts in a second role, so long as their primary job remains exempt work. Nonprofits and hospitals using dual-role staffing to cover shortages get welcome flexibility, but should document that exempt duties still predominate to avoid overtime exposure.

Source: KJK (Kohrman Jackson Krantz), June 4, 2026 —
https://kjk.com/2026/06/04/dol-clarifies-exempt-status-for-dual-role-employees-performing-hourly-work/

🟡 DOL Proposed Rule Reviving 2021 Independent Contractor Test Advances

DOL's comment period closed on a proposal to replace the 2024 independent-contractor test with a narrower 2021-style standard emphasizing worker control and profit-or-loss opportunity, a change that would make it easier to classify workers as contractors. Nonprofits using contract staff, coaches, or teaching artists should watch for a final rule, expected as soon as late summer, before adjusting worker classifications.

Source: Self Employed, April 30, 2026 —
https://www.selfemployed.com/news/dol-independent-contractor-rule-comment-period-closed-2026/

🟢 NLRB's Narrower "Direct and Immediate Control" Joint-Employer Standard in Effect

The NLRB's reinstated joint-employer standard, requiring "substantial direct and immediate control" over essential terms of employment before two entities are jointly liable, is now the governing rule after months of back-and-forth. Nonprofits that use staffing agencies, fiscal sponsors, or subcontracted labor face a narrower risk of being pulled into another employer's labor disputes, but should still review contracts for reserved-but-unexercised control provisions.

Source: PK Law, June 5, 2026 —
https://pklaw.com/articles/national-labor-relations-board-issues/

🟡 Nonprofit HR Compliance: Key Regulations, Risks, and Obstacles

Nonprofits juggle a mix of employees, volunteers, interns, and contractors, and worker misclassification remains one of the biggest compliance traps, since good intentions cannot substitute for correct legal categorization. Outdated handbooks and single-person compliance systems compound the risk. Fines, lawsuits, and loss of tax-exempt status can follow. Nonprofits should centralize HR policy tracking now rather than relying on one manager's memory.

Source: HRdeck, April 2, 2026 —
https://hrdeck.com/nonprofit-hr-compliance-risks-and-pain-points-in-2026/

🟡 Why Nonprofits Need an Up-to-Date Succession Plan Now

Long-tenured executives often carry institutional knowledge, relationships, and donor trust that no one else in the organization holds, making unplanned departures a serious risk to fundraising and operations. Yet succession planning is still usually handled reactively. Boards should treat succession planning as an ongoing governance duty, reviewed at least annually, rather than a one-time project triggered only when a leader announces departure.

Source: Aprio, April 23, 2026 —
https://www.aprio.com/insights-events/succession-planning-ensuring-leadership-continuity-in-nonprofits-ins-article-np/

🟢 **Recruiting and Retaining Volunteers in a Budget-Constrained Environment**

With 38% of nonprofit leaders citing volunteer recruitment and retention as a top challenge, and each volunteer hour valued near $35, losing trained volunteers is costly. Retention suffers when people feel underused or disconnected from results. Nonprofits should prioritize consistent recognition and clear, purposeful roles, since replacing a departed volunteer costs far more in staff time than keeping an engaged one.

Source: NonProfit PRO, March 13, 2026 —
https://www.nonprofitpro.com/post/how-nonprofits-can-improve-volunteer-retention/

🟢 **Integrating AI Into the Nonprofit Workforce Without Alienating Staff**

AI adoption among nonprofits has reached near-universal levels, but most organizations are still using it for isolated administrative tasks rather than core strategy, and many report no formal AI governance policy at all. Leaders should introduce AI as a capacity-building tool that augments short-staffed teams, not a replacement threat, and pair rollout with clear guidelines to avoid alienating employees and volunteers worried about job security.

Source: UST, April 17, 2026 —
https://www.chooseust.org/blog/the-impact-of-ai-on-nonprofits-in-2026/

IRS, Accounting & Finance Developments

📋 **Executive Summary:** IRS oversight of tax-exempt organizations continues to intensify, with audits up roughly a third and Treasury planning a Form 990 overhaul exposing government-grant and fiscal-sponsorship arrangements in greater detail. New guidance clarifies executive-compensation excise tax exceptions, group-exemption reporting now requires Form 15644, and central organizations face a January 2027 deadline under revised group-ruling rules. On the finance side, a new FASB expedient simplifies credit-loss estimates, and advisors continue urging nonprofits to build larger cash reserves and contingency plans.

⚡ **Key Actions for This Section:**

- Tighten documentation of government-grant and fiscal-sponsorship arrangements ahead of the anticipated Form 990 overhaul
- Confirm any executive compensation over $1 million is properly captured under the expanded excise tax definition
- File the new Form 15644 for group-exemption reporting and inventory subordinate organizations before the January 22, 2027 compliance deadline
- Decide whether to elect the FASB practical expedient for credit-loss estimates before fiscal year-end close

- Adopt a formal cash-reserve target (three to six months of operating expenses) and a documented contingency plan

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🟡 Treasury Directs IRS to Overhaul Form 990 Reporting on Government Grants and Fiscal Sponsorships

Treasury announced plans to revise Form 990 so nonprofits must disclose government grants, contracts, and fiscal-sponsorship arrangements in greater detail, tracing how public dollars move through tax-exempt entities. Formal regulations and a comment period are still pending. Organizations with complex funding structures or heavy government support should tighten documentation now, since the eventual changes could demand more granular disclosure and invite closer IRS scrutiny.

Source: Journal of Accountancy

🟡 IRS Audit Data Show Sharp Jump in Tax-Exempt Enforcement

The IRS's newly released FY25 Databook shows audits of tax-exempt organizations rose roughly a third from the prior year, reversing a decline the year before, while the number and dollar amount of penalties assessed also climbed. The increase follows heightened political and administrative attention to nonprofit compliance. Boards and finance staff should use the data as a prompt to review governance, recordkeeping, and reporting practices before facing a possible audit.

Source: CPA Practice Advisor

🟡 IRS Offers Interim Relief as Executive-Pay Excise Tax Expands

A new tax law eliminated the old five-highest-paid cap on which employees count toward the 21% excise tax on tax-exempt executive compensation over $1 million, sweeping in far more staff starting in 2026. IRS Notice 2026-36 confirms that exceptions protecting volunteers and limited-hours workers will survive the change. Nonprofits with highly paid executives, especially hospitals and universities, should reassess compensation reporting and flag anyone newly captured under the broader definition.

Source: Ericksen Krentel

🟡 Group Exemption Transition Deadline Approaches for Central Organizations

The IRS's January overhaul of group-exemption rules gave central organizations with existing group rulings until January 22, 2027 to comply with tighter affiliation, supervision, and single-letter requirements after a nearly six-year freeze on new applications. Organizations that miss the deadline risk losing coverage for noncompliant subordinates. National associations, denominations, and federated charities with chapters should inventory their subordinate lists and update governance documents well before the transition period closes.

Source: ArentFox Schiff

🟡 New IRS Form 15644 Now Required for Group Exemption Reporting

Central organizations that hold a group tax exemption must now use new Form 15644 to make their annual Supplemental Group Ruling Information filing, replacing the old freeform letter process. The form must be submitted 30 to 90 days before the close of the organization's tax year and covers additions, removals, and name changes among subordinates. Missing the standardized filing could jeopardize a group's exempt status for its affiliates.

Source: Accounting Today

🟢 IRS Opens Online Business Tax Account Access to Nonprofits

The IRS expanded its Business Tax Account portal in April to include tax-exempt organizations, letting them view balances, make payments, download notices, and request compliance checks online instead of relying on paper and phone calls. Organizations must designate an authorized officer to manage the account. The added access reduces administrative friction but requires nonprofits to actively register and monitor a new digital touchpoint with the agency.

Source: IRS.gov (IR-2026-46)

🟡 FASB Simplifies Credit-Loss Accounting for Nonprofit Receivables

A new FASB standard lets nonprofits assume current conditions will persist when estimating credit losses on short-term program-fee and tuition receivables, sparing many organizations from building complex economic forecasts. The practical expedient applies to fiscal years beginning after December 15, 2025, and does not extend to pledges or contributions receivable. Finance teams should decide before year-end close whether to elect the expedient and document that choice in their policies.

Source: Nonprofit Accounting Basics

🟡 Advisors Urge Nonprofits to Build Bigger Cash Reserves Now

With federal reimbursements slowing and roughly half of nonprofits holding three months or less in reserves, CPAs are urging organizations to target three to six months of operating expenses in unrestricted cash. Rolling 13-week cash forecasts and board-approved reserve policies are increasingly seen as essential rather than optional. Organizations without a formal reserve target should adopt one now, before the next funding disruption forces reactive cuts.

Source: Brymar CPA

🟡 Advisors Recommend a Structured, Stepwise Approach to Contingency Planning

Accounting and advisory firms are urging nonprofits to build formal contingency plans that model best-, base-, and worst-case funding scenarios, identify which programs are truly mission-critical, and set explicit trigger points for spending cuts before a crisis hits. Boards that complete this work in advance tend to respond faster and with more confidence than those making decisions under pressure. Organizations without a documented plan should start the process now.

Source: Cerini & Associates, LLP

🟢 Donor-Advised Funds Poised to Become a Bigger Funding Source in 2026

DAF assets and payout rates keep climbing, with sponsors like Fidelity Charitable reporting billions in annual donor-recommended grants and payout rates far above the 5% foundation minimum. Any active 501(c)(3) public charity qualifies for DAF grants, but donor-facing organizations with strong stewardship and responsive donor relations tend to capture the most repeat giving. Nonprofits of any size or mission should ensure their DAF-facing materials and acknowledgment practices are current.

Source: American Heart Association

State Nonprofit Developments

📋 **Executive Summary:** State-level developments carry both risk and relief. Roughly 25 states are suing over a narrowed Medicaid medically-frail exemption, while budget cuts in North Carolina, Missouri, and Austin shrink human-services capacity and nonprofit contract funding. Florida's Nonprofit Corporation Act overhaul took effect July 1, and new laws in New York, Connecticut, Maryland, Pennsylvania, and Tennessee reshape contracting payments, grant oversight, audit thresholds, and annual-report obligations. Texas and Colorado nonprofits are mobilizing disaster relief funds after recent flooding and wildfires.

⚡ **Key Actions for This Section:**

- Prepare for rising demand for enrollment assistance as states implement narrower Medicaid medically-frail exemptions ahead of the August 31 notice deadline
- Review governing documents and bylaws for compliance with Florida's HB 797 Nonprofit Corporation Act overhaul, in effect since July 1
- Diversify revenue and build contingency budgets in states and cities cutting nonprofit line-item or contract funding, including Missouri and Austin
- Update donor-acknowledgment letters and add new annual-report filings required under North Carolina's HB 517 and Pennsylvania's Act 122
- Track New York's pending contracting-payment reform legislation and Connecticut's new state-grant oversight requirements taking effect this year

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🔴 Coalition of States Sues Over Narrowed Medicaid "Medically Frail" Exemption

Roughly 25 states and D.C. are suing HHS and CMS, arguing a June rule illegally narrows the medically frail exemption from new Medicaid work requirements by forcing enrollees to prove their condition impairs their ability to work, a test states say Congress never wrote into law. States face an August 31 deadline to notify members. Health and human-service nonprofits should prepare for client confusion and rising demand for enrollment assistance.

Source: Stateline

🟢 Florida Pauses Move to Brand Civil-Rights Nonprofit a "Terrorist Organization"

Florida officials announced plans to designate CAIR, the Muslim Brotherhood, and Antifa domestic terrorist organizations under a new law, then paused the action after CAIR, the ACLU, and the Southern Poverty Law Center sued, with the state now saying no designation will occur until implementing regulations are finalized. Nonprofits should watch how the case defines "domestic terrorist organization," since a broad reading could expose advocacy groups nationwide to similar designations.

Source: Florida Phoenix

🟡 North Carolina's First Budget in Years Cuts Health and Human Services Capacity

North Carolina's new $34.4 billion budget, its first comprehensive spending plan since 2023, eliminates 364 vacant Health and Human Services positions even as the state ramps up new federal Medicaid work-requirement verification and prepares for continued SNAP changes. Nonprofits providing enrollment assistance, food aid, and case management should expect longer state response times and plan to fill service gaps as county and state HHS staffing capacity tightens.

Source: [North Carolina Justice Center]

🟡 Missouri Governor Vetoes Millions in Nonprofit Line-Item Funding

Governor Mike Kehoe cut roughly $53 million in line items from Missouri's new state budget, including $500,000 for the fatherhood-support nonprofit Good Dads and $250,000 for Coyote Hill Foster Care Ministries, while restricting roughly $440 million more pending revenue reports. Nonprofits that depend on state earmarks should diversify funding and prepare contingency budgets, since Kehoe has signaled further spending discipline is likely in future budget cycles.

Source: [OzarksFirst]

🟡 Austin Proposes $16.8 Million Cut to Social-Service Nonprofit Contracts

Facing a budget deficit after voters rejected a property-tax increase, Austin's proposed budget would cut $16.8 million from its $74.2 million social-service contract portfolio over two budget cycles, worrying groups like the Literacy Coalition of Central Texas and El Buen Samaritano, which gets 30% of its funding from the city. Texas nonprofits reliant on municipal contracts should model reduced-funding scenarios and diversify revenue ahead of final council votes.

Source: [Axios Austin]

🔴 Florida's Sweeping Nonprofit Corporation Act Overhaul Takes Effect

HB 797 took effect July 1, comprehensively rewriting Florida's Nonprofit Corporation Act to align with the American Bar Association's Model Nonprofit Corporation Act, changing rules on mergers, conversions, member rights, derivative lawsuits, and director duties. Property held for charitable purposes may now only merge into another nonprofit entity. Florida nonprofits should review governing documents and bylaws promptly, since existing agreements may be treated differently under the new statutory defaults.

Source: [The NonProfit Times]

🟢 New York Passes Long-Sought Nonprofit Contracting Payment Reforms

The New York legislature passed bills reforming the state's decades-old contracting system, aiming to fix chronic payment delays that have forced nonprofits to draw on credit lines and, in some cases, cut staff or close. A 2025 coalition survey found 65% of nonprofit leaders worried about funding basic operations. The bills, which await the governor's signature, would set clearer payment timelines nonprofits have sought for years. Organizations should track implementation.

Source: [Westfair Communications]

🟡 Connecticut Tightens Oversight of State-Funded Nonprofit Grants

Following an audit exposing misuse of state grant funds by a Hartford-area nonprofit, more than 80 new Connecticut laws taking effect July 1 add reporting and documentation requirements for nonprofits receiving state grants, loans, or financial assistance, including written agreements for amounts under $150,000 and expenditure documentation with state review above that threshold.

State-funded nonprofits should prepare for more paperwork and slower disbursement as agencies implement the new checks.

Source: [CT News Junkie]

🟢 Maryland Raises Audit and Review Thresholds for Charities

Maryland's SB354, signed into law in May, raises the gross-income threshold requiring an independent audit from $750,000 to $1 million and the review threshold from $300,000 to $500,000, the first increase in a decade. The change is intended to ease compliance costs, which can run $12,000 to $25,000 for an audit. Smaller and mid-sized Maryland nonprofits should reassess which tier applies to their next annual charitable registration filing.

Source: [LegiScan]

🟡 Pennsylvania's Annual-Report Mandate Enters Critical Enforcement Year

Pennsylvania's Act 122 replaced the old once-a-decade filing with an annual report for every nonprofit corporation, LLC, and similar entity, and 2026 is a pivotal compliance year: reports still due in 2026 carry no penalty, but starting with 2027 filings, missing the deadline by six months triggers administrative dissolution. Nonprofits that haven't filed under the new system should catch up now, before the grace period disappears.

Source: [Fileforms]

🟢 Multi-State Fundraising Registration Remains a Heavy Compliance Burden

Any nonprofit accepting online donations from residents of more than one state is likely subject to charitable solicitation registration in 40 or more states plus D.C., each with its own forms, fees, and renewal cycles enforced by attorneys general or charity bureaus. There is no unified national filing system, since the old Unified Registration Statement has fallen out of date. Nonprofits fundraising should audit their registration status state by state.

Source: [Wylie Advisory]

🟡 North Carolina Adds Annual-Report Duty, Eases Donor-Acknowledgment Rule for Nonprofits

Governor Stein signed HB 517 in July, making various changes to the North Carolina Nonprofit Corporations Act: nonprofit corporations must now file an annual report with the Secretary of State, while charitable organizations can satisfy state solicitation-disclosure requirements using the same acknowledgment letter already required for a federal tax deduction. North Carolina nonprofits should update donor receipt templates and add the new annual filing to their compliance calendar.

Source: [NC Political News]

🟡 Tennessee's RIFT Act Speeds Nonprofit Claims to Donor-Designated Assets

Signed into law and effective July 1, Tennessee's RIFT Act requires financial institutions to notify charitable beneficiaries within 10 business days of a donor's death and deliver assets or information within 30 days of a complete affidavit, while barring requests for staff or board members' Social Security numbers or home addresses. Tennessee nonprofits that receive retirement-account or other nonprobate gifts should update procedures to use the new standardized affidavit.

Source: [Tennessee Nonprofit Network]

🟢 Tennessee Drops Nonprofit Dissolution Fee, Simplifies Post-Solicitation Filings

Effective July 1, Tennessee's HB 1553 eliminates the fee nonprofits pay to file articles of termination of corporate existence and streamlines Charitable Solicitations Act filings required once an organization stops soliciting donations. The change lowers the cost and paperwork of formally winding down a Tennessee nonprofit. Organizations planning to dissolve, merge, or cease fundraising in Tennessee should consult the updated filing procedures before starting the process.

Source: [Wolters Kluwer CT Corporation]

🟢 Texas Hill Country Nonprofit Launches New Flood Relief Fund

One year after historic floods, the Community Foundation of the Texas Hill Country launched a new relief fund covering all 10 counties in its service area after fresh flooding in July left at least two dead and forced evacuations, with the Guadalupe River rising 32 feet in four hours in Kerrville. Regional nonprofits should connect with the foundation to access emergency grants and coordinate with local disaster assistance centers.

Source: [Texas Public Radio]

🟢 United Way of Southern Colorado Mobilizes $10 Million Wildfire Relief Effort

United Way of Southern Colorado launched a wildfire relief fund and set a $10 million goal after the Aspen Acres fire burned more than 91,000 acres, becoming the seventh-largest wildfire in state history and destroying at least 192 homes. The organization is coordinating with emergency agencies through a Pueblo disaster assistance center. Colorado nonprofits and donors should route contributions through vetted local funds to avoid scams targeting disaster survivors.

Source: [Colorado Public Radio]

Summary

This week's Navigator News Update highlights a sector navigating volatility on multiple fronts. Federally, courts are pushing back against abrupt grant terminations even as OMB proposes rules that would make future cancellations easier, a judge has ordered EPA to comply after the agency defied an earlier ruling on environmental justice funding, and NSPM-7 enforcement and congressional scrutiny continue to target advocacy nonprofits, with the Southern Poverty Law Center's case now headed to trial in October, while FEMA and HUD funding deadlines loom this week. On the workforce front, the EEOC's rescinded affirmative-action safe harbor, an accelerated path to Temporary Protected Status terminations, and a possible narrower independent-contractor test all demand employer attention, even as DOL and NLRB guidance offers modest relief elsewhere. The IRS is intensifying oversight through rising audits, a planned Form 990 overhaul, new group-exemption forms, and updated executive-compensation rules, while finance advisors continue urging larger cash reserves and formal contingency planning. States are moving in different directions: Medicaid litigation and budget cuts in North Carolina, Missouri, and Austin squeeze nonprofit capacity, Florida's nonprofit corporate law has been overhauled, and New York, Connecticut, Maryland, Pennsylvania, and Tennessee are adjusting contracting, oversight, and reporting rules. Texas and Colorado nonprofits, meanwhile, are mobilizing disaster relief. Leaders should prioritize the immediate-action items flagged throughout this issue.

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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