Assessment of Professional Competence
December 2021
Information on the day
Archegos Schools (Pty) Ltd

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B	Ryan van Niekerk	Incentive scheme		1/12/2021
C	Ryan van Niekerk	Various accounting matters	II Main accounting implications of various matters	1/12/2021
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DOCUMENT A

EMAIL FROM CHIEF FINANCIAL OFFICER TO FINANCIAL MANAGER

From:	Ryan van Niekerk
Sent:	Wednesday 1 December 2021, 07:33 AM
To:	Financial Manager
Subject:	Council meeting update
Attachment:	Attachment I Draft notes for memo to members of school council.docx 117 KB

Hi

Some quick feedback from the Midrand School council meeting I attended last night:

I received comments on the management accounts for the period ending October 2021 and the forecasts to year end. Although the school's net liability position has only slightly deteriorated from that of the previous year to R4,3m (2020: R3,7m), not surprisingly some of the council members expressed concerns about the net liability position. I told them the loan is subordinated in any case, which means that it doesn't really affect the balance sheet – essentially, it doesn't count as a liability. With Archegos' R10 million loan subordinated, it results in a healthy net asset position. In addition, our auditors have been with us since inception and have a good understanding of the group's operations and financial patterns and have not previously raised this as an issue – I also keep Sandy Stable up to date with how we're doing during our monthly golfing games.

I also tried to reassure the council members that Midrand School is a going concern so there is really nothing to be worried about. That being said, they nevertheless raised the following questions to which I need to respond:

- Does the school's financial position put us at risk of a reportable irregularity being raised by the auditors?
- We say Midrand School is a going concern, but will the auditors be of the same view? What can we do to persuade them to agree with us?
- What are the minimum matters that need to be disclosed in the 2021 AFS of Midrand School regarding going concern?

I have drafted my initial thoughts on the responses to the above questions – refer to the attachment to this email. Please amend as you deem fit and forward a memo, addressed to the council members, for me to review. Thanks.

Kind regards
Ryan

CFO: Archegos Schools (Pty) Ltd

ATTACHMENT TO EMAIL

Attachment I: Draft notes for memo to members of school council

Question 1
Does the school's financial position put us at risk of a reportable irregularity being raised by the auditors?

Response
I do not think that it would. (I think I'm right, but please assist with me by providing more detail in this section to ensure we've covered the necessary bases.)

Question 2
We say Midrand School is a going concern, but will the auditors be of the same view? What can we do to persuade them to agree with us?

Response
The auditors should agree with us on this. The subordination of the loan should give them sufficient comfort regarding our ability to continue as a going concern, because it removes the issue of the net liability position.

Question 3
What are the minimum matters that need to be disclosed in the 2021 AFS of Midrand School regarding going concern?

Response
A statement on the preparation of the financial statements on a going concern basis and the appropriateness thereof can be included in the directors' report.

DOCUMENT B

EMAIL FROM CHIEF FINANCIAL OFFICER TO FINANCIAL MANAGER

From:	Ryan van Niekerk
Sent:	Wednesday 1 December 2021, 07:45 AM
To:	Financial Manager
Subject:	Incentive scheme

Hi again

Remember I told you a while ago about a proposed incentive scheme for employees that Denise suggested? Well, we came up with a rough proposal that we want to pitch to the rest of the board. I will need your assistance in drafting a PowerPoint presentation that I can present at the next board meeting.

The proposal is that we identify our top teachers based on experience and the value that they add to the business. This can include both existing and new teachers, but any teacher will only be eligible to start participating in the incentive scheme once they have served with Archegos for an uninterrupted period of three years. After that period, we will grant these individuals synthetic/phantom shares ('synthetics') in the parent company (Archegos Schools (Pty) Ltd), which will be repurchased by Archegos after a vesting period of four years, in other words, after a further four years of service.

Please note that no actual shares will ever be issued to any teacher, so they will not enjoy equity ownership. Rather, teachers will be entitled to a cash payment upon repurchase of the synthetics after the vesting period, based on any appreciation in the value of the equity of the Archegos group. The synthetics are therefore share appreciation rights. For purposes of the scheme, the value of Archegos' equity will be deemed to equal a multiple of five times the consolidated EBITDA.

The synthetic shares in the parent company will be allocated by each school (the separate subsidiary companies) to their own qualifying teachers. The obligation to settle (repurchase) the synthetics will be that of the parent company, namely Archegos Schools (Pty) Ltd.

The number of synthetics to be allocated to employees will be determined in general each year, based on the financial performance of Archegos in that specific year. These will then be awarded to employees based on tenure of service as well as the employee's specific performance rating in that year.

Our current thinking is that 50% of the synthetics granted will vest based on the average financial performance of Archegos over the four-year vesting period, with the remaining 50% of the synthetics vesting based on the employee's average performance rating over the four-year period. Please note the following:

- Synthetics issued in respect of the average financial performance of Archegos over the four-year vesting period will vest on a sliding scale in relation to the average annual growth in consolidated EBITDA over the period.
- Synthetics issued in respect of an employee's average performance rating will also vest on a sliding scale, based on an employee's average performance rating over the four-year vesting period. Employee performance is rated annually in December, with employees achieving a rating ranging from 1 to 5, with 5 being best and 1 being worst.

Archegos' specific performance metrics

The synthetics attributable to the average financial performance of Archegos over the four-year period will vest as follows:

Average annual growth in consolidated EBITDA	Vesting percentage
2,5% – 4,99%	50%
5% – 7,49%	75%
7,5% – 9,99%	80%
10% and above	100%

Employees' specific performance rating metrics

The synthetics attributable to the average performance rating of an employee over the four-year period will vest as follows:

Average performance rating	Vesting percentage
Below 3,5	0%
3,5 – 3,99	50%
4,0 – 4,49	75%
4,5 and above	100%

Your draft presentation should consist of approximately four slides covering the following:

- Potential benefits and downsides of the proposed incentive scheme for Archegos and its shareholders (two slides); and
- An overview of the main accounting implications of the proposed incentive scheme for the group and entities in the group (two slides). You don't have to include amounts and calculations.

Remember that the majority of our board members do not have a specific background in accounting!

Kind regards
Ryan

CFO: Archegos Schools (Pty) Ltd

DOCUMENT C

EMAIL FROM CHIEF FINANCIAL OFFICER TO FINANCIAL MANAGER

From:	Ryan van Niekerk
Sent:	Wednesday 1 December 2021, 07:52 AM
To:	Financial Manager
Subject:	Various accounting matters
Attachment:	Attachment II Main accounting implications of various matters.docx 112 KB

Good morning

This is getting to be a long day, but just hang in there and you will make it!

My email of 30 November 2021 (11:11 AM) has reference. I attempted to document the main accounting implications of various transactions (or intended transactions) and events. With all the financial experience I have, I think I know my debits from my credits and was able to point us in the right direction as a starting point. I did not attempt to document any tax implications.

Please see the attached document in which I have –

- provided some details/context about each transaction or event; and
- documented what I believe to be the main financial accounting implications for each.

Kindly review my document and provide constructive feedback so that we can take this forward and ensure our accounting will keep the auditors off our backs ☺.

Please also discuss the income tax implications for Archegos of the debentures issued to certain parents; don't worry about the tax implications of other transactions (matter 1 and matter 3). Thanks.

It is very important that you keep your feedback simple, so that I will find it easy to understand. I may not know all your technical CA jargon.

Thanks as always!

Kind regards
Ryan

CFO: Archegos Schools (Pty) Ltd

ATTACHMENT TO EMAIL

Attachment II: Main accounting implications of various matters

Matter 1: Changes to lease agreements

<u>Details/context</u>

There were three different types of change to our lease agreements:

1. The lease periods for some of the existing leases were extended, without a change to the amount of individual lease payments. We simply acquire the use of these assets for a longer time and continue to pay the same monthly/annual lease payment as previously.
2. A reduction in lease payments to reflect changes in market rental rates. Provision was made for such a market rental review in the original contract.
3. A payment holiday was granted by one of the lessors as a result of the Covid-19 pandemic. This is effectively a deferral of six months' lease payments (originally due by 31 December 2021) to a later date by extending the lease term.

All our leases are entered into by particular entities within the group directly with third parties. There are no intercompany leases.

<u>Main accounting implications</u>

All three types of change are substantially the same from an accounting perspective. They all result in an adjustment to the lease liability. Archegos will re-measure the lease liability to reflect the revised lease payments over the remaining lease term. The adjustment to the liability is recognised in profit or loss.

Matter 2: Debentures issued to customers

<u>Details/context</u>

A number of 8% debentures were issued to some of the parents. The debentures will be settled by converting them to tuition fees (i.e. instead of Archegos settling the debentures in cash, we will excuse these parents from paying tuition fees).

The debentures have a five-year term and are converted into tuition fees in annual portions at the start of each school year (i.e. in advance). No early settlement discounts will apply when debentures are converted into tuition fees.

The debentures are fully refundable in cash should a learner leave the school for whatever reason. So if they are not settled in the form of tuition fees, the outstanding balance will still be settled in cash.

<u>Main accounting implications</u>

A debenture liability is initially recorded equal to the cash amount received when they were issued. Interest expense is recognised every year with a corresponding cash outflow when we pay interest over to the debenture holders.

At the start of each school year, when a portion of the debentures is settled, we reduce the liability with a corresponding increase to revenue from tuition fees:

Dr. Debenture liability	xxxxx	
Cr. Revenue		xxxxx

Matter 3: Rebates on tuition fees

<u>Details/context</u>

A sub-committee of the Archegos board has approved fee rebates to be granted to financially deserving households in terms of certain specified criteria. The rebates are granted in advance at the start of the school year or as soon as applications for rebates have been approved.

These rebates are not the same as the early settlement discounts that are granted to parents that settle tuition fees in advance. Rather, the rebates represent a reduction of fees (to the amount of the approved rebate for that year) for households that cannot afford to pay the full tuition fee amount. Parents can apply for this rebate throughout the year, i.e. not just at the start of the year.

<u>Main accounting implications</u>

When granted, the rebates are recognised as an expense for Archegos with a corresponding reduction in the customer's account:

Dr. Rebate expense	xxxxx	
Cr. Debtors		xxxxx

DOCUMENT D

EMAIL FROM CHIEF FINANCIAL OFFICER TO FINANCIAL MANAGER

From:	Ryan van Niekerk
Sent:	Wednesday 1 December 2021, 08:00 AM
To:	Financial Manager
Subject:	Personal information security
Attachment:	Attachment III Access control policy for the protection of sensitive data.docx 16 KB

Hi again!

You have no doubt read about the ransomware attacks that have been in the news recently in which malicious software encrypts files on an organisation's computer network, rendering the files and the systems that rely on them unusable. The malicious actors/hackers then demand payment of a ransom in exchange for decryption and/or threaten to sell or leak the data on the files if the ransom is not paid.

While I am satisfied that we have effective backups in place to prevent such attacks from threatening our operations, I am concerned that hackers may obtain and distribute or change sensitive data that is stored on our computer systems, especially in view of the provisions of the Protection of Personal Information Act.

Accordingly, I would like you to undertake a thorough review of our access control policy for the protection of sensitive information (which I have attached). This covers the 'information security' part of the suite of policies that we have in place to ensure compliance with the Protection of Personal Information Act. Please prepare a report documenting any concerns that you may have with this policy, including areas that have been inappropriately/inadequately dealt with or omitted.

And please don't be too technical – I am not an IT expert! I would like to use your report to engage with the Head of Information Technology, so that the necessary amendments can be made as a matter of urgency.

Kind regards
Ryan

CFO: Archegos Schools (Pty) Ltd

ATTACHMENT TO EMAIL

Attachment III: Access control policy for the protection of sensitive data

1 Purpose

The purpose of this policy is to set requirements for controlling the access to sensitive learner and employee data. This policy forms part of the set of policies implemented to ensure adherence to the Protection of Personal Information Act and to assist in protecting Archegos Schools (Pty) Ltd and its subsidiaries ('Archegos Schools') from any claims and/or reputational damage resulting from the loss of sensitive data.

2 Scope

This policy applies to all permanent and contract employees and management of Archegos Schools with an electronic device that is connected to the Archegos Schools' computer networks. This policy also covers remote access connections to any Archegos network.

3 Requirements

3.1 User access profiles are used on the networks to determine which users have rights of access to the learner and employee data.

3.2 All changes to users' access rights are approved by the user's line manager before being effected.

3.3 On an employee's termination date (due to resignation, retirement or death), the username is immediately deactivated on the access profile.

3.4 When accessing the networks, the user is authenticated by the system, by verifying that the username and password entered match that recorded in the access profile.

3.5 Three unsuccessful attempts to access the networks (e.g. due to the incorrect password being entered) result in the username being disabled. The user's access can only be re-enabled once the user requests this from the Information Technology Helpdesk.

3.6 All passwords must comprise a minimum of ten characters that should be a combination of letters, numbers and symbols, and employees are required to keep these confidential at all times. Passwords are also changed once every month, and the repeated use of a particular password is not allowed.

3.7 A requirement to maintain the confidentiality of passwords is included in every employment contract, and employees are continuously reminded about it through ongoing training.

3.8 The user's access to the networks is automatically terminated after five minutes of inactivity, and s/he is then required to access the networks afresh.

3.9 All access to the networks is logged.

3.10 All sensitive data on devices linked to the networks are stored in an encrypted format.

4 Policy compliance

4.1 Adherence to this policy is monitored on an ongoing basis by the Head of Information Technology.

4.2 Anyone who is found to have failed to adhere to this policy is subject to disciplinary action, up to and including termination of employment.

5 Policy owner: Head of Information Technology.

6 Date of next revision: January 2022.

DOCUMENT E

EMAIL FROM CHIEF FINANCIAL OFFICER TO FINANCIAL MANAGER

From:	Ryan van Niekerk
Sent:	Wednesday 1 December 2021, 08:08 AM
To:	Financial Manager
Subject:	Due diligence on the Elgin Open School

Hi again!

To ensure that we make an informed valuation of the Elgin Open School, I believe that it is important that we perform a due diligence on the figures relating to the School's financial performance in the 2021 financial year. For this purpose, we need to ensure that these figures are credible (at a level of assurance similar to that provided by an external audit). And I want you to lead our team on this. You will have access to all the financial documents and records, as well as to the management of the Elgin Open School, for purposes of this due diligence. But given that time is of the essence, your work must not only be effective, but also efficient.

While I have not yet received the management accounts for the period 1 January 2021 to 30 November 2021 from the School, I should have this within the next few days. We will be able to use these for due diligence purposes. The external auditors of the Elgin Open School issued their audit report for the financial year ended 31 December 2020 in March 2021, but have indicated that they are not available to assist us with the due diligence. We also cannot wait until their audit report on the 2021 annual financial statements is eventually issued. We will therefore have to undertake the due diligence ourselves.

I have started drafting the due diligence procedures to be performed on selected components of the statement of profit or loss (P&L). However, as my knowledge in this area is rather rusty, I would appreciate it if you could review my envisaged procedures and document any concerns that you may have regarding these. Also, describe any further key procedures that should be performed on these selected components (without giving lengthy lists of generic procedures). We will use this document as a basis for finalising the due diligence work to be performed on these components of the statement of P&L.

Component of P&L	**Planned due diligence procedures** *(also refer to the note below)*
Revenue – tuition fees	• Multiply the number of learners in the school with the annual tuition fee and compare to the tuition fee revenue recorded in the management accounts for FY2021.
Employee costs	• Perform analytical procedures on the month-to-month total payroll costs and resolve any major variances by discussions with the school's CEO.
Other operating costs (incl. bad debts)	• Compare the expenses in the management accounts for FY2021 to the comparable amount in FY2020 (the management accounts reflect both the current and prior-year comparatives). • Resolve any expenditure line item variances in excess of 10% by gathering further information from the school's CEO.

Note: The personal assistant to the CEO of the Elgin Open School (who knows everything that happens at the School) is willing to share information with us openly in exchange for a guarantee that she will retain her job following the acquisition. I would therefore suggest that we consider using her as a source of evidence wherever possible as this should simplify the due diligence process for us.

Kind regards
Ryan

CFO: Archegos Schools (Pty) Ltd

DOCUMENT F

EMAIL FROM CHIEF FINANCIAL OFFICER TO FINANCIAL MANAGER

From:	Ryan van Niekerk
Sent:	Wednesday 1 December 2021, 08:15 AM
To:	Financial Manager
Subject:	Valuation of Elgin Open School

Hi again!

I have just received the proposed valuation from the shareholders of the Elgin Open School. The following is the executive summary of their valuation:

	R'000
Forecast revenue FY2021 (451 learners x R40 450)	18 243
Forecast EBITDA FY2021	3 238
Forecast EBITDA FY2021 after tax	2 331
Appropriate EBITDA multiple	8,0
Enterprise value (R2 331 x 8)	18 648
Add: Cash and cash equivalents December 2020	525
Less: Shareholders' loan	(3 750)
Equity value	15 423
Additional value to be derived from online model*	1 000
	16 423
* 400 learners x R2 500 extra tuition fees because of use of online platform	

I need you to apply your mind to the methodology they used, assumptions underlying their valuation and the valuation result. Feel free to bring issues relating to the acquisition to my attention that you feel I should also consider.

I hope to give you some time now to apply yourself.

Kind regards
Ryan

CFO: Archegos Schools (Pty) Ltd

DOCUMENT G

EMAIL FROM CHIEF EXECUTIVE OFFICER TO FINANCIAL MANAGER

From:	Denise Twaku
CC:	Ryan van Niekerk
Sent:	Wednesday 1 December 2021, 08:25 AM
To:	Financial Manager
Subject:	Solar project
Attachment:	Attachment IV NPV calculations.xlsx 17 KB

Hi there. I received Green Sky's proposal in an Excel spreadsheet earlier, which I have attached for your review. Please respond by –

- checking whether their approach is appropriate for our purposes and whether there is anything that is omitted from and/or incorrect in their workings; and
- noting some of the key issues we will need to investigate or negotiate prior to entering into the PPA agreement. Focus your mind on the key commercial terms and operational issues of the proposed arrangement.

Please don't recalculate their numbers at this stage, just review from a principle perspective. We can crunch the numbers later.

Very interestingly, Green Sky estimated that the cost of purchasing electricity from City Power could be based on the expected consumption figures per the solar system and multiplying that by City Power's expected tariffs. Their tariff increases have been very high recently, mainly because Eskom keeps increasing its prices.

Green Sky reckons that Archegos could have a net present value (NPV) of R4 980 715 if it enters into the PPA and does not purchase electricity from City Power. That looks very appealing.

Thanks so much in advance. Once I receive your feedback, we can start drafting a proposal for the board of directors.

Regards
Denise

CEO: Archegos Schools (Pty) Ltd

ATTACHMENT TO EMAIL

Attachment IV: NPV calculations

	A	B	C
1	**Green Sky proposal**		
2	Estimated annual production	489 500	kWh
3	Power output degradation	0,5%	
4	System cost to be paid by Green Sky	R3 800 000	
5	PPA initial charge per kWh	R1,10	
6	PPA annual increase in rate	5,0%	
7	**Estimated City Power tariff charges**		
8	City Power's current tariff charges per kWh	R1,45	
9	Forecast annual tariff increases		
10	Year 1	15,0%	
11	Year 2	10,0%	
12	Year 3	7,5%	
13	Year 4 onwards	6,0%	

Year	Estimated kWh p.a.	PPA rate R	PPA charges R	Forecast tariffs R	Power savings R	Archegos' net cashflows R
1	489 500	1,10	-538 450	1,45	709 775	171 325
2	489 500	1,16	-565 373	1,67	816 241	250 869
3	489 500	1,21	-593 641	1,83	897 865	304 224
4	489 500	1,27	-623 323	1,97	965 205	341 882
5	489 500	1,34	-654 489	2,09	1 023 118	368 628
6	489 500	1,40	-687 214	2,22	1 084 505	397 291
7	489 500	1,47	-721 574	2,35	1 149 575	428 000
8	489 500	1,55	-757 653	2,49	1 218 549	460 896
9	489 500	1,63	-795 536	2,64	1 291 662	496 127
10	489 500	1,71	-835 313	2,80	1 369 162	533 849
11	489 500	1,79	-877 078	2,96	1 451 312	574 234
12	489 500	1,88	-920 932	3,14	1 538 391	617 458
13	489 500	1,98	-966 979	3,33	1 630 694	663 715
14	489 500	2,07	-1 015 328	3,53	1 728 536	713 208
15	489 500	2,18	-1 066 094	3,74	1 832 248	766 154
16	489 500	2,29	-1 119 399	3,97	1 942 183	822 784
17	489 500	2,40	-1 175 369	4,21	2 058 714	883 345
18	489 500	2,52	-1 234 137	4,46	2 182 236	948 099
19	489 500	2,65	-1 295 844	4,73	2 313 171	1 017 326
20	489 500	2,78	-1 360 636	5,01	2 451 961	1 091 325
			Cost of debt (after tax)			7,56%
			NPV			R4 980 715

DOCUMENT H

EMAIL FROM CHIEF FINANCIAL OFFICER TO FINANCIAL MANAGER

From:	Ryan van Niekerk
Sent:	Wednesday 1 December 2021, 08:45 AM
To:	Financial Manager
Subject:	Parents' unhappiness

Hi there

I probably should not be asking for advice from you but I am looking to learn from what happened. Please be honest in your assessment of the situation and do not hesitate to point out any errors in my thinking – I will not hold it against you.

During July 2020, a group of disgruntled parents calling themselves 'Rebates for all' (RFA), approached our CEO with a list of demands. They were extremely unhappy that Archegos had not provided a rebate in tuition fees for all learners. Their argument was that, during the Covid-19 lockdowns, learners were often not able to attend school on campus and had to endure untold hardships. Archegos was able to reduce costs during the lockdowns, because of the reduction in on-campus activities.

RFA became aware that Archegos had temporarily reduced teachers' salaries in 2020 and had encouraged teachers to claim from the Temporary Employer/Employee Relief Scheme (TERS). Many of our teachers were successful, and did receive tax-free TERS pay-outs from the government.

Archegos also managed to negotiate reduced payments with certain lessors and drastically cut back on maintenance activities on its three campuses. RFA took a hard stance: it said that, because Archegos had managed to reduce its costs, it should pass on some of those benefits to all parents in the form of rebates.

Archegos took the view that a blanket rebate should not be provided to all parents since Archegos was forecasting to incur a loss in FY2020.

RFA was incensed and subsequently had very heated and emotionally charged meetings with Denise and I. Unfortunately, I lost my cool during one of these meetings and threatened to deny learners entry to the campus if their parents had not paid their tuition fees. Matters became heated and word spread like wildfire among parents and the community. I know I overreacted, but I did apologise in a letter that was sent to all parents in which I stated that I had made a mistake and was very stressed at the time.

I thought the matter was closed at that stage but then attacks started on social media. I became the object of many attacks on Facebook and Twitter. Screenshots of some of the social media posts by certain parents were forwarded to me – it was vile stuff. I was called uncaring, privileged and overweight. I took legal advice but was told that my chances of succeeding in any claim were slim since these social media companies are based in the USA.

I made one mistake in the heat of the moment. We all do.

Do you think RFA's demand for rebates of tuition fees in 2020 had validity? What are some of the factors the directors of Archegos should have considered in assessing whether to grant rebates? And what should Archegos have done with regard to the negative social media posts by certain parents?

Kind regards
Ryan

CFO: Archegos Schools (Pty) Ltd
