

ARTESIAN RESOURCES CORP
Form 10-K
March 14, 2014
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Commission file number 000-18516
ARTESIAN RESOURCES CORPORATION
(Exact name of registrant as specified in its charter)

Delaware 51-0002090
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

664 Churchmans Road, Newark, Delaware 19702
Address of principal executive offices

(302) 453 – 6900
Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Class A Non-Voting Common Stock

Name of each exchange on which registered The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if the disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12(b)-2 of the Exchange Act.:

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2).

Yes No

The aggregate market value of the Class A Non-Voting Common Stock and Class B Common Stock held by non-affiliates of the registrant at June 30, 2013 was \$170,770,000 and \$5,692,000, respectively. The aggregate market value of Class A Non-Voting Common Stock was computed by reference to the closing price of such class as reported on the Nasdaq Global Market on June 30, 2013, which trade date was June 28, 2013. The aggregate market value of Class B Common Stock was computed by reference to the last reported trade of such class as reported on the OTC Bulletin Board as of June 30, 2013, which trade date was June 19, 2013.

As of March 6, 2014, 7,957,531 shares of Class A Non-Voting Common Stock and 881,452 shares of Class B Common Stock were outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements in this Annual Report on Form 10-K which express our "belief," "anticipation" or "expectation," as well as other statements which are not historical fact, are forward-looking statements within the meaning of Section 27A of the Securities Act, Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act and the Private Securities Litigation Reform Act of 1995. Statements regarding our goals, priorities, growth and expansion plans and expectation for our water and wastewater subsidiaries and non-regulated subsidiaries, customer base growth opportunities in Delaware and Cecil County, Maryland, our belief regarding our capacity to provide water services for the foreseeable future to our customers, our belief relating to our compliance and the cost to achieve compliance with relevant governmental regulations, our expectation of the timing of decisions by regulatory authorities, the impact of weather on our operations and the execution of our strategic initiatives, our expectation of the timing for construction on new projects, our belief regarding our reliance on outside engineering firms, our expectation relating to the adoption of recent accounting pronouncements, contract operations opportunities, legal proceedings, our properties, deferred tax assets, adequacy of our available sources of financing, the expected recovery of expenses related to our long-term debt, our expectation to be in compliance with financial covenants in our debt instruments, our ability to refinance our debt as it comes due, the timing and terms of renewals of our lines of credit, plans to increase our wastewater treatment operations, engineering services and other revenue streams less affected by weather, expected future contributions to our postretirement benefit plan, the reclassification on our balance sheet regarding our utility plant, anticipated growth in our non-regulated division, the impact of recent acquisitions on our ability to expand and foster relationships, anticipated investments in certain of our facilities and systems and the sources of funding for such investments, sufficiency of internally generated funds and credit facilities to provide working capital and our liquidity needs are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and involve risks and uncertainties that could cause actual results to differ materially from those projected. Words such as "expects", "anticipates", "intends", "plans", "believes", "seeks", "estimates", "projects", "forecasts", "may", "should", variations of such words and similar expressions are intended to identify such forward-looking statements. Certain factors as discussed under Item 1A -Risk Factors, such as changes in weather, changes in our contractual obligations, changes in government policies, the timing and results of our rate requests, changes in economic and market conditions generally, and other matters could cause results to differ materially from those in the forward-looking statements. While the Company may elect to update forward-looking statements, we specifically disclaim any obligation to do so and you should not rely on any forward-looking statement as representation of the Company's views as of any date subsequent to the date of the filing of this Annual Report on Form 10-K.

PART I

ITEM 1. BUSINESS

General Information

Artesian Resources Corporation operates as the holding company of eight wholly-owned subsidiaries offering water, wastewater and other services on the Delmarva Peninsula. Our principal subsidiary, Artesian Water Company, Inc., is the oldest and largest investor-owned public water utility on the Delmarva Peninsula, and has been providing superior water service since 1905. We distribute and sell water, including water for public and private fire protection, to residential, commercial, industrial, municipal and utility customers throughout the states of Delaware, Maryland and Pennsylvania. We provide wastewater services to customers in Delaware. In addition, we provide contract water and wastewater operations, and water and sewer Service Line Protection Plans. Our Class A Non-Voting Common Stock is listed on NASDAQ Global Select Market and trades under the symbol "ARTNA."

Artesian Resources Corporation, or Artesian Resources, operates as the parent holding company of Artesian Water Company, Inc., or Artesian Water, Artesian Water Pennsylvania, Inc., or Artesian Water Pennsylvania, Artesian Water Maryland, Inc., or Artesian Water Maryland, Artesian Wastewater Management, Inc., or Artesian Wastewater,

Artesian Wastewater Maryland, Inc., or Artesian Wastewater Maryland, each a regulated public utility, and three non-regulated subsidiaries; Artesian Utility Development, Inc., or Artesian Utility, Artesian Development Corporation, or Artesian Development, and Artesian Consulting Engineers, Inc., or Artesian Consulting Engineers. The terms "we," "our" and the "Company" as used herein refer to Artesian Resources and its subsidiaries. The business activity conducted by each of our subsidiaries is discussed below under separate headings.

Our Market

Our current market area is the Delmarva Peninsula. Our largest service area is primarily in the State of Delaware, which had an estimated population of approximately 926,000 at July 1, 2013. According to the US Census Bureau, Delaware's population increased an estimated 3.1% from 2010 to 2013, as compared to the nationwide growth rate of approximately 2.4%. Substantial portions of Delaware, particularly outside of New Castle County, are not served by a public water or wastewater system and represent potential opportunities for Artesian Water and Artesian Wastewater to obtain new exclusive franchised service areas. We continue to focus resources on developing and serving existing service territories and obtaining new territories throughout the State.

In 2007, we expanded our services into Maryland. Cecil County Maryland, or Cecil County, has designated the Interstate 95 corridor as a preferred growth area for business and residential expansion. The Wilmington Metropolitan Area Planning Commission projects Cecil County will grow 61% between 2005 and 2030 and the Maryland Department of Planning projects that Cecil County will experience the highest rate of household growth through 2025 of any jurisdiction in the state.

We have interconnection agreements for the sale of water with the towns of Elkton and Chesapeake City, Maryland. The Town of Elkton is required to take a minimum of 250,000 gallons per day of water through the interconnection and may take a maximum of 1.5 million gallons per day, or mgd. In March 2013, the construction of the transmission line to Chesapeake City was completed.

We hold Certificates of Public Convenience and Necessity, or CPCNs, for approximately 280 square miles of exclusive water service territory and approximately 25 square miles of wastewater service territory, most of which is in Delaware and some in Maryland. Our largest connected regional water system, consisting of approximately 141 square miles and 71,000 customers, is located in northern New Castle County and portions of southern New Castle County, Delaware. A significant portion of our exclusive service territory in Delaware remains undeveloped, and if and when development occurs and there is population growth in these areas, along with the anticipated population growth in Maryland, we will increase our customer base by providing water and/or wastewater service to the newly developed areas and new customers.

Subsidiaries

Artesian Water

Artesian Water, our principal subsidiary, is the oldest and largest public water utility in the State of Delaware and has been providing water service within the state since 1905. Artesian Water distributes and sells water to residential, commercial, industrial, governmental, municipal and utility customers throughout the State of Delaware. In addition, Artesian Water provides services to other water utilities, including operations and billing functions, and also has contract operation agreements with private and municipal water providers. We also provide water for public and private fire protection to customers in our service territories.

Artesian Water Maryland

Artesian Water Maryland began operations in August 2007. Artesian Water Maryland distributes and sells water to residential, commercial, industrial and municipal customers in Cecil County, Maryland.

In May 2012, Artesian Water Maryland entered into an Asset Transfer Agreement with CECO Utilities, Inc., or CECO. At closing, which occurred in November 2012, CECO transferred its water utility assets, which included water mains, a treatment facility and an elevated water storage tank, to Artesian Water Maryland. The CECO water system serves approximately 200 customers. The CECO system was connected to Artesian Water Maryland's Meadowview water system upon closing on the transfer of assets.

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Artesian Water Pennsylvania

Artesian Water Pennsylvania began operations upon receiving recognition as a regulated public water utility by the Pennsylvania Public Utility Commission, or PAPUC, in 2002. It provides water service to a residential community in Chester County. Artesian Water Pennsylvania filed an application with the PAPUC to increase our service area in Pennsylvania, which was approved and a related order was entered on February 4, 2005. This application involved specific developments, in which we expect modest future growth.

Artesian Wastewater

Artesian Wastewater is a regulated entity that owns wastewater collection and treatment infrastructure and provides wastewater services to customers in Delaware as a regulated public wastewater service company. As of December 31, 2013, Artesian Wastewater owned and operated four wastewater treatment facilities, which are capable of treating approximately 730,000 gallons per day and can be expanded to treat approximately 1.6 mgd.

Artesian Wastewater Maryland

Artesian Wastewater Maryland is a regulated wastewater entity in the State of Maryland and was incorporated on June 3, 2008. Artesian Wastewater Maryland is able to provide public wastewater services to customers in the State of Maryland.

Artesian Utility

Artesian Utility was formed in 1996. It designs and builds water and wastewater infrastructure and provides contract water and wastewater services on the Delmarva Peninsula. Artesian Utility also evaluates land parcels, provides recommendations to developers on the size of water or wastewater facilities and the type of technology that should be used for treatment at such facilities, and operates water and wastewater facilities in Delaware for municipal and governmental organizations. Artesian Utility also contracts with developers for design and construction of wastewater facilities within the Delmarva Peninsula, using a number of different technologies for treatment of wastewater at each facility. In addition, as further discussed below, effective April 2012, Artesian Utility operates the Water Service Line Protection Plan, or WSLP Plan, and the Sewer Service Line Protection Plan, or SSLP Plan.

We currently operate wastewater treatment facilities for the town of Middletown, in southern New Castle County, or Middletown, under a 20-year contract that expires in July 2022. The facilities include two wastewater treatment stations with capacities of up to approximately 2.5 mgd and 250,000 gallons per day, respectively.

One of the wastewater treatment facilities in Middletown now provides reclaimed wastewater for use in spray irrigation on public and agricultural lands in the area. Our relationship with the Middletown has given us the opportunity to create the Artesian Water Resource Management Partnership, or AWRMP, to encourage and support the use of reclaimed water for agricultural irrigation and other needs. Using reclaimed water to irrigate farm fields can save the Delmarva region millions of gallons of groundwater each day. The AWRMP's first project in Middletown saves up to 3 mgd during the peak growing season. Through the AWRMP initiative, Artesian will provide planning, engineering and technical expertise and help bring together the various state, local and private partners needed for water recycling project approvals.

Artesian Utility operates the WSLP Plan and the SSLP Plan. Artesian Resources initiated the WSLP Plan in March 2005. The WSLP Plan covers all parts, material and labor required to repair or replace participating customers' leaking water service lines up to an annual limit. The WSLP Plan was expanded in the second quarter of 2008 to include maintenance or repair to customers' sewer lines. The SSLP Plan covers all parts, material and labor required to repair or replace participating customers' leaking or clogged sewer lines up to an annual limit. Also, in the second

quarter of 2010, the WSLP Plan and SSLP Plan were extended to include non-utility customers of Artesian Resources. As of December 31, 2013, approximately 18,400, or 25.8%, of our eligible water customers signed up for the WSLP Plan, approximately 12,800, or 17.9%, of our eligible customers signed up for the SSLP Plan and approximately 1,000 non-customer participants signed up for either the WSLP Plan or SSLP Plan.

Artesian Development

Artesian Development is a real estate holding company that owns properties, including land zoned for office buildings, a water treatment plant and wastewater facility, as well as property for current operations, including an office facility in Sussex County, Delaware. The facility consists of approximately 10,000 square feet of office space along with nearly 10,000 square feet of warehouse space. This facility allows all of our Sussex County, Delaware operations to be housed in one central location.

Artesian Consulting Engineers

Artesian Consulting Engineers no longer offers development and architectural services to outside third parties. Artesian will continue to provide design and engineering contract services through our Artesian Utility subsidiary.

Regulatory Matters

Overview

Our water and wastewater utility operations are subject to regulation by their respective state regulatory commissions, which have broad administrative power and authority to regulate rates charged for service, determine franchise areas and conditions of service, approve acquisitions, authorize the issuance of securities and other matters. The profitability of our utility operations is influenced, to a great extent, by the timeliness and adequacy of rate allowances we are granted by the respective regulatory commissions or authorities in the states in which we operate.

We are subject to regulation by the following state regulatory commissions:

- The Delaware Public Service Commission, or DEPSC, regulates both Artesian Water and Artesian Wastewater.
- The Maryland Public Service Commission, or MDPSC, regulates both Artesian Water Maryland and Artesian Wastewater Maryland.
- The Pennsylvania Public Utility Commission, or PAPUC, regulates Artesian Water Pennsylvania.

Our water and wastewater utility operations are also subject to regulation under the federal Safe Drinking Water Act, the Clean Water Act and related state laws, and under federal and state regulations issued under these laws. These laws and regulations establish criteria and standards for drinking water and for wastewater discharges. Capital expenditures and operating costs required as a result of water quality standards and environmental requirements have been traditionally recognized by state regulatory commissions as appropriate for inclusion in establishing rates.

Water and Wastewater Rates

Our regulated utilities periodically seek rate increases to cover the cost of increased operating expenses, increased financing expenses due to additional investments in utility plant and other costs of doing business. In Delaware, utilities are permitted by law to place rates into effect, under bond, on a temporary basis pending completion of a rate increase proceeding. The first temporary increase may be up to the lesser of \$2.5 million on an annual basis or 15% of gross water sales. Should the rate case not be completed within seven months, by law, the utility may put the entire requested rate relief, up to 15% of gross water sales, in effect under bond until a final resolution is ordered and placed into effect. If any such rates are found to be in excess of rates the DEPSC finds to be appropriate, the utility must refund the portion found to be in excess to customers with interest. The timing of our rate increase requests are

therefore dependent upon the estimated cost of the administrative process in relation to the investments and expenses that we hope to recover through the rate increase. We can provide no assurances that rate increase requests will be approved by applicable regulatory agencies and, if approved, we cannot guarantee that these rate increases will be granted in a timely or sufficient manner to cover the investments and expenses for which we initially sought the rate increase.

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Artesian Water, the DEPSC, and the Division of the Public Advocate entered into an agreement to settle Artesian Water's April 2011 application for an increase in rates. PSC Order No. 8097, issued on January 31, 2012, approved the settlement agreement, authorizing a permanent rate increase in revenue of approximately 11.13%, or \$6.25 million on an annualized basis. Since the permanent rate increase did not exceed amounts already collected under previously approved temporary increases in rates, Artesian Water was not required to refund any amounts to its customers. The approved permanent rate increase became effective January 1, 2012. The settlement also authorized a return on equity of 10%. Additionally, effective January 1, 2012, the settlement agreement permitted a tariff change that includes the use of a seasonal connection charge as well as a new approach for presenting the cost of retired property and ratemaking treatment for salvage costs to be recovered in rates. Previously, when depreciable units of utility plant were retired, the cost of retired property, together with any cost associated with retirement less any salvage value or proceeds received, was charged to accumulated depreciation. Under the settlement agreement, effective January 1, 2012, any cost associated with retirement less any salvage value or proceeds received is charged to a regulated retirement liability. This new approach resulted in an approximately \$1.2 million reclassification of accumulated depreciation of utility plant to deferred credits and other liabilities on our Consolidated Balance Sheet as of December 31, 2012. The settlement also authorized Artesian Water to change from quarterly to monthly billing, which was implemented in April 2012.

In late 2013, Artesian Water provided notice to the DEPSC of its intent to file an application on April 1, 2014 for a change in water rates. Artesian Water's last request to implement new rates was filed in April 2011.

On January 18, 2013, Artesian Wastewater filed an application with the DEPSC to revise its rates and charges for wastewater services concerning territories located in Kent and Sussex County, Delaware. Artesian Wastewater requested authorization to implement proposed rates for wastewater services to meet a requested increase in revenue of approximately \$343,000, or 34.8%, on an annualized basis. The new rates are designed to support Artesian Wastewater's ongoing capital improvement program and to cover increased costs of operations. On August 6, 2013, Artesian Wastewater, the Staff of the Delaware Public Service Commission and the Division of the Public Advocate entered into an agreement to settle Artesian Wastewater's application for an increase in rates. On October 8, 2013, the DEPSC approved the settlement agreement authorizing a two-step increase in rates, with the first step effective upon approval of the settlement and the second step effective one year thereafter. Once fully implemented, based on the current number of households, the new rates will provide Artesian Wastewater approximately \$174,000 in additional annual revenue. The settlement also authorized a return on equity of 10%.

Service Territory Expansion

In Delaware, a Certificate of Public Convenience and Necessity, or CPCN, grants a water or wastewater company the exclusive right to serve all existing and new customers within a designated area. The DEPSC has the authority to issue and revoke these CPCNs. In this Form 10-K, we may refer to CPCNs as "franchises" or "service territories."

For a water company, the DEPSC may grant a CPCN under circumstances where there has been a determination that the water in the proposed service area does not meet the regulations governing drinking water standards of the State Division of Public Health for human consumption or where the supply is insufficient to meet the projected demand. For a wastewater company, the DEPSC has jurisdiction over non-governmental wastewater utilities having fifty or more customers in the aggregate. A CPCN for water and wastewater utilities shall be granted by the DEPSC to applicants in possession of one of the following:

Ø a signed service agreement with the developer of a proposed subdivision or development, which subdivision or development has been duly approved by the respective county government;

Ø a petition requesting such service signed by a majority of the landowners of the proposed territory to be served; or

Øa duly certified copy of a resolution from the governing body of a county or municipality requesting the applicant to provide service to the proposed territory to be served.

CPCNs are not transferable. A water or wastewater utility that has a CPCN must obtain the approval of the DEPSC to abandon a service territory. Once a CPCN is granted to a water or wastewater utility, it may not be suspended or terminated unless the DEPSC determines in accordance with its rules and regulations that good cause exists for any such suspension or termination. Although Artesian has been granted an exclusive franchise for each of its existing water and wastewater systems, its ability to expand service areas can be affected by the DEPSC awarding franchises to other regulated water or wastewater utilities with whom we compete for such franchises.

In Maryland, the Company must obtain approval from the appropriate local government authority for the ability to serve a particular area and also ensure that the acquired area is in the county's master water and sewer plan. The authority to exercise a franchise must then be obtained from the MDPSC. Utilities that seek to develop a franchise by constructing new facilities must obtain appropriate approvals from the Maryland Department of the Environment, the local government and the MDPSC. The utility must also obtain approval for soil and erosion plans and easement agreements from appropriate parties.

In November 2012, Artesian Water Maryland closed on the transfer of the CECO water system assets. CECO transferred its water utility assets, which included water mains, a treatment facility and an elevated water storage tank, to Artesian Water Maryland. The CECO water system serves approximately 200 customers. The CECO system was connected to Artesian Water Maryland's Meadowview water system upon closing on the transfer of assets.

Other Regulatory Matters

Delaware law permits water utilities to put into effect, on a semi-annual basis, increases related to specific types of distribution system improvements through a Distribution System Improvement Charge, or DSIC. This charge may be implemented by water utilities between general rate increase applications that normally recognize changes in a water utility's overall financial position. The DSIC approval process is less costly when compared to the approval process for general rate increase requests. The DSIC rate applied between base rate filings is capped at 7.5% of the amount billed to customers under otherwise applicable rates and charges, and the DSIC rate increase applied cannot exceed 5% within any 12-month period. In May 2012, Artesian Water filed an application with the DEPSC for approval to collect a DSIC rate of 0.14% effective July 1, 2012. This rate was based on approximately \$486,000 in eligible plant improvements since the last rate application. On June 19, 2012, the DEPSC approved the DSIC effective July 1, 2012. In December 2013, the DEPSC issued an Order affirming the DSIC rate effective July 1, 2012. In November 2012, Artesian Water filed an application with the DEPSC for approval to collect a DSIC rate of 1.59% effective January 1, 2013. This rate was based on approximately \$4.6 million in eligible plant improvements since the last rate application. On December 14, 2012, the DEPSC approved the DSIC effective January 1, 2013, subject to audit at a later date. In May 2013, Artesian Water filed an application with the DEPSC for approval to collect a DSIC rate of 2.09% effective July 1, 2013. This rate was based on approximately \$2.0 million in eligible plant improvements since the last rate application. On June 18, 2013, the DEPSC approved the DSIC effective July 1, 2013, subject to audit at a later date. In November 2013, Artesian Water filed an application with the DEPSC for approval to collect a DSIC rate of 3.32% effective January 1, 2014. This rate was based on approximately \$4.9 million in eligible plant improvements since the last rate application. On December 17, 2013, the DEPSC approved the DSIC effective January 1, 2014, subject to audit at a later date. For the years ended December 31, 2013 and December 31, 2012, we earned approximately \$1.1 million and \$42,000 in DSIC revenue, respectively.

Environment

Our water and wastewater operations are subject to federal, state, and local requirements relating to environmental protection. The United States Environmental Protection Agency, or the EPA, the Delaware Department of Natural Resources and Environmental Control, or DNREC, and the Delaware Division of Public Health or the DPH, regulate

the water quality of our treatment and distribution systems in Delaware, as do the EPA and the Maryland Department of the Environment, or MDE, with respect to our operations in Maryland. Chester Water Authority, which supplies water to Artesian Water through interconnections in northern New Castle County, is regulated by the Pennsylvania Department of Environmental Protection, as well as the EPA. We believe that we are in material compliance with all current federal, state and local water quality standards, including regulations under the federal Safe Drinking Water Act. However, if new water quality regulations are too costly, or if we fail to comply with such regulations, it could have a material adverse effect on our financial condition and results of operations.

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The water industry is capital intensive, with the highest capital investment in plant and equipment per dollar of revenue among all utilities. Increasingly stringent drinking water regulations to meet the requirements of the Safe Drinking Water Act of 1974 have required the water industry to invest in more advanced treatment systems and processes, which require a heightened level of expertise. We are currently in full compliance with the requirements of the Safe Drinking Water Act. Even though our water utility was founded in 1905, the majority of our investment in infrastructure occurred in the last 30 years.

Under Delaware state laws and regulations, we are required to file applications with DNREC for water allocation permits for each of our operating wells pumping greater than 50,000 gallons per day. We have 119 operating and 58 observation and monitoring wells in our Delaware systems. At December 31, 2013, we had allocation permits for 103 wells, permit applications pending for 5 wells, and 11 wells that do not require a permit. Our access to aquifers within our service territory is not exclusive. Water allocation permits control the amount of water that can be drawn from water resources and are granted with specific restrictions on water level draw down limits, annual, monthly and daily pumpage limits, and well field allocation pumpage limits. We are also subject to water allocation regulations that control the amount of water that we can draw from water sources. As a result, if new or more restrictive water allocation regulations are imposed, they could have an adverse effect on our ability to supply the demands of our customers, and in turn, our water supply revenues and results of operations. Our ability to supply the demands of our customers historically has not been affected by private usage of the aquifers by landowners or the limits imposed by the state of Delaware. Because of the extensive regulatory requirements relating to the withdrawal of any significant amounts of water from the aquifers, we believe that third party usage of the aquifers within our service territory will not interfere with our ability to meet the present and future demands of our customers.

As required by the Safe Drinking Water Act, the EPA has established maximum contaminant levels for various substances found in drinking water to ensure that the water is safe for human consumption. These limits are known as Maximum Contaminant Levels and Maximum Residual Disinfection Levels. The EPA also regulates how often public water systems monitor their water for contaminants and report the monitoring results to the individual state agencies or the EPA. Generally, the larger the population served by a water system, the more frequent the monitoring and reporting requirements. The Safe Drinking Water Act applies to all 50 states.

DPH has set maximum contaminant levels for certain substances that are more restrictive than the maximum contaminant levels set by the EPA. The DPH is the EPA's agent for enforcing the Safe Drinking Water Act in Delaware and, in that capacity, monitors the activities of Artesian Water and reviews the results of water quality tests performed by Artesian Water for adherence to applicable regulations. Artesian Water is also subject to other laws regulating substances and contaminants in water, including the Lead and Copper Rule, rules for volatile organic compounds and the Total Coliform Rule.

A normal by-product of our iron removal treatment facilities is a solid consisting of the iron removed from untreated groundwater plus residue from chemicals used in the treatment process. The solids produced at our facilities are either disposed directly into approved wastewater facilities or removed from our facilities by a licensed third party vendor. Management believes that compliance with existing federal, state or local laws and regulations regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, has no material effect upon the business and affairs of the Company, but there is no assurance that such compliance will continue to not have a material effect in the future.

The MDE ensures that water quality and quantity at all public water systems in Maryland meet the needs of the public and are in compliance with federal and state regulations. The MDE also ensures that public drinking water systems provide safe and adequate water to all current and future users in Maryland, and that appropriate usage, planning, and conservation policies are implemented for Maryland's water resources. The MDE oversees the development of Source Water Assessments for water supplies, and issues water appropriation permits for public drinking water systems. In order to appropriate water for municipal, commercial, industrial or other non-domestic uses, a Water Appropriation

Permit must be obtained. Issuance of the permit involves evaluating the needs of the user and the potential impact of the withdrawal on neighboring users and the water source in order to maximize beneficial use of the water of the State of Maryland. Permits for large appropriations often involve conducting pump tests to measure adequacy of an aquifer and safe yield of a well, or reviewing stream flow records to determine the adequacy of a surface water source. Regulations were finalized in 1999 that require all new community water systems to have sufficient technical, managerial and financial capacity to provide safe drinking water to their consumers prior to being issued a Construction Permit. Also, in 2007, capacity management guidance was finalized. Capacity limiting factors can include, source capacity, treatment capacity and appropriation permit quantity. We have 12 operating wells and one surface water in-take in our Maryland systems.

The Clean Water Act has established the foundation for wastewater discharge control in the United States. The Clean Water Act established a control program for ensuring that communities have clean water by regulating the release of contaminants into waterways. Permits that limit the amounts of pollutants discharged are required of all wastewater dischargers under the National Pollutant Discharge Elimination System permit program. The Clean Water Act also requires that wastewater treatment plant discharges meet a minimum of secondary treatment. The secondary treatment process can remove up to 90% of the organic matter in wastewater. We operate environmentally friendly wastewater systems that meet all requirements of federal, state and local standards.

Sources of Water

We derive about 95% of our self-supplied groundwater from wells located in the Atlantic Coastal Plain. The remaining 5% of our groundwater supply comes from wells in the Piedmont Province. We use a variety of treatment methods, including aeration, pH adjustment, chlorination, fluoridation, arsenic removal, nitrate removal and iron removal, to meet federal, state and local water quality standards. Additionally, a corrosion inhibitor is added to all of our self-supplied groundwater and most of the supply from interconnections. We have 56 different water treatment facilities in our Delaware systems. We have 8 separate water treatment facilities in our Maryland systems. All water supplies that we purchase from neighboring utilities are potable. Based on our experience, we believe that the costs of treating groundwater are significantly lower than those of treating surface water.

Our primary sources of water are our wells that pump groundwater from aquifers and other formations. To supplement our groundwater supply, we purchase treated surface water through interconnections only in the northern service area of our New Castle County, Delaware system. The purchased treated surface water is blended with our groundwater supply for distribution to our customers. Nearly 84% of the overall 7.3 billion gallons of water we distributed in all of our Delaware systems during 2013 came from our groundwater wells, while the remaining 16% came from interconnections with other utilities and municipalities. The majority of the 0.1 billion gallons of water we distributed in all of our Maryland systems during 2013 came from our groundwater wells, while a portion came from treated surface water. During 2013, our average rate of water pumped to our Delaware systems was approximately 16.9 mgd from our groundwater wells and approximately 3.2 mgd was supplied from interconnections. We have one water treatment facility that treats surface water from the Susquehanna River, located in Cecil County, Maryland. Our peak water supply capacity currently is approximately 59.0 mgd in Delaware and approximately 2.0 mgd in Maryland. We believe that we have in place sufficient capacity to provide water service for the foreseeable future to all existing and new customers in all of our service territories.

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Interconnections and Storage

Most of our New Castle County, Delaware water system is interconnected. In the remainder of the State of Delaware, we have several satellite systems that have not yet been connected by transmission and distribution facilities. We intend to join these systems into larger integrated regional systems through the construction of a transmission and distribution network as development continues and our expansion efforts provide us with contiguous exclusive service territories.

In Delaware, we have 22 interconnections with 2 neighboring water utilities and 6 municipalities that provide us with the ability to purchase or sell water. An interconnection agreement with the Chester Water Authority has a "take or pay" clause requiring us to purchase 1.095 billion gallons annually. During the fiscal year ended December 31, 2013, we used the minimum draw under this agreement. The Chester Water Authority agreement, which expires December 31, 2021, provides for the right to extend the term of this agreement through and including December 31, 2047, at our option, subject to the approval of the Susquehanna River Basin Commission. All of the interconnections provide Artesian Water the ability to sell water to neighboring water utilities or municipalities. In Maryland, we have an interconnection that connects the Artesian Water system in Delaware to the Meadowview System, an interconnection with a neighboring utility, and three interconnections with the Town of Elkton. The interconnection with the Artesian Water Delaware system is capable of providing up to 3.0 mgd of water to our Maryland systems, of which 1.5 mgd is available to the Town of Elkton per our agreement with the Town. In March 2013, the interconnection to the Town of Chesapeake City was completed. The Town of Chesapeake City placed in service an interconnection and 1.57 miles of new water main to provide water to the Town of Chesapeake City from the Artesian Water Delaware system on Chesapeake City Road. The Chesapeake City Road plant is capable of producing up to 3 mgd and is part of a regional system with a production capacity of up to 28 mgd.

As of December 31, 2013, we were serving customers through approximately 1,182 miles of transmission and distribution mains. Mains range in diameter from two inches to twenty-four inches, and most of the mains are made of ductile iron or cast iron. We supply public fire protection service through approximately 5,703 hydrants installed throughout our service territories.

We have 29 storage tanks in Delaware, most of which are elevated, providing total system storage of 42 million gallons. We have developed and are using an Aquifer Storage and Recovery, or ASR, system in New Castle County, Delaware. Our ASR system provides approximately 130 million gallons of storage capacity, which can be withdrawn at an average rate of approximately 1 mgd. At some locations, we rely on hydropneumatic tanks to maintain adequate system pressures. Where possible, we combine our smaller satellite systems with systems having elevated storage facilities. In Cecil County, Maryland we have 7 storage tanks capable of storing approximately 2.4 million gallons.

Additional General Information

Seasonality

Substantially all of our water customers are metered, which allows us to measure and bill for our customers' water consumption. Demand for water during the warmer months is generally greater than during cooler months due primarily to additional customer requirements for water in connection with cooling systems, swimming pools, irrigation systems and other outside water use. Throughout the year, and particularly during typically warmer months, demand for water will vary with temperature and rainfall. In the event that temperatures during the typically warmer months are cooler than expected, or there is more rainfall than expected, the demand for water may decrease and our revenues may be adversely affected.

Competition

Our business in our franchised service areas is substantially free from direct competition with other public utilities, municipalities and other entities. However, our ability to provide additional water and wastewater services is subject to competition from other public utilities, municipalities and other entities. Even though our regulated utilities have been granted an exclusive franchise for each of our existing community water and wastewater systems, our ability to expand service areas can be affected by the DEPSC, the MDPSC or the PAPUC, awarding franchises to other regulated water or wastewater utilities with whom we compete for such franchises.

Employees

The Company has no collective bargaining agreements with any of its employees, and its work force is not union organized or union represented. As of December 31, 2013, we employed 237 full-time and 2 part-time employees. Of these employees, 24 were officers and managers; 140 were employed as operations personnel, including engineers, technicians, draftsman, maintenance and repair persons, meter readers and utility personnel; and 56 were employed in accounting, budgeting, information systems, human resources, customer relations and public relations. The remaining 19 employees were administrative personnel. We believe that our employee relations are good.

Available Information

We are a Delaware corporation with our principal executive offices located at 664 Churchmans Road, Newark, Delaware, 19702. Our telephone number is (302) 453-6900 and our website address is www.artesianresources.com. We make available free of charge through our website our Code of Ethics, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. We include our website address in this Annual Report on Form 10-K only as an inactive textual reference and do not intend it to be an active link to our website.

We file our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K pursuant to Section 13(a) or 15(d) of the Exchange Act electronically with the Securities and Exchange Commission, SEC. The public may read or copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC, 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site, www.sec.gov, that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

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ITEM 1A.

RISK FACTORS

We are exposed to a variety of risks and uncertainties. Most are general risks and uncertainties applicable to all water utility companies. We describe below some of the specific known risk factors that could negatively affect our business, financial condition or results of operations. If one or more of these risks or uncertainties materialize, actual results may vary materially from our projections. All forward-looking statements made by us in this Annual Report to the Securities and Exchange Commission on Form 10-K, in our Annual Report to Shareholders and in our subsequently filed quarterly and current reports to the Securities and Exchange Commission, as well as in our press releases and other public communications, are qualified by the risks described below.

Our operating revenue is primarily from water sales. The rates that we charge our customers are subject to the regulations of the Public Service Commissions in the states in which we operate. Additionally, our business requires significant capital expenditures on an annual basis and these expenditures are made for additions and replacement of property. If a Public Service Commission disapproves or is unable to timely approve our requests for rate increase or approves rate increases that are inadequate to cover our investments or increased costs, our profitability may suffer.

We file rate increase requests, from time to time, to recover our investments in utility plant and expenses. Once a rate increase petition is filed with a Public Service Commission, the ensuing administrative and hearing process may be lengthy and costly. We can provide no assurances that any future rate increase request will be approved by the DEPSC, MDPSC or PAPUC, and if approved, we cannot guarantee that these rate increases will be granted in a timely manner and/or will be sufficient in amount to cover the investments and expenses for which we initially sought the rate increase.

We rely on governmental approvals in the States of Delaware and Maryland for applicable water allocation, water appropriation and water capacity permits related to additional systems that will assist in the operation of our water business as well as wastewater collection, treatment and disposal permits that will assist in the operation of our wastewater business.

Our water and wastewater services are governed by various federal and state governmental agencies. Pursuant to these regulations, we are required to obtain various permits for any additional systems to assist in our operations. If any of those permit approvals are not received timely or at all, the Company may risk the loss of economic opportunity and its ability to create additional systems for the effective operation of our water or wastewater business in Delaware and Maryland. We can provide no assurances that we will receive all necessary permits to create additional systems to assist in the operation of our water or wastewater business.

Our business is subject to seasonal fluctuations, which could affect demand for our water service and our revenues.

Demand for water during warmer months is generally greater than during cooler months primarily due to additional customer requirements in irrigation systems, swimming pools, cooling systems and other outside water use. In the event that temperatures during typically warmer months are cooler than normal, or when rainfall is more than normal, the demand for our water may decrease and adversely affect our revenues.

Drought conditions and government imposed water use restrictions may impact our ability to serve our current and future customers, and may impact our customers' use of our water, which may adversely affect our financial condition and results of operations.

We believe that we have in place sufficient capacity to provide water service for the foreseeable future to all existing and new customers in all of our service territories. However, severe drought conditions could interfere with our sources of water supply and could adversely affect our ability to supply water in sufficient quantities to our existing and future customers. This may adversely affect our revenues and earnings. Moreover, governmental restrictions on

water usage during drought conditions may result in a decreased demand for water, which may adversely affect our revenue and earnings.

Our operating costs could be significantly increased if new or stricter regulatory standards are imposed by federal and state environmental agencies.

Our water and wastewater services are governed by various federal and state environmental protection and health and safety laws and regulations, including the federal Safe Drinking Water Act, the Clean Water Act and similar state laws. These federal and state regulations are issued by the United States Environmental Protection Agency and state environmental regulatory agencies. Pursuant to these laws, we are required to obtain various water allocation permits and environmental permits for our operations. The water allocation permits control the amount of water that can be drawn from water resources. New or stricter water allocation regulations can adversely affect our ability to meet the demands of our customers. While we have budgeted for future capital and operating expenditures to maintain compliance with these laws and our permits, it is possible that new or stricter standards would be imposed that will raise our operating costs. Thus, we can provide no assurances that our costs of complying with, or discharging liability under current and future environmental and health and safety laws will not adversely affect our business, results of operations or financial condition.

We are subject to risks associated with the collection, treatment and disposal of wastewater.

Wastewater collection, treatment and disposal involve various unique risks. If collection or treatment systems fail, overflow, or do not operate properly, untreated wastewater or other contaminants could spill onto nearby properties or into nearby streams and rivers, causing damage to persons or property, injury to aquatic life and economic damages, which may not be recoverable in fees. This risk is most acute during periods of substantial rainfall or flooding, which are common causes of sewer overflow and system failure. Liabilities resulting from such damages and injuries could materially and adversely affect the Company's results of operations and financial condition.

Turnover in our management team could have an adverse impact on our business or the financial market's perception of our ability to continue to grow.

Our success depends significantly on the continued contribution of our management team both individually and collectively. The loss of the services of any member of our management team or the inability to hire and retain experienced management personnel could harm our operating results.

We face competition from other water and wastewater utilities for the acquisition of new exclusive service territories.

Water and wastewater utilities competitively pursue the right to exclusively serve territories in Delaware and Maryland by entering into agreements with landowners, developers or municipalities and, under current law, then applying to the DEPSC or the MDPSC for a CPCN, which grants a water or wastewater utility the exclusive right to serve all existing and new customers of a water or wastewater utility within a designated area. Typically, water and wastewater utilities enter into agreements with developers who have approval from county governments with respect to proposed subdivisions or developments. Once a CPCN is granted to a water or wastewater utility, generally it may not be suspended or terminated unless the DEPSC or MDPSC determines in accordance with its rules and regulations that good cause exists for any such suspension or termination. Therefore, we face competition from other water and wastewater utilities as we pursue the right to exclusively serve territories. If we are unable to enter into agreements with landowners, developers or municipalities and secure CPCNs for the right to exclusively serve territories in Delaware or Maryland, our ability to expand may be significantly impeded.

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We depend on the availability of capital for expansion, construction and maintenance. Weaknesses in capital and credit markets may limit our access to capital.

Our ability to continue our expansion efforts and fund our utility construction and maintenance program depends on the availability of adequate capital. There is no guarantee that we will be able to obtain sufficient capital in the future on favorable terms and conditions for expansion, construction and maintenance. In the event our lines of credit are not extended or we are unable to refinance our first mortgage bonds when due and the borrowings are called for payment, we will have to seek alternative financing sources, although there can be no assurance that these alternative financing sources will be available on terms acceptable to us. In the event we are unable to obtain sufficient capital, our expansion efforts could be curtailed, which may affect our growth and may affect our future results of operations.

General economic conditions may materially and adversely affect our financial condition and results of operations.

The effects of adverse U.S. economic conditions may lead to a number of impacts on our business that may materially and adversely affect our financial condition and results of operations. Such impacts may include a reduction in discretionary and recreational water use by our residential water customers, particularly during the summer months; a decline in usage by industrial and commercial customers as a result of decreased business activity and commerce in our customers' businesses; an increased incidence of customers' inability, bankruptcy or delay in paying their bills which may lead to higher bad debt expense and reduced cash flow; and a lower natural customer growth rate may result as compared to what had been experienced before the economic downturn due to a decline in new housing starts and a possible slight decline in the number of active customers due to housing vacancies or abandonments.

Any future acquisitions we undertake or other actions to further grow our water and wastewater business may involve risks.

An element of our growth strategy is the acquisition and integration of water and wastewater systems in order to broaden our current service areas, and move into new ones. It is our intent, when practical, to integrate any businesses we acquire with our existing operations. The negotiation of potential acquisitions as well as the integration of acquired businesses could require us to incur significant costs and cause diversion of our management's time and resources. We may not be successful in the future in identifying businesses that meet our acquisition criteria. The failure to identify such businesses may limit the rate of our growth. In addition, future acquisitions or expansion of our service areas by us could result in:

- ØDilutive issuance of our equity securities;
- ØIncurrence of debt and contingent liabilities;
- ØDifficulties in integrating the operations and personnel of the acquired businesses;
- ØDiversion of our management's attention from ongoing business concerns;
- ØFailure to have effective internal control over financial reporting;
- ØOverload of human resources; and
- ØOther acquisition-related expense

Some or all of these items could have a material adverse effect on our business and our ability to finance our business and comply with regulatory requirements. The businesses we acquire in the future may not achieve sales and profitability that would justify our investment.

We also may experience risks relating to the challenges and costs of closing a transaction and the risk that an announced transaction may not close. Completion of certain acquisition transactions are conditioned upon, among other things, the receipt of approvals, including from the certain state public utilities commissions. Failure to complete a pending transaction would prevent us from realizing the anticipated benefits. We would also remain liable for significant transaction costs, including legal and accounting fees, whether or not the transaction is completed.

We are subject to, and could be further subject to, governmental investigations or actions by other third parties.

We are subject to various federal and state laws, including environmental laws, violations of which can involve civil or criminal sanctions.

As previously disclosed, on December 22, 2010, Artesian Water filed a complaint in the United States District Court for the Eastern District of Pennsylvania, or District Court, against Chester Water Authority claiming breach of contract, unjust enrichment and requesting declaratory judgment in relation to an interconnection agreement with Chester Water Authority to supply bulk water supplies to Artesian Water. On February 11, 2011, Artesian Water received an answer and counterclaim from Chester Water Authority denying Artesian Water's claims and allegations, asserting a counterclaim for breach of contract and seeking monetary damages, related costs and attorneys' fees.

In January and February 2013 trials were held before a judge appointed authority, or Special Master. On October 17, 2013, the Special Master filed preliminary recommendations with the District Court, which include a recommendation that the District Court order Artesian Water to pay to Chester Water Authority amounts withheld of approximately \$2.6 million. The amount withheld from Artesian Water's previous payments to Chester Water Authority was accrued by Artesian Water when invoiced by Chester Water Authority and the total is reflected in accrued expenses on our Consolidated Balance Sheet as of December 31, 2013. The Special Master also recommended that a 10% late fee be paid by Artesian Water to Chester Water Authority totaling approximately \$230,000, although such fee is not within Artesian Water's contract with Chester Water Authority or within any tariff posted by Chester Water Authority. The Special Master rejected Chester Water Authority's counterclaim in his recommendation to the District Court.

In November 2013, Artesian Water filed objections to the preliminary recommendations filed by the Special Master. A final judgment will not be entered until the District Court has considered the objections and any responses thereto. Although Artesian Water intends to pursue vigorously its objections to the preliminary recommendations filed by the Special Master, there can be no assurances that it will prevail on any of the claims in the action, or, if it does prevail on one or more claims, of the amount or nature of recovery that may be awarded.

Our operations from time to time could be parties to or targets of additional lawsuits, claims, investigations and proceedings, including system failure, injury, contract, environmental, health and safety and employment matters, which are handled and defended in the ordinary course of business. The results of any future litigation or settlement of such lawsuits and claims are inherently unpredictable, but such outcomes could also materially and adversely affect our business, financial position and results of operations.

We are dependent on the continuous and reliable operation of our information technology systems.

We rely on our information technology systems to manage our operation of our business. Specifically with respect to customer service and billing, managing construction projects, managing our financial records, tracking assets, remotely monitoring some of our treatment, storage and pumping facilities and managing human resources, inventory and accounts receivable collections. Such systems require periodic modifications, upgrades and or replacement that subject us to inherent costs and risks, including substantial capital expenditures, additional administration and operating expenses, and other risks and costs of delays in transitioning to new systems or of integrating new systems into our current systems. Our computer and communications systems and operations could be damaged or interrupted by natural disasters, telecommunications failures or acts of war or terrorism or similar events or disruptions. A loss of these systems or major problems with the operation of these systems could affect our operations and have a material adverse effect on our results of operations.

There have been an increasing number of cyber-attacks on companies around the world, which have caused operational failures or compromised sensitive corporate or customer data. These attacks have occurred over the internet, through malware, viruses or attachments to e-mails or through persons inside the organization or with access

to systems inside the organization. We have implemented security measures and will continue to devote resources to address any security vulnerabilities in an effort to prevent cyber-attacks. Despite our efforts, a cyber-attack, if it occurred, could cause water or wastewater system problems, disrupt service to our customers, compromise important data or systems or result in an unintended release of customer information. We feel we have adequate cyber-security insurance coverage to mitigate the cost of any such cyber-attack, however, a possible cyber-attack could affect our operations and have a material adverse effect on our results of operations.

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Contamination of our water supply may result in disruption in our services and could lead to litigation that may adversely affect our business, operating results and financial condition.

Our water supplies are subject to contamination from naturally-occurring compounds as well as pollution resulting from man-made sources. Even though we monitor the quality of water on an on-going basis, any possible contamination due to factors beyond our control could interrupt the use of our water supply until we are able to substitute it from an uncontaminated water source. Additionally, treating the contaminated water source could involve significant costs and could adversely affect our business. We could also be held liable for consequences arising out of human or environmental exposure to hazardous substances, if found, in our water supply. This could adversely affect our business, results of operations and financial condition.

Potential terrorist attacks may disrupt our operations and adversely affect our business, operating results and financial condition.

We have taken steps to increase security measures at our facilities and heighten employee awareness of threats to our water supply. We also have tightened our security measures regarding delivery and handling of certain chemicals used in our business. We have and will continue to bear any increase in costs, most of which have been recoverable under state regulatory policies, for security precautions to protect our facilities, operations and supplies. While the costs of increases in security, including capital expenditures, may be significant, we expect these costs to continue to be recoverable in water and wastewater rates. Despite our security measures, we may not be in a position to control the outcome of terrorist events, or other attacks on our water systems, should they occur.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters are located at 664 Churchmans Road, Newark, Delaware and are owned by Artesian Water.

Artesian Development owns approximately 6 acres of land in New Castle County, Delaware zoned for office development and two nine-acre parcels of land in Sussex County, Delaware for water and wastewater treatment facilities and elevated water storage. Artesian Development also owns an office facility located in Sussex County, Delaware. The facility consists of approximately 10,000 square feet of office space along with approximately 10,000 square feet of warehouse space.

Artesian Water owns land, rights-of-way, easements, transmission and distribution mains, pump facilities, treatment plants, storage tanks, meters, vehicles and related equipment and facilities throughout Delaware, of which the majority is used for utility operations. Artesian Water Pennsylvania owns transmission and distribution mains. Artesian Water Maryland owns land, transmission and distribution mains, pump facilities and storage tanks. Artesian Wastewater owns land, rights-of-way, easements, treatment and disposal plants, collection mains and lift stations. Artesian Wastewater owns a 75-acre parcel of land for the operation of the wastewater facility known as the Northern Sussex Regional Water Recharge Complex. The following table indicates our utility plant as of December 31, 2013.

Utility plant comprises:

In thousands

2013

	Estimated Useful Life (In Years)	
Utility plant at original cost		
Utility plant in service-Water		
Intangible plant	---	\$140
Source of supply plant	45-85	17,778
Pumping and water treatment plant	8-62	65,089
Transmission and distribution plant		
Mains	81	205,759
Services	39	32,912
Storage tanks	76	23,895
Meters	26	21,585
Hydrants	60	10,964
General plant	3-31	49,593
Utility plant in service-Wastewater		
Treatment and Disposal Plant	35-62	12,420
Collection Mains and Lift Stations	81	6,745
General plant	3-31	860
Property held for future use	---	14,865
Construction work in progress	---	5,793
		468,398
Less – accumulated depreciation		89,438
		\$378,960

Substantially all of Artesian Water's utility plant, except the utility plant in the town of Townsend, Delaware, is pledged as security for First Mortgage Securities. As of December 31, 2013, no other utility plant has been pledged as security for loans.

We believe that our properties are generally maintained in good condition and in accordance with current standards of good water and wastewater works industry practice. We believe that all of our existing facilities adequately meet current necessary production capacities and current levels of utilization.

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ITEM 3. LEGAL PROCEEDINGS

As previously disclosed, on December 22, 2010, Artesian Water filed a complaint in the United States District Court for the Eastern District of Pennsylvania, or District Court, against Chester Water Authority claiming breach of contract, unjust enrichment and requesting declaratory judgment in relation to an interconnection agreement with Chester Water Authority to supply bulk water supplies to Artesian Water. On February 11, 2011, Artesian Water received an answer and counterclaim from Chester Water Authority denying Artesian Water's claims and allegations, asserting a counterclaim for breach of contract and seeking monetary damages, related costs and attorneys' fees.

In January and February 2013 trials were held before a judge appointed authority, or Special Master. On October 17, 2013, the Special Master filed preliminary recommendations with the District Court, which include a recommendation that the District Court order Artesian Water to pay to Chester Water Authority amounts withheld of approximately \$2.6 million. The amount withheld from Artesian Water's previous payments to Chester Water Authority was accrued by Artesian Water when invoiced by Chester Water Authority and the total is reflected in accrued expenses on our Consolidated Balance Sheet as of December 31, 2013. The Special Master also recommended that a 10% late fee be paid by Artesian Water to Chester Water Authority totaling approximately \$230,000, although such fee is not within Artesian Water's contract with Chester Water Authority or within any tariff posted by Chester Water Authority. The Special Master rejected Chester Water Authority's counterclaim in his recommendation to the District Court.

In November 2013, Artesian Water filed objections to the preliminary recommendations filed by the Special Master. A final judgment will not be entered until the District Court has considered the objections and any responses thereto. Although Artesian Water intends to pursue vigorously its objections to the preliminary recommendations filed by the Special Master, there can be no assurances that it will prevail on any of the claims in the action, or, if it does prevail on one or more claims, of the amount or nature of recovery that may be awarded.

Periodically, we are involved in other proceedings or litigation arising in the ordinary course of business. We do not believe that the ultimate resolution of these matters will materially affect our business, financial position or results of operations. However, we cannot assure that we will prevail in any litigation and, regardless of the outcome, may incur significant litigation expense and may have significant diversion of management attention.

ITEM 4. MINE SAFETY DISCLOSURES

The information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K (17 CFR 229.104) is not applicable to our Company.

PART II

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND
5. ISSUER PURCHASES OF EQUITY SECURITIES

Market Information for the Company's Common Equity

Artesian Resources' Class A Non-Voting Common Stock, or Class A Stock, is listed on NASDAQ Global Select Market and trades under the symbol "ARTNA." On March 6, 2014, the last closing sale price as reported by the NASDAQ Global Select Market was \$22.29 per share. On March 6, 2014, there were 747 holders of record of the Class A Stock. The following table sets forth, for the periods indicated, the high and low closing sale prices for the Class A Stock as reported by NASDAQ Global Select Market and the cash dividends declared per share.

CLASS A NON-VOTING COMMON STOCK

	High	Low	Dividend Per Share
2012			
First Quarter	\$19.64	\$18.33	\$0.1930
Second Quarter	21.54	18.43	0.1978
Third Quarter	23.48	20.65	0.1978
Fourth Quarter	24.24	19.95	0.2027
2013			
First Quarter	\$22.88	\$21.73	\$0.2027
Second Quarter	23.57	22.88	0.2057
Third Quarter	23.99	21.80	0.2057
Fourth Quarter	23.70	21.68	0.2088

Our Class B Voting Stock, or Class B Stock, is quoted on the OTC Bulletin Board under the symbol "ARTNB." There has been a limited and sporadic public trading market for the Class B Stock. As of March 6, 2014, the last reported trade of the Class B Stock on the OTC Bulletin Board was at a price of \$22.00 per share on February 7, 2014. As of March 6, 2014, we had 163 holders of record of the Class B Stock. The Class B shares are paid the same dividend as the Class A shares noted in the table above.

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Recent Sales of Unregistered Securities

During the quarter ended December 31, 2013, we did not issue any unregistered shares of our Class A or Class B Stock.

Equity Compensation Plan Information

The following table provides information on the shares of our Class A Stock that may be issued upon exercise of outstanding stock options as of December 31, 2013 under the Company's stockholder approved stock plans.

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options (a)	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	387,000	\$ 18.96	365,250
Equity compensation plans not approved by security holders	---	---	---
Total	387,000		365,250

The following graph compares the percentage change in cumulative shareholder return on the Company's Class A Stock with the Standard & Poor's 500 Stock Index and a Peer Group of water utility companies having similar market capitalizations. The graph covers the period from December 2008 (assuming a \$100 investment on December 31, 2008, and the reinvestment of any dividends) through December 2013:

Company Name / Index	INDEXED RETURNS					
	Base Period	Years Ending December 31				
	2008	2009	2010	2011	2012	2013
Artesian Resources Corporation	100	120.51	130.00	134.45	166.55	176.75
S&P 500 Index	100	126.46	145.51	148.59	172.37	228.19
Peer Group	100	98.78	117.63	134.07	159.70	188.89

The Peer Group includes American States Water Company, American Water Works Company, Inc., Aqua America, Inc., California Water Service Group, Connecticut Water Service, Inc., Middlesex Water Company, SJW Corporation and The York Water Company.

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Utility plant, at original cost less accumulated depreciation	\$ 378,960	\$ 366,563	\$ 353,397	\$ 345,383	\$ 326,899
Total assets	\$ 403,833	\$ 391,714	\$ 378,737	\$ 371,529	\$ 358,895
Lines of credit	\$ 10,332	\$ 10,717	\$ 11,740	\$ 29,071	\$ 25,123
Long-term obligations and redeemable preferred stock, including current portions	\$ 106,642	\$ 107,368	\$ 108,257	\$ 106,606	\$ 107,555
Stockholders' equity	\$ 121,836	\$ 118,180	\$ 112,997	\$ 95,146	\$ 91,174
Total capitalization	\$ 227,346	\$ 224,437	\$ 219,536	\$ 200,207	\$ 197,199

OPERATING DATA

Average water sales per customer	\$ 755	\$ 783	\$ 714	\$ 723	\$ 701
Water pumped (millions of gallons)	7,286	7,407	7,401	7,517	7,063
Number of metered customers	81,900	81,200	80,600	78,400	76,900
Miles of water main	1,182	1,162	1,148	1,131	1,124

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Our profitability is primarily attributable to the sale of water. Gross water sales comprise 89.5% of total operating revenues for the year ended December 31, 2013. Our profitability is also attributed to the various contract operations, water and sewer Service Line Protection Plans and other services we provide. Water sales are subject to seasonal fluctuations, particularly during summer when water demand may vary with rainfall and temperature. In the event temperatures during the typically warmer months are cooler than expected, or rainfall is greater than expected, the demand for water may decrease and our revenues may be adversely affected. We believe the effects of weather are short term and do not materially affect the execution of our strategic initiatives. Our contract operations, Service Line Protection Plans and other services provide a revenue stream that is not affected by changes in weather patterns.

While water sales revenues are our primary source of revenues, we continue to seek growth opportunities to provide wastewater service in Delaware and the surrounding areas. We also continue to explore and develop relationships with developers and municipalities in order to increase revenues from contract water and wastewater operations, wastewater management services, design, construction and engineering services. We plan to continue developing and expanding our contract operations and other services in a manner that complements our growth in water service to new customers. Our anticipated growth in these areas is subject to changes in residential and commercial construction, which may be affected by interest rates, inflation and general housing and economic market conditions. We anticipate continued growth in our non-regulated division due to our water and sewer Service Line Protection Plans.

Water Division

Overview

Artesian Water, Artesian Water Maryland and Artesian Water Pennsylvania provide water service to residential, commercial, industrial, governmental, municipal and utility customers. Increases in the number of customers contribute to increases, or help to offset any intermittent decreases in our operating revenue. The Town of Middletown, which is one of our municipal customers and is located in southern New Castle County, Delaware, has nearly doubled in population since 2001, and population growth in this area is expected to continue for some time as a result of ongoing and future residential, commercial and industrial construction. As population growth continues in Middletown and other areas in Delaware, we believe that the demand for water will increase, thereby contributing to an increase in our operating revenues. As of December 31, 2013, we had approximately 79,700 metered water customers in Delaware, an increase of approximately 700 compared to December 31, 2012. The number of metered water customers in Maryland and Pennsylvania remained consistent with 2012. For the year ended December 31, 2013, approximately 7.3 billion gallons of water were distributed in our Delaware systems and approximately 324.2 million gallons of water were distributed in our Maryland systems.

Wastewater Division

Overview

Artesian Wastewater owns wastewater infrastructure and began providing wastewater services in Delaware in July 2005. Artesian Wastewater Maryland, which was incorporated on June 3, 2008, is able to provide regulated wastewater services in Maryland. Our wastewater customers are billed a flat monthly fee, which contributes to providing a revenue stream unaffected by weather.

Non-Regulated Division

Overview

Artesian Utility provides contract water and wastewater operation services to private, municipal and governmental institutions. Artesian Utility currently operates wastewater treatment facilities for the town of Middletown, in southern New Castle County, or Middletown, under a 20-year contract that expires in July 2022. The facilities include two wastewater treatment stations with capacities of up to approximately 2.5 mgd and 250,000 gallons per day, respectively. We also operate a wastewater disposal facility in Middletown in order to support the 2.5 mgd wastewater facility.

One of the wastewater treatment facilities in Middletown now provides reclaimed wastewater for use in spray irrigation on public and agricultural lands in the area. Our relationship with the Town of Middletown has given us the opportunity to create the Artesian Water Resource Management Partnership, or AWRMP, to encourage and support the use of reclaimed water for agricultural irrigation and other needs. Using reclaimed water to irrigate farm fields can save the Delmarva region millions of gallons of groundwater each day. The AWRMP's first project in Middletown saves up to three million gallons of water per day during the peak growing season. Through the AWRMP initiative, Artesian will provide planning, engineering and technical expertise and help bring together the various state, local and private partners needed for water recycling project approvals.

Artesian Utility operates the WSLP Plan and the SSLP Plan. Artesian Resources initiated the WSLP Plan in March 2005. The WSLP Plan covers all parts, material and labor required to repair or replace participating customers' leaking water service lines up to an annual limit. The WSLP Plan was expanded in the second quarter of 2008 to include maintenance or repair to customers' sewer lines. The SSLP Plan covers all parts, material and labor required to repair or replace participating customers' leaking or clogged sewer lines up to an annual limit. Also, in the second quarter of 2010, the WSLP Plan and SSLP Plan were extended to include non-utility customers of Artesian Resources. As of December 31, 2013, approximately 18,400, or 25.8%, of our eligible water customers signed up for the WSLP Plan, approximately 12,800, or 17.9%, of our eligible customers signed up for the SSLP Plan and approximately 1,000 non-customer participants signed up for either the WSLP Plan or SSLP Plan.

Artesian Development is a real estate holding company that owns properties, including land zoned for office buildings, a water treatment plant and wastewater facility, as well as property for current operations, including an office facility in Sussex County, Delaware. The facility consists of approximately 10,000 square feet of office space along with nearly 10,000 square feet of warehouse space. This facility allows all of our Sussex County, Delaware operations to be housed in one central location.

Artesian Consulting Engineers no longer offers development and architectural services to outside third parties. Artesian will continue to provide design and engineering contract services through our Artesian Utility subsidiary.

Strategic Direction

Our strategy is to significantly increase customer growth, revenues, earnings and dividends by expanding our water, wastewater and Service Line Protection Plan services across the Delmarva Peninsula. We remain focused on providing superior service to our customers and continuously seeking ways to improve our efficiency and performance. By providing water and wastewater services, we believe we are positioned as the primary resource for developers and communities throughout the Delmarva Peninsula seeking to fill both needs simultaneously. We have a proven ability to acquire and integrate high growth, reputable entities, through which we have captured additional service territories that will serve as a base for future revenue. We believe this experience presents a strong platform for further expansion and that our success to date also produces positive relationships and credibility with regulators, municipalities, developers and customers in both existing and prospective service areas.

In our regulated water division, our strategy is to focus on a wide spectrum of activities, which include identifying new and dependable sources of supply, developing the wells, treatment plants and delivery systems to supply water to customers and educating customers on the wise use of water. Our strategy includes focused efforts to expand in new regions added to our Delaware service territory over the last 10 years. In addition, we believe growth will occur in the Maryland counties on the Delmarva Peninsula. We plan to expand our regulated water service area in the Cecil County designated growth corridor and to expand our business through the design, construction, operation, management and acquisition of additional water systems. The expansion of our exclusive franchise areas elsewhere in Maryland and the award of contracts will similarly enhance our operations within the state.

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We believe that Delaware's generally lower cost of living in the region, availability of development sites in relatively close proximity to the Atlantic Ocean in Sussex County, and attractive financing rates for construction and mortgages have resulted, and will continue to result, in increases to our customer base. Delaware's lower property and income tax rate make it an attractive region for new home development and retirement communities. Substantial portions of Delaware are currently not served by a public water system, which could also assist in an increase to our customer base as systems are added.

In our regulated wastewater division, we foresee significant growth opportunities and will continue to seek strategic partnerships and relationships with developers and municipalities to complement existing agreements for the provision of wastewater service on the Delmarva Peninsula. Artesian Wastewater plans to utilize our larger regional wastewater facilities to expand service areas to new customers while transitioning our smaller treatment facilities into regional pump stations in order to gain additional efficiencies in the treatment and disposal of wastewater. We feel this will reduce operational costs at the smaller treatment facilities in the future since they will be converted from treatment and disposal plants to pump stations to assist with transitioning the flow of wastewater from one regional facility to another.

Artesian Wastewater completed an agreement with Georgetown, Delaware in July 2008 to provide wastewater treatment and disposal services for Georgetown's growth and annexation areas. Artesian Wastewater will provide up to 1 mgd of wastewater capacity for the town. The preliminary engineering and design work was completed on a regional wastewater treatment and disposal facility located in the northern Sussex County area that has the potential to treat up to approximately 8 mgd. This facility is strategically situated on 75 acres to provide service to the growing population in the Georgetown, Ellendale and Milton areas, as well as to neighboring municipal systems. This facility was granted conditional use approval by Sussex County Council to serve the Elizabethtown subdivision of approximately 4,000 homes and 439,000 square feet of proposed commercial space, as well as seven additional projects comprising approximately 3,000 residential units. The facility will also be capable of offering wastewater services to local municipalities. Artesian Wastewater will manage the design and construction of the facility and, once constructed, the operation of the facility.

The general need for increased capital investment in our water and wastewater systems is due to a combination of population growth, more protective water quality standards and aging infrastructure. Our capital investment plan for the next five years includes projects for water treatment plant improvements and additions in both Delaware and Maryland and wastewater treatment plant improvements and additions in Delaware. Capital improvements are planned and budgeted to meet anticipated changes in regulations and needs for increased capacity related to projected growth. The Delaware Public Service Commission and Maryland Public Service Commission have generally recognized the operating and capital costs associated with these improvements in setting water and wastewater rates for current customers and capacity charges for new customers.

In our non-regulated division, we continue pursuing opportunities to expand our contract operations. Through Artesian Utility, we will seek to expand our contract design, engineering and construction services of water and wastewater facilities for developers, municipalities and other utilities. Artesian Development owns two nine-acre parcels of land, located in Sussex County, Delaware, which will allow for construction of a water treatment facility and wastewater treatment facility.

Inflation

We are affected by inflation, most notably by the continually increasing costs required to maintain, improve and expand our service capability. The cumulative effect of inflation results in significantly higher facility costs compared to investments made 20 to 40 years ago, which must be recovered from future cash flows.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical accounting policies and estimates are those we believe are most important to portraying the financial condition and results of operations and also require significant estimates, assumptions or other judgments by management. The following provides an overview of the accounting policies that are particularly important to the results of operations and financial condition of the Company. Changes in the estimates, assumptions or other judgments included within these accounting policies could result in a significant change to the financial statements in any quarterly or annual period. We consider the following policies to be the most critical in understanding the judgment that is involved in preparing our Consolidated Financial Statements. Senior management has discussed the selection and development of our critical accounting policies and estimates with the Audit Committee of the Board of Directors.

All additions to plant are recorded at cost. Cost includes direct labor, materials, and indirect charges for such items as transportation, supervision, pension, medical, and other fringe benefits related to employees engaged in construction activities. When depreciable units of utility plant are retired, any cost associated with retirement, less any salvage value or proceeds received, is charged to a regulated retirement liability. Maintenance, repairs, and replacement of minor items of plant are charged to expense as incurred.

We record water service revenue, including amounts billed to customers on a cycle basis and unbilled amounts, based upon estimated usage from the date of the last meter reading to the end of the accounting period. As actual usage amounts are received, adjustments are made to the unbilled estimates in the next billing cycle based on the actual results. Estimates are made on an individual customer basis, based on one of three methods (the previous year's consumption in the same period, the previous billing period's consumption, or averaging) and are adjusted to reflect current changes in water demand on a system-wide basis. While actual usage for individual customers may differ materially from the estimate, we believe the overall total estimate of consumption and revenue for the fiscal period will not differ materially from actual billed consumption, as the overall estimate has been adjusted to reflect any change in overall demand on the system for the period.

We record accounts receivable at the invoiced amounts. The reserve for bad debts is adjusted based on the bad debt, which is calculated as a percentage of total water sales. The Company reviews the bad debt expense and the reserve for bad debts on a quarterly basis. Account balances are written off against the reserve when it is probable the receivable will not be recovered.

Our regulated utilities record deferred regulatory assets under Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 980, which are costs that may be recovered over various lengths of time as prescribed by the DEPSC, MDPSC and PAPUC. As the utility incurs certain costs, such as expenses related to rate case applications, a deferred regulatory asset is created. Adjustments to these deferred regulatory assets are made when the DEPSC, MDPSC or PAPUC determines whether the expense is recoverable in rates, the length of time over which an expense is recoverable, or, because of changes in circumstances, whether a remaining balance of deferred expense is recoverable in rates charged to customers. Adjustments to reflect changes in recoverability of certain deferred regulatory assets may have a significant effect on our financial results.

Our long-lived assets consist primarily of utility plant in service and regulatory assets. We review for impairment of our long-lived assets, including utility plant in service, in accordance with the requirements of FASB ASC Topic 360. We review regulatory assets for the continued application of FASB ASC Topic 980. Our review determines whether there have been changes in circumstances or events that have occurred that require adjustments to the carrying value of these assets. Adjustments to the carrying value of these assets would be made in instances where changes in circumstances or events indicate the carrying value of the asset may not be recoverable. The Company believes there are no impairments in the carrying amounts of its long-lived assets or regulatory assets at December 31, 2013.

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Results of Operations

2013 Compared to 2012

Operating Revenues

Revenues totaled \$69.1 million for the year ended December 31, 2013, \$1.5 million, or 2.1%, below revenues for the year ended December 31, 2012 of \$70.6 million. Water sales revenues decreased \$1.8 million, or 2.8%, for the year ended December 31, 2013 from the corresponding period in 2012. A decrease in overall water consumption, a result of the effects of weather associated with the heavy precipitation experienced during 2013, reduced water sales revenues by \$2.8 million for the year ended December 31, 2013 as compared to the same period in 2012. Partially offsetting this decrease in water sales revenues was an increase in the Distribution System Improvement Charge, or DSIC, revenue of approximately \$1.1 million for the year ended December 31, 2013 compared to the same period in 2012. We realized 89.5% of our total operating revenue for the year ended December 31, 2013 from the sale of water as compared to 90.1% for the year ended December 31, 2012.

Other utility operating revenue increased approximately \$84,000, or 2.7%, for the year ended December 31, 2013 compared to the year ended December 31, 2012. The increase is primarily due to an increase in wastewater revenue.

Non-utility operating revenue increased approximately \$187,000, or 4.9%, for the year ended December 31, 2013 compared to same period in 2012. The increase is primarily due to an approximately \$271,000 increase in water and wastewater Service Line Protection Plan, or SLP Plans, revenue. The SLP Plans provide coverage for all material and labor required to repair or replace participants' leaking water service or clogged sewer lines up to an annual limit. The increase in non-utility operating revenue is partially offset by an approximately \$92,000 decrease in Artesian Utility revenue, related to a decrease in contract services performed for municipalities in Maryland and a decrease in design services.

Percentage of Operating Revenues

	2013	2012	2011
Water Sales			
Residential	54.4 %	55.4 %	54.4 %
Commercial	21.3	21.5	20.9
Industrial	0.1	0.1	0.2
Government and Other	13.7	13.1	12.8
Non-utility operating revenues	5.8	5.4	6.7
Other utility operating revenues	4.7	4.5	5.0
Total	100.0 %	100.0 %	100.0 %

Residential

Residential water service revenues in 2013 amounted to \$37.5 million, a decrease of \$1.6 million, or 4.0% below the \$39.1 million recorded in 2012, primarily due to a decrease in overall water consumption. The decrease in 2013 follows an increase of \$3.7 million, or 10.5%, in 2012, which was primarily due to an 11.13% permanent increase in rates effective January 1, 2012. The volume of water sold to residential customers decreased to 3,616 million gallons in 2013 compared to 3,959 million gallons in 2012, an 8.7% decrease, primarily the result of weather associated with the heavy precipitation experienced during 2013. The number of residential customers served increased by approximately 745, or 1.0%, in 2013.

Commercial

Water service revenues from commercial customers in 2013 decreased by 3.4%, from \$15.2 million in 2012 to \$14.7 million in 2013, primarily due to a decrease in water consumption. We sold 2,012 million gallons of water to commercial customers in 2013, a slight decrease as compared to 2,118 million gallons sold in 2012.

Industrial

Water service revenues from industrial customers increased from \$70,000 in 2012 to \$82,000 in 2013. The volume of water sold to industrial customers increased from 8 million gallons in 2012 to 10 million gallons in 2013.

Government and Other

Government and other water service revenues in 2013 increased by 3.1%, from \$9.2 million in 2012 to \$9.5 million in 2013, primarily due to an increase in consumption from re-sale customers. The volume of water sold to government and other customers increased from 645 million gallons in 2012 to 731 million gallons in 2013.

Other Utility Operating Revenue

Other utility operating revenue, derived from contract operations, antenna leases on water tanks, finance/service charges and wastewater customer service revenues increased 2.7% in 2013, from \$3.2 million in 2012 to \$3.3 million in 2013. As a percentage of operating revenues, other utility operating revenues increased to 4.7% from 4.5%. The increase is primarily due to increased wastewater revenue.

Non-Utility Operating Revenue

Non-utility operating revenue, derived from non-regulated water and wastewater operations, increased from \$3.8 million in 2012 to \$4.0 million in 2013. The increase is primarily due to an approximately \$271,000 increase in water and wastewater SLP Plans revenue. The increase in non-utility operating revenue is partially offset by an approximately \$92,000 decrease in Artesian Utility revenue, related to a decrease in contract services performed for municipalities in Maryland and a decrease in design services.

Operating Expenses

Operating expenses, excluding depreciation and income taxes, increased \$0.6 million, or 1.5%, to \$40.8 million in 2013. The components of the change in operating expenses includes an increase in utility operating expenses of \$0.4 million and an increase in property and other taxes of \$0.2 million.

The increase in utility operating expenses of \$0.4 million, or 1.1%, in 2013 as compared to 2012, is primarily comprised of an increase in administration expenses, partially offset by a decrease in payroll and employee benefit costs.

Administration expenses increased \$0.6 million, or 12.3%, of which \$0.5 million is due to increased legal costs associated with the litigation against Chester Water Authority in regard to the proper determination of the rate charged for water purchased under contract from the Chester Water Authority. In addition, consulting services increased primarily related to the upgrade of our customer service software.

Payroll and employee benefit costs decreased \$0.2 million, or 0.8%, primarily the result of bonuses issued to employees in 2012 not issued in 2013, partially offset by an increase in medical benefit premiums and an increase in wages.

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Non-utility expenses increased approximately \$21,000, or 1.0%, primarily the result of increased SLP Plan repair costs in Artesian Utility, as compared to the same period in 2012. The increased repair costs are a result of increased SLP Plan participation.

Percentage of Operating and Maintenance Expenses

	2013	2012	2011
Payroll and Associated Expenses	49.8 %	50.8 %	47.7 %
Administrative	21.7	20.1	20.9
Purchased Water	11.0	11.2	10.8
Repair and Maintenance	8.2	8.5	8.1
Water Treatment	3.5	3.6	3.6
Non-utility Operating	5.8	5.8	8.9
Total	100.0 %	100.0 %	100.0 %

Property and other taxes increased by \$0.2 million, or 4.4%, compared to the same period in 2012, reflecting increases in tax rates charged for public schools in various areas where Artesian holds property and an increase in utility plant subject to taxation. Property taxes are assessed on land, buildings and certain utility plant, which include the footage and size of pipe, hydrants and wells primarily owned by Artesian Water.

The ratio of operating expense, excluding depreciation and income taxes, to total operating revenues was 59.0% for the year ended December 31, 2013, compared to 56.9% for the year ended December 31, 2012.

Depreciation and amortization expense increased \$0.3 million, or 4.0%, primarily due to continued investment in utility plant in service providing supply, treatment, storage and distribution of water.

Federal and state income tax expense decreased \$1.0 million, primarily due to lower pre-tax income for the year ended December 31, 2013, compared to the year ended December 31, 2012. Our total effective income tax rate, or ETR, for 2013 and 2012 was 40.2%.

Other Income, Net

Miscellaneous income decreased \$165,000 primarily due to a refund of assessment payments previously paid to the Delaware Public Service Commission, or DEPSC, received in 2012. Each year public utility companies, like Artesian Water, are required to fund the DEPSC's operations by paying an assessment based on their estimated annual gross revenues. After periodic review by the DEPSC, excess funds above those necessary to operate the DEPSC are refunded to the respective public utility company. The amount refunded to Artesian in 2012 reflected an assessment that covered a 4-year period from 2007 to 2010. The amount refunded to Artesian in 2013 reflects an assessment that covers 2011. Refunds from the DEPSC related to excess fund payments are not typical and we can make no assurances that refunds for excess payments will be issued in the future.

Interest Charges

Interest charges increased \$10,000, or 0.1%, primarily due to an increase in short-term debt outstanding.

Net Income

For the year ended December 31, 2013, our net income applicable to common stock decreased \$1.5 million compared to the same period a year ago. This decrease in net income was due to lower operating income margins in our water

utility business, primarily the result of decreased water sales revenue and increased legal costs. The decreased water sales revenue is primarily due to a decrease in overall water consumption, which is the result of the effects of weather associated with the heavy precipitation experienced during 2013. The increased legal costs, approximately \$0.5 million, are primarily associated with the litigation against Chester Water Authority in regard to the proper determination of the rate charged for water purchased under contract.

2012 Compared to 2011

Operating Revenues

Revenues totaled \$70.6 million for the year ended December 31, 2012, \$5.5 million, or 8.4%, above revenues for the year ended December 31, 2011 of \$65.1 million. Water sales revenues increased \$6.0 million, or 10.5%, for the year ended December 31, 2012 over the corresponding period in 2011. Water sales revenue increased primarily due to an 11.13% permanent increase in rates effective January 1, 2012. The permanent rate increase equals the combined temporary rate increases that were placed into effect on June 10, 2011 and November 11, 2011 of 4.45% and 6.68%, respectively. In addition, water sales revenue increased due to the addition of customers and increased water consumption in Cecil County, Maryland. We realized 90.1% of our total operating revenue in 2012 from the sale of water as compared to 88.5% in 2011.

Other utility operating revenue totaled \$3.2 million for the year ended December 31, 2012 as compared to \$3.3 million in 2011. The decrease is primarily due to decreased service charges and a reduction in utility contract services in Delaware as those not meeting our strategic or financial criteria were not renewed. Partially offsetting the decrease in other utility operating revenue is an increase in rental income and a slight increase in wastewater revenue.

Non-utility operating revenue decreased \$0.4 million for the year ended December 31, 2012, or 9.9%, from \$4.2 million in 2011 to \$3.8 million for the same period in 2012. This decrease is primarily due to an approximately \$0.6 million decrease in Artesian Utility revenue, related to a decrease in design and permitting services performed and a decrease in contract services performed for municipalities in Maryland following the purchase of the Cecil County water assets. In addition, consulting revenue earned by Artesian Consulting Engineers decreased approximately \$0.1 million due to the reorganization of the business. The decrease in non-utility operating revenue is partially offset by an approximately \$0.3 million increase in water and wastewater Service Line Protection Plan, or SLP Plans, revenue. The SLP Plans provide coverage for all material and labor required to repair or replace participants' leaking water service or clogged sewer lines up to an annual limit.

Residential

Residential water service revenues in 2012 amounted to \$39.1 million, an increase of \$3.7 million, or 10.5% over the \$35.4 million recorded in 2011, primarily due to an 11.13% permanent increase in rates effective January 1, 2012. The increase in 2012 follows an increase of \$0.4 million, or 1.0%, in 2011, which was primarily due to the temporary rate increases placed into effect on June 10, 2011 and November 11 2011. The volume of water sold to residential customers increased to 3,959 million gallons in 2012 compared to 3,710 million gallons in 2011, a 6.7% increase, primarily the result of increased water consumption compared to the unusually wet weather pattern experienced during 2011 and the additional Maryland customers added in December 2011. The number of residential customers served increased by approximately 540, or 0.7%, in 2012.

Commercial

Water service revenues from commercial customers in 2012 increased by 11.4%, from \$13.7 million in 2011 to \$15.2 million in 2012, primarily due to an increase in rates. We sold 2,118 million gallons of water to commercial customers in 2012, a slight decrease as compared to 2,125 million gallons sold in 2011.

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Industrial

Water service revenues from industrial customers decreased from \$141,000 in 2011 to \$70,000 in 2012. The volume of water sold to industrial customers decreased from 21 million gallons in 2011 to 8 million gallons in 2012, primarily as a result of lower usage by an industrial customer that decreased operations in 2012 compared to 2011.

Government and Other

Government and other water service revenues in 2012 increased by 10.2%, from \$8.4 million in 2011 to \$9.2 million in 2012, primarily due to an increase in rates.

Other Utility Operating Revenue

Other utility operating revenue, derived from contract operations, antenna leases on water tanks, finance/service charges and wastewater customer service revenues decreased 4.0% in 2012, from \$3.3 million in 2011 to \$3.2 million in 2012. As a percentage of operating revenues, other utility operating revenues decreased to 4.5% from 5.0%. The decrease, approximately \$0.1 million, is primarily due to decreased service charges and a reduction in utility contract services in Delaware as those not meeting our strategic or financial criteria were not renewed. Partially offsetting the decrease in other utility operating revenue is an increase in rental income related to antenna leases and a slight increase in wastewater revenue.

Non-Utility Operating Revenue

Non-utility operating revenue, derived from non-regulated water and wastewater operations, decreased from \$4.2 million in 2011 to \$3.8 million in 2012. This decrease is attributable to an approximately \$0.6 million decrease in Artesian Utility revenue, related to a decrease in design and permitting services performed and a decrease in contract services performed for municipalities in Maryland following the purchase of the Cecil County water assets. In addition, consulting revenue earned by Artesian Consulting Engineers decreased approximately \$0.1 million due to the reduction and reorganization of the business. The decrease in non-utility operating revenue is partially offset by an approximately \$0.3 million increase in water and wastewater SLP Plans revenue.

Operating Expenses

Operating expenses, excluding depreciation and income taxes, increased \$0.9 million, or 2.3%, to \$40.2 million in 2012. The components of the change in operating expenses includes an increase in utility operating expenses of \$1.8 million, an increase in property and other taxes of \$0.1 million, and a decrease in non-utility operating expenses of \$1.0 million.

The increase in utility operating expenses of \$1.8 million, or 5.6%, in 2012 as compared to 2011, is primarily comprised of an increase in payroll and employee benefits costs, purchased water expenses, repair and maintenance expenses and administration expenses. The increase in utility operating expense is partially offset by a decrease in electric purchased power expenses.

Payroll and employee benefit costs increased \$1.5 million, or 8.8%, compared to the same period in 2011, primarily due to increased wages and medical benefit premiums.

Purchased water expenses increased \$0.2 million, or 6.4%, primarily due to water purchased by Artesian Water Maryland following the purchase of Cecil County's water assets. As a percentage of operating expenses, purchased water expenses increased to 11.2% from 10.8%.

Repair and maintenance expenses increased \$0.1 million, or 4.4%, primarily due to increased maintenance of well and pump equipment, increased maintenance of transmission and distribution mains, increased tank painting and higher software support fees. This increase is partially offset by a decrease in water treatment costs and meter maintenance costs. As a percentage of operating expenses, repair and maintenance expenses increased to 8.5% from 8.1%.

Administration expenses increased \$0.1 million, or 1.6%, primarily due to an increase in postage costs, increased rate case expenses and increased bank fees. This increase is partially offset by reduced legal costs associated with the litigation against Chester Water Authority.

Electric purchased power expenses decreased \$0.1 million, or 3.9%, primarily due to the signing of a two-year supply contract at a fixed price. The contract was renewed at a lower fixed price which continues to mitigate future significant increases in electric purchased power expenses. Our most recent supply contract was effective May 2011.

Non-utility expenses decreased approximately \$1.0 million, or 33.3%, primarily the result of decreased project activity in Artesian Utility, as compared to the same period in 2011. The decrease in non-utility expenses is also due to a decrease in legal costs of approximately \$0.3 million related to the federal grand jury subpoena associated with an investigation that was previously conducted by the United States Attorney's Office in the Eastern District of Pennsylvania and the Environmental Protection Agency. As a percentage of operating expenses, non-utility expenses decreased to 5.8% from 8.9%.

Property and other taxes increased by \$0.1 million, or 3.2%, compared to the same period in 2011, reflecting increases in tax rates charged for public schools in various areas where Artesian holds property and an increase in the number of plants owned by Artesian. Property taxes are assessed on land, buildings and certain utility plants, which include the footage and size of pipe, hydrants and wells primarily owned by Artesian Water.

The ratio of operating expense, excluding depreciation and income taxes, to total revenue was 56.9% for the year ended December 31, 2012, compared to 60.4% for the year ended December 31, 2011.

Depreciation and amortization expense increased \$0.5 million, or 7.0%, primarily due to continued investment in utility plant in service providing supply, treatment, storage and distribution of water.

Federal and state income tax expense increased \$2.0 million, primarily due to higher pre-tax income for the year ended December 31, 2012, compared to the year ended December 31, 2011. Our total effective income tax rate, or ETR, for 2012 and 2011 was 40.2% and 40.8%, respectively.

Other Income, Net

Miscellaneous income increased approximately \$577,000 primarily due to an approximately \$349,000 reclassification of deferred acquisition costs from regulatory assets on our 2011 Consolidated Balance Sheet to miscellaneous other income (expense) on our 2011 Consolidated Statement of Operations, as a result of the termination of agreements discussed in Item 1 – Business – Artesian Wastewater Maryland of the 2012 Form 10-K. In addition, miscellaneous income increased due to an approximately \$168,000 refund of assessment payments previously paid to the Delaware Public Service Commission, or DEPSC. Each year public utility companies, like Artesian Water, are required to fund the DEPSC's operations by paying an assessment based on their estimated annual gross revenues. After periodic review by the DEPSC, excess funds above those necessary to operate the DEPSC are refunded to the respective public utility company. The amount refunded to Artesian in 2012 reflects an assessment that covers a 4 year period from 2007 to 2010. Refunds from the DEPSC related to excess fund payments are not typical and we can make no assurances that refunds for excess payments will be issued in the future.

Our Allowance for Funds Used During Construction, or AFUDC, increased \$160,000, as a result of higher long-term construction activity subject to AFUDC.

Interest Charges

Interest charges decreased \$244,000, or 3.3%, primarily due to a decrease in short-term debt outstanding. We used the proceeds from our July 2011 and August 2011 offering of common stock to repay short-term borrowings. The average interest rate on our short-term credit balance decreased from 1.6% in 2011 to 1.2% in 2012.

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Net Income

For the year ended December 31, 2012, our net income applicable to common stock increased \$3.1 million as compared to 2011. This increase in net income was due to higher operating income margins in our water utility business, primarily the result of increased water sales revenue. This increase is also due to the decrease in non-utility expenses, the decrease in interest charges and the increase in miscellaneous income.

Liquidity and Capital Resources

Overview

Our primary sources of liquidity for the year ended December 31, 2013 were \$21.0 million provided by cash flow from operating activities, \$5.7 million in net contributions and advances from developers and \$2.4 million in net proceeds from the issuance of common stock. In addition, the Company has a long history of paying regular quarterly dividends as approved by our Board of Directors using net cash from operating activities. We paid \$7.2 million, \$6.9 million and \$6.2 million in 2013, 2012 and 2011, respectively. Cash flow from operating activities is primarily provided by our utility operations, and is impacted by the timeliness and adequacy of rate increases and changes in water consumption as a result of year-to-year variations in weather conditions, particularly during the summer. A significant part of our ability to maintain and meet our financial objectives is to ensure that our investments in utility plant and equipment are recovered in the rates charged to customers. As such, from time to time, we file rate increase requests to recover increases in operating expenses and investments in utility plant and equipment.

The amount outstanding on the Company's lines of credit was \$10.3 million as of December 31, 2013, a decrease of \$0.4 million under the amount outstanding as of December 31, 2012, compared to a decrease of \$1.0 million for the year ended December 31, 2012 over the outstanding balance as of December 31, 2011.

We depend on the availability of capital for expansion, construction and maintenance. We rely on our sources of liquidity for investments in our utility plant and to meet our various payment obligations. We expect that our aggregate investments in our utility plant and systems in 2014 will be approximately \$28.6 million. Our total obligations related to interest and principal payments on indebtedness, rental payments and water service interconnection agreements for 2014 are anticipated to be approximately \$11.9 million. We expect to fund our activities for the next year using our available cash balances, bank credit lines and projected cash generated from operations. We believe that internally generated funds along with existing credit facilities will be adequate to provide sufficient working capital to maintain normal operations and to meet our financing requirements. However, since part of our business strategy is to expand through strategic acquisitions, we may seek additional debt financing or issue additional equity securities to finance future acquisitions or for other purposes.

Investment in Plant and Systems

The primary focus of Artesian Water's investment was to continue to provide high quality reliable service to our growing service territory. We invested \$21.2 million in capital expenditures during 2013 compared to \$20.5 million invested during the same period in 2012. During 2013, we invested \$2.7 million to enhance or improve existing treatment facilities and for the rehabilitation of pumping equipment to better serve our customers. We invested \$0.7 million to upgrade and automate our meter reading equipment. We invested approximately \$7.8 million for our rehabilitation program for transmission and distribution facilities by replacing aging or deteriorating mains and for new transmission and distribution facilities. We invested approximately \$0.4 million in mandatory utility plant expenditures due to governmental highway projects which require the relocation of water service mains in addition to facility improvements and upgrades. Developers financed \$4.3 million for the installation of water mains and hydrants in 2013 compared to \$1.6 million in 2012. We invested \$1.1 million for equipment purchases, computer hardware and software upgrades, and furniture and equipment related to renovations made to our main office building

located in New Castle County. We also invested \$2.3 million to upgrade our customer service software. The investment in general plant also includes an additional investment of \$0.8 million for transportation and equipment purchases. An additional \$1.1 million was invested in wastewater projects in Delaware.

The following chart summarizes our investment in plant and systems over the past three fiscal years.

In thousands	2013	2012	2011
Source of supply	\$885	\$1,321	\$2,930
Treatment and pumping	1,857	5,025	1,004
Transmission and distribution	9,016	7,681	7,496
General plant and equipment	4,253	3,460	1,701
Developer financed utility plant	4,292	1,632	1,802
Wastewater facilities	1,094	1,632	954
Allowance for Funds Used During Construction, AFUDC	(209)	(205)	(100)
Total	\$21,188	\$20,546	\$15,787

Of the \$28.6 million we expect to invest in 2014, approximately \$9.2 million will be invested in transmission and distribution facilities, including the replacement of facilities, and the extension of facilities to address service needs in growth areas of our service territory. Approximately \$1.5 million will be invested in the relocations of facilities as a result of government mandates and renewals associated with the rehabilitation of aging infrastructure. Approximately \$8.6 million will be invested for new treatment facilities, facility upgrades, equipment and wells throughout Delaware and Maryland to identify, develop, treat and protect sources of water supply to assure uninterrupted service to our customers. In addition, we will refund \$1.2 million to customers, real estate developers and builders related to previous advances for construction they provided to Artesian in order to extend water service to their properties.

We also plan to invest \$4.4 million in general plant, which includes new corporate automation, building renovations and transportation and equipment upgrades. Additionally, \$3.7 million will be invested in Artesian Wastewater for ongoing construction of wastewater plants. Our projected capital expenditures and other investments are subject to periodic review and revision to reflect changes in economic conditions and other factors.

Financing

We expect to fund our activities for the next twelve months using our available cash balances, bank credit lines, projected cash generated from operations and financing in the capital markets as necessary, including Delaware Drinking Water State Revolving Fund loans.

We have several sources of liquidity to finance our investment in utility plant and other fixed assets. We estimate that the projected investment will be financed by our operations and external sources, including a combination of capital investment as well as short-term borrowings under our revolving credit agreements discussed below.

Our cash flows from operations are primarily derived from water sales revenues and may be materially affected by changes in water sales due to weather and the timing and extent of increases in rates approved by state Public Service Commissions.

Lines of Credit

At December 31, 2013, Artesian Resources had a \$40 million line of credit with Citizens Bank, or Citizens, which is available to all subsidiaries of Artesian Resources. As of December 31, 2013, there was \$35.7 million of available funds under this line of credit. The interest rate for borrowings under this line is the London Interbank Offered Rate,

or LIBOR, plus 1.00%. This is a demand line of credit and therefore the financial institution may demand payment for any outstanding amounts at any time. The term of this line of credit expires on the earlier of May 29, 2014 or any date on which Citizens demands payment.

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At December 31, 2013, Artesian Water had a \$20 million line of credit with CoBank, ACB, or CoBank, that allows for the financing of operations for Artesian Water, with up to \$10 million of this line available for the operations of Artesian Water Maryland. As of December 31, 2013, there was \$14.0 million of available funds under this line of credit. The interest rate for borrowings under this line is LIBOR plus 1.50%. The term of this line of credit expires on January 13, 2015.

Line of Credit Commitments	Commitment Due by Period			
	Less than 1 Year	1-3 Years	4-5 Years	Over 5 Years
In thousands				
Lines of Credit	\$10,332	\$-----	\$-----	\$-----

Long-Term Debt

Artesian Water's trust indentures, which set certain criteria for the issuance of new long-term debt, limit long-term debt, including the short-term portion thereof, to 66 % of total capitalization. Our debt to total capitalization, including the short-term portion thereof, was 46.7% at December 31, 2013. In addition, our revolving line of credit with CoBank contains customary affirmative and negative covenants that are binding on us (which are in some cases subject to certain exceptions), including, but not limited to, restrictions on our ability to make certain loans and investments, guaranty certain obligations, enter into, or undertake, certain mergers, consolidations or acquisitions, transfer certain assets, change our business or incur additional indebtedness. In addition, this line of credit requires us to abide by certain financial covenants and ratios. As of December 31, 2013, we were in compliance with these covenants.

Contractual Obligations	Payments Due by Period				
	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years	Total
In thousands					
First mortgage bonds (principal and interest)	\$6,944	\$13,776	\$37,075	\$110,646	\$168,441
State revolving fund loans (principal and interest)	871	1,873	1,873	7,259	11,876
Operating leases	71	104	109	1,590	1,874
Unconditional purchase obligations	3,780	7,571	7,561	11,352	30,264
Tank painting contractual obligation	268	536	---	---	804
Total contractual cash obligations	\$11,934	\$23,860	\$46,618	\$130,847	\$213,259

Long-term debt obligations reflect the maturities of certain series of our first mortgage bonds, which we intend to refinance when due. The state revolving fund loan obligation has an amortizing mortgage payment payable over a 20-year period, and will be refinanced as future securities are issued. Both the long-term debt and the state revolving fund loan have certain financial covenant provisions, the violation of which could result in default and require the obligation to be immediately repaid, including all interest. We have not experienced conditions that would result in our default under these agreements, and we do not anticipate any such occurrence. Payments for unconditional purchase obligations reflect minimum water purchase obligations based on rates that are subject to change under our interconnection agreement with the Chester Water Authority.

On July 15, 2011, Artesian Water entered into a Financing Agreement with the Delaware Drinking Water State Revolving Fund, acting by and through the Delaware Department of Health & Social Services, Division of Public Health, a public agency of Delaware, or the Department. The Company has been given a loan of approximately \$3.6 million, or the Loan, from the Delaware Safe Drinking Water Revolving Fund to finance all or a portion of the cost to replace specific water transmission mains in service areas located in New Castle County, Delaware (collectively, the "Project"). In accordance with the Financing Agreement, the Company will from time to time request funds under the

Loan as it incurs costs in connection with the Project. The Company shall pay to the Department, on the principal amount drawn down and outstanding from the date drawn, interest at a rate of 1.7% per annum and an administrative fee at the rate of 1.7% per annum. As of December 31, 2013, approximately \$1.9 million was borrowed under this Loan.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

See Note 16 to our Consolidated Financial Statements for a full description of the impact of recent accounting pronouncements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company is subject to the risk of fluctuating interest rates in the normal course of business. Our policy is to manage interest rates through the use of fixed rate long-term debt and, to a lesser extent, short-term debt. The Company's exposure to interest rate risk related to existing fixed rate, long-term debt is due to the term of the majority of our First Mortgage Bonds, which have final maturity dates ranging from 2018 to 2043, which exposes the Company to interest rate risk as interest rates may drop below the existing fixed rate of the long-term debt prior to such debt's maturity. In addition, the Company has interest rate exposure on \$60 million of variable rate lines of credit with two banks, under which the interim bank loans payable at December 31, 2013 were approximately \$10.3 million. An increase in interest rates will result in an increase in the cost of borrowing on this variable rate line. We are also exposed to market risk associated with changes in commodity prices. Our risks associated with price increases in chemicals, electricity and other commodities are mitigated by our ability to recover our costs through rate increases to our customers. We have also sought to mitigate future significant electric price increases by signing a two year supply contract, at a fixed price.

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SUPPLEMENTARY DATA

CONSOLIDATED BALANCE SHEETS

(In thousands)

	December 31, 2013	December 31, 2012
ASSETS		
Utility plant, at original cost less accumulated depreciation	\$ 378,960	\$ 366,563
Current assets		
Cash and cash equivalents	422	617
Accounts receivable (less allowance for doubtful accounts 2013 - \$221; 2012-\$241)	5,115	5,728
Unbilled operating revenues	3,009	2,997
Materials and supplies	1,485	1,353
Prepaid property taxes	1,491	1,328
Prepaid expenses and other	1,732	1,457
Total current assets	13,254	13,480
Other assets		
Non-utility property (less accumulated depreciation 2013-\$389; 2012-\$309)	4,142	4,082
Other deferred assets	5,172	5,196
Total other assets	9,314	9,278
Regulatory assets, net	2,304	2,393
	\$ 403,832	\$ 391,714
LIABILITIES AND STOCKHOLDERS' EQUITY		
Stockholders' equity		
Common stock	\$ 8,830	\$ 8,710
Preferred stock	—	—
Additional paid-in capital	90,841	88,399
Retained earnings	22,165	21,071
Total stockholders' equity	121,836	118,180
Long-term debt, net of current portion	105,510	106,257
	227,346	224,437
Current liabilities		
Lines of credit	10,332	10,717
Current portion of long-term debt	1,132	1,111
Accounts payable	4,140	3,499
Accrued expenses	3,710	3,430
Overdraft payable	746	750
Deferred income taxes	838	837
Accrued interest	1,054	1,065
Customer deposits	801	967
Other	2,810	2,563
Total current liabilities	25,563	24,939
Commitments and contingencies (<u>Note 10</u>)	—	—
Deferred credits and other liabilities		
Net advances for construction	11,427	13,023
Postretirement benefit obligation	309	374

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Deferred investment tax credits	601	622
Utility plant retirement cost obligation	979	1,092
Deferred income taxes	49,742	45,879
Total deferred credits and other liabilities	63,058	60,990
Net contributions in aid of construction	87,865	81,348
	\$403,832	\$391,714

The notes are an integral part of the consolidated financial statements.

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CONSOLIDATED STATEMENTS OF OPERATIONS

In thousands, except per share amounts

	For the Year Ended December 31,		
	2013	2012	2011
Operating revenues			
Water sales	\$61,846	\$63,607	\$57,564
Other utility operating revenue	3,253	3,169	3,302
Non-utility operating revenue	3,974	3,787	4,204
	69,073	70,563	65,070
Operating expenses			
Utility operating expenses	34,509	34,117	32,300
Non-utility operating expenses	2,121	2,100	3,148
Depreciation and amortization	8,251	7,930	7,410
Taxes			
State and federal income taxes			
Current	1,725	1,940	106
Deferred	3,863	4,676	4,548
Property and other taxes	4,120	3,945	3,822
	54,589	54,708	51,334
Operating income	14,484	15,855	13,736
Other income, net			
Allowance for funds used during construction (AFUDC)	324	323	163
Miscellaneous	548	713	136
	872	1,036	299
Income before interest charges	15,356	16,891	14,035
Interest charges	7,055	7,045	7,289
Net income applicable to common stock	\$8,301	\$9,846	\$6,746
Income per common share:			
Basic	\$0.95	\$1.14	\$0.83
Diluted	\$0.94	\$1.13	\$0.83
Weighted average common shares outstanding:			
Basic	8,774	8,666	8,122
Diluted	8,836	8,717	8,160
Cash dividends per share of common stock	\$0.8229	\$0.7913	\$0.7626

The notes are an integral part of the consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands	For the Year Ended December 31,		
	2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$8,301	\$9,846	\$6,746
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,251	7,930	7,410
Deferred income taxes, net	3,843	4,191	4,466
Stock compensation	123	108	120
AFUDC, equity portion	(208)	(205)	(100)
Changes in assets and liabilities:			
Accounts receivable, net of allowance for doubtful accounts	457	(757)	215
Unbilled operating revenues	(12)	639	(22)
Materials and supplies	(132)	130	(237)
Prepaid property taxes	(163)	(35)	(33)
Prepaid expenses and other	(275)	73	1,110
Other deferred assets	(139)	(266)	(254)
Regulatory assets	50	341	(124)
Accounts payable	641	715	(617)
Accrued expenses	280	1,177	127
Accrued interest	(11)	(85)	34
Customer deposits and other, net	81	(348)	451
Postretirement benefit obligation	(65)	(81)	(70)
NET CASH PROVIDED BY OPERATING ACTIVITIES	21,022	23,373	19,222
CASH FLOWS USED IN INVESTING ACTIVITIES			
Capital expenditures (net of AFUDC, equity portion)	(21,188)	(20,546)	(15,787)
Proceeds from sale of assets	33	29	55
NET CASH USED IN INVESTING ACTIVITIES	(21,155)	(20,517)	(15,732)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net repayments under lines of credit agreements	(385)	(1,023)	(17,331)
(Decrease) increase in overdraft payable	(4)	385	(375)
Net advances and contributions in aid of construction	5,701	3,629	1,640
Change in deferred debt issuance costs	120	119	72
Net proceeds from issuance of common stock	2,439	2,079	17,176
Dividends paid	(7,207)	(6,850)	(6,191)
Issuance of long-term debt	385	729	3,195
Principal repayments of long-term debt	(1,111)	(1,618)	(1,544)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(62)	(2,550)	(3,358)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(195)	306	132
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	617	311	179
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$422	\$617	\$311

Supplemental Disclosures of Cash Flow Information:

Utility plant received as construction advances and contributions	\$948	\$1,904	\$706
Contractual amounts of contributions in aid of construction due from developers included in accounts receivable	\$349	\$629	\$627
Contractual amounts of contributions in aid of construction received from developers included in accounts receivable	\$505	\$602	\$509

Supplemental Disclosures of Cash Flow Information:

Interest paid	\$7,066	\$7,255	\$7,255
Income taxes paid	\$2,014	\$312	\$312

The notes are an integral part of the consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

In thousands

	Common Shares Outstanding Class A Non-Voting (1) (3) (4)	Common Shares Outstanding Class B Voting (2)	\$1 Par Value Class A Non-Voting	\$1 Par Value Class B Voting	Additional Paid-in Capital	Retained Earnings	Total
Balance as of December 31, 2010	6,755	882	\$ 6,755	\$ 882	\$ 69,989	\$ 17,520	\$ 95,146
Net income	—	—	—	—	—	6,746	6,746
Cash dividends declared	—	—	—	—	—	(6,191)	(6,191)
Common stock Issuance of common stock	—	—	—	—	—	—	—
Stock issuance	888	—	888	—	14,746	—	15,634
Dividend reinvestment plan	21	—	21	—	373	—	394
Employee stock options and awards(4)	25	—	25	—	543	—	568
Employee Retirement Plan(3)	40	—	40	—	660	—	700
Balance as of December 31, 2011	7,729	882	\$ 7,729	\$ 882	\$ 86,311	\$ 18,075	\$ 112,997
Net income	—	—	—	—	—	9,846	9,846
Cash dividends declared	—	—	—	—	—	(6,850)	(6,850)
Common stock Issuance of common stock	—	—	—	—	—	—	—
Dividend reinvestment plan	22	—	22	—	439	—	461
Employee stock options and awards(4)	58	—	58	—	1,269	—	1,327
Employee Retirement Plan(3)	19	—	19	—	380	—	399
Balance as of December 31, 2012	7,828	882	\$ 7,828	\$ 882	\$ 88,399	\$ 21,071	\$ 118,180
Net income	—	—	—	—	—	8,301	8,301
Cash dividends declared	—	—	—	—	—	(7,207)	(7,207)
Common stock Issuance of common stock	—	—	—	—	—	—	—
Dividend reinvestment plan	27	—	27	—	572	—	599
Employee stock options and awards(4)	68	—	68	—	1,340	—	1,408
Employee Retirement Plan(3)	25	—	25	—	530	—	555
Balance as of December 31, 2013	7,948	882	\$ 7,948	\$ 882	\$ 90,841	\$ 22,165	\$ 121,836

(1) At December 31, 2013, 2012, and 2011, Class A Common Stock had 15,000,000 shares authorized. For the same periods, shares issued were 7,977,546, 7,856,485 and 7,753,730, respectively.

(2) At December 31, 2013, 2012, and 2011, Class B Common Stock had 1,040,000 shares authorized and 882,000 shares issued.

(3) Artesian Resources Corporation registered 500,000 shares of Class A Common Stock available for purchase through the Artesian Retirement Plan and the Artesian Supplemental Retirement Plan.

(4)

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Under the Equity Compensation Plan, effective May 25, 2005 Artesian Resources Corporation authorized up to 500,000 shares of Class A Common Stock for issuance of grants in forms of stock options, stock units, dividend equivalents and other stock-based awards, subject to adjustment in certain circumstances as discussed in the Plan.

The notes are an integral part of the consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The audited consolidated financial statements are presented in accordance with the requirements of Form 10-K and consequently include all the disclosures required in the consolidated financial statements included in the Company's annual report on Form 10-K. The accompanying consolidated financial statements include the accounts of Artesian Resources Corporation and its subsidiaries and all intercompany balances and transactions between subsidiaries have been eliminated.

Reclassification

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. These reclassifications had no effect on net income or stockholders' equity.

Utility Subsidiary Accounting

The accounting records of Artesian Water Company, Inc., or Artesian Water, and Artesian Wastewater Management, Inc., or Artesian Wastewater, are maintained in accordance with the uniform system of accounts as prescribed by the Delaware Public Service Commission, or the DEPSC. The accounting records of Artesian Water Pennsylvania, Inc., or Artesian Water Pennsylvania, are maintained in accordance with the uniform system of accounts as prescribed by the Pennsylvania Public Utility Commission, or the PAPUC. The accounting records of Artesian Water Maryland, Inc., or Artesian Water Maryland, and Artesian Wastewater Maryland, Inc., or Artesian Wastewater Maryland, are maintained in accordance with the uniform system of accounts as prescribed by the Maryland Public Service Commission, or the MDPSC. All five subsidiaries follow the provisions of FASB ASC Topic 980, which provides guidance for companies in regulated industries.

Utility Plant

Utility plant is stated at original cost. Cost includes direct labor, materials, AFUDC (see description below) and indirect charges for such items as transportation, supervision, pension, and other fringe benefits related to employees engaged in construction activities. When depreciable units of utility plant are retired, any cost associated with retirement, less any salvage value or proceeds received will be charged to a regulated retirement liability. Maintenance, repairs, and replacement of minor items of plant are charged to expense as incurred.

In accordance with a rate order issued by the DEPSC, Artesian Water accrues an Allowance for Funds Used During Construction, or AFUDC. AFUDC, which represents the cost of funds devoted to construction projects through the date the project is placed in service, is capitalized as part of construction work in progress. The rate used for the AFUDC calculation is based on Artesian Water's weighted average cost of debt and the rate of return on equity authorized by the DEPSC. The rate used to capitalize AFUDC in 2013, 2012, and 2011 was 8.2%.

Utility plant comprises:

In thousands

December 31,	
2013	2012

	Estimated Useful Life (In Years)		
Utility plant at original cost			
Utility plant in service-Water			
Intangible plant	—	\$140	\$140
Source of supply plant	45-85	17,778	17,663
Pumping and water treatment plant	8-62	65,089	64,200
Transmission and distribution plant			
Mains	81	205,759	195,671
Services	39	32,912	31,627
Storage tanks	76	23,895	23,814
Meters	26	21,585	20,652
Hydrants	60	10,964	10,505
General plant	3-31	49,593	46,520
Utility plant in service-Wastewater			
Treatment and Disposal Plant	35-62	12,420	11,708
Collection Mains & Lift Stations	81	6,745	6,031
General plant	3-31	860	783
Property held for future use	—	14,865	14,525
Construction work in progress	—	5,793	6,198
		468,398	450,037
Less – accumulated depreciation		89,438	83,474
		\$378,960	\$366,563

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Depreciation and Amortization

For financial reporting purposes, depreciation is recorded using the straight-line method at rates based on estimated economic useful lives, which range from 3 to 85 years. Composite depreciation rates for water utility plant were 2.30%, 2.29% and 2.22% for 2013, 2012 and 2011, respectively. In a rate order issued by the DEPSC, the Company was directed effective January 1, 1998 to begin using revised depreciation rates for utility plant. In rate orders issued by the DEPSC, Artesian Water was directed, effective May 28, 1991 and August 25, 1992, to offset depreciation recorded on utility plant by depreciation on utility property funded by Contributions in Aid of Construction, or CIAC, and Advances for Construction, or Advances, respectively. This reduction in depreciation expense is also applied to outstanding CIAC and Advances. Other deferred assets are amortized using the straight-line method over applicable lives, which range from 2 to 40 years.

Utility Plant Retirement Cost Obligation

The utility plant retirement cost obligation consists of estimated costs related to the potential removal and replacement of facilities and equipment on the Company's water and wastewater properties. Effective January 1, 2012, as authorized by the DEPSC, when depreciable units of utility plant are retired, any cost associated with retirement, less any salvage value or proceeds received is charged to a regulated retirement liability. Each year the liability is increased by an annual amount authorized by the DEPSC. Previously, when depreciable units of utility plant were retired, the cost of retired property, together with any cost associated with retirement less any salvage value or proceeds received, was charged to accumulated depreciation. Maintenance, repairs, and replacement of minor items of plant are charged to expense as incurred.

Regulatory Assets

FASB ASC Topic 980 stipulates generally accepted accounting principles for companies whose rates are established or subject to approvals by a third-party regulatory agency. Certain expenses are recoverable through rates charged to our customers, without a return on investment, and are deferred and amortized during future periods using various methods as permitted by the Delaware Public Service Commission, or DEPSC, the Maryland Public Service Commission, or MDPSC, and the Pennsylvania Public Utility Commission, or PAPUC. Depreciation and salary study expenses are amortized on a straight-line basis over a period of five years. All other expenses related to Delaware rate proceedings and applications to increase rates are amortized on a straight-line basis over a period of two years. Other expenses related to Maryland rate proceedings and applications to increase rates are amortized on a straight line basis over a period of five years or until the next rate increase application. The postretirement benefit obligation is the recognition of an offsetting regulatory asset as it relates to the accrual of the expected cost of providing postretirement health care and life insurance benefits to retired employees when they render the services necessary to earn the benefits. The deferred income taxes will be amortized over future years as the tax effects of temporary differences that previously flowed through to our customers are reversed. Goodwill was recognized as a result of the acquisition of Mountain Hill in August 2008 and is currently being amortized on a straight-line basis over a period of fifty years. Deferred acquisition and franchise costs are the result of due diligence costs related to the December 2011 purchase of water assets in Cecil County, Maryland and the November 2010 purchase of the Port Deposit, Maryland water assets. Amortization of these deferred acquisition costs began once the acquired assets were placed into service. The amortization of the Port Deposit acquisition began in November 2010 and the amortization of the Cecil County acquisition began in December 2011. These acquisition costs will be amortized over a period of twenty years, while the franchise costs will be amortized over a period of eighty years.

Regulatory assets at December 31, net of amortization, comprise:

In thousands	2013	2012
--------------	------	------

Postretirement benefit obligation	\$438	\$497
Deferred income taxes	476	491
Goodwill	333	340
Deferred acquisition and franchise costs	792	824
Expense of rate and regulatory proceedings	265	241
	\$2,304	\$2,393

Impairment or Disposal of Long-Lived Assets

Our long-lived assets consist primarily of utility plant in service and regulatory assets. A review of our long-lived assets is performed in accordance with the requirements of FASB ASC Topic 360. In addition, the regulatory assets are reviewed for the continued application of FASB ASC Topic 980. The review determines whether there have been changes in circumstances or events that have occurred requiring adjustments to the carrying value of these assets. FASB ASC Topic 980 stipulates that adjustments to the carrying value of these assets would be made in instances where the inclusion in the rate-making process is unlikely.

Other Deferred Assets

Debt issuance costs are amortized over the term of the related debt, which ranges from 10 to 30 years. The investment in Co-Bank, which is a cooperative bank, is related to certain outstanding First Mortgage Bonds and is a required investment in the bank based on the underlying long term debt agreements. A large portion of other deferred assets, approximately \$0.4 million, is in relation to the Mountain Hill acquisition.

Other deferred assets at December 31, net of amortization, comprise:

In thousands	2013	2012
Debt issuance cost	\$1,989	\$2,108
Investment in Co-Bank	2,680	2,523
Other	503	565
	\$5,172	\$5,196

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Advances for Construction

Water mains, services and hydrants, or cash advances to reimburse Artesian Water for its costs to construct water mains, services and hydrants are contributed to Artesian Water by customers, real estate developers and builders in order to extend water service to their properties. The value of these contributions is recorded as Advances for Construction. Artesian Water makes refunds on these advances over a specific period of time based on operating revenues generated by the specific plant or as new customers are connected to the mains. After all refunds are made within the contract period, any remaining balance is transferred to CIAC.

Contributions in Aid of Construction

CIAC includes the non-refundable portion of advances for construction and direct contributions of water mains, services and hydrants, and wastewater treatment facilities and collection systems, or cash to reimburse our water and wastewater divisions for costs to construct water mains, services and hydrants, and wastewater treatment and disposal plant.

Income Taxes

Deferred income taxes are provided in accordance with FASB ASC Topic 740 on all differences between the tax basis of assets and liabilities and the amounts at which they are carried in the consolidated financial statements based on the enacted tax rates expected to be in effect when such temporary differences are expected to reverse. Under FASB ASC Topic 740, the Company analyzed its various tax positions and determined that no further entry, recognition or derecognition was required. The Company would recognize, if applicable, interest accrued and penalties related to unrecognized tax benefits in interest expense and in accordance with the regulations of the jurisdictions involved.

The Tax Reform Act of 1986 mandated that Advances and CIAC received subsequent to December 31, 1986, generally are taxable income. The 1996 Tax Act provided an exclusion from taxable income for CIAC and Advances received after June 12, 1996 by our utilities except for certain contributions for large services that are not included in rate base for rate-making purposes.

Investment tax credits were deferred through 1986 and are recognized as a reduction of deferred income tax expense over the estimated economic useful lives of the related assets.

Stock Compensation Plans

On May 25, 2005, the Company's stockholders approved a new Equity Compensation Plan, which authorizes up to 500,000 shares of Class A Non-Voting Common Stock, or Class A Stock, for issuance, referred to as the 2005 Equity Compensation Plan, or the Plan. Since May 25, 2005, no additional grants have been made under the Company's other stock-based compensation plans that were previously available. The Company accounts for stock options issued after January 1, 2006 under FASB ASC Topic 718. Compensation costs for awards and options in the amount of \$123,000, \$108,000 and \$120,000 for awards and options granted in 2013, 2012 and 2011 respectively, were determined based on the fair value at the grant dates and those costs are being charged to income over the service period associated with the grants. The \$120,000 in 2011 was the amount amortized for stock options awarded in 2011 and 2010. The \$108,000 in 2012 was the amount amortized for stock options awarded in 2012 and 2011. The \$123,000 in 2013 was the amount amortized for stock options awarded in 2013 and 2012.

There was no stock compensation cost capitalized as part of an asset.

The fair value of each option grant is estimated using the Black-Scholes-Merton option pricing model with the following weighted-average assumptions used for grants issued in 2013, 2012 and 2011 under the 2005 Equity

Compensation Plan (See Note 8 "Stock Compensation Plans").

	2013	2012	2011
Expected Dividend Yield	3.63%	4.18%	4.00%
Expected Stock Price Volatility	26.16%	25.13%	24.97%
Weighted Average Risk Free Interest Rate	1.68%	1.87%	3.12%
Weighted Average Expected Life of Options (in years)	9.41	9.47	8.36

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The expected dividend yield was based on a 12 month rolling average of the Company's current dividend yield. The expected volatility is the standard deviation of the change in the natural logarithm of the stock price (expressed as an annual rate) for the expected term shown above. The expected term was based on historic exercise patterns for similar grants. The risk free interest rate is the 10-year Treasury Constant Maturity rate as of the dates of the 2012 and 2011 grants. The risk free interest rate for the 2013 options is the weighted average of the 7-year and 10-year US Treasury Yield rates.

Shares of Class A Stock have been reserved for future issuance under the 2005 Equity Compensation Plan.

Revenue Recognition and Unbilled Revenues

Water service revenue for financial statement purposes includes amounts billed to Delaware customers on a monthly basis and amounts billed to Maryland customers on a quarterly or monthly cycle basis, depending on water system. Water service revenues also include unbilled amounts based upon estimated usage from the date of the last meter reading to the end of the accounting period. As actual usage amounts are received, adjustments are made to the unbilled estimates in the next billing cycle based on an accrual basis.

Other operating revenue includes wastewater service revenue derived from monthly fixed fees billed to customers, and is recognized on an accrual basis.

Non-utility operating revenue is primarily derived from the design, construction and operation of contract water and wastewater projects. The Company recognizes non-utility operating revenue ratably over the service period with markup for overhead and profit. The Company records contract monthly fees for non-utility operating revenue when billed to the customer. Service line protection plan revenues are recognized on an accrual basis.

Accounts Receivable

Accounts receivable are recorded at the invoiced amounts. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in our existing accounts receivable. The Company reviews the allowance for doubtful accounts on a quarterly basis. Account balances are written off against the allowance when it is probable the receivable will not be recovered. The allowance for doubtful accounts was \$0.2 million at December 31, 2013 and December 31, 2012. The corresponding expense for the year ended December 31, 2013 and 2012 was \$0.2 million and \$0.2 million, respectively. The following table summarizes the changes in the Company's accounts receivable balance:

In thousands	December 31,		
	2013	2012	2011
Customer accounts receivable – water	\$3,902	\$3,988	\$3,390
Other	1,434	1,981	1,823
	5,336	5,969	5,213
Less allowance for doubtful accounts	221	241	216
Net accounts receivable	\$5,115	\$5,728	\$4,997

The activities in the allowance for doubtful accounts are as follows:

In thousands	December 31,		
	2013	2012	2011
Beginning balance	\$241	\$216	\$230

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Allowance adjustments	180	215	262
Recoveries	115	141	111
Write off of uncollectible accounts	(315)	(331)	(387)
Ending balance	\$221	\$241	\$216

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Cash and Cash Equivalents

For purposes of the Consolidated Statement of Cash Flows, Artesian Resources considers all temporary cash investments with an original maturity of three months or less to be cash equivalents. Artesian Resources and its subsidiaries utilize their bank's zero balance account disbursement service to reduce the use of their lines of credit by funding checks as they are presented to the bank for payment rather than at issuance. If the checks currently outstanding, but not yet funded, exceed the cash balance on our books, the net liability is recorded as a current liability on the Consolidated Balance Sheets in the Overdraft Payable account.

Use of Estimates in the Preparation of Consolidated Financial Statements

The consolidated financial statements were prepared in conformity with generally accepted accounting principles in the U.S., which require management to make estimates about the reported amounts of assets and liabilities including unbilled revenues, reserve for a portion of revenues received under temporary rates and regulatory asset recovery and contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimate.

NOTE 2

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

Current Assets and Liabilities

For those current assets and liabilities that are considered financial instruments, the carrying amounts approximate fair value because of the short maturity of those instruments.

Long-term Financial Liabilities

All of Artesian Resources' outstanding long-term debt as of December 31, 2013 and December 31, 2012 was fixed-rate. The fair value of the Company's long-term debt is determined by discounting their future cash flows using current market interest rates on similar instruments with comparable maturities consistent with FASB ASC 825. Under the fair value hierarchy, the fair value of the long-term debt in the table below is classified as Level 2 measurements. The fair values for long-term debt differ from the carrying values primarily due to interest rates that differ from the current market interest rates. The carrying amount and fair value of Artesian Resources' long-term debt are shown below:

In thousands	December 31,	
	2013	2012
Carrying amount	\$106,642	\$107,368
Estimated fair value	124,461	133,818

The fair value of Advances for Construction cannot be reasonably estimated due to the inability to accurately estimate the timing and amounts of future refunds expected to be paid over the life of the contracts. Refund payments are based on the water sales to new customers in the particular development constructed. The fair value of Advances for Construction would be less than the carrying amount because these financial instruments are non-interest bearing.

NOTE 3

INCOME TAXES

Deferred income taxes reflect temporary differences between the valuation of assets and liabilities for financial and tax reporting.

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As of December 31, 2013, Artesian Resources has fully utilized all of its federal net operating loss carry-forwards. As of December 31, 2013, Artesian Resources has separate company state net operating loss carry-forwards aggregating approximately \$9.7 million. These net operating loss carry-forwards will expire if unused between 2024 and 2034. Artesian Resources has recorded a valuation allowance to reflect the estimated amount of deferred tax assets that may not be realized due to the expiration of the state net operating loss carry-forwards. Management believes that it is more likely than not that the Company will realize the benefits of these net deferred tax assets. The valuation allowance increased from approximately \$57,000 in 2012 to approximately \$61,000 in 2013.

At December 31, 2013, for federal income tax purposes, there were alternative minimum tax credit carry-forwards aggregating \$4.6 million resulting from the payment of alternative minimum tax in current and prior years. These alternative minimum tax credit carry-forwards may be carried forward indefinitely to offset future regular federal income taxes.

Under FASB ASC Topic 740, an uncertain tax position represents our expected treatment of a tax position taken, or planned to be taken in the future, that has not been reflected in measuring income tax expense for financial reporting purposes. As a result of our review of our tax positions, we determined that we had no material uncertain tax positions. The Company would recognize, if applicable, interest accrued and penalties related to unrecognized tax benefits in interest expense and in accordance with the regulations of the jurisdictions involved. There were no such interest and penalty charges for the years ended December 31, 2013 or December 31, 2012. The Company remains subject to examination by federal and state authorities for tax years 2010 through 2013.

Components of Income Tax Expense

In thousands	For the Year Ended		
	December 31,		
State income taxes	2013	2012	2011
Current	\$526	\$145	\$106
Deferred	706	1,312	994
Total state income tax expense	\$1,232	\$1,457	\$1,100

	For the Year Ended		
	December 31,		
Federal income taxes	2013	2012	2011
Current	\$1,199	\$1,795	\$-
Deferred	3,157	3,364	3,554
Total federal income tax expense	\$4,356	\$5,159	\$3,554

Reconciliation of effective tax rate:

In thousands	For the Year Ended December 31,					
	2013	2013	2012	2012	2011	2011
	Amount	Percent	Amount	Percent	Amount	Percent
Reconciliation of effective tax Rate						
Income before federal and state income taxes	\$13,890	100.0	\$16,460	100.0	\$11,401	100.0
Amount computed at statutory rate	4,722	34.0	5,596	34.0	3,876	34.0
Reconciling items						
State income tax-net of federal tax benefit	804	5.8	952	5.8	711	6.2
Other	62	0.4	68	0.4	67	0.6
Total income tax expense and effective rate	\$5,588	40.2	\$6,616	40.2	\$4,654	40.8

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Deferred income taxes at December 31, 2013, 2012, and 2011 were comprised of the following:

In thousands	For the Year Ended December 31,		
	2013	2012	2011
Deferred tax assets related to:			
Federal alternative minimum tax credit carry-forwards	\$4,643	\$5,031	\$3,688
Federal and state operating loss carry-forwards	544	481	3,077
Bad debt allowance	88	96	127
Valuation allowance	(61)	(57)	(53)
Stock options	343	294	251,000
Other	264	326	344
Total deferred tax assets	\$5,821	\$6,171	\$7,434
Deferred tax liabilities related to:			
Property plant and equipment basis differences	\$(55,066)	\$(51,687)	\$(48,681)
Expenses of rate proceedings	(86)	(53)	(144)
Property taxes	(592)	(496)	(494)
Other	(657)	(651)	(619)
Total deferred tax liabilities	\$(56,401)	\$(52,887)	\$(49,938)
Net deferred tax liability	\$(50,580)	\$(46,716)	\$(42,504)
Deferred taxes, which are classified into a net current and non-current balance, are presented in the balance sheet as follows:			
Current deferred tax liability	\$(838)	\$(837)	\$(772)
Non-current deferred tax liability	(49,742)	(45,879)	(41,732)
Net deferred tax liability	\$(50,580)	\$(46,716)	\$(42,504)

Schedule of Valuation Allowance

In thousands	Balance at Beginning of Period	Additions		Balance at End of Period
		Charged to Costs and Expenses	Deductions	
Classification				
For the Year Ended December 31, 2013 Valuation allowance for deferred tax assets	\$ 57	\$ 4	—	\$ 61
For the Year Ended December 31, 2012 Valuation allowance for deferred tax assets	\$ 53	\$ 4	—	\$ 57
For the Year Ended December 31, 2011 Valuation allowance for deferred tax assets	\$ 45	\$ 8	—	\$ 53

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NOTE 4

PREFERRED STOCK

As of December 31, 2013 and 2012, Artesian Resources had no preferred stock outstanding. Artesian Resources has 100,000 shares of \$1.00 par value Series Preferred stock authorized but unissued.

NOTE 5

COMMON STOCK AND ADDITIONAL PAID-IN CAPITAL

The Class A Non-Voting Common Stock, or Class A Stock, of Artesian Resources trades on the NASDAQ Global Select Market under the symbol ARTNA. The Class B Common Stock, or Class B Stock, of Artesian Resources trades on the NASDAQ's OTC Bulletin Board under the symbol ARTNB. The rights of the holders of the Class A Stock and the Class B Stock are identical, except with respect to voting.

Under Artesian Resources' dividend reinvestment plan, which allows for reinvestment of cash dividends and optional cash payments, stockholders were issued 26,800, 22,363 and 21,233 shares at fair market value for the investment of \$599,000, \$461,000, and \$394,000 of their monies in the years 2013, 2012, and 2011, respectively.

NOTE 6

DEBT

At December 31, 2013, Artesian Resources had a \$40 million line of credit with Citizens Bank, or Citizens, which is available to all subsidiaries of Artesian Resources. As of December 31, 2013, there was \$35.7 million of available funds under this line of credit. The interest rate for borrowings under this line is the London Interbank Offered Rate, or LIBOR, plus 1.00%. This is a demand line of credit and therefore the financial institution may demand payment for any outstanding amounts at any time. The term of this line of credit expires on the earlier of May 29, 2014 or any date on which Citizens demands payment.

At December 31, 2013, Artesian Water had a \$20 million line of credit with CoBank, ACB, or CoBank, that allows for the financing of operations for Artesian Water, with up to \$10 million of this line available for the operations of Artesian Water Maryland. As of December 31, 2013, there was \$14.0 million of available funds under this line of credit. The interest rate for borrowings under this line is LIBOR plus 1.50%. The term of this line of credit expires on January 13, 2015.

These lines of credit, as well as both the long-term debt and the state revolving fund loans shown below, require us to abide by certain financial covenants and ratios. As of December 31, 2013, we were in compliance with these covenants.

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Long-term debt consists of:

In thousands	December 31,	
	2013	2012
First mortgage bonds		
Series O, 8.17%, due December 29, 2020	\$20,000	\$20,000
Series P, 6.58%, due January 31, 2018	25,000	25,000
Series Q, 4.75%, due December 1, 2043	15,400	15,400
Series R, 5.96%, due December 31, 2028	25,000	25,000
Series S, 6.73%, due December 31, 2033	12,000	12,600
	97,400	98,000
State revolving fund loans		
4.48%, due August 1, 2021	2,187	2,410
3.57%, due September 1, 2023	869	940
3.64%, due May 1, 2025	1,469	1,570
3.41%, due February 1, 2031	2,820	2,936
3.40%, due July 1, 2032	1,897	1,512
	9,242	9,368
Sub-total	106,642	107,368
Less: current maturities (principal amount)	1,132	1,111
Total long-term debt	\$105,510	\$106,257

Payments of principal amounts due during the next five years and thereafter:

In thousands	2014	2015	2016	2017	2018	Thereafter
First Mortgage bonds	\$600	\$600	\$600	\$600	\$25,600	\$69,400
State revolving fund loans	532	622	646	671	698	6,073
Total payments	\$1,132	\$1,222	\$1,246	\$1,271	\$26,298	\$75,473

NOTE 7

NON-UTILITY OPERATING REVENUE AND EXPENSES

Non-utility operating revenue consisted of \$3.9 million, \$3.2 million, and \$1.9 million recognized by Artesian Utility in 2013, 2012 and 2011, respectively. In addition, \$0.6 million and \$2.1 million was from Artesian Resources' water and sewer Service Line Protection Plans in 2012 and 2011, respectively. Effective April 1, 2012, the Service Line Protection Plans program was transferred to Artesian Utility, whereas it was previously under Artesian Resources. The Service Line Protection Plans provide coverage for all material and labor required to repair or replace participants' leaking water and leaking or clogged sewer service lines up to an annual limit. An additional \$175,000 in revenue was recognized in 2011 from Artesian Consulting Engineers for design and engineering services to developers for residential and commercial development.

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Non-utility operating expenses are as follows:

In thousands	2013	2012	2011
Artesian Utility	\$2,052	\$1,777	\$1,823
Artesian Development	40	42	39
Artesian Resources	-	263	993
Artesian Consulting Engineers	29	18	293
Total	\$2,121	\$2,100	\$3,148

NOTE 8

STOCK COMPENSATION PLANS

In 1992, the Company instituted the 1992 Non-Qualified Stock Option Plan, which was subsequently amended in 1998. The number of authorized shares was 375,000. Options to purchase shares of Class A Stock were granted to employees and directors of the Company. Employees who were not executive officers or directors were eligible to receive options priced at not less than 85% of the fair market value on the date of grant, option prices for directors and officers of the Company was 90% of the fair market value. Effective May 25, 2005, no additional grants have been made from this plan.

In 1996, the Company instituted the Incentive Stock Option Plan under which the Company was authorized to grant options up to 150,000 shares of Class A Stock to its key employees and officers. Options were granted at the fair market value on the date of grant. The Company accelerated vesting for certain incentive stock options held by officers and directors in anticipation of FASB ASC Topic 718, which applied to stock options issued after January 1, 2006. Effective May 25, 2005, no additional grants have been made from this plan.

On May 25, 2005, the Company adopted the 2005 Equity Compensation Plan, or the Plan. The Plan provides that grants may be in any of the following forms: incentive stock options, nonqualified stock options, stock units, stock awards, dividend equivalents and other stock-based awards. The Plan is administered and interpreted by the Compensation Committee of the Board of Directors, or the Committee. The Committee has the authority to determine the individuals to whom grants will be made under the Plan, determine the type, size and terms of the grants, determine the time when grants will be made and the duration of any applicable exercise or restriction period (subject to the limitations of the Plan) and deal with any other matters arising under the Plan. The Committee presently consists of three directors, each of whom is a non-employee director of the Company. All of the employees of the Company and its subsidiaries are eligible for grants under the Plan. Non-employee directors of the Company are also eligible to receive grants under the Plan.

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The following summary reflects changes in the shares of Class A Stock under option:

	2013	2013	2012	2012	2011	2011
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Plan options						
Outstanding at beginning of year	421,500	\$ 18.30	450,000	\$ 17.61	440,800	\$ 17.18
Granted	33,750	22.66	33,750	19.01	33,750	19.06
Exercised	(68,250)	16.68	(62,250)	13.68	(24,550)	11.87
Expired	—	—	—	—	—	—
Outstanding at end of year	387,000	\$ 18.96	421,500	\$ 18.30	450,000	\$ 17.61
Options exercisable at year end	353,250	\$ 18.61	387,750	\$ 18.24	416,250	\$ 17.49

The fair value per share of options granted during 2013, 2012 and 2011 were \$4.04, \$2.92 and \$3.50, respectively, as estimated using the Black-Scholes Merton option pricing model. The total intrinsic value of options exercised during 2013, 2012 and 2011 were \$367,000, \$449,000 and \$167,000, respectively. There were no fully vested shares granted during 2013. During 2013, we received \$1,139,000 in cash from the exercise of options, with a \$367,000 tax benefit realized for those options.

The following tables summarize information about employee and director stock options outstanding at December 31, 2013:

Options Outstanding

Range of Exercise Price	Shares Outstanding at December 31, 2013	Weighted Average Remaining Life	Weighted Average Exercise Price	Aggregate Intrinsic Value
\$ 15.26 - \$19.31	209,250	5.22 Years	\$ 17.70	\$1,098,873
\$ 19.32 - \$22.66	177,750	3.64 Years	\$ 20.46	\$443,471

Options Exercisable

Range of Exercise Price	Shares Exercisable at December 31, 2013	Weighted Average Remaining Life	Weighted Average Exercise Price	Aggregate Intrinsic Value
\$ 15.26 - \$19.31	209,250	5.22 Years	\$ 17.70	\$1,098,873
\$ 19.32 - \$22.66	144,000	2.31 Years	\$ 19.94	\$433,683

As of December 31, 2013, there was \$47,000 of total unrecognized expense related to non-vested option shares granted under the Plan. The cost will be recognized over the remaining 0.4 years vesting period of the unvested options.

NOTE 9

EMPLOYEE BENEFIT PLANS

401(k) Plan

Artesian Resources has a defined contribution 401(k) Salary Deduction Plan, or the 401(k) Plan, which covers substantially all employees. Under the terms of the 401(k) Plan, Artesian Resources contributed 2% of eligible salaries and wages and matched employee contributions up to 6% of gross pay at a rate of 50%. Artesian Resources may, at its option, make additional contributions of up to 3% of eligible salaries and wages. No such additional contributions were made in 2013, 2012 and 2011. The 401(k) Plan expenses, which include Company contributions and administrative fees, for the years 2013, 2012 and 2011, were approximately \$768,000, \$771,000, and \$719,000, respectively.

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Supplemental Pension Plan

Effective October 1, 1994, Artesian Water established a Supplemental Pension Plan, or the Supplemental Plan, to provide additional retirement benefits to full-time employees hired prior to April 26, 1994. The Supplemental Plan is a defined contribution plan that enables employees to save for future retiree medical costs, which will be paid by employees. The Supplemental Plan accomplishes this objective by providing additional cash resources to employees upon a termination of employment or retirement, to meet the cost of future medical expenses. Artesian Water has established a contribution based upon each employee's years of service ranging from 2% to 6% of eligible salaries and wages. Artesian Water also provides additional benefits to individuals who were over age 50 as of January 1, 1994. These individuals are referred to as the Transition Group. Effective November 1, 1994, individuals eligible for the Transition Group had the opportunity to defer compensation to the Supplemental Plan, and to receive a transition matching contribution for 5 years. Each one-dollar of eligible salaries and wages deferred by the Transition Group was matched with three, four, or five dollars by Artesian Water based on the employee's years of service subject to certain limitations under the federal tax rules. Plan expenses, which include Company contributions and administrative fees, for the years 2013, 2012 and 2011, were approximately \$246,000, \$266,000, and \$264,000, respectively.

Postretirement Benefit Plan

Artesian Water has a Postretirement Benefit Plan, or the Benefit Plan, which provides medical and life insurance benefits to certain retired employees. Prior to the amendment of the Benefit Plan, substantially all employees could become eligible for these benefits if they reached retirement age while still working for Artesian Water. The amendment excludes any current employees from becoming eligible for these benefits upon retirement.

FASB ASC Topic 715 stipulates that Artesian Water accrue the expected cost of providing postretirement health care and life insurance benefits as employees render the services necessary to earn the benefits. Artesian Water recognizes an offsetting regulatory asset with respect to its post retirement liability. This asset is recorded based on the DEPSC order, which permits Artesian Water to continue recovery of postretirement health care and life insurance expense on a pay-as-you-go basis for the remaining eligible employees. Further, expense recovery as a percentage of rates is expected to remain generally constant over the initial years, and then decline until the obligation is liquidated. The amounts recognized in consolidated financial statements are determined based on an actuarial basis, which uses assumptions about inflation, mortality, medical trend rates and discount rates. A change in these assumptions could cause actual results to differ from those reported. Amounts charged to expense were \$126,000, \$120,000, and \$112,000 for 2013, 2012 and 2011, respectively.

The Company uses December 31 as the measurement date to determine the postretirement benefit obligation. According to our actuarial report, the funded status of our defined benefit postretirement plan was calculated contemplating FASB ASC Topic 715 and the obligation is recorded at that amount. There was no other comprehensive income impact because we record a regulatory asset as provided by FASB ASC Topic 980. Additional disclosures required for our postretirement benefit obligation are presented below.

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Benefit Obligations and Funded Status

In thousands

	Year Ended December 31	
	2013	2012
Change in Accumulated Postretirement Benefit Obligation		
Accumulated Postretirement Benefit Obligation at the Beginning of the Year	\$764	\$724
Service Cost	—	—
Interest Cost	28	30
Actuarial (Gain) or Loss	82	130
Benefits Paid	(131)	(125)
Plan Participant's Contributions	5	5
Accumulated Postretirement Benefit Obligation at the End of the Year	748	764
Change in Plan Assets		
Fair Value of Plan Assets at the Beginning of the Year	—	—
Benefits Paid	(131)	(125)
Employer Contributions	126	120
Plan Participant's Contributions	5	5
Fair Value of Assets at the End of the Year	—	—
Net Amount Recognized		
Funded Status	(748)	(764)
Unrecognized Transition Obligation Asset	-	9
Unrecognized Net Gain or Loss	310	258
Net Amount Recognized:	(438)	(497)
Amounts Recognized in the Statement of Financial Position		
Accrued Benefit Liability-Current	(129)	(123)
Accrued Benefit Liability-Noncurrent	(309)	(374)
Net Amount Recognized	\$(438)	\$(497)
Weighted Average Assumptions at the End of the Year		
Discount Rate	4.00 %	4.00 %
Assumed Health Care Cost Trend Rates		
Health Care Cost Trend Rate Assumed for Next Year	5.00 %	6.00 %
Ultimate Rate	3.50 %	3.50 %
Year that the Ultimate Rate is Reached	2017	2016

Impact of One-Percentage-Point Change in Assumed Health Care Cost Trend Rates

	Increase	Decrease
Effect on Service Cost & Interest Cost		
Cost	\$ 1	\$ (1)
Effect on Postretirement Benefit Obligation		
Obligation	\$ 26	\$ (24)

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Contributions

Artesian Water expects to contribute \$129,000 to its postretirement benefit plan in 2014.

The following table represents the approximate annual benefits expected to be paid for the years ended December 31:

In thousands	Other Benefits
2014	\$ 129
2015	118
2016	106
2017	94
2018	82
2019 through 2023	257
	\$ 786

NOTE 10

COMMITMENTS AND CONTINGENCIES

Leases

In October 1997, Artesian Water entered into a 33-year operating lease for a parcel of land with improvements located in South Bethany, a municipality in Sussex County, Delaware. The annual lease payments increase each year by the most recent increase in the Consumer Price Index for Urban Workers, CPI-U, as published by the U.S. Department of Labor, Bureau of Labor Statistics. At each eleventh year of the lease term, the annual lease payment shall be determined based on the fair market value of the parcel of land. Rental payments for 2013, 2012 and 2011 were \$15,700, \$15,400, and \$15,300, respectively. The future minimum rental payment as disclosed in the following table is calculated using CPI-U as of October 31, 2013 as well as any adjustments for appraisals conducted to determine the fair market value of the parcel of land.

During 2003, Artesian Resources entered into a 40-year easement agreement to acquire an easement to access, operate, maintain, repair, improve, replace and connect Artesian's water system to a well, including a parcel of land around the well. Easement payments for 2013, 2012 and 2011 were \$33,000, \$32,000 and \$31,000, respectively.

Artesian Wastewater entered into a perpetual agreement for the use of approximately 460 acres of land in Sussex County, Delaware for wastewater disposal. Beginning January 2007, Artesian Wastewater is required to pay a minimum of \$40,000 per year for the use of this land. Beginning January 2012, and on each anniversary thereof until January 2027, the fee shall be adjusted upwards by an adjustment factor of two percent. Once disposal operations begin, the monthly fee will be contingent on the average number of gallons of wastewater disposed on the properties. Payments for 2013, 2012 and 2011 were \$41,700, \$41,000 and \$40,000, respectively. The agreement can be terminated by giving 180-day notice prior to the termination date.

Future minimum annual rental payments related to operating leases for the years subsequent to 2013 are as follows:

In thousands	
2014	\$71
2015	51
2016	53
2017	54
2018	55

2019 through 2043 1,590
\$1,874

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Interconnections

Artesian Water has one water service interconnection agreement with a neighboring utility, Chester Water Authority, which requires minimum annual purchases. Rates charged under this agreement are subject to change. Effective August 1, 1997, Artesian Water renegotiated the contract with the Chester Water Authority to, among other things, reduce the minimum purchase requirements from 1,459 million gallons to 1,095 million gallons annually, calculated as 3 mgd times the number of calendar days in a year. The agreement is extended through the year 2021.

The minimum annual purchase commitments for all interconnection agreements for 2014 through 2018 and the aggregate total for the years 2019 through 2021, calculated at the noticed rates, are as follows:

In thousands

2014	\$3,780
2015	3,780
2016	3,791
2017	3,780
2018	3,780
2019 through 2021	11,352
	\$30,263

Expenses for purchased water were \$4.0 million, \$4.0 million, and \$3.8 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Other Commitments

In 2005, Artesian Water entered into a 6-year agreement with Utility Service Co., Inc. to clean and paint tanks from 2006 to 2011 for \$1.9 million. In 2011, Artesian Water entered into a 2-year agreement with Southern Corrosion Inc. to clean and paint tanks in 2012 and 2013. Pursuant to the 2-year agreement, the expenditure committed for the years 2012 through 2013 was \$623,000. In 2013, Artesian Water entered into a 3-year agreement with Worldwide Industries Corporation to clean and paint tanks in 2014, 2015 and 2016. Pursuant to the 3-year agreement, the expenditure committed for the years 2014 through 2016 is \$804,000. Also, in 2011, following the purchase of water assets from Cecil County, Maryland, Artesian Water Maryland assumed two agreements with Utility Service Co., Inc. to clean and paint tanks, these agreements were not renewed upon their expiration in 2013. The tank painting expense for 2013, 2012 and 2011 was \$377,000, \$403,000, and \$344,000.

Budgeted mandatory utility plant expenditures, due to planned governmental highway projects, which require the relocation of Artesian Water's water service mains, expected to be incurred in 2014 through 2018 are as follows:

In thousands

2014	\$1,490
2015	1,430
2016	705
2017	1,055
2018	1,055
	\$5,735

The exact timing and extent of these relocation projects is controlled primarily by the Delaware Department of Transportation.

Litigation

Artesian Resources and its subsidiaries are subject to legal proceedings in the ordinary course of business. Any amounts from such legal proceedings that are probable and reasonably estimable are reflected in the financial statements.

Artesian Water filed a complaint in the United States District Court for the Eastern District of Pennsylvania against Chester Water Authority claiming breach of contract, unjust enrichment and requesting declaratory judgment in relation to an agreement by Chester Water Authority to supply bulk water supplies to Artesian Water. In January and February 2013 trials were held before a judge appointed authority, or Special Master. On October 17, 2013, the Special Master filed preliminary recommendations with the District Court, which include a recommendation that the District Court order Artesian Water to pay to Chester Water Authority amounts withheld. Related to the ongoing litigation with Chester Water Authority, we have approximately \$2.6 million and \$1.8 million of accrued expenses recorded on our Consolidated Balance Sheets as of December 31, 2013 and December 31, 2012, respectively. These accrued expenses represent the disputed portion of Chester Water Authority's rate increases and have been withheld from payments to Chester Water Authority pending the outcome of the litigation. The Special Master also recommended that a late fee be paid by Artesian Water to Chester Water Authority, although such fee is not within Artesian Water's contract with Chester Water Authority or within any tariff posted by Chester Water Authority. The Special Master rejected Chester Water Authority's counterclaim in his recommendation to the District Court. In November 2013, Artesian Water filed objections to the preliminary recommendations filed by the Special Master. A final judgment will not be entered until the District Court has considered the objections and any responses thereto.

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NOTE 11

GEOGRAPHIC CONCENTRATION OF CUSTOMERS

Artesian Water, Artesian Water Maryland and Artesian Water Pennsylvania provide water utility service to customers within their established service territory in all three counties of Delaware and in portions of Maryland and Pennsylvania, pursuant to rates filed with and approved by the DEPSC, the MDPSC and the PAPUC. As of December 31, 2013, Artesian Water was serving approximately 79,700 customers, Artesian Water Maryland was serving approximately 2,200 customers and Artesian Water Pennsylvania was serving approximately 40 customers.

Artesian Wastewater began providing wastewater services to a community in Sussex County, Delaware in July 2005. Artesian Wastewater provides wastewater utility service to customers within their established service territory in Sussex and Kent County, Delaware pursuant to rates filed with and approved by the DEPSC. As of December 31, 2013, Artesian Wastewater was serving approximately 1,100 customers, the majority of which are located in Sussex County, Delaware.

NOTE 12

REGULATORY PROCEEDINGS

Our water and wastewater utilities generate operating revenue from customers based on rates that are established by state Public Service Commissions through a rate setting process that may include public hearings, evidentiary hearings and the submission of evidence and testimony in support of the requested level of rates by the Company.

We are subject to regulation by the following state regulatory commissions:

- The Delaware Public Service Commission, or DEPSC, regulates both Artesian Water and Artesian Wastewater.
- The Maryland Public Service Commission, or MDPSC, regulates both Artesian Water Maryland and Artesian Wastewater Maryland.
- The Pennsylvania Public Utility Commission, or PAPUC, regulates Artesian Water Pennsylvania.

Rate Proceedings

Our regulated utilities periodically seek rate increases to cover the cost of increased operating expenses, increased financing expenses due to additional investments in utility plant and other costs of doing business. In Delaware, utilities are permitted by law to place rates into effect, under bond, on a temporary basis pending completion of a rate increase proceeding. The first temporary increase may be up to the lesser of \$2.5 million on an annual basis or 15% of gross water sales. Should the rate case not be completed within seven months, by law, the utility may put the entire requested rate relief, up to 15% of gross water sales, in effect under bond until a final resolution is ordered and placed into effect. If any such rates are found to be in excess of rates the DEPSC finds to be appropriate, the utility must refund the portion found to be in excess to customers with interest. The timing of our rate increase requests are therefore dependent upon the estimated cost of the administrative process in relation to the investments and expenses that we hope to recover through the rate increase. We can provide no assurances that rate increase requests will be approved by applicable regulatory agencies and, if approved, we cannot guarantee that these rate increases will be granted in a timely or sufficient manner to cover the investments and expenses for which we initially sought the rate increase.

Artesian Water, the DEPSC, and the Division of the Public Advocate entered into an agreement to settle Artesian Water's April 2011 application for an increase in rates. PSC Order No. 8097, issued on January 31, 2012, approved the settlement agreement, authorizing a permanent rate increase in revenue of approximately 11.13%, or \$6.25 million on an annualized basis. Since the permanent rate increase did not exceed amounts already collected under previously

approved temporary increases in rates, Artesian Water was not required to refund any amounts to its customers. The approved permanent rate increase became effective January 1, 2012. The settlement also authorized a return on equity of 10%. Additionally, effective January 1, 2012, the settlement agreement permitted a tariff change that includes the use of a seasonal connection charge as well as a new approach for presenting the cost of retired property and ratemaking treatment for salvage costs to be recovered in rates. Previously, when depreciable units of utility plant were retired, the cost of retired property, together with any cost associated with retirement less any salvage value or proceeds received, was charged to accumulated depreciation. Under the settlement agreement, effective January 1, 2012, any cost associated with retirement less any salvage value or proceeds received is charged to a regulated retirement liability. This new approach resulted in an approximately \$1.2 million reclassification of accumulated depreciation of utility plant to deferred credits and other liabilities on our Consolidated Balance Sheet as of December 31, 2012. The settlement also authorized Artesian Water to change from quarterly to monthly billing, which was implemented in April 2012.

In late 2013, Artesian Water provided notice to the DEPSC of its intent to file an application on April 1, 2014 for a change in water rates. Artesian Water's last request to implement new rates was filed in April 2011.

On January 18, 2013, Artesian Wastewater filed an application with the DEPSC to revise its rates and charges for wastewater services concerning territories located in Kent and Sussex County, Delaware. Artesian Wastewater requested authorization to implement proposed rates for wastewater services to meet a requested increase in revenue of approximately \$343,000, or 34.8%, on an annualized basis. The new rates are designed to support Artesian Wastewater's ongoing capital improvement program and to cover increased costs of operations. On August 6, 2013, Artesian Wastewater, the Staff of the Delaware Public Service Commission and the Division of the Public Advocate entered into an agreement to settle Artesian Wastewater's application for an increase in rates. On October 8, 2013, the DEPSC approved the settlement agreement authorizing a two-step increase in rates, with the first step effective upon approval of the settlement and the second step effective one year thereafter. Once fully implemented, based on the current number of households, the new rates will provide Artesian Wastewater approximately \$174,000 in additional annual revenue. The settlement also authorized a return on equity of 10%.

Service Territory Expansion Proceedings

In November 2012, Artesian Water Maryland closed on the transfer of the CECO water system assets. CECO transferred its water utility assets, which included water mains, a treatment facility and an elevated water storage tank, to Artesian Water Maryland. The CECO water system serves approximately 200 customers. The CECO system was connected to Artesian Water Maryland's Meadowview water system upon closing on the transfer of assets.

Other Proceedings

Delaware law permits water utilities to put into effect, on a semi-annual basis, increases related to specific types of distribution system improvements through a Distribution System Improvement Charge, or DSIC. This charge may be implemented by water utilities between general rate increase applications that normally recognize changes in a water utility's overall financial position. The DSIC approval process is less costly when compared to the approval process for general rate increase requests. The DSIC rate applied between base rate filings is capped at 7.5% of the amount billed to customers under otherwise applicable rates and charges, and the DSIC rate increase applied cannot exceed 5% within any 12-month period. In May 2012, Artesian Water filed an application with the DEPSC for approval to collect a DSIC rate of 0.14% effective July 1, 2012. This rate was based on approximately \$486,000 in eligible plant improvements since the last rate application. On June 19, 2012, the DEPSC approved the DSIC effective July 1, 2012. In December 2013, the DEPSC issued an Order affirming the DSIC rate effective July 1, 2012. In November 2012, Artesian Water filed an application with the DEPSC for approval to collect a DSIC rate of 1.59% effective January 1, 2013. This rate was based on approximately \$4.6 million in eligible plant improvements since the last rate application. On December 14, 2012, the DEPSC approved the DSIC effective January 1, 2013, subject to audit at a later date. In May 2013, Artesian Water filed an application with the DEPSC for approval to collect a DSIC rate of

2.09% effective July 1, 2013. This rate was based on approximately \$2.0 million in eligible plant improvements since the last rate application. On June 18, 2013, the DEPSC approved the DSIC effective July 1, 2013, subject to audit at a later date. In November 2013, Artesian Water filed an application with the DEPSC for approval to collect a DSIC rate of 3.32% effective January 1, 2014. This rate was based on approximately \$4.9 million in eligible plant improvements since the last rate application. On December 17, 2013, the DEPSC approved the DSIC effective January 1, 2014, subject to audit at a later date. For the years ended December 31, 2013 and December 31, 2012, we earned approximately \$1.1 million and \$42,000 in DSIC revenue.

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NOTE 13

NET INCOME PER COMMON SHARE AND EQUITY PER COMMON SHARE

Basic net income per share is based on the weighted average number of common shares outstanding. Diluted net income per share is based on the weighted average number of common shares outstanding and the potentially dilutive effect of employee stock options. The following table summarizes the shares used in computing basic and diluted net income per share:

	For the Year Ended December 31, 2013 2012 2011 (in thousands)		
Weighted average common shares outstanding during the period for Basic computation	8,774	8,666	8,122
Dilutive effect of employee stock options	62	51	38
Weighted average common shares outstanding during the period for Diluted computation	8,836	8,717	8,160

For the years ended December 31, 2013 and December 31, 2012, employee stock options to purchase 33,750 and 60,750 shares of common stock were excluded from the calculations of diluted net income per share, respectively, as the calculated proceeds from the options' exercise were greater than the average market price of the Company's common stock during this period.

The Company has 15,000,000 authorized shares of Class A Stock, and 1,040,000 shares of Class B Stock. As of December 31, 2013, 7,948,569 shares of Class A Stock and 881,452 shares of Class B Stock were issued and outstanding. As of December 31, 2012, 7,828,836 shares of Class A Stock and 881,452 shares of Class B Stock were issued and outstanding. As of December 31, 2011, 7,729,506 shares of Class A Stock and 881,452 shares of Class B Stock were issued and outstanding. The par value for both classes is \$1.00 per share. For the years ended December 31, 2013, December 31, 2012 and December 31, 2011, the Company issued 119,733, 99,330 and 85,600 shares of Class A Stock, respectively.

Equity per common share was \$13.89, \$13.64 and \$13.91 at December 31, 2013, December 31, 2012 and December 31, 2011, respectively. These amounts were computed by dividing common stockholders' equity by the number of weighted average shares of common stock outstanding on December 31, 2013, December 31, 2012 and December 31, 2011, respectively.

NOTE 14

SELECTED CONSOLIDATED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table is derived from quarterly unaudited consolidated statements of operations for the years ended December 31, 2013 and 2012. Quarterly basic and diluted per share amounts do not add to the full year total due to rounding.

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
In thousands (except per share data)	2013	2012	2013	2012	2013	2012	2013	2012
Operating revenues	\$16,327	\$16,698	\$17,780	\$17,912	\$18,073	\$19,001	\$16,893	\$16,952
Operating income	\$2,738	\$3,590	\$4,145	\$4,294	\$4,324	\$4,495	\$3,277	\$3,479
	\$1,640	\$2,505	\$2,512	\$2,748	\$2,602	\$2,846	\$1,547	\$1,748

Net income applicable to common
stock

Income per common share

Basic	\$0.19	\$0.29	\$0.29	\$0.32	\$0.30	\$0.33	\$0.18	\$0.20
Diluted	\$0.19	\$0.29	\$0.28	\$0.32	\$0.29	\$0.33	\$0.17	\$0.20

NOTE 15

RELATED PARTY TRANSACTIONS

In September 2013, Artesian Water entered into a contract in the normal course of business with W.F. Construction, a related party, for work associated with structural repairs to a water treatment plant. The value of the total contract at December 31, 2013 is approximately \$340,000. The owner of W.F. Construction is the husband of Mrs. Jennifer Finch, Vice President and Assistant Treasurer of Artesian Resources. As set forth in the Charter of the Artesian Resources Audit Committee of the Board of Directors, the Audit Committee is responsible for reviewing and, if appropriate, approving all related party transactions between us and any officer, director, any person known to be the beneficial owner of more than 5% of any class of the Company's voting securities or any other related person that would potentially require disclosure. In its review and approval of the related party transaction with W.F. Construction, the Audit Committee considered the nature of the related person's interest in the transaction; the satisfactory performance of work contracted with the related party prior to our employment of Mrs. Finch; and the material terms of the transaction, including, without limitation, the amount and type of transaction, the importance of the transaction to the related person, the importance of the transaction to the Company and whether the transaction would impair the judgment of a director or officer to act in the best interest of the Company. The Audit Committee approves only those related person transactions that are in, or are not inconsistent with, the best interests of the Company and its stockholders. All services provided under the contract with W.F. Construction are in the ordinary course of business at fees and on terms and conditions that the Company believes are the same as those that would result from arm's-length negotiations between unrelated parties.

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NOTE 16

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

In February 2013, the FASB issued amended guidance to improve the transparency of reporting other comprehensive income reclassifications. This guidance is effective for reporting periods beginning after December 15, 2012. Early adoption is permitted. The Company currently does not have other comprehensive income.

In February 2013, the FASB issued updated guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, except for obligations addressed within existing guidance in U.S. GAAP. The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. This guidance also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The amendments in this guidance are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The amendments in this guidance should be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements within the guidance's scope that exist at the beginning of an entity's fiscal year of adoption. The Company does not expect a material impact on the Company's financial statements due to the adoption of this guidance.

In July 2013, the FASB issued amended guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, similar tax loss, or tax credit carryforward exists. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This guidance applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. The amendments in this guidance are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The Company does not expect a material impact on the Company's financial statements due to the adoption of this guidance.

In January 2014, the FASB issued amended guidance on the accounting for service concession arrangements. The guidance specifies that an operating entity should not account for a service concession arrangement as a lease. Service concession arrangements may become more prevalent in the United States as public-sector entities seek alternative ways to provide public services on a more efficient and cost-effective basis. Entities should refer to other FASB topics as applicable to account for various aspects of a service concession arrangement. This guidance also specifies that the infrastructure used in a service concession arrangement should not be recognized as property, plant and equipment of the entity. This guidance should be applied on a modified retrospective basis to service concession arrangements that exist at the beginning of an entity's fiscal year of adoption. The modified retrospective approach requires the cumulative effect of applying this ASU to arrangements existing at the beginning of the period of adoption to be recognized as an adjustment to the opening retained earnings balance for the annual period of adoption. The amendments are effective for a public business entity for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. The Company is currently evaluating if the adoption of this guidance may have a material impact on the Company's financial statements.

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Artesian Resources Corporation
Newark, Delaware

We have audited the accompanying consolidated balance sheets of Artesian Resources Corporation as of December 31, 2013 and 2012 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Artesian Resources Corporation at December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Artesian Resources Corporation's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 14, 2014 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Bethesda, Maryland
March 14, 2014

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were designed to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (1) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (2) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. In addition, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective to achieve the foregoing objectives. A control system cannot provide absolute assurance, however, that the objectives of the control system are met and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

(b) Management's Annual Report on Internal Control Over Financial Reporting

The Management of Artesian Resources Corporation is responsible for establishing and maintaining adequate internal control over its financial reporting. Artesian Resources Corporation's internal control over financial reporting is a process designed under the supervision of the Corporation's chief executive officer and chief financial officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

Artesian Resources Corporation's Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2013 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control Integrated Framework (1992)." Based on this assessment, Management determined that at December 31, 2013, the Corporation's internal control over financial reporting was effective.

(c) Attestation Report of the Registered Public Accounting Firm

The effectiveness of Artesian's internal control over financial reporting as of December 31, 2013 has been audited by BDO USA, LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

(d) Change in Internal Control over Financial Reporting

No change in the Company's internal control over financial reporting, occurred during the fiscal quarter ended December 31, 2013 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Date: March 14, 2014

CHIEF EXECUTIVE OFFICER: CHIEF FINANCIAL OFFICER:

/s/ DIAN C. TAYLOR

Dian C. Taylor

/s/ DAVID B. SPACHT

David B. Spacht

ITEM 9B. OTHER INFORMATION

None.

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Artesian Resources Corporation
Newark, Delaware

We have audited Artesian Resources Corporation's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Artesian Resources Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying, "Item 9A, Management's Report on Internal Control Over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Artesian Resources Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Artesian Resources Corporation as of December 31, 2013 and 2012, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013 and our report dated March 14, 2014 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Bethesda, Maryland
March 14, 2014

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Name Age Position

Biography: Director since 1991 - Chair of the Board since July 1993, and Chief Executive Officer and President of Artesian Resources Corporation and its subsidiaries since September 1992. Ms. Taylor has been employed by the Company since August 1991. She was formerly a consultant to the Small Business Development Center at the University of Delaware from February 1991 to August 1991 and Owner and President of Achievement Resources Inc. from 1977 to 1991. Achievement Resources, Inc. specialized in strategic planning, marketing, entrepreneurial and human resources development consulting. Ms. Taylor was a marketing director for SMI, Inc. from 1982 to 1985. Ms. Taylor is the aunt of John R. Eisenbrey, Jr. and Nicholle R. Taylor. She serves on the Executive and Strategic Planning, Budget and Finance Committees.

Dian C. Taylor	68	<p>Qualifications: Ms. Dian Taylor has 20 years of experience as Chief Executive Officer and President of the Company, during which the Company has continuously expanded its service area. Ms. Taylor has extensive knowledge of the complex issues facing smaller companies and prior strategic planning expertise. Ms. Taylor has served as President of the National Association of Water Companies, a trade organization of the investor-owned water utility industry. Ms. Taylor also has served on the Delaware Economic and Financial Advisory Council, on the Board of Directors of the Delaware State Chamber of Commerce, the American Heart Association, the Committee of 100 and the Delaware Council on Economic Education, as a Regional Advisory Board Member for Citizens Bank, a Trustee of the Delaware Grand Opera and the Christiana Care Hospital and as a Commissioner for the Delaware River and Bay Authority. The Board views Ms. Taylor's experience with various aspects of the utility industry and her demonstrated leadership roles in business and community activities as important qualifications, skills and experiences for the Board of Directors' conclusion that Ms. Taylor should serve as a director of the Company.</p>
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Kenneth R. Biederman 70
 Biography: Director since 1991 – Currently retired and former Professor of Finance at the Lerner College of Business and Economics of the University of Delaware, from May 1996 to May 2011. Interim Dean of the College of Business and Economics of the University of Delaware from February 1999 to June 2000. Dean of the College of Business and Economics of the University of Delaware from 1990 to 1996. Former Director of the Mid-Atlantic Farm Credit Association from 2006 to 2010. Director of Chase Manhattan Bank USA from 1993 to 1996. Formerly a financial and banking consultant from 1989 to 1990 and President of Gibraltar Bank from 1987 to 1989. Previously Chief Executive Officer and Chairman of the Board of West Chester Savings Bank; Economist and former Treasurer of the State of New Jersey and Staff Economist for the United States Senate Budget Committee. He serves on the Executive; Audit; Strategic Planning, Budget and Finance; Governance and Nominating; and Compensation Committees.

Qualifications: Mr. Biederman's experience as a former State Treasurer of New Jersey and the former Dean of the College of Business and Economics at the University of Delaware gives him a substantial amount of business, economic and financial reporting knowledge. The Board of Directors has determined that Mr. Biederman's knowledge of economic principles and experience in treasury and financial reporting matters provide for valuable insight and input and serve as important qualifications and skills in his service as a director.

John R. Eisenbrey, Jr. 58
 Biography: Director since 1993 – Small Business Executive. For more than 27 years, Owner and President of Bear Industries, Inc., a contracting firm providing building fire sprinkler protection installations for businesses throughout the Delmarva Peninsula. Mr. Eisenbrey is the nephew of Dian C. Taylor and the cousin of Nicholle R. Taylor. He serves on the Audit; Governance and Nominating; and Compensation Committees.

Qualifications: The Board of Directors has determined that Mr. Eisenbrey's hands-on experience as a business owner in one of our primary geographic regions qualifies him to be a member of the Board. For more than 28 years, Mr. Eisenbrey has been the Owner and President of a privately held contracting firm providing fire sprinkler protection installations for businesses throughout the Delmarva Peninsula. Mr. Eisenbrey is a past President of the Delaware Contractors Association. Mr. Eisenbrey's operating business background provides hands-on experience with operational, technical and regulatory matters also applicable to our water business.

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Biography: Director since 2007 – Senior Vice President of Artesian Resources Corporation and its subsidiaries since May 9, 2012. She was Vice President of Artesian Resources Corporation and its subsidiaries since May 2004. Ms. Taylor has been employed by the Company since 1991 and has held various management level and operational positions within the Company. She serves on the Strategic Planning, Budget and Finance Committee. Ms. Taylor is the niece of Dian C. Taylor and the cousin of John R. Eisenbrey, Jr.

Nicholle R. Taylor

46 Qualifications: Ms. Nicholle Taylor has over twenty years of experience with the Company in a variety of field, office and managerial positions. The Board of Directors has determined that the range of her experience across various company functions gives her a clear perception of how the Company operates, thus enhancing the Board's ability to know the Company's current capabilities and limitations, and qualifies her to serve as a director. Ms. Taylor serves on the Board of Directors of the National Association of Water Companies, a trade organization of the investor-owned water utility industry. Ms. Taylor also currently serves on the Board of Directors of the Committee of 100, which is a business organization that promotes responsible economic development in the state of Delaware.

Biography: Director since 1991 - Business Consultant with Wyer Group, Inc. since September 2005. Previously, Mr. Wyer served as Managing Director of Wilmington Renaissance Corporation (formerly Wilmington 2000) from January 1998 to August 2005. Wilmington Renaissance Corporation was a private organization seeking to revitalize the City of Wilmington, Delaware. Mr. Wyer served as a Director and member of the Audit Committee of GMAC Bank and its' successor National Motors Bank, FBS from August 2001 through 2008, President of All Nation Life Insurance, Senior Vice President of Blue Cross/Blue Shield of Delaware from September 1995 to January 1998, Managing Director of Wilmington 2000 from May 1993 to September 1995 and President of Wyer Group, Inc. from 1991 to 1993 and Commerce Enterprise Group from 1989 to 1991, both of which are management-consulting firms specializing in operations reviews designed to increase productivity, cut overhead and increase competitiveness, and President of the Delaware State Chamber of Commerce from 1978 to 1989. He serves on the Executive; Audit; Strategic Planning, Budget and Finance; Governance and Nominating; and Compensation Committees.

William C. Wyer

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Qualifications: Mr. Wyer has extensive management experience with both local and national organizations that facilitates the Company's growth from a local to a regional provider of water and wastewater services. Mr. Wyer's extensive experience in economic development efforts and as President of the Delaware State Chamber of Commerce and his associated skills in public, media and governmental communications were determined by the Board of Directors to qualify him to serve as a director.

Executive Vice President and Corporate Secretary of Artesian Resources Corporation and its subsidiaries since May 2007. Mr. DiNunzio previously served as Senior Vice President and Corporate Secretary of Artesian Resources Corporation and its subsidiaries since March 2000 and as Vice President and Secretary of Artesian Resources Corporation and its subsidiaries since January 1995. Mr. DiNunzio has been employed by the Company since 1989 and has held various executive and management level positions within the Company. Prior to joining Artesian, Mr. DiNunzio was employed by PriceWaterhouseCoopers LLP from 1984 to 1989.

Joseph A. DiNunzio, CPA

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Bruce P. Kraeuter, PE (retired)	64	Senior Vice President of Engineering and Planning from May 2007 to his retirement from the Company in November 2013. Mr. Kraeuter previously served as Vice President of Engineering and Planning since March 1995. Mr. Kraeuter was employed by the Company since July 1989 and held various executive and operational positions within the Company. Mr. Kraeuter served as Senior Engineer with the Water Resources Agency for New Castle County, Delaware from 1974 to 1989.
Jennifer L. Finch, CPA	45	Vice President and Assistant Treasurer since February 2010. Ms. Finch previously served as Chief Accounting Director for the Company and its subsidiaries since August 2008. She currently serves as Chief Financial Officer of Artesian Consulting Engineers, Inc., one of the Company's eight wholly owned subsidiaries. Prior to joining the Company, Ms. Finch served as Chief Financial Officer of Handler Corporation, a home builder company located in Wilmington, Delaware. Ms. Finch was employed by the Handler Corporation from 1994 through 2008. During that time she held various accounting positions.
John J. Schreppler II, ESQ.	57	Vice President, Assistant Secretary and General Counsel of Artesian Resources Corporation and its subsidiaries since July 2000. Prior to joining the Company, he practiced law in Wilmington, Delaware as John J. Schreppler, II P.A. from February 1999, and before that as a partner in The Bayard Firm from 1988 to 1999.
David B. Spacht	54	Chief Financial Officer and Treasurer of Artesian Resources Corporation and its subsidiaries since January 1995, except that he has not been Chief Financial Officer of the wholly owned subsidiary Artesian Consulting Engineers, Inc. since May 2009. The Company has employed Mr. Spacht since 1980 and he has held various executive and management level positions within the Company.
John M. ThaeDer	56	Senior Vice President of Operations since May 2007. Mr. ThaeDer previously served as Vice President of Operations since February 1998. He currently serves as an officer of Artesian Water Company, Inc., Artesian Wastewater Management, Inc., Artesian Water Maryland, Inc., Artesian Water Pennsylvania, Inc. and Artesian Utility Development, Inc. Prior to joining the Company, Mr. ThaeDer was employed by Hydro Group, Inc. from 1996 to 1998 as Southeastern District Manager of Sales and Operations from Maryland to Florida. During 1995 and 1996, Mr. ThaeDer was Hydro Group's Sales Manager of the Northeast Division with sales responsibilities from Maine to Florida. From 1988 to 1995, he served as District Manager of the Layne Well and Pump Division of Hydro Group.
Pierre A. Anderson	35	Vice President of Information Technologies of Artesian Resources Corporation and its subsidiaries since May 2012. Mr. Anderson previously served as Director of Information Technologies since December, 2006. Prior to joining the Company, Mr. Anderson was employed by the Christina School District as Manager, Project & Support Services. From 2000-2005, while with MBNA (now Bank of America), he served in several information technology positions.

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Corporate Governance

The executive officers are elected or approved by our Board or the Board of our appropriate subsidiary to serve until his or her successor is appointed or shall have been qualified or until earlier death, resignation or removal.

In accordance with the provisions of the Company's By-laws, the Board is divided into three classes. Members of each class serve for three years and one class is elected each year to serve a term until his or her successor shall have been elected and qualified or until earlier resignation or removal. Dian C. Taylor and John R. Eisenbrey, Jr. have been nominated for election to the Board of Directors at the shareholders Annual Meeting to be held May 7, 2014.

The Board, which met eleven times in 2013, has established five standing committees: the Executive Committee, the Audit Committee, the Compensation Committee, the Strategic Planning, Budget and Finance Committee, and the Governance and Nominating Committee. Information with respect to these committees is set forth below. In addition, the charter for each of the five standing committees of the Board is available on our website, www.artesianwater.com.

Dian C. Taylor, the Company's Chief Executive Officer, also serves as Chair of the Board. The Board, after considering the size of the Company and the composition of the Board (five members, three of which are independent), has determined that the combined structure is appropriate. The Board has determined that having one person serving as Chair of the Board and Chief Executive Officer ensures a unified leadership of the Board and management and provides potential efficiency in the execution of the strategies and visions of the Board and management. The Board believes that Ms. Taylor's experience and operational knowledge of the business enables her to effectively perform both roles. Given the limited number of Board members and the practice of open communication with the entire Board, the Company does not have a lead independent director. The Board meets as often as needed and at least twice a year in executive session without any management or non-independent directors present. The Board believes this is an appropriate structure for the Company which provides the appropriate independent oversight. In addition, the Audit Committee and the Compensation Committee regularly consult with the Company's General Counsel to review the various types of risk that affect the Company and to consult on strategies to anticipate such risks. The Board believes this structure has been effective. The Board meets with management on a regular basis to review operational reports, financial updates, strategic development and other matters. Monthly meetings help to promote and ensure open communication with the management team. All Board members are engaged and remain actively involved in their oversight roles. The Board is responsible for oversight of the Company's risk management process. The senior management team is responsible for identifying risks, managing risks and reporting and communicating risks back to the Board.

Director Compensation

In May 2013, each independent director received an annual retainer fee of \$23,000 paid in advance. Dian C. Taylor and Nicholle R. Taylor received annual retainer fees of \$21,000. The chair of the Audit Committee received an additional annual retainer of \$7,000. The chair of the Corporate Governance and Nominating Committee received an additional annual retainer of \$7,000. The chair of the Compensation Committee received an additional annual retainer of \$5,000. The members of each of the remaining standing committees received additional annual retainers of \$1,000. Each director received \$2,000 for each Board meeting attended, \$1,500 for each committee meeting attended on the day of a regular board meeting and \$2,000 for each committee meeting attended on any other day. Each director received \$450 per diem for workshops.

In 2013, our directors, other than Dian C. Taylor and Nicholle R. Taylor, whose fees as director are included in the Summary Compensation Table, received the following compensation:

Director Compensation Table – 2013

Name	Fees Earned or		Option Awards All other Compensation (\$)(2)	Total (\$)
	Paid in Cash (\$)	(1)		
Kenneth R. Biederman	77,400	27,268	---	104,668
John R. Eisenbrey, Jr.	76,400	27,268	---	103,668
William C. Wyer	75,400	27,268	12,562	115,230

On May 8, 2013, each Director received option grants of 6,750 shares of Class A Stock at exercise prices equal to the fair market value on the date of grant (last reported sale price on the date of grant) or \$22.66. All options are exercisable one year from the date of grant and with terms of ten years. The grant date fair market value, (1) computed in accordance with Financial Accounting Standard Board, Accounting Standards Codification Topic 718, or ASC718, based upon the assumptions made in the valuations as described in Note 1 of the 2013 Financial Statements, is reflected in the "Option Awards" column in the table above. The aggregate number of option awards outstanding at December 31, 2013 for each Director is:

	Option Shares Outstanding at December 31, 2013
Kenneth R. Biederman	72,000
John R. Eisenbrey, Jr.	65,250
William C. Wyer	72,000

(2) \$12,562 was paid for medical insurance premiums for Mr. Wyer and his spouse.

Compensation Committee Interlocks and Insider Participation

During the year ended December 31, 2013, the members of our Compensation Committee were Kenneth R. Biederman, John R. Eisenbrey, Jr. and William C. Wyer. None of our executive officers serves as a director or as a member of the compensation committee, or any other committee serving an equivalent function, of any entity that has one or more of its executive officers serving as members of our Compensation Committee or as a director of our Board. No member of our Compensation Committee has ever been our employee. Our independent directors are Kenneth R. Biederman, John R. Eisenbrey, Jr. and William C. Wyer.

Independence

In 2013, the Board of Directors determined that Messrs. Biederman, Eisenbrey and Wyer, a majority of the Board of Directors, met the independence requirements prescribed by the listing standards of the NASDAQ Global Select Market. In making its determination, the Board of Directors considered John R. Eisenbrey, Jr.'s Stock Repurchase Agreement, dated as of August 31, 2011, between Wilmington Savings Fund Society, FSB, and Artesian Resources Corporation, which the Company filed with the Securities and Exchange Commission as Exhibit 10.1 to its Form 8-K on September 6, 2011 and the First Extension of the Stock Repurchase Agreement, dated as of August 31, 2012, which the Company filed with the Securities and Exchange Commission as Exhibit 10.1 to its Form 8-K on August 31, 2012.

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Audit Committee

The Audit Committee reviews the procedures and policies relating to the internal accounting procedures and controls of the Company, and provides general oversight with respect to the accounting principles employed in the Company's financial reporting. As part of its activities, the Audit Committee meets with representatives of the Company's management and independent accountants. The Audit Committee has considered the extent and scope of non-audit services provided to the Company by its outside accountants and has determined that such services are compatible with maintaining the independence of the outside accountants. The Audit Committee appoints and retains the Company's independent accountants. The Audit Committee consists of Kenneth R. Biederman, John R. Eisenbrey, Jr. and William C. Wyer. The Board of Directors has also determined that each member of the Audit Committee meets the independence requirements prescribed by the listing standards of the NASDAQ Global Select Market and the rules and regulations of the Securities and Exchange Commission. The Board of Directors has further determined that Mr. Biederman, a member of the Audit Committee, is an "audit committee financial expert" as such term is defined in Item 407(d)(5)(ii) of Regulation S-K promulgated by the SEC. During 2013, the Audit Committee met five times.

Compensation Committee

The Compensation Committee reviews the compensation and benefits provided to key management employees, officers and directors and makes recommendations as appropriate to the Board. The Committee also determines whether and what amounts should be granted under the 2005 Equity Compensation Plan and may make recommendations for amendments to the Plan. The Compensation Committee is comprised of Kenneth R. Biederman, John R. Eisenbrey, Jr. and William C. Wyer, three independent directors. The Board of Directors has also determined that each member of the Compensation Committee meets the independence requirements prescribed by the listing standards of the NASDAQ Global Select Market and the rules and regulations of the Securities and Exchange Commission. During 2013, the Compensation Committee met five times.

Consideration of Director Candidates

The Governance and Nominating Committee is comprised of three independent directors, Kenneth R. Biederman, John R. Eisenbrey, Jr. and William C. Wyer. As part of the formalized nominating procedures, the committee makes recommendations for Director nominations to the full Board. Director candidates nominated by stockholders are considered in the same manner, provided the nominations are submitted to the Secretary and copied to the Chairman of the committee on a timely basis and in accordance with the Company's By-laws. Nominations for the election of directors for the 2014 Annual Stockholders' Meeting were approved by the Governance and Nominating Committee on January 22, 2014.

The Governance and Nominating Committee has determined that no one single criterion should be given more weight than any other criteria when it considers the qualifications of a potential nominee to the Board. Instead, it believes that it should consider the total "skills set" of an individual. In evaluating an individual's skills set, the Corporate Governance and Nominating Committee considers a variety of factors, including, but not limited to, the potential nominee's background and education, his or her general business experience, and whether or not he or she has any experience in positions with a high degree of responsibility. In addition, although the Corporate Governance and Nominating Committee does not have a policy with regard to the consideration of diversity in identifying director nominees, its charter includes in the Corporate Governance and Nominating Committee's duties and responsibilities that it seek members from diverse backgrounds so that the Board consists of members with a broad spectrum of experience and expertise.

Code of Ethics

The Company has adopted a code of ethics applicable to its chief executive officer, chief financial officer, controller or principal accounting officer, and any person who performs a similar function, which is a "code of ethics" as defined by applicable rules of the Securities and Exchange Commission. This code is publicly available on the Company's website at www.artesianresources.com. If the Company makes any amendments to this code other than technical, administrative, or other non-substantive amendments, or grants any waivers, including implicit waivers, from a provision of this code to the Company's chief executive officer, chief financial officer, controller or principal accounting officer, and any person who performs a similar function, the Company will disclose the nature of the amendment or waiver, its effective date and to whom it applies on its website. The information on the website listed above is not and should not be considered part of this Annual Report on Form 10-K and is intended to be an inactive textual reference only.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Under Section 16(a) of the Securities Exchange Act of 1934, as amended, directors, officers and certain beneficial owners of the Company's equity securities are required to file reports of their transactions in the Company's equity securities with the Securities and Exchange Commission on specified due dates. With respect to the fiscal year 2013, reports of transactions by all directors, officers and such beneficial holders were timely filed. In making this statement, the Company has relied on the written representations of its directors, officers and holders of more than ten percent (10%) of either class of our outstanding common stock and copies of the reports that they filed with the Securities and Exchange Commission.

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ITEM 11. EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

This discussion describes the Company's compensation program for its named executive officers listed in the Summary Compensation Table that immediately follows this discussion. The named executive officers are: Dian C. Taylor, Chair, CEO & President; David B. Spacht, Chief Financial Officer & Treasurer; Joseph A. DiNunzio, Executive Vice President & Secretary; Nicholle R. Taylor, Senior Vice President; John M. Thaeber, Senior Vice President; and Bruce P. Kraeuter, Retired Senior Vice President.

Objectives of Artesian's Compensation Program

The Compensation Committee believes that the compensation for Artesian's executives should serve to attract, motivate and retain seasoned and talented executives responsible for successfully guiding and implementing the Company's strategy. Our strategy is to increase our customer base, revenues, earnings and dividends by expanding our services across the Delmarva Peninsula, thereby providing our shareholders with a long-term, satisfactory return on their investment.

To implement our strategy, it is critical that our executives remain focused on:

- Øensuring superior customer service;
- Øcontinuously improving our efficiency and performance;
- Ømanaging risk appropriately;
- Øexpanding our franchised service territory and customer base at a consistent and sustainable rate - including by acquisitions - where growth is strong and demand is increasing;
- Øidentifying and developing dependable sources of supply;
- Øconstructing and maintaining reliable treatment facilities and water delivery and wastewater collection systems;
- Ødeveloping and continuing positive relationships with regulators, municipalities, developers and customers in both existing and prospective service areas; and
- Ødeveloping a skilled and motivated work force that is adaptive to change.

To accomplish our strategy, our compensation program's objectives are to:

- Øprovide compensation levels that are competitive with those provided by other companies with which we may compete for executive talent;
- Ømotivate and reward contributions and performance aligned with the Company's objectives;
- Øattract and retain qualified, seasoned executives; and
- Øensure the Company maintains a pay-for-performance executive compensation program.

The compensation program rewards overall qualitative contributions and performance of each individual towards the Company's strategy. In reviewing the Company's overall compensation program in the context of the risks identified in the Company's risk management processes, the Compensation Committee does not believe that the risks the Company faces are correlated with the Company's compensation programs and, therefore, the Compensation Committee believes that there is an appropriate level of risk in Artesian's compensation program design and does not believe that its approach to the design and administration of its incentive programs need to change in order to mitigate compensation risk.

Elements of Artesian's Compensation Program

The elements of Artesian's compensation program include:

- Ø Base Salary
- Ø Cash Bonus Award
- Ø Equity Compensation as may be awarded under the 2005 Equity Compensation Plan
- Ø Employee Benefits

The Company's executive compensation program does not provide for:

- Ø Severance or post-termination agreements
- Ø Post-retirement benefits
- Ø Defined benefit pension benefits or any supplemental executive retirement plan benefits
- Ø Non-qualified deferred compensation
- Ø Change-in-Control agreements

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Compensation Process

The Compensation Committee relies on various factors, including an executive officer's individual performance and contributions to the Company's strategic objectives, recommendations of the Company's Chief Executive Officer and internal pay equity in determining executive compensation. The Compensation Committee generally exercises broad discretion in setting the compensation of the Chief Executive Officer and other executives and primarily considers the performance of the management