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March 15, 2023

Charter School Board  
Believe Schools, Inc.  
2540 N Capitol Ave  
Indianapolis, IN 46208

We have reviewed the audit report of Believe Schools, Inc. which was opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2021 to June 30, 2022. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Believe Schools, Inc. as of June 30, 2022 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Donovan CPAs prepared the audit report in accordance with guidelines established by the State Board of Accounts.

In addition to the report presented herein, a Supplemental Audit Report for Believe Schools, Inc. was prepared in accordance with the guidelines established by the State Board of Accounts.

The report is filed with this letter in our office as a matter of public record.

A handwritten signature in cursive script that reads "Tammy R. White".

Tammy R. White, CPA  
Deputy State Examiner

**BELIEVE SCHOOLS, INC. AND AFFILIATE**

CONSOLIDATED FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the Years Ended June 30, 2022 and 2021



## TABLE OF CONTENTS

	<b>Page</b>
<b>INDEPENDENT AUDITORS' REPORT .....</b>	<b>1 - 2</b>
 <b>CONSOLIDATED FINANCIAL STATEMENTS</b>	
Consolidated Statements of Financial Position.....	3
Consolidated Statements of Activities and Change in Net Assets .....	4
Consolidated Statements of Functional Expenses .....	5
Consolidated Statements of Cash Flows.....	6
Notes to the Consolidated Financial Statements.....	7 - 12
 <b>OTHER REPORT .....</b>	 <b>13</b>



## *Independent Auditors' Report*

The Board of Directors  
Believe Schools, Inc.

### **Opinion**

We have audited the accompanying consolidated financial statements of Believe Schools, Inc. and Affiliate which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities and change in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Believe Schools, Inc. and Affiliate as of June 30, 2022 and 2021, and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We are required to be independent of Believe Schools, Inc. and Affiliate and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Believe Schools, Inc. and Affiliate's ability to continue as a going concern for one year after the date the consolidated financial statements are issued.

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## **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Believe Schools, Inc. and Affiliate's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Believe Schools, Inc. and Affiliate's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audits.

DONOVAN



Indianapolis, Indiana  
December 13, 2022

**BELIEVE SCHOOLS, INC. AND AFFILIATE**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 472,522	\$ 527,484
Grants receivable	203,127	76,254
Prepaid expenses	<u>9,258</u>	<u>19,125</u>
<i>Total current assets</i>	<u>684,907</u>	<u>622,863</u>
<b>PROPERTY AND EQUIPMENT</b>		
Building and improvements	2,999,680	22,000
Equipment and technology	37,487	-
Vehicles	70,345	48,195
Less: accumulated depreciation	<u>(84,259)</u>	<u>(6,835)</u>
<i>Property and equipment, net</i>	<u>3,023,253</u>	<u>63,360</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 3,708,160</u></u>	<u><u>\$ 686,223</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	<u>\$ 195,094</u>	<u>\$ 84,785</u>
<b>LONG-TERM LIABILITIES</b>		
Notes payable	3,003,703	-
Less: unamortized debt issuance costs	(91,889)	-
Deferred rent payable	<u>-</u>	<u>68,108</u>
<i>Total long-term liabilities, net of unamortized debt issuance costs</i>	<u>2,911,814</u>	<u>68,108</u>
<i>Total liabilities</i>	3,106,908	152,893
<b>NET ASSETS, WITHOUT DONOR RESTRICTIONS</b>	<u>601,252</u>	<u>533,330</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 3,708,160</u></u>	<u><u>\$ 686,223</u></u>

See independent auditors' report and accompanying notes to the consolidated financial statements

**BELIEVE SCHOOLS, INC. AND AFFILIATE**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS**  
**For the Years Ended June 30, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
<b>REVENUE AND SUPPORT</b>		
State education support	\$ 1,015,769	\$ 427,704
Federal and state grant revenue	1,849,829	1,316,879
Interest income	155	348
Other income	4,465	4,663
	<u>2,870,218</u>	<u>1,749,594</u>
<i>Total revenue and support</i>		
<b>EXPENSES</b>		
Program services	2,184,416	1,299,640
Management and general	617,880	405,101
	<u>2,802,296</u>	<u>1,704,741</u>
<i>Total expenses</i>		
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	67,922	44,853
<b>PAYCHECK PROTECTION PROGRAM LOAN FORGIVENESS INCOME</b>	<u>-</u>	<u>12,474</u>
<b>CHANGE IN NET ASSETS</b>	67,922	57,327
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>533,330</u>	<u>476,003</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 601,252</u>	<u>\$ 533,330</u>

See independent auditors' report and accompanying notes to the consolidated financial statements

**BELIEVE SCHOOLS, INC. AND AFFILIATE**  
**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES**  
**For the Years Ended June 30, 2022 and 2021**

	<u>2022</u>			<u>2021</u>		
	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries and wages	\$ 787,838	\$ 337,011	\$ 1,124,849	\$ 427,441	\$ 261,700	\$ 689,141
Professional services	225,524	159,509	385,033	137,946	55,459	193,405
Classroom and office supplies	207,212	23,866	231,078	97,531	26,123	123,654
Occupancy	177,818	-	177,818	258,526	-	258,526
Employee benefits	93,203	55,399	148,602	54,618	34,963	89,581
Equipment	140,034	-	140,034	147,608	-	147,608
Food costs	115,334	-	115,334	40,848	-	40,848
Information technology	88,098	4,534	92,632	49,100	625	49,725
Depreciation	77,424	-	77,424	6,835	-	6,835
Repairs and maintenance	70,885	-	70,885	31,122	-	31,122
Interest	69,694	-	69,694	-	-	-
Transportation	58,185	-	58,185	20,183	-	20,183
Travel	30,239	6,563	36,802	6,209	6,788	12,997
Insurance	27,049	-	27,049	14,644	-	14,644
Advertising	-	21,883	21,883	-	16,620	16,620
Other	15,879	9,115	24,994	7,029	2,823	9,852
<i>Total functional expenses</i>	<u>\$ 2,184,416</u>	<u>\$ 617,880</u>	<u>\$ 2,802,296</u>	<u>\$ 1,299,640</u>	<u>\$ 405,101</u>	<u>\$ 1,704,741</u>

See independent auditors' report and accompanying notes to the consolidated financial statements

**BELIEVE SCHOOLS, INC. AND AFFILIATE**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Years Ended June 30, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ 67,922	\$ 57,327
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Paycheck Protection Program loan forgiveness income	-	(12,474)
Depreciation expense	77,424	6,835
Amortization of debt issuance costs	20,420	-
Changes in certain assets and liabilities:		
Grants receivable	(126,873)	(34,434)
Prepaid expenses	9,867	(18,054)
Accounts payable and accrued expenses	110,309	70,805
Refundable advance	-	(270,000)
Deferred rent payable	(68,108)	68,108
	90,961	(131,887)
<i>Net cash provided by (used in) operating activities</i>		
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(145,923)	(60,195)
<b>NET CHANGE IN CASH</b>	(54,962)	(192,082)
<b>CASH, BEGINNING OF YEAR</b>	527,484	719,566
<b>CASH, END OF YEAR</b>	\$ 472,522	\$ 527,484
<b>SUPPLEMENTAL INFORMATION</b>		
Cash paid for interest	\$ 44,222	\$ -
Building acquired with notes payable	2,891,394	-
Debt issuance costs funded with notes payable	112,309	-

See independent auditors' report and accompanying notes to the consolidated financial statements

**BELIEVE SCHOOLS, INC. AND AFFILIATE**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2022 and 2021**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

General – Believe Schools, Inc. is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. Believe Schools, Inc. commenced operations as a public charter school on July 1, 2020 under Indiana Code 20-24 and is sponsored by the Office of Education Innovation (“OEI”) of the Mayor of the City of Indianapolis. Believe Schools, Inc. served approximately 120 students in grades nine through eleven during the 2021-2022 school year (approximately 55 students in grades nine and ten during the 2020-2021 school year).

Build Believe Properties, LLC, a wholly-owned subsidiary of Believe Schools, Inc., was formed in January 2022 to purchase the school facility. Build Believe Properties, LLC closed on the property on January 28, 2022.

Principles of Consolidation – The accompanying consolidated financial statements include the accounts of both Believe Schools, Inc. and Build Believe Properties, LLC, collectively referred to as the “School”. All intercompany transactions and balances have been eliminated in consolidation.

Basis of Accounting and Use of Estimates – The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Consolidated Financial Statement Presentation – The School reports its consolidated financial position and activities according to two classes of net assets:

- net assets without donor restrictions, which includes unrestricted resources available for the operating objectives of the School; and
- net assets with donor restrictions, which represent resources restricted by donors for specific time or purpose.

As of June 30, 2022 and 2021, the School had only net assets without donor restrictions.

Cash and Cash Equivalents – Cash consists of cash held in bank accounts and cash equivalents consists of short-term, highly liquid investments with original maturities of three months or less. As of June 30, 2022 and 2021, there were no cash equivalents.

Grants Receivable – Grants receivable relate primarily to activities funded under federal programs and legislation enacted by the State of Indiana. The School believes it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

Debt Issuance Costs – During the year ended June 30, 2022, the School incurred costs totaling \$112,309 associated with securing financing to purchase the school facility. Amortization is provided on a straight-line basis over the term of the agreement (66 months). Amortization expense for the year ended June 30, 2022 was \$20,420 and is included in interest expense. As provided by ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, debt issuance costs are presented as a direct deduction from the carrying amount of the related debt liability.

**BELIEVE SCHOOLS, INC. AND AFFILIATE**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2022 and 2021**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

Property and Equipment – Purchases of assets and expenditures over \$500 for equipment and \$15,000 for non-equipment that materially increase value or extend useful lives are capitalized and are included in the accounts at cost. Routine maintenance and repairs, minor replacement costs, and small equipment purchases are charged to expense as incurred.

Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. The estimated useful lives generally are as follows:

Building and improvements	3 - 40 years
Equipment and technology	5 years
Vehicles	5 years

Reclassifications – Certain reclassifications have been made to the consolidated statements of activities and change in net assets and functional expenses for the year ended June 30, 2021 to conform to the year ended June 30, 2022 presentation. There is no effect to previously reported net assets as of June 30, 2021.

Taxes on Income – Believe Schools, Inc. has received a determination from the U.S. Treasury Department stating that it qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code as a tax-exempt organization; however, Believe Schools, Inc. would be subject to tax on income unrelated to its tax-exempt purpose. For the years ended June 30, 2022 and 2021, no accounting for federal and state income taxes was required to be included in the accompanying consolidated financial statements.

As a wholly-owned subsidiary of Believe Schools, Inc., the accounts and balances of Build Believe Properties, LLC are reported on Believe Schools, Inc.'s tax filings.

Professional accounting standards require Believe Schools, Inc. to recognize a tax liability only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax liability that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax liability is recorded. Believe Schools, Inc. has examined this issue and has determined there are no material contingent tax liabilities or questionable tax positions. Tax years ended after June 30, 2018 are currently open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through December 13, 2022, the date these consolidated financial statements were available to be issued. Events occurring through that date have been evaluated to determine whether a change in the consolidated financial statements or related disclosures would be required.

**BELIEVE SCHOOLS, INC. AND AFFILIATE**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2022 and 2021**

**NOTE 2 - REVENUE RECOGNITION**

Revenue Recognition – Revenues primarily come from resources provided under the Indiana Charter Schools Act. Under the Act, the School receives an amount per student in relation to the funding received by other public schools in the same geographic area. Funding from the State of Indiana is based on enrollment and paid in monthly installments in July through June coinciding with the academic school year. Revenue is recognized in the year in which the educational services are rendered.

A significant portion of the School’s revenue is the product of cost reimbursement grants. Accordingly, the School recognizes revenue under these grants in the amount of costs and expenses at the time they are incurred. Incurring approved costs under the grants is considered satisfaction of the performance obligation.

Disaggregation of Revenue – Revenue is disaggregated on the consolidated statements of activities and change in net assets.

**NOTE 3 - PAYCHECK PROTECTION PROGRAM**

In response to the COVID-19 pandemic, the United States federal government adopted the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act which includes the Paycheck Protection Program (“PPP”) administered through the Small Business Administration. The proceeds from the PPP notes payable can be used for costs related to payroll, employee healthcare, rent, and utilities. On April 24, 2020, the School was granted a loan from JPMorgan Chase Bank, N.A. in the amount of \$12,474, pursuant to the PPP under Division A, Title I of the CARES Act.

The note was forgiven in full on April 1, 2021 and recorded as PPP loan forgiveness income during the year ended June 30, 2021.

**NOTE 4 - SCHOOL FACILITY LEASE**

Prior to January 2022, the School leased its facility from an unrelated party. The lease payments escalated over the term of the lease. In accordance with U.S. GAAP, the School recorded rent expense using the straight-line method over the term of the lease. The difference between recorded rent expense and the actual cash outflow was presented on the June 30, 2021 consolidated statement of financial position as deferred rent payable with a balance of \$68,108.

During January 2022, the School purchased the facility (Note 5). Accordingly, the lease agreement was terminated and the deferred rent balance was reduced to zero through an adjustment to current year occupancy costs.

For the years ended June 30, 2022 and 2021, rent expense was \$85,587 and \$188,108, respectively.

**BELIEVE SCHOOLS, INC. AND AFFILIATE**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2022 and 2021**

**NOTE 5 - NOTES PAYABLE**

During the year ended June 30, 2022, the School financed the purchase of the school facility. There were no notes payable outstanding at June 30, 2021. Notes payable at June 30, 2022 consisted of the following:

Note payable to BlueHub Loan Fund, Inc. Loan amount available up to \$2,600,000 to be used for building purchase and improvements. Interest only due through January 2024 at 5.25%, followed thereafter by principal and interest amortized over 20 years, maturity at June 30, 2027	\$ 2,301,203
Note payable to CSGF Facility Fund III, LLC. Loan amount of \$500,000 to be used for building purchase and improvements. Interest only due through maturity at 2.50%, maturity at June 30, 2027	500,000
Note payable to Center for Innovative Education Solutions, Inc. Loan amount of \$202,500 to be used for building purchase and improvements. No interest due or accrued through maturity, maturity at June 30, 2027	<u>202,500</u>
<i>Total of notes payable at June 30, 2022</i>	<u>\$ 3,003,703</u>

The notes payable are secured by a mortgage on the building and lien on substantially all assets of the School. The note agreements contain certain covenants that limit the School's ability to create additional indebtedness. The agreements also contain covenants as follows:

- Debt Service Coverage Ratio:
  - Years 1-2: 1.05 to 1.00
  - Years 3-4: 1.15 to 1.00
  - Years 5-7: 1.20 to 1.00
- Minimum of 30 Days Cash on Hand

The School is not under obligation to meet these covenants until the year ended June 30, 2023.

Annual principal maturities of the notes payable are as follows for the years ending June 30:

2023	\$ -
2024	27,433
2025	68,334
2026	72,009
2027	<u>2,835,927</u>
	<u>\$ 3,003,703</u>

**BELIEVE SCHOOLS, INC. AND AFFILIATE**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2022 and 2021**

**NOTE 6 - RETIREMENT PLANS**

The School maintains a defined contribution Section 403(b) retirement plan covering substantially all employees. The plan allows employees to make salary deferral contributions and provides that the School will make contributions at its discretion. For the years ended June 30, 2022 and 2021, the School contributed 3% of defined compensation to eligible employees. Retirement plan expense was \$30,676 and \$16,562 for the years ended June 30, 2022 and 2021, respectively.

**NOTE 7 - COMMITMENT**

The School operates under a charter granted by OEI. As the sponsoring organization, OEI exercises certain oversight responsibilities. Beginning on July 1<sup>st</sup> before the School's fourth school year, OEI will assess a fee equal to 1% of the basic tuition support received by the School. No management fees were paid during the years ended June 30, 2022 and 2021.

The charter agreement requires the School to establish an escrow account of no less than \$30,000 should a dissolution occur, which the School has established and is included in the cash balance on the consolidated statements of financial position.

**NOTE 8 - RISKS AND UNCERTAINTIES**

The School provides educational instruction services to families residing in Marion and surrounding counties in Indiana and is subject to the risks of economic and competitive forces at work within this geographic area.

The majority of revenues relate to legislation enacted by the State of Indiana and grants awarded under federal programs. Changes in state or federal legislation could significantly affect the School. Additionally, the School is subject to monitoring and audit by state and federal agencies. Those examinations may result in additional liability to be imposed on the School.

Bank deposits are maintained at JPMorgan Chase Bank, N.A. and are insured up to the FDIC insurance limit. As of June 30, 2022 and 2021, and at times during the years then ended, cash balances exceeded the FDIC insured limit.

**BELIEVE SCHOOLS, INC. AND AFFILIATE**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2022 and 2021**

**NOTE 9 - LIQUIDITY**

Financial assets held by the School include cash and grants receivable totaling \$675,649 and \$603,738 as of June 30, 2022 and 2021, respectively. Financial assets are entirely available to meet cash needs for general expenditures within one year with the exception of the \$30,000 escrow account required by OEI.

From time to time, the School receives donor restricted contributions. Because donor restrictions require resources to be used in a particular manner or in a future period, the School must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the School's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

**NOTE 10 - FUNCTIONAL EXPENSE REPORTING**

The costs of providing the educational activities have been summarized on a functional basis in the consolidated statements of activities and change in net assets. Management of the School has categorized expenses as program services or management and general according to the underlying nature of the expense. As such, no allocation of specific transactions between these categories was required.

**BELIEVE SCHOOLS, INC. AND AFFILIATE**  
**OTHER REPORT**  
**For the Year Ended June 30, 2022**

The report presented herein was prepared in addition to another official report prepared for the School as listed below:

Supplemental Audit Report of Believe Schools, Inc.

The Supplemental Audit Report contains the results of compliance testing required by the Indiana State Board of Accounts under its *Guidelines for the Audits of Charter Schools Performed by Private Examiners* pertaining to matters addressed in its *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools*.