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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 2007: A1

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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.moodys.com for a copy of this methodology.

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