



## Frequently Asked Questions for Charter churches transitioning to Covenant church status

**The transition to a Covenant church is a complex process because state, federal and IRS regulations govern the closure of one church and the beginning of another. The Foursquare church has provided documents and charts to simplify, outline and coach a church through these processes and are available for consultation as needed.**

### Defining the Covenant Relationship

**1. What does it mean for a Foursquare Charter church to become a Foursquare Covenant church?**

The Covenant church will be considered a Foursquare church (as defined in the Foursquare bylaws) for ecclesiastical, polity, and relational purposes. A Covenant church will maintain a separate legal corporation and choose its own corporate directors and officers, manage its own finances and own/control property held in the name of the local church. The only functional differences between a Charter church and a Covenant church relate to the acquisition, operation, and disposal of local church property. A Covenant church agrees by virtue of the covenant agreement to operate in accordance with all Foursquare policies and procedures.

**2. What services will Covenant churches receive from ICFG?**

A Covenant church will be entitled to virtually all of the benefits as a Charter church, such as invitations to national and district events, Foursquare retirement services, loans with Foursquare Financial Solutions (FFS), educational programs, resources and property consultation. In addition, if the Charter church was part of Foursquare insurance, they may continue their Foursquare insurance as a Covenant church. The [church comparison chart](#) is available to review the detailed list of services and benefits provided to each category.

**3. What are the advantages of transitioning from a Charter church to a Covenant church?**

As a separate corporation, a Covenant church may engage in certain property transactions without requiring Foursquare board approval. Additionally, a Covenant church may experience a more streamlined process when establishing relationships with banks and certain vendors and be able to engage in alternative ministry models such as coffee shop, schools, daycare, thrift store, etc. For more information about the key differences between churches in each category, please refer to the [church comparison chart](#).

**4. Is a Foursquare Covenant churches treated the same as a Charter church that does not maintain a separate legal entity?**

Yes, a Covenant church will be treated in a similar manner and with similar expectations that Foursquare has of its local churches under its corporate structure.

**5. Does a Covenant church participate in the extension tithe to Foursquare?**

Yes, by signing the covenant agreement, a Covenant church corporation agrees to adopt the Foursquare bylaws, declaration of faith and operational policies as their own. These policies include full participation in the Foursquare extension tithe.

**6. Is there a provision that allows a Covenant church to end the covenant relationship and leave Foursquare?**

Yes, the covenant agreement outlines the process for ending a covenant relationship, which includes a  $\frac{3}{4}$  supermajority vote of the congregation. The Foursquare Church is committed to handling disputes through a prayerful and biblically based process.

**7. Can The Foursquare Church end the covenant relationship with a Covenant church?**

Yes, there may be rare instances when the ICFG board determines to end a covenant relationship. The Foursquare Church will follow the termination process as outlined in the covenant agreement through a prayerful and biblically based process.

## **Entity Formation and Incorporation**

**8. Must a church incorporate in order to become a Foursquare Covenant church?**

Yes, by nature of the covenant arrangement, a Foursquare Covenant church must establish a nonprofit corporation in its state before the application to transition to Covenant church status can be approved. After pre-approval to become a Covenant church from the ICFG Board of Directors, the church should form a nonprofit corporation with the state. Please refer to the [process flowchart](#) to see the prescribed order of events.

**9. Is it advisable for a Foursquare Charter church to form a nonprofit corporation before meeting with the district supervisor and obtaining pre-approval from the ICFG Board of Directors?**

No, that process should not be initiated until the church has received pre-approval from the ICFG Board of Directors.

**10. What steps should a church take before forming a local church corporation?**

The senior pastor and church council of the Charter church should schedule a call or visit with the district supervisor and/or their designated representative to pray and discern together whether this is the right arrangement for the church. If there is a decision to proceed, the district will present the request to the ICFG Board of Directors for their pre-approval prior to a church investment in the formation of a new nonprofit corporation.

**11. Are preferred vendors available to help a church incorporate?**

Yes, special pricing has been arranged with [www.startchurch.com](http://www.startchurch.com) (1-844-549-4506), a company specializing in church incorporation.

- a. Startchurch.com understands the Foursquare structure and covenant agreement and will prepare articles of incorporation and bylaws that have been vetted by the Foursquare legal department.
- b. Startchurch.com will also apply for the federal employer identification number (FEIN), provide step-by-step instructions for registering the corporation with the state and prepare initial board meeting minutes.

**12. How do churches obtain the special pricing with startchurch.com?**

To obtain the Foursquare special pricing and receive the incorporation documents for a Foursquare Covenant church, mention that you are part of the “Foursquare group.” Startchurch.com has associates who speak English and Spanish.

**13. Is a Covenant church applicant required to use startchurch.com to form the local church corporation?**

No, a church may use the services of a local attorney to incorporate within its state; however, Foursquare recommends using StartChurch. Foursquare has worked closely with StartChurch on the development of the articles of incorporation and bylaws, which makes them the most cost-effective option. If the church chooses to use an attorney, please have them call the Foursquare legal department prior to forming the corporation.

**14. Is a Covenant church required to use StartChurch or an attorney to begin a corporation?**

Yes, churches must use StartChurch or an attorney to form a corporation.

**15. In addition to forming a nonprofit corporation does a church also need to apply for 501(c)(3) federal exempt status in order to become a Foursquare Covenant church?**

No, a church may continue to be included in Foursquare’s group exemption after the board approves the Covenant church application. This will retain the church’s qualification as an exempt organization with the IRS.

**16. If the leadership team of a church already composes the board of a separate nonprofit corporation used for a ministry purpose, can that entity be used as the board for the Covenant church?**

This may be possible; it is dependent on several factors and would be determined on a case-by-case basis. The district office can best facilitate the discussion regarding that possibility.

**17. How does a Covenant church retain its status as a Foursquare church if it is separately incorporated?**

This connection is maintained through the covenant agreement in which the local church voluntarily subordinates its bylaws to those of ICFG. If a church wishes to initiate or terminate the covenant agreement, the process requires ratification by a  $\frac{3}{4}$  supermajority of the congregants and attestation of such through the signatures of the senior pastor and church board members. The ICFG board maintains the right to terminate the covenant arrangement as outlined in the agreement.

**18. Once the covenant agreement is finalized, does the Covenant church need to continue to maintain a separate corporate existence?**

Yes, the church must continue to maintain a separate corporation at all times.

**19. After the Covenant church corporation is formed, are ongoing actions required to maintain the corporation?**

Yes, the church must remain in good standing with the state(s) of incorporation, maintain required state filings and conduct proper board meetings that are documented with board meeting minutes.

**20. What happens if the Covenant church corporation falls out of good standing with the state?**

If the church does not continue the annual state filings with the state of incorporation (requirements are different state-to-state), they may consider the church to be “delinquent,” “void,” “suspended” or “dissolved.” The Covenant church may lose the right to use the name registered with the state; they may incur fines and penalties, and the state could administratively dissolve the corporation. The Covenant church agreement requires the church maintains its good standing with the state. If the church does not maintain this standing, this inaction could result in the removal of the senior pastor.

**21. Can a church retain its existing name in the transition from Charter to Covenant?**

In most cases, a Charter church can continue to use its name after transitioning to a Covenant church. State name regulations differ by jurisdiction; therefore, additional steps may be required in order to continue using the same name. The district and central office will provide guidance in this process.

**22. Can a Covenant church choose a corporation name that is different from the church’s existing Foursquare legal and/or slogan name?**

Yes, the church is free to choose a new name. The name of the local church corporation will be the legal name of the Covenant church. The church will be identified in The Hub with its legal Covenant church name; national and district communications will be addressed to the Covenant church’s legal name.

**23. Does The Foursquare Church have any requirements for a Covenant church regarding the selection of the corporation’s name?**

No, the church may choose its own name. The church may use the name “Foursquare” in its name (e.g., “a Foursquare church,” “Any town Foursquare Church,” “New Beginnings Foursquare Church”). While the church is encouraged to identify itself as a Foursquare church, a Covenant church is not required to include “Foursquare” in its name. Before forming the corporation, it is advisable for the church to check with the state to see if the desired name is available.

**24. After a church transitions from Charter to Covenant status, will the church council begin to operate as a board?**

The church must maintain a church board for as long as the corporation remains in existence. The church board continues for purposes of maintaining the corporation and satisfying local state requirements. For all other matters, in accordance with the covenant agreement and Foursquare bylaws, the church board will be considered the church council and operate within the powers and responsibilities outlined in the Foursquare bylaws.

## **Real Property Assets**

**25. When a Charter church transitions to a Covenant church, will the real property assets transfer to the new corporation?**

Yes, all assets, including real property, will transfer to the Covenant church after the Covenant church is established and approved by the ICFG board.

**26. Can real property be used as collateral for a Covenant church loan?**

Yes, once the real property is held in the name of the Covenant church, the property may be used as collateral.

**27. If the Charter church's real property has a mortgage, will the church need to obtain a new mortgage?**

Yes. The Charter church property and mortgage are held in the name of the Foursquare corporation and therefore will need to be transferred to the Covenant church corporation. The church will need to obtain a mortgage in the name of the Covenant church corporation. The properties team is available to answer questions regarding this process.

**28. May the church obtain a loan with Foursquare Financial Solutions?**

Yes. Foursquare Financial Solutions is available to offer mortgages to Covenant churches. You may contact them by visiting their website at [www.4sqfs.org](http://www.4sqfs.org).

**29. What should the church do to prepare for this transition?**

When the church requests an application to become a Covenant church, the district office will schedule a meeting with the church and the properties department to discuss the process of transferring assets.

**30. What is a reversionary clause?**

A reversionary clause is a provision in a deed that states that if the Covenant Agreement between a Covenant church and ICFG is ended, for any reason, the real property reverts back to ICFG.

**31. What real property is subject to a reversionary clause as part of a Charter church transitioning to a Covenant church?**

All real property that is transferred by ICFG to a Covenant church is subject to a reversionary clause.

**32. Why was a reversionary clause instituted?** A reversionary clause was instituted to recognize the ongoing collective stewardship that all Foursquare churches, and the ICFG board of directors, have in common toward the advancement of the Gospel as

part of the Foursquare denomination. Ongoing support from donors over the life of the church was given to acquire/maintain the property intended for use in forwarding the Foursquare gospel.

- 33. If the church purchases property in the future, is it subject to a reversionary clause?** Not a reversionary clause, but in the Covenant agreement we will likely add a clause outlining any property purchased, while being a Covenant church would need to transfer to ICFG in the event that the covenant agreement is concluded.
- 34. If we sell our property and don't buy property right away, will our church hold the funds?** These funds will be held in an interest bearing Foursquare Financial Solutions Loan Fund (FFSLF) account to be used only towards property.
- 35. If the church desires to sell its building, will a reversionary clause require that the Foursquare board be involved?** Yes, ICFG would need to provide approval.
- 36. If the Foursquare board involvement is required to sell our property, what involvement will the Foursquare board have in this?** As long as the property proceeds are being used for other property or held in an FFSLF restricted account, there would be minimal involvement.
- 37. Will the reversionary clause affect our ability to lease our property?** The local church will be able to lease property without any involvement by the Foursquare board.
- 38. When we purchase new property, what involvement will the Foursquare board have in that process?** The only involvement will be the approval to use the restricted funds if applicable.
- 39. What triggers a reversionary clause?** A reversionary clause is triggered if the covenant agreement is terminated or the expiration of the reversionary clause time limit.
- 40. What happens when a reversionary clause is triggered?** The local church property upon separation from Foursquare will revert back to the Foursquare denomination for furtherance of the Foursquare mission.
- 41. How long does a reversionary clause last?** The reversionary clause is intended to continue into perpetuity, however, there may be legal time limits on a reversionary clause depending on state laws.

## Property Transactions and Insurance Policies

### **42. Does The Foursquare Church have property transaction bylaws that a Covenant church must follow?**

Yes, the Foursquare bylaws define the process for a Covenant church to follow when entering into a property transaction. The Covenant church agrees to this process by virtue of the covenant agreement. Covenant church property transactions differ from Charter church property transactions in that they do not require ICFG board approval and that title to property is held in the name of the local church corporation rather than in the name of ICFG. The existence of a reversionary clause on the property may cause outside third parties (e.g., lenders) to seek ICFG approval. Additionally, a Covenant church is required to maintain active insurance policies in accordance with Foursquare's prescribed minimum coverage limits.

### **43. Can a Covenant church participate in the Foursquare insurance program? A**

Charter church with Foursquare insurance may continue to participate in the Foursquare insurance program as a Covenant church. If a Charter church with non-Foursquare insurance wants to rejoin the Foursquare insurance program, please contact the Insurance Department to discuss.

### **44. What is required when obtaining insurance from an outside insurance company?**

The insurance requirements are the same for all Foursquare churches. This includes required coverage for property, liability, workers' compensation, sexual misconduct and officers'/directors' insurance. The Foursquare Insurance Department Web page outlines the required minimum coverages in the [Insurance Service Policy Notebook](#) under the section, "Information for Securing Insurance with a Carrier other than through Foursquare Insurance Services." The following insurance carriers are known to provide coverage that satisfies the listed requirements:

- Brotherhood Mutual Insurance Co.
- Guide One Insurance Co.
- Church Mutual Insurance Co.
- Farmers Insurance Co.

When making contact with these companies, church leaders should ask for an agent referral in their area.

## Transferring Non-real estate Assets, Responsibilities and Contractual Liabilities

### **45. How are church employees affected when a church transitions from a Charter church to a Covenant church?**

The church will be forming a new entity, with a new EIN, and transferring its assets and liabilities to a newly created corporation. Although the church employees will continue, their employment with the Charter church, from a technical standpoint, will terminate and will begin anew with the Covenant church. This will require setting up new payroll process. Individual states govern the transition of employees from one entity to another. This means that employees must be paid out according to both local

state employment laws and the termination policy in the church's employee handbook. If there is no employee handbook, this must be done according to the established practice of the church. For example, unpaid accrued time off may need to be "cashed out" and paid to the employees. Some states may allow the employees and their benefits to transition to the Covenant church operations without requiring the church to "cash out" their benefits. For more information on state requirements, please contact the district office. The church will also need to transition its employee health benefit plans from the existing church name and EIN to the newly formed corporation and EIN. The church's health benefits provider can provide pertinent information.

**46. If a Charter church has a time left on a facility lease agreement, will that be lost if the church transitions to Covenant status?**

In order for the church to retain the lease, it must request that the lessor(s) reassign the lease to the Covenant church corporation. If problems arise with that process, the district office can provide assistance.

**47. How are liabilities transferred from a Charter church to the new Covenant church corporation?**

The Charter church must satisfy all liabilities during the transition process. The church must close all revolving credit accounts in the name of the Charter church; it may choose to open new accounts in the name and under the EIN of the Covenant church. All liabilities, contracts, health insurance plans, subscriptions, etc. should be transferred into the name and under the EIN of the Covenant church.

**48. What happens to restricted donations that have been given to the Charter church?**

Charter churches that have received restricted donations must transfer those funds to be used for the restricted purpose. The district office will provide specific instructions.

**49. How are non-real estate assets transferred from a Charter church to a Covenant church?**

The transfer of assets is a legal transfer from one nonprofit entity to another. The assets should transfer within 60 days from the subordinate unit of ICFG (Charter church) to a separate nonprofit corporation (Covenant church). The church must close all bank accounts (checking, savings, money market, investment, electronic giving merchant accounts, etc.) in the name of the Charter church and open accounts in the name of the Covenant church. This transfer will be documented through a donation letter prepared by the district office.

**50. Can the balances of IFLF savings accounts be transferred to another bank after the transition to Covenant status?**

Yes, upon board approval of the Charter to Covenant transition, the IFLF department will issue a check to the Covenant church corporation for the balance of all IFLF savings accounts that are not property-restricted funds. This money can be deposited into any bank account in the name of the Covenant church; however, any donor-imposed restrictions should still be honored. Property restricted funds will be handled in partnership between ICFG properties department and the Covenant church.



Property Restricted funds will be transferred to FFSLF to be held in a certificate of deposit and available for withdrawal if used for a property-restricted purpose.

## **Transitioning Operational Systems**

*[For Questions 51 – 56 Church leaders may want to consider scheduling the transition to go into effect at the beginning of a new calendar year to minimize the administrative burden.]*

**51. If a Charter church transitions to Covenant status during a calendar year, will the church need to prepare two separate charitable contribution statements for donors?**

Yes, at the end of each calendar year, donor contributions must be substantiated by the Charter church or the Covenant church that received the donations. If donors made contributions during the year to both the Charter church and the Covenant church, separate contribution statements should be issued to reflect the contributions made to each distinct entity.

**52. Does a church need to start new data files in the accounting software and church management systems for the new church corporation?**

Yes, the church's previous books and membership records are under the Foursquare Charter church structure; therefore, a Covenant church will need to establish a new set of records for the new corporation as of the date of implementation. It is not permissible to simply change the name and continue using the same data files for accounting and membership records. It is advisable for the church to export the donor and vendor addresses or databases from its existing software into an empty file for use by the new corporation.

**53. Will the church encounter any other administrative responsibilities during and after the transition to the Covenant church model?**

ICFG will notify the IRS that the Charter church has been closed, so the EIN will no longer be valid. The Covenant church must ensure that all contracts, documents, utilities, vendor relationships, etc. reflect the name and EIN of the Covenant church and not the Charter church.

**54. Since the Charter church entity will technically close, do church records need to be sent to the district office?**

No, since both entities are Foursquare churches, the church should keep the Charter church records according to the [Foursquare record retention policy](#).

**55. How do I know if our church is ready to transition to the Covenant model?**

While there are many benefits to becoming a Covenant church, this structure carries more responsibility as a separate nonprofit corporation than does a Charter church of ICFG. Examples include the following:

- a. Covenant churches are responsible for forming and maintaining nonprofit corporations according to the requirements of their state. These requirements

may include annual filings, state registration, conducting board meetings and keeping minutes.

- b. While the Foursquare Properties Department is available for consultation to Covenant churches, responsibility for due diligence remains with the leadership of the local church.
- c. Covenant churches are responsible for preparing their own financial statements and will not be allowed to use the financial statements of ICFG for underwriting purposes.

The church should consider their current and future administrative capacity to assume these additional responsibilities.

**56. How much greater is the administrative load for a Covenant church than for a Charter church?**

The majority of the administrative load associated with the transition will occur within the first one or two years. After the church has operated for a full calendar year as a Covenant church, the additional administrative responsibilities associated with the transition will significantly decrease. Thereafter, the routine responsibilities of managing the Covenant church will be greater than those of a Charter church as explained in the previous question.

## **Transitioning Employees and Payroll**

**57. What are the requirements for preparing the payroll, W-2s and housing letters in the year we transition?**

If the transition happens on any date other than January 1, both the Charter church and the Covenant church must file payroll returns under the respective names and federal/state employer number(s) of each entity. State filing requirements may vary. In most cases, employees will receive a W-2 and/or [housing allowance letter](#) from each entity at the end of the year.

**58. What other payroll administration duties will a Covenant church be responsible for as part of the transition?**

Since all employees of the Covenant church are technically new hires, they must complete new W-4s and I-9s for their employment in the Covenant church corporation. Additionally, the council of the Covenant church will need to [designate the housing allowance](#) of the ministers in their council minutes before the Covenant church makes the first payment.

**59. Is a covenant church eligible to participate in the Foursquare retirement plan?**

Yes.

**60. What benefit is there for a church to participate in the Foursquare retirement plan?**

There are many benefits to participating in the Foursquare retirement plan. Due to the significant assets held in the fund corpus, there is a lower expense structure that is passed on to each participant. Also, the Foursquare retirement plan has a skilled investment committee to steward the plan, along with a retirement department

available to answer questions for plan participants. Finally, the Foursquare retirement program credits an amount based on the church's Foursquare Extension Tithe, non-earmarked Foursquare Missions International offerings, and offerings to Foursquare Missions Press as contributions for employees of the church. The church council determines which of its employees is eligible to receive this contribution and in what amount.

**61. Will employees need to cash out their 403(b) plan with the Foursquare retirement department when transitioning from Charter to Covenant?**

The employees of a Covenant church are still eligible to participate in the Foursquare retirement program. If their employment continues with the Covenant church, the 403(b) plan will remain the same, and no additional steps will be needed.

## **Covenant Churches with Schools, Preschools or Daycares**

**62. How will schools, preschools and daycares be affected administratively by the transition from a Charter church to a Covenant church?**

The same administrative responsibilities outlined in this document also apply to the school, preschool or daycare. Since these entities are usually registered with and regulated by the state, there may be some additional steps. The Foursquare Corporate Secretaries Office can provide the additional steps required as part of this transition.

**63. If a Charter church has a school or opens a school after going Covenant, what steps must the church take for the school to maintain their 501(c)(3) status? The Foursquare Corporate Secretary's office must be alerted when a Covenant church opens a school as they report yearly to the IRS on behalf of all our Foursquare schools as they are under ICFG's 501c3. Foursquare schools and daycares must publish a notice of its racially nondiscriminatory policy in a general circulation newspaper or the school's website homepage that serves all racial segments of the community. Failure to annually certify compliance and comply with the requirements may be treated as evidence of racial discrimination. Religious schools have lost their tax exemption because of racial discrimination. The Corporate Secretaries office will provide instructions on when and how to provide the information necessary for the IRS report.**

**64. In cases where the school, preschool or daycare operates under a separate corporation outside of Foursquare governance, will these entities be required to adhere to the ICFG policies and procedures for Foursquare schools, preschools, or daycares when the church becomes a Covenant church?**

No, if the school, preschool or daycare is operated by a corporation that is outside of a Covenant church and outside of Foursquare governance it would continue as a separate organization. It would not be subject to the ICFG requirements or oversight and would not be included as part of the covenant agreement.