



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 without requiring oversight or approval by the Foursquare board of directors. 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. The Covenant church model was exclusively designed to provide an option for churches that want to be part of Foursquare and maintain control over decisions regarding local church property.

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, educational programs, resources and property consultation. The [church comparison chart](#) is available to review the detailed list of services and benefits provided to each category. For structural reasons, the only benefits not available to a Covenant church are Foursquare insurance products and Foursquare loans. However, a Covenant church may access the Foursquare insurance, properties and loan departments for consultation regarding its property needs.

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 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. 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 the senior pastor and leadership team meet with the district supervisor and decide to move forward with the application, 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?

No, that process should not be initiated until the district supervisor and/or his or her designee has a discussion with the senior pastor and leadership team to discuss the option of changing the church's status.

10. Does a church need to obtain ICFG board approval to initiate the process of forming a local church corporation?

No, after pastor and leadership team of a church meet with the district supervisor and agree to move forward with the application process, the church may begin the process of forming a new corporation.

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

Yes, special pricing has been arranged with 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 pricing of \$699 (plus state fees) 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. Can Covenant churches apply for a separate 501(c)(3) tax-exemption with the IRS?

Yes, while sharing ICFG’s group tax exemption is an option, a Covenant church can opt to apply for a separate exemption ([see IRS FAQ’s info here](#)). There is an application fee and up to 12-month processing time. It is advisable to seek professional help to prepare your application. These services are also available from www.startchurch.com (1-844-549-4506), for those who are interested.

17. 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.

18. 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.

19. 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.

20. 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.

21. 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.

22. 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.

23. 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.

24. Does The Foursquare Church have any requirements for a Covenant church regarding the selection of the corporation 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.

25. 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.

Property Transactions and Insurance Policies

26. 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. Additionally, a Covenant church is required to maintain active insurance policies in accordance with Foursquare’s prescribed minimum coverage limits.

27. Can a Covenant church participate in the Foursquare insurance program? While the Foursquare Insurance Department is available to provide consultation to a Covenant church, the Foursquare insurance program is available to subordinate units of ICFG only. Therefore, the Covenant church must obtain insurance from an outside insurance company.

28. 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. (260) 482-8668
- Guide One Insurance Co. (877) 448-4331

- Church Mutual Insurance Co. (800) 554-2642
- Farmers Insurance Co. (800) 493-4917

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

Transferring Non-legacy Assets, Responsibilities and Contractual Liabilities

29. 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.

30. 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.

31. 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.

32. 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.

33. How are 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.

34. 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. 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.

Transitioning Operational Systems

[For Questions 41 – 46 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.]

35. 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.

36. 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.

37. 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.

38. 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](#).

39. 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.

40. 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

41. 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.

42. 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.

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

Yes.

44. 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.

45. 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

46. Will a school, preschool or daycare that is operated by a Charter church be required to adhere to the ICFG policies and procedures after the church becomes a Covenant church?

By virtue of the covenant agreement, the Covenant church corporation agrees to follow the Foursquare bylaws; this includes ICFG oversight of schools, preschools or daycares. The National Church Office oversees the compliance to federal regulations and record keeping requirements of Foursquare schools and daycares. These programs must report annually on their adherence to the Foursquare standards for school, preschool or daycare operations. The school, preschool or daycare must also meet these requirements to continue as an exempt organization under ICFG's 501(c) tax exempt status.

47. 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 National Church Office Education Department can provide the additional steps required as part of this transition.

48. In cases where the school, preschool or daycare operates under a separate corporation, 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, the school, preschool or daycare 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.