



THE FOURSQUARE CHURCH

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 International Church of the Foursquare Gospel (ICFG) has provided documents to simplify, outline and coach a church through these processes.

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 ICFG bylaws) for ecclesiastical, polity, and relational purposes. A Covenant church will maintain a separate legal corporation, choose its corporate directors and officers, manage its finances, and have significant control over property held in the local church's name. The significant difference between Foursquare Charter and Covenant churches relates to the ICFG board's involvement in local church property's real estate transactions. According to the Covenant Agreement, Covenant churches agree to operate according to all ICFG policies and procedures.
- 2. What services will Covenant Churches receive from ICFG?** A Covenant Church will be entitled to virtually all of the benefits of a Charter Church, such as invitations to national and district events, Foursquare retirement services, Foursquare insurance, loans with Foursquare Financial Solutions (FFS), educational programs, resources and property consultation.
- 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 involving the ICFG board. Additionally, becoming a Covenant church offers a solution to the debanking issues currently affecting our Charter churches, making it increasingly difficult to maintain relationships with large and medium-sized banks.
- 4. What is debanking?** Debanking refers to the practice of banks closing accounts or refusing services to organizations based on their political or religious views. This has become a significant issue for many religious organizations, including Charter churches. For example, some banks have abruptly closed accounts of churches and religious non-profits without providing clear reasons.
- 5. Are Foursquare Covenant Churches treated the same as Charter Churches that do not maintain a separate legal entity?** Yes. A Covenant Church will be treated similarly and with expectations like those that ICFG has of its local churches under its corporate structure.
- 6. Does a Covenant Church participate in the extension tithe to ICFG?** Yes. By signing the Covenant Agreement, a Covenant Church corporation agrees to



THE FOURSQUARE CHURCH

adopt the ICFG bylaws, declaration of faith and operational policies as its own. These policies include full participation in the Foursquare extension tithe.

7. **Is there a provision that allows a Covenant Church to end the covenant relationship and leave ICFG?** Yes. The Covenant Agreement outlines the process for ending a covenant relationship, which includes a $\frac{3}{4}$ supermajority vote of the congregation. ICFG is committed to handling disputes through a prayerful and biblically based process.
8. **Can ICFG end the covenant relationship with a Covenant Church?** Yes. There may be rare instances when the ICFG board determines to end a covenant relationship. ICFG will follow the termination process as outlined in the Covenant Agreement through a prayerful and biblically based process.
9. **How does a Charter church begin the Covenant process?** The church begins by completing the inquiry form.

Entity Formation and Incorporation

10. **Must a church incorporate 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.
11. **Should a Foursquare Charter church form a nonprofit corporation before beginning the Covenant process?** No. Incorporation should not begin until the church has been invited by Foursquare to work with StartChurch as part of the Covenant process.
12. **Are preferred vendors available to help a church incorporate?** Yes. Special pricing has been arranged with www.StartCHURCH.com (1-770-638-3444), a company specializing in church incorporation.
 - a. StartCHURCH.com understands the ICFG structure and Covenant Agreement and will prepare articles of incorporation and bylaws that the Foursquare legal team has vetted.
 - 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.
13. **How do churches obtain special pricing with StartCHURCH.com?** As part of the Charter to Covenant process, the church will receive an authorization letter to begin working with StartChurch. This letter initiates the incorporation process and ensures the church receives the Foursquare discounted rate. StartCHURCH.com has associates who speak English and Spanish.
14. **Is a Covenant Church applicant required to use StartCHURCH to form a local church corporation?** No. A church may use the services of a local attorney to incorporate within its state; however, ICFG recommends using StartCHURCH. ICFG has worked closely with StartCHURCH on developing the articles of incorporation and bylaws, making them the most cost-effective option.



THE FOURSQUARE CHURCH

If the church chooses to use an attorney, please have them call the Foursquare legal team before forming the corporation.

15. **Is a Covenant Church required to use StartCHURCH or an attorney to form a corporation?** Yes.
16. **In addition to forming a nonprofit corporation, does a church need to apply for 501(c)(3) federal exempt status to become a Foursquare Covenant Church?** A church may apply for its individual 501(c)(3) tax-exempt status with the IRS, but it is not required. The church can instead be included under ICFG's group exemption, which is an easy and cost-free process. Once the board approves the church, it will automatically be included in ICFG's group exemption unless it opts for its individual 501(c)(3) status.
17. **Is there an advantage to obtaining our individual 501(c)(3) tax-exempt status with the IRS?** There is no particular advantage to obtaining individual 501(c)(3) tax-exempt status for your church, as the church is eligible to participate in the ICFG group exemption. However, it's important to note that the IRS does not issue individual 501(c)(3) tax-exempt letters to churches under a group exemption. Instead, ICFG notifies the IRS of the churches included and provides a confirmation letter to those churches. The Corporate Secretary's office can provide assistance and further information about the group exemption if any issues arise.
18. **Are there any additional services ICFG requires the church to purchase from StartChurch?** Beyond the incorporation services, the church is not required to purchase any additional services from StartChurch. However, there are required state filings not included in the StartChurch price, such as charity registrations or state tax exemptions. These vary by state, and not all states require them. If the church does not use StartChurch to complete these filings, the church is responsible for completing them on its own.
19. **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 except to comply with local state law. For the local church to initiate or terminate the Covenant Agreement, ratification by a $\frac{3}{4}$ supermajority of the congregants and attestation through the signatures of the senior pastor and church board members are required. The ICFG board also maintains the right to terminate the Covenant Agreement.
20. **Once the Covenant Agreement is finalized, does the Covenant Church need to continue to maintain a separate corporate existence?** Yes. The church must always continue to maintain a separate corporation.
21. **After the Covenant Church corporation is formed, are there 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,



THE FOURSQUARE CHURCH

and conduct proper board meetings, which must be documented with meeting minutes.

22. **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 for which differ from state to state, it may be considered delinquent, void, suspended, or dissolved. The Covenant Church may lose the right to use the name registered with the state, may incur fines and penalties, and the state could administratively dissolve the corporation. The Covenant Church agreement requires the church to maintain good standing with the state. If the church does not maintain this standing, this inaction could result in the removal of the senior pastor.
23. **Can a church retain its legal name when transitioning from Charter to Covenant?** A Charter Church may continue to use its legal name when transitioning to a Covenant Church; however, a slight change to the name, such as adding the state's abbreviation, is required for acceptance by the IRS.
24. **If a Covenant Church wishes to register a slogan name (fictitious business name, trade name, doing business as, etc.), who registers that name with the appropriate state or local municipality?** A Covenant Church would complete a slogan name application and submit it to the district office for approval. Once approved by the district office, the church would apply for the slogan name to the state office responsible for overseeing trade names, typically the Secretary of State or a similar agency, though this varies by state.
25. **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 local church corporation's name will be the Covenant Church's legal name. The church will be identified in The Hub with its legal Covenant Church name, and national and district communications will be addressed to the Covenant Church's legal name.
26. **Does ICFG have any requirements for a Covenant Church regarding selecting the corporation's name?** No. The church may choose its name. The church may use the name "Foursquare" in its name. 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, the church should check with the state to see if the desired name is available.
27. **Will the church council begin to operate as a board after a church transitions from charter to covenant status?** The church must maintain a church board to maintain the corporation and satisfy local and state requirements. For all other matters, according to the Covenant Agreement and ICFG bylaws, the church board will be considered the church council and operate within the powers and responsibilities outlined in the ICFG bylaws.



THE FOURSQUARE CHURCH

Real Property Assets – General

28. **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 it is established and approved by the ICFG board.
29. **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.
30. **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 ICFG and will therefore need to be transferred to the Covenant Church corporation. The church must obtain a mortgage in the name of the Covenant Church corporation using its financials. The properties team is available to answer questions regarding this process.
31. **May the church obtain a loan with Foursquare Financial Solutions (FFS)?** Yes. Foursquare Financial Solutions is available to offer mortgages to Covenant Churches. The FFS website is www.4sqfs.org.
32. **What should the church do to prepare for this transition?** As part of the Covenant process, the church will meet with the properties team to discuss its specific property-related questions and help prepare for the transition.
33. **Will there be costs associated with obtaining a new loan or transferring property to the Covenant Church?** Yes. Churches should expect standard state-specific closing costs, filing fees, and title-related expenses.
34. **Will there be a title company to assist with the property transfer?** Yes. Foursquare has a national title company that can support property transfers in all 50 states.

Real Property – Legacy Assets

35. **What are Legacy Assets?** Legacy Assets are all real property transferred by ICFG to a Covenant Church with a reversionary clause.
36. **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 to ICFG.
37. **What real property is subject to a reversionary clause as part of a Charter Church transitioning to a Covenant Church?** All real property that ICFG transfers to a Covenant Church is subject to a reversionary clause.
38. **Why was a reversionary clause instituted?** ICFG's long-standing history has been a model of shared stewardship. Historically, this was done through a shared corporation utilized by all local churches and denominational overseers. Only recently have separate corporations been introduced into the denomination. If a church decides to leave ICFG, the history of ICFG has been that real estate



THE FOURSQUARE CHURCH

or real estate proceeds stay within ICFG for redeployment to another congregation(s) to further the Foursquare mission.

39. **Will the reversionary clause affect our ability to lease our property?** No. The local church can lease property without the ICFG board's involvement. However, by signing the Covenant Church Agreement, the church has agreed to follow the Foursquare bylaws, which include provisions setting forth a process for Covenant Church property transactions.
40. **How long does a reversionary clause last?** Although the clause is intended to continue into perpetuity, depending on state laws, it may have legal time limits.
41. **If the church desires to sell legacy property, will a reversionary clause require ICFG board involvement?** If the property has a reversionary clause, it will require ICFG board involvement.
42. **If legacy property is sold, who will hold the proceeds?** The proceeds will be held in an interest-bearing FFSLF account for future property purchases by the church.
43. **If the church wishes to purchase new property with these funds, how will it access them?** The church will contact the properties team to release the funds.
44. **If a new property is purchased using proceeds from a property with a reversionary clause, will the new property also be subject to a reversionary clause?** Yes. If the new property is acquired using proceeds from a property with a reversionary clause, a reversionary instrument will be placed on the new property.
45. **What triggers a reversionary clause?** A reversionary clause is triggered by the termination of the Covenant Agreement or the expiration of the reversionary clause time limit.
46. **What happens when a reversionary clause is triggered?** Upon separation from ICFG, the local church property will revert to ICFG to further the Foursquare mission.

Real Property – Non-Legacy Assets

47. **What are real property non-legacy assets?** These are real property assets purchased after becoming a Covenant Church without a reversionary clause.
48. **Will non-legacy assets transfer to ICFG if either party terminates the Covenant agreement?** No.
49. **If the church desires to sell non-legacy property, will the ICFG board be involved?** No. However, by signing the Covenant Church Agreement, the church has agreed to follow the Foursquare bylaws, which include provisions setting forth a process for Covenant Church property transactions.
50. **If the church sells non-legacy asset property and doesn't buy property right away, will the church hold the funds?** Yes.



THE FOURSQUARE CHURCH

Leasing or Lease-Out Property Transactions

51. **Does ICFG have property transaction bylaws that a Covenant Church must follow for leasing or leasing out property?** Yes. The ICFG bylaws define the Covenant Church's process for entering a property transaction, and the Covenant Church agrees to this process according to the Covenant Agreement.
52. **If a Charter Church has time left on a facility lease agreement, will that be lost if the church transitions to Covenant status?** For the church to retain the lease, it must request that the lessor reassign the lease to the Covenant Church corporation. This will be discussed during the church's individual property meeting.

Insurance Policies

53. **Can a Covenant Church participate in the ICFG insurance program?** A Charter Church with ICFG insurance may continue participating in the ICFG insurance program as a Covenant Church. If a Charter Church with non-Foursquare insurance wants to rejoin the ICFG insurance program, it may do so.
54. **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' and directors' insurance. The ICFG Insurance Program Web page outlines the required minimum coverages in the Insurance Service Policy Notebook under "Information for Securing Insurance with a Carrier other than through Foursquare Insurance Services."

Transferring Non-Real Estate Assets, Responsibilities and Contractual Liabilities

55. **How are church employees affected when a church transitions from a Charter Church to a Covenant Church?** The church will form a new entity with a new EIN and transfer 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 begin anew with the Covenant Church. This will require setting up a 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 local and 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. The church must also 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.



THE FOURSQUARE CHURCH

- 56. 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 and may choose to open new accounts in the name and under the EIN of the Covenant Church. All liabilities, contracts, health insurance plans, subscriptions, and similar obligations should be transferred under the name and EIN of the Covenant Church.
- 57. What happens to restricted donations given to the Charter Church?** Charter Churches with restricted funds must transfer those funds to the Covenant Church with the same restriction.
- 58. How are non-real estate assets transferred from Charter Churches to Covenant Churches?** The transfer of assets is a legal transfer from one nonprofit entity to another. The assets should be transferred within 60 days of the effective start date on the Covenant Church application from the subordinate unit of ICFG, the Charter Church, to a separate nonprofit corporation, the Covenant Church. The church must close all bank accounts in the name of the Charter Church and open accounts in the name of the Covenant Church. This transfer will be documented through the Covenant process.
- 59. 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 team will issue a check to the Covenant Church corporation for the balance of all IFLF savings accounts that are not property-restricted funds or transfer those funds to an FFS account per the instructions of the church during the Covenant process. 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 the ICFG properties team 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

- 60. Is there a recommended effective date for operating as a Covenant church?** Yes. Churches are strongly encouraged to use a January 1 effective date to help minimize administrative burden.
- 61. If a Charter Church transitions to Covenant status during a calendar year rather than choosing a January 1 effective date, 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 or Covenant Church that received them. Separate contribution statements should be issued to reflect the contributions made to each distinct entity.



THE FOURSQUARE CHURCH

62. **Does a church need to start new data files in the new church corporation's accounting software and management systems?** Yes. The church's previous books and membership records are under the Foursquare Charter Church employer identification number (EIN); therefore, a Covenant Church must establish a new set of records for the new corporation under that EIN as of the effective date. Changing the name and using the same data files for accounting and membership records is not permissible. The church should export the donor, and vendor addresses or databases from its existing software into an empty file for use by the new corporation.
63. **Will the church encounter other administrative responsibilities during and after transitioning 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, and similar records reflect the name and EIN of the Covenant Church and not the Charter Church.
64. **Since the Charter Church entity will technically close, should church records 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.
65. **What additional administrative responsibilities should be anticipated when operating as a Covenant Church?** While there are many benefits to becoming a Covenant Church, there is some administrative work in maintaining the corporation:
- Covenant Churches are responsible for forming and maintaining nonprofit corporations according to their state's requirements. These requirements may include annual filings, state registration, conducting board meetings, and keeping minutes.
 - While the ICFG Properties Team is available to Covenant Churches for property consultation, the local church leadership remains responsible for due diligence.
 - Covenant Churches are responsible for preparing their financial statements and may not use the financial statements of ICFG for underwriting purposes.
66. **How extensive is the administrative load for a Covenant Church compared to a Charter Church?** Most of the administrative effort associated with the transition will occur within the first one or two years. After the church has operated as a Covenant Church for a full calendar year, the additional administrative responsibilities associated with the transition will significantly decrease. The previous question addresses the additional responsibilities the church will assume.



THE FOURSQUARE CHURCH

Transitioning Employees and Payroll

67. **What are the W-2 and housing allowance requirements in the year a church transitions?** If the transition occurs on January 1, the Charter church will issue the prior year's W-2s and housing allowance letters. If the transition occurs on any other date, both the Charter church and the Covenant church must file payroll returns under their respective names and EINs, and employees will receive a W-2 and/or housing allowance letter from each entity. State requirements may vary. Be sure to mark the final payroll quarter for the Charter church as a final return on IRS Form 941.
68. **What other payroll administration duties will the Covenant Church be responsible for during the transition?** Since all Covenant Church employees are technically new hires, they must complete new W-4s and I-9s for employment in the Covenant Church corporation and file the new hire reporting form with the state. Additionally, the Covenant Church council must designate the ministers' housing allowance in its council minutes before the Covenant Church makes the first payment.
69. **Is a Covenant Church eligible to participate in the Foursquare retirement plan?** Yes.
70. **What benefit is there for a church to participate in the ICFG retirement plan?** There are many benefits to participating in the ICFG retirement plan. Due to the significant assets held in the fund corpus, a lower expense structure is passed on to each participant. Also, the ICFG retirement plan has a skilled investment committee to steward the plan, and a retirement team available to answer questions from plan participants. Finally, the ICFG retirement program credits an amount based on the church's Foursquare extension tithe as contributions to the church, subject to certain requirements. The church council determines which employees are eligible to receive this contribution and in what amount.
71. **Will employees need to cash out their 403(b) plan with the ICFG retirement team when transitioning from Charter to Covenant?** Covenant Church employees 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

72. **How will schools, preschools and daycares be affected administratively by the transition from a Charter to a Covenant Church?** The same administrative responsibilities outlined in this document for churches also apply to the school, preschool or daycare associated with the Charter Church. Since these school ministries must be registered with and regulated by the state, you will need to contact the state regulatory agency, make a transition with the agency, and



THE FOURSQUARE CHURCH

follow its additional steps. The Foursquare Corporate Secretary's Office can assist with this transition.

73. Are schools, preschools or daycares under a Covenant Church corporation subject to the Foursquare bylaws, policies and procedures? Yes.

Foursquare schools, daycares and preschools are part of Foursquare and are under the authority of Foursquare churches and thus included in the Covenant Agreement and must follow the Foursquare bylaws, policies and procedures.

74. Are there any additional steps that must be taken to maintain a school, daycare or preschool's inclusion in Foursquare's 501(c)(3) tax-exempt status with the IRS? Foursquare schools and daycares must continue to publish a notice of their racially nondiscriminatory policy in a general-circulation newspaper or on the school's website homepage that serves all racial segments of the community. Failure to certify compliance annually and comply with the requirements may be treated as evidence of racial discrimination. The Foursquare Corporate Secretary's office will continue to provide instructions on when and how to provide the information necessary for the IRS report.

75. If a church opens a school under its Covenant Church corporation after becoming Covenant, what steps must the church take for the school, daycare or preschool to maintain its inclusion in Foursquare's group 501(c)(3) tax exemption with the IRS? The Foursquare Corporate Secretary's office must be alerted before a Covenant Church opens a school, as the Corporate Secretary's office reports yearly to the IRS on behalf of all Foursquare schools.

76. If after becoming Covenant, a church opens a school, preschool or daycare under a separate corporation outside of the Covenant Church corporation and Foursquare governance, and with no expectation of using Foursquare's 501(c)(3) tax-exempt status, will that corporation be required to adhere to Foursquare policies and procedures? No. If the school, preschool or daycare is operated by a separate corporation or LLC outside of a Covenant Church corporation, and thus is outside Foursquare's governance, that school corporation would be a separate organization entirely. It would not come under Foursquare's group 501(c)(3) tax exemption with the IRS, would not be subject to Foursquare requirements or oversight, and would not be included as part of the Covenant Agreement.

Support and Resources

77. What kind of support can I expect during this process? You will never walk through this process alone. The Charter to Covenant process balances personal interaction with timely automation, so you always know what comes next without feeling overwhelmed. It begins with an orientation call to walk you through the process, followed by a live Q&A. You will also have a dedicated meeting with our Properties Team as part of the journey. Along the way, you will receive



THE FOURSQUARE CHURCH

automated emails outlining your next steps, along with helpful videos that explain each step in more detail. These are designed to give you the right information at the right time.

78. **Will I have someone to walk alongside me through the process?** Yes. You will be placed in a cohort with other churches in the same phase of the process. Each cohort is led by a coach who specializes in that area and will serve as a resource to you throughout the journey. You are always welcome to reach out with questions at any time.
79. **How can I track where I am in the process?** The Hub will be your go-to resource throughout the transition. There, you can see which step you are on, who is responsible for completing it, and access helpful documents to keep you informed about the process from start to finish.