

Rating Update: MOODY'S AFFIRMS IDAHO STATE UNIVERSITY'S A1 BOND RATING; OUTLOOK REMAINS STABLE

Global Credit Research - 17 Nov 2011

UNIVERSITY HAS \$65.3 MILLION OF RATED DEBT OUTSTANDING

IDAHO STATE UNIVERSITY, ID
Public Colleges & Universities
ID

Opinion

NEW YORK, November 17, 2011 --Moody's Investors Service has affirmed the A1 rating on Idaho State University's ("ISU") General Revenue and Student Facility Fee Revenue bonds. The outlook remains stable.

RATINGS RATIONALE

The A1 rating and stable outlook are supported by the University's consistent operating performance, adequate resource base relative to its size, and healthy liquidity position. The rating also incorporates a competitive student market environment, softening student growth, and reliance on state support.

STRENGTHS

*Consistently strong operating performance with current fiscal year operating cash flow margin of 17.7%, providing 5.0 times coverage of debt service.

*Improved balance sheet due to a notable 29% growth in both unrestricted and expendable financial resources, which grew to \$60.8 and \$79.2 million, respectively, in FYE 2011.

*Liquidity position provides 160 days cash on hand from monthly liquidity (unrestricted cash and investments which could be liquidated within one month).

CHALLENGES

* Highly competitive student market in Idaho with multiple public universities in the surrounding area competing for students.

*Softening student demand with a slight decline in full-time equivalent (FTE) enrollment in fall 2011, coupled with declining matriculation (the number of students accepted that enroll).

*Reliance on state funding with appropriations comprising 38% of revenue. Additional grants and contracts make up 15% of revenues, with a majority from federal and state sources.

DETAILED CREDIT DISCUSSION

LEGAL SECURITY: General revenue and student facility fee revenue

INTEREST RATE DERIVATIVES: None

MARKET POSITION/COMPETITIVE STRATEGY: REGIONAL PUBLIC UNIVERSITY LOCATED IN A COMPETITIVE MARKET

Moody's expects that ISU will maintain its stable market position as a relatively large regional public university. In fall 2011, the University's total FTE enrollment was 10,827 students, a modest decline from prior year and below levels seen in 2009. Undergraduate enrollment contributed to the decline, with a .39% drop from prior year to 9,204 FTE. Matriculation also declined in fall 2011 with 60.2% of students accepted, actually enrolling at the University, compared to 63.3% in 2010. Despite the decline in enrollment and matriculation, there was a 5% uptick in the percent of matriculants from outside Idaho, as well as a 52% increase in international enrollment (490 students in fall 2011, 322 in 2010). In addition to building out the international alumni program, the institution is also focused on expanding its core programs in the health professions and STEM disciplines as a strategy to help retain students.

ISU, with campuses located in Southeastern and Southwestern Idaho, competes with 10 four-year public universities in three bordering states, and multiple community colleges, which students have turned to as a less costly alternative for the first two years of study. ISU is expanding initiatives to increase retention and expects the recent Carnegie Research classification will help boost research presence and opportunity, as well as aid in recruiting high-quality faculty, staff and students.

OPERATING PERFORMANCE: CONTINUED HEALTHY OPERATING PERFORMANCE DESPITE REDUCTIONS IN STATE APPROPRIATIONS

Operating cash flow available to pay debt service increased 32% from prior year to \$38 million. ISU has experienced an operating surplus for the last three years driven by increased tuition revenues and expense reduction measures. This has helped the University to pay down \$7.4 million of debt in the past fiscal year. While ISU currently experiences positive

operating margins, the University is vulnerable to cuts in state funding.

BALANCE SHEET POSITION: STEADY GROWTH OF FINANCIAL RESOURCES EXPECTED TO CONTINUE WITH HEALTHY LIQUIDITY

Moody's expects the University's expendable financial resources to continue to provide adequate support for debt. In FYE 2011, expendable financial resources grew to \$79 million due primarily to investment gains. Due to the concurrent reduction of debt over the past fiscal year, the University now has a ratio of expendable resources to debt of 1.04 times, inclusive of all direct debt outstanding. Management reports no additional borrowing plans at this time.

Growth in cash and investments has helped the ISU to bolster its liquidity position to \$79 million of monthly liquidity (equal to 160 days cash on hand) as of fiscal year end 2011 from \$65 million (131 days cash on hand) at FYE 2010. (Monthly liquidity is a measure of the amount of unrestricted cash and investments that can be liquidated and spent within 30 days)

The University currently has seven series of debt outstanding, of which one (Series 1998) has a specific pledge of student facilities fee revenue. As of FYE 2011, the University was in compliance with all covenant requirements on the outstanding bonds.

In addition to the University's own debt, ISU's affiliated foundation has \$6.0 million of outstanding debt. The University also has an additional \$4.9 million of outstanding notes payable.

Outlook

The stable outlook is based on Moody's expectation that ISU will maintain a stable student market position, continue to adjust expenses and revenues to compensate for declines in government appropriations, and that balance sheet and operating leverage will remain manageable.

WHAT COULD MAKE THE RATING GO UP

Strong and consistent enrollment growth; extended growth in financial resource base

WHAT COULD MAKE THE RATING GO DOWN

Deterioration of operating cash flow or reduction of state appropriations without the ability to offset cuts; weakened student demand; decline in financial resources supporting debt and operations

KEY INDICATORS (Fall 2011 Enrollment, FYE 2011 Financial Information):

Total Full Time Equivalent Enrollment: 10,827

Freshmen Selectivity: 93%

Freshmen Matriculation: 60.2%

Net Tuition per Student: \$6,380

Total Tuition Discount: 38.4%

Total Direct Debt: \$76.2 million

Total Financial Resources: \$109 million

Expendable Financial Resources to Direct Debt: 1.04 times

Expendable Financial Resources to Operations: .41 times

Three-Year Average Operating Margin: 7.8%

Reliance on Government Appropriations: 38%

Reliance on Tuition and Auxiliaries: 38%

RATED DEBT

Student Facility fee Revenue, Series 1998: A1

General Revenue Bonds, Series 2003, 2004 A&B, 2004C (Taxable), 2006 (Taxable): A1

General Revenue Bonds, Series 2007: A1

CONTACTS:

University: Mr. James A. Fletcher, Vice President for Finance and Administration, 208-282-2404

METHODOLOGY:

The principal methodology used in this rating was U.S. Not-for-Profit Private and Public Higher Education published in August 2011. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

REGULATORY DISCLOSURES

The Global Scale Credit Ratings on this press release that are issued by one of Moody's affiliates outside the EU are considered EU Qualified by Extension and therefore available for regulatory use in the EU. Further information on the EU endorsement status and on the Moody's office that has issued a particular Credit Rating is available on www.moody.com.

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moody's.com.

Information sources used to prepare the rating are the following: parties involved in the ratings, public information, and confidential and proprietary Moody's Investors Service's information.

Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

Moody's adopts all necessary measures so that the information it uses in assigning a rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Please see the ratings disclosure page on www.moody's.com for general disclosure on potential conflicts of interests.

Please see the ratings disclosure page on www.moody's.com for information on (A) MCO's major shareholders (above 5%) and for (B) further information regarding certain affiliations that may exist between directors of MCO and rated entities as well as (C) the names of entities that hold ratings from MIS that have also publicly reported to the SEC an ownership interest in MCO of more than 5%. A member of the board of directors of this rated entity may also be a member of the board of directors of a shareholder of Moody's Corporation; however, Moody's has not independently verified this matter.

Please see Moody's Rating Symbols and Definitions on the Rating Process page on www.moody's.com for further information on the meaning of each rating category and the definition of default and recovery.

Please see ratings tab on the issuer/entity page on www.moody's.com for the last rating action and the rating history.

The date on which some ratings were first released goes back to a time before Moody's ratings were fully digitized and accurate data may not be available. Consequently, Moody's provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moody's.com for further information.

Please see www.moody's.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Analysts

Michael Gusta
Lead Analyst
Public Finance Group
Moody's Investors Service

Eugene Spielman
Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA



© 2011 Moody's Investors Service, Inc. and/or its licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT

LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable, including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody's.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Any publication into Australia of this document is by MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969. This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001.

Notwithstanding the foregoing, credit ratings assigned on and after October 1, 2010 by Moody's Japan K.K. ("MJKK") are MJKK's current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. In such a case, "MIS" in the foregoing statements shall be deemed to be replaced with "MJKK". MJKK is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO.

This credit rating is an opinion as to the creditworthiness or a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.