

CLECO IS FASB/IASB-READY WITH POWERPLAN'S LESSEE ACCOUNTING

“Just having a central repository for recurring lease obligations is huge. It took us a long time to round up and enter all our leases, but this project gave us a head start so we won’t have to jump through hoops when the FASB/IASB pronouncement goes into effect.”

Cindy Perdue,
Manager of Asset and Energy
Accounting, Cleco Corp.

ABOUT CLECO

Founded:	1935
Business:	Energy services
Headquarters:	Pineville, Louisiana
Employees:	1,300
Customers Served:	279,000
Generating Capacity:	3,803 megawatts
2010 Revenue:	\$1.15 billion
Total Assets:	\$4.2 billion

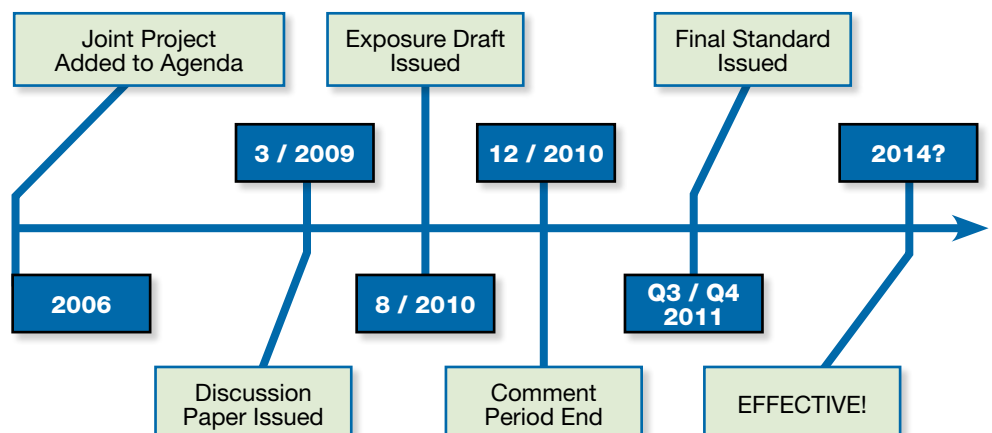
Cleco Corporation is a \$1.15 billion electric power company with approximately 279,000 residential and commercial customers in 23 parishes throughout Louisiana. The company needed to prepare for sweeping, complex changes to lease accounting standards proposed as a convergence issue between the FASB and the International Accounting Standards Board (IASB).

Cleco Corp. chose PowerPlan’s Lessee Accounting solution to standardize and centralize all lessee accounting and replace a myriad of spreadsheets and manual processes. The system, selected in December 2009, went live at Cleco Corp. in May 2010. PowerPlan’s Lessee Accounting solution can create monthly A/P payments, monthly G/L entries, asset accounting and budget forecasts, and receive information from equipment, fleet and IT physical asset systems.

Key Challenges

- **Planning:** Proposed FASB/IASB accounting changes will treat all recurring contracts that qualify as leases under the new rules as an obligation on the balance sheet, causing the amount of assets and liabilities on the balance sheet and debt-to-equity ratios to increase and monthly bookkeeping and reconciliation costs to rise. Cleco needed to prepare for the major effects of the changes on its balance sheet and financial ratios.
- **Consolidation:** There had been no central repository for Cleco’s capital and operating leases. Agreements for vehicles, rail cars, barges, buildings and copiers were spread across the organization, and each department managed, tracked and paid its own leases. To be properly managed under FASB/IASB rules and to forecast the potential balance sheet impact, all fleet, IT and property leases had to be consolidated into a single system.

FASB/IASB Lease Accounting Project Timeline



- Reporting: The distributed nature of leases limited Cleco's tracking and reporting capabilities, putting regulatory compliance at risk. Visibility into what leases existed and which were nearing expiration was lacking. When questions arose, a substantial amount of time was required to locate agreements and research answers.
- Audits: For auditors, locating all the separately managed capital and operating leases throughout the organization was challenging and time-consuming. Auditors prefer holistic solutions for lease accounting, inventory tracking, local tax calculations, total asset reporting and payment workflow.
- Accounting: Lease accounting was a largely manual process which relied on decentralized business processes for controls. Month-end depreciation calculations for the utility's barges were performed based on amortization schedules in an Excel spreadsheet. Lease dates necessary for quarterly and annual financial reports were not readily available. Any potential solution needed to seamlessly integrate with Cleco's G/L and Asset systems in order to streamline accounting.
- Agility: The lease management system needed to be kept current with changing FASB/IASB rules. Cleco needed the ability to forecast accounting impacts in advance of future changes and effectively flip a switch to put the changes into effect.
- Discovery: Property accountants were aware of approximately 30 formal leases, but they suspected other recurring payment contracts that meet the updated definition of a lease existed that were not being counted as leases. Cleco needed to identify all recurring leases and add them to the centralized, auditable database to ensure compliance with the new standard.
- Timing: The FASB/IASB pronouncement, which could go into effect as early as January 1, 2014, requires that comparable financials be maintained for the preceding two years. Delaying implementation would result in having to backtrack with forensic accounting and incur associated bookkeeping costs. Buying a supported solution would meet current and future accounting needs without burdening Cleco's IT department.

Armed with the PowerPlant Solution, Cleco Corp can meet all these challenges and more, leading the organization to the following benefits.

Cleco's Business Benefits with PowerPlan Lessee Accounting

- **FASB/IASB Compliance:** Cleco is now prepared to handle significant changes to lease accounting rules. Anything that will be considered a lease under the new standard is being entered in the Lessee Accounting system, where it is centrally managed in line with FASB/IASB pronouncements. Cleco is now able to systematically capture two full years of comparable financials as required by the approaching rule change.
- **Holistic Reporting:** The new system provides comprehensive total reporting across all Cleco operating companies for over 400 lease records, representing more than 1,000 assets. It serves as a tracking system, allowing easy queries, ready answers to questions and improved management foresight. Property accountants are able to deliver reports on demand to the business units and auditors, as well as data required by accountants for quarter-end and year-end financial statements. The system is capable of generating reports from the Lessee Accounting system that enable quick reconciliation of payments in the A/P system.
- **Simple to Audit:** The system's fully integrated approach reinforces internal controls and increases accounting accuracy. Audit fee savings are expected now that all capital and operating leases are centrally managed and standardized. Journal entries, closings, depreciation and amortization schedules are managed in a consistent and efficient manner.
- **Workflow Efficiencies:** Month-end closings and reconciliations for lease asset amortization are quick and easy, eliminating the need for accounting spreadsheets. With the click of a button, the system automatically books the journal entries, reducing labor costs and errors. Flexibility in accounting schedules allows variable rate lease agreement changes (adjustments for CPI) to automatically flow to the journal entries, simplifying bookkeeping. Master leases for vehicles and large copy machines are templates for fast, easy lease additions and enable lease tracking by category. At the end of the lease term, the system can automatically retire the asset or send automated alerts to appropriate personnel.
- **Intelligent Forecasting:** The system allows leased assets and obligations to be quantified in real time as well as future periods. Having greater visibility into the leasing lifecycle enables better decisions about budgeting, planning and overall investment management.
- **Risk Management:** With this implementation, Cleco minimized the risk of discovering unknown, lease-related liabilities that could negatively skew key financial ratios used for determining lending covenants and credit ratings.

"There were a lot of rogue operating leases in the business units that the management team was not aware of. Now we are much more cognizant of the leases from an accounting perspective."

**Cindy Perdue,
Manager of Asset and Energy
Accounting, Cleco Corp.**

New Lessee Accounting Requirement Will Have Large Impacts

- Gross up of assets and liabilities may cause:
 - Lower return on capital
 - Increased debt-to-equity ratios
 - Possible negative impact upon borrowing capacity and compliance with loan covenants
 - Possible renegotiation of existing loan covenants especially for firms with capital adequacy concerns
- New Book / Tax differences; federal and local
- New FERC / GAAP differences (presumably)
- Pre-tax earnings drop due to front loading of expense
- EBITDA improves for finance leases as rent expense moves to interest and depreciation
- Interest Coverage Ratio decreases because rental expense is no longer a reduction to EBITDA
- Cash flow from operating activities increases because the interest portion of the lease payment moves to cash from financing instead of cash from operating activities
- The principal portion of the payment stays in cash from operating activities

For More Information

To learn how PowerPlan solutions can help reduce compliance risk, improve cash flow and easily integrate into your existing solutions, contact your sales representative today at +1 770.859.0402 or visit www.powerplan.com.

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