ARTESIAN RESOURCES CORP
Form 10-K
March 13, 2015

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, 2014
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, 2014 was $174,721,000 and $6,052,000, 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, 2014, which trade date was June 30, 2014. 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, 2014, which trade date was June 13, 2014.

As of March 9, 2015, 8,037,623 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.

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Our Market

Our current market area is the Delmarva Peninsula. Our largest service area is in the State of Delaware, which had an estimated population of approximately 936,000 at July 1, 2014. According to the US Census Bureau, Delaware's population increased an estimated 4.2% from 2010 to 2014, as compared to the nationwide growth rate of approximately 3.3%. 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.

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 and Pennsylvania. Our largest connected regional water system, consisting of approximately 141 square miles and 72,000 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.

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.

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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, 2014, 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. It is currently not providing wastewater services in 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. 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.

Artesian Utility has operated the WSLP Plan and the SSLP Plan since 2012. 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, 2014, approximately 18,800, or 27.1%, of our eligible water customers signed up for the WSLP Plan, approximately 14,000, or 20.2%, 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.

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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 regulatory relief 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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On April 11, 2014, Artesian Water filed a request with the DEPSC to implement new rates to meet a requested increase in revenue of 15.9%, or approximately $10.0 million, on an annualized basis. The actual effective increase is less than 15.9% since, in accordance with applicable law, on June 10, 2014, Artesian Water placed temporary rates into effect designed to generate an increase in annual operating revenue of approximately 3.98%, or $2.5 million, on an annualized basis, until permanent rates are determined by the DEPSC. Artesian Water had been permitted to recover specific investments made in infrastructure through the assessment of a cumulative 3.32% Distribution System Improvement Charge, or DSIC, which was set to zero when temporary rates were placed into effect. Also, as permitted by law, on November 13, 2014 we placed into effect a second step of temporary rates designed to generate an increase in annual operating revenue of approximately 7.17%, or 4.5 million, on an annualized basis, subject to approval by the DEPSC, until permanent rates are determined by the DEPSC. A portion of the second step of temporary increases was held in reserve based on an estimated outcome and is not reflected in net income. The new rates are designed to support Artesian Water's ongoing capital improvement program and to cover increased costs of operations, including water quality testing, chemicals and electricity for water treatment, taxes, labor and benefits. 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 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. The increase in rates were fully implemented as of December 31, 2014. Based on the number of households at the time of the settlement, 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:

Øa 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;

Øa 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.

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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 November 2012, Artesian Water filed an application with the DEPSC for approval to collect an additional DSIC rate of 1.45% effective January 1, 2013. This rate was based on approximately $5.6 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 an additional DSIC rate of 0.50% 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 an additional DSIC rate of 1.23% 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. Once temporary rates were placed into effect on June 10, 2014, the cumulative DSIC rate was set to zero. For the years ended December 31, 2014 and December 31, 2013, we earned approximately $0.8 million and $1.1 million in DSIC revenue. In November 2014, Artesian Water filed an application with the DEPSC for approval to collect a collect a DSIC rate of 0.34% effective January 1, 2015. This rate was based on approximately $1.3 million in eligible plant improvements since the last rate application. On December 16, 2014, the DEPSC approved the DSIC effective January 1, 2015, subject to audit at a later date.

Environmental Regulation

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.

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 40 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. For any wells in the Delaware River Basin, we must also file allocation permits with the Delaware River Basin Commission, or DRBC. We have 122 operating and 58 observation and monitoring wells in our Delaware systems. At December 31, 2014, we had allocation permits for 106 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.

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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 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. A normal by-product of our carbon absorption filtration process is exhausted carbon media, which is disposed of by the contractor providing the media replacement. 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. The quantity of water withdrawn from the Port Deposit surface water intake is allocated by the Susquehanna River Basin Commission, or SRBC, and MDE. 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.

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Sources of Water

We derive about 95% of our self-supplied groundwater from wells that pump groundwater from aquifers and other formations 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, ultra violet oxidation, arsenic removal, nitrate removal, radium removal, iron removal, and carbon absorption 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 57 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.

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 treated surface water is blended with our groundwater supply for distribution to our customers. Nearly 85% of the overall 7.6 billion gallons of water we distributed in all of our Delaware systems during 2014 came from our groundwater wells, while the remaining 15% 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 2014 came from our groundwater wells, while a portion came from treated surface water. During 2014, our average rate of water pumped to our Delaware systems was approximately 17.6 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 55.0 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.

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, 2014, 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 one interconnection that connects the Artesian Water system in Delaware to the Meadowview System, one 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, 2014, we were serving customers through approximately 1,201 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 5,827 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.

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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 primarily due 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, 2014, we employed 237 full-time employees. Of these employees, 25 were officers and managers; 135 were employed as operations personnel, including engineers, technicians, draftsman, maintenance and repair persons, meter readers and utility personnel; and 58 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. To the extent we are able to pass through such costs to customers and a state public service commission subsequently determines that such costs should not have been paid by customers, we may be required to refund such costs, with interest, to customers. Any such costs not recovered through rates, or any such refund, could adversely affect our results of operations, financial position or cash flows.

We rely on governmental approvals in the States of Delaware, Maryland and Pennsylvania 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.

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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.

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.

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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.

Our operations from time to time could be parties to or targets of 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.

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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, 2014.

Utility plant comprises:
In thousands

	Estimated Useful Life (In Years)	2014
Utility plant at original cost		
Utility plant in service-Water		
Intangible plant	---	$140
Source of supply plant	45-85	19,029
Pumping and water treatment plant	8-62	73,432
Transmission and distribution plant		
Mains	81	216,174
Services	39	34,708
Storage tanks	76	23,943
Meters	26	22,460
Hydrants	60	11,540
General plant	3-31	52,081
Utility plant in service-Wastewater		
Treatment and Disposal Plant	35-62	12,815
Collection Mains and Lift Stations	81	6,900

General plant	3-31	883
Property held for future use	---	14,440
Construction work in progress	---	3,180
		491,725
Less – accumulated depreciation		97,932
		$393,793

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, 2014, 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

On September 30, 2014, the United States District Court for the Eastern District of Pennsylvania, or the Court, issued an Order regarding the complaint filed on December 22, 2010 by Artesian Water, against Chester Water Authority, or CWA. The complaint claimed breach of contract, unjust enrichment, and requested declaratory judgment in relation to an interconnection agreement with CWA to supply bulk water supplies to Artesian Water. The Order of the Court stated the following:

- The Addendum to the Interconnection Agreement between Artesian Water and CWA is a valid and enforceable contract by which CWA agreed to supply, and Artesian Water agreed to purchase, bulk water supplies, or the Supplies; and

- CWA's calculation of rate increases for the Supplies in 2008, 2009, and 2010 were valid; and

- Artesian Water is required to pay CWA amounts withheld related to CWA rate increases from 2008, 2009, and 2010 totaling approximately $3.1 million; and

- Artesian Water is not required to pay a 10% late fee totaling approximately $300,000 on the amounts withheld related to CWA rate increases from 2008, 2009, and 2010; and

- CWA shall file documentation no later than October 14, 2014 supporting the total amount of its damages in connection with Artesian Water's failure to pay for Supplies purchased beginning on July 1, 2010 at the rate then charged by CWA.

With regard to the third order above, the approximately $3.1 million withheld from Artesian Water's previous payments to CWA were accrued by Artesian Water when originally invoiced by CWA and were paid by Artesian Water to CWA in October 2014. In addition, with regard to the fifth order above, CWA requested approximately $379,000 in prejudgment and post judgment interest related to amounts withheld, which was accrued by Artesian Water as of December 31, 2014 and subsequently paid in January 2015. This amount is calculated at 6% per annum on outstanding amounts withheld.

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.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND 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 3, 2015, the last closing sale price as reported by the NASDAQ Global Select Market was $21.44 per share. On March 3, 2015, there were 739 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
2014			
First Quarter	$23.70	$21.61	$0.2088
Second Quarter	22.68	21.11	0.2119
Third Quarter	22.70	20.14	0.2119
Fourth Quarter	22.80	19.87	0.2151
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 3, 2015, the last reported trade of the Class B Stock on the OTC Bulletin Board was at a price of $22.40 per share on October 30, 2014. As of March 3, 2015, 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, 2014, 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, 2014 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	376,250	$ 19.52	331,750
Equity compensation plans not approved by security holders	---	---	---
Total	376,250		331,750

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 2009 (assuming a $100 investment on December 31, 2009, and the reinvestment of any dividends) through December 2014:

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	INDEXED RETURNS					
	Base Period	Years Ending December 31				
Company Name / Index	2009	2010	2011	2012	2013	2014
Artesian Resources Corporation	100	107.87	111.57	138.21	146.67	150.10
S&P 500 Index	100	115.06	117.49	136.30	180.44	205.14
Peer Group	100	119.08	135.73	161.67	191.23	234.83

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 York Water Company.

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ITEM 6. SELECTED FINANCIAL DATA

The selected statement of operations and balance sheet data shown below were derived from our consolidated financial statements. The consolidated statement of operations data for the years ended December 31, 2014, 2013 and 2012 and the consolidated balance sheet data as of December 31, 2014 and 2013 have been derived from our audited financial statements included elsewhere in this Annual Report on Form 10-K. The consolidated statement of operations data for the years ended December 31, 2011 and 2010 and the consolidated balance sheet data as of December 31, 2012, 2011 and 2010 have been derived from audited consolidated financial statements which are not included in this Annual Report on Form 10-K. You should read this selected financial data together with our consolidated financial statements and related notes, as well as the discussion under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations."

In thousands, except per share and operating data	2014	2013	2012	2011	2010
STATEMENT OF OPERATIONS DATA					
Operating revenues					
Water sales	$64,667	$61,846	$63,607	$57,564	$56,685
Other utility operating revenue	3,648	3,253	3,169	3,302	2,973
Non-utility operating revenue	4,150	3,974	3,787	4,204	5,227
Total operating revenues	$72,465	$69,073	$70,563	$65,070	$64,885
Operating expenses					
Operating and maintenance	$37,086	$36,630	$36,217	$35,448	$34,714
Depreciation and amortization	8,673	8,251	7,930	7,410	7,032
State and federal income taxes	6,375	5,588	6,616	4,654	5,082
Property and other taxes	4,285	4,120	3,945	3,822	3,789
Total operating expenses	$56,419	$54,589	$54,708	$51,334	$50,617
Operating income	$16,046	$14,484	$15,855	$13,736	$14,268
Other income, net	853	872	1,036	299	647
Total income before interest charges	$16,899	$15,356	$16,891	$14,035	$14,915
Interest charges	$7,393	$7,055	$7,045	$7,289	$7,295
Net income	$9,506	$8,301	$9,846	$6,746	$7,620
Dividends on preferred stock				---	---
Net income applicable to common stock	$9,506	$8,301	$9,846	$6,746	$7,620
Net income per share of common stock:					
Basic	$1.07	$0.95	$1.14	$0.83	$1.01
Diluted	$1.07	$0.94	$1.13	$0.83	$1.00
Average shares of common stock outstanding:					
Basic	8,884	8,774	8,666	8,122	7,557
Diluted	8,926	8,836	8,717	8,160	7,618
Cash dividends per share of common stock	$0.85	$0.82	$0.79	$0.76	$0.75

In thousands, except for operating data	2014	2013	2012	201	2010
BALANCE SHEET DATA					

Utility plant, at original cost less accumulated depreciation	$393,793	$378,960	$366,563	$353,397	$345,383
Total assets	$422,213	$403,832	$391,714	$378,737	$371,529
Lines of credit	$18,491	$10,332	$10,717	$11,740	$29,071
Long-term obligations and redeemable preferred stock, including current portions	$106,199	$106,642	$107,368	$108,257	$106,606
Stockholders' equity	$125,605	$121,836	$118,180	$112,997	$95,146
Total capitalization	$230,559	$227,346	$224,437	$219,536	$200,207
OPERATING DATA					
Average water sales per customer	$780	$755	$783	$714	$723
Water pumped (millions of gallons)	7,592	7,286	7,407	7,401	7,517
Number of metered customers	82,900	81,900	81,200	80,600	78,400
Miles of water main	1,201	1,182	1,162	1,148	1,131

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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 89.2% of total operating revenues for the year ended December 31, 2014. 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, 2014, we had approximately 80,600 metered water customers in Delaware, an increase of approximately 900 compared to December 31, 2013. The number of metered water customers in Maryland totaled 2,300 as of December 31, 2014, an increase of approximately 60 compared to 2013. The number of metered water customers in Pennsylvania totaled 40, which remained consistent with 2013. For the year ended December 31, 2014, approximately 7.6 billion gallons of water were distributed in our Delaware systems and approximately 123 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.

Artesian Utility has operated the WSLP Plan and the SSLP Plan since 2012. 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, 2014, approximately 18,800, or 27.1%, of our eligible water customers signed up for the WSLP Plan, approximately 14,000, or 20.2%, 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.

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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.

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.

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.

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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 provision for bad debts, which is calculated as a percentage of total water sales. The Company reviews the bad debt provision 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, 2014.

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Results of Operations

2014 Compared to 2013

Operating Revenues

Revenues totaled $72.5 million for the year ended December 31, 2014, $3.4 million, or 4.9%, above revenues for the year ended December 31, 2013 of $69.1 million. Water sales revenues increased $2.8 million, or 4.6%, for the year ended December 31, 2014 from the corresponding period in 2013, a result of temporary rate increases of 3.98% and 7.17% placed into effect on June 10, 2014 and November 13, 2014 , respectively, as permitted under Delaware law, until permanent rates are determined by the DEPSC. A portion of the second step of temporary increases was held in reserve based on an estimated outcome. The increase in water sales revenue is partially offset by a decrease in the Distribution System Improvement Charge, or DSIC, revenue, as the DSIC was reset to zero upon the implementation of the first step of temporary rate increases. We realized 89.2% of our total operating revenue for the year ended December 31, 2014 from the sale of water as compared to 89.5% for the year ended December 31, 2013.

Other utility operating revenue increased approximately $395,000, or 12.1%, for the year ended December 31, 2014 compared to the year ended December 31, 2013. The increase is primarily due to an increase in service and finance charges and an increase in wastewater revenue. Wastewater revenue increased primarily due to an increase in rates that were fully implemented in 2014 and an increase in the number of wastewater customers.

Non-utility operating revenue increased approximately $176,000, or 4.4%, for the year ended December 31, 2014 compared to same period in 2013. The increase is primarily due to an approximately $334,000 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 a decrease in contract revenue, primarily due to a decrease in wastewater contract services.

Percentage of Operating Revenues

	2014	2013	2012
Water Sales			
Residential	53.6 %	54.4 %	55.4 %
Commercial	21.3	21.3	21.5
Industrial	0.1	0.1	0.1
Government and Other	14.2	13.7	13.1
Other utility operating revenues	5.0	4.7	4.5
Non-utility operating revenues	5.8	5.8	5.4
Total	100.0 %	100.0 %	100.0 %

Residential

Residential water service revenues in 2014 amounted to $38.8 million, an increase of $1.3 million, or 3.5% above the $37.5 million recorded in 2013, primarily due to a 3.98% and 7.17% temporary increase in rates placed in effect June 10, 2014 and November 13, 2014, respectively. The increase in 2014 follows a decrease of $1.6 million, or 4.0%, in 2013 which was primarily due a decrease in overall water consumption. The volume of water sold to residential customers increased to 3,702 million gallons in 2014 compared to 3,616 million gallons in 2013, a 2.4% increase. The number of residential customers served increased by approximately 900, or 1.2%, in 2014.

Commercial

Water service revenues from commercial customers in 2014 increased by 4.9%, from $14.7 million in 2013 to $15.4 million in 2014, primarily due to a 3.98% and 7.17% temporary increase in rates placed in effect June 10, 2014 and November 13, 2014, respectively, and an increase in water consumption. We sold 2,120 million gallons of water to commercial customers in 2014, a slight increase as compared to 2,012 million gallons sold in 2013.

Industrial

Water service revenues from industrial customers increased from $82,000 in 2013 to $104,000 in 2014. The volume of water sold to industrial customers increased from 10 million gallons in 2013 to 12 million gallons in 2014.

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Government and Other

Government and other water service revenues in 2014 increased by 8.0%, from $9.5 million in 2013 to $10.3 million in 2014, primarily due to an increase in consumption by re-sale customers. The volume of water sold to government and other customers increased from 731 million gallons in 2013 to 857 million gallons in 2014.

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 12.1% in 2014, from $3.3 million in 2013 to $3.6 million in 2014. As a percentage of operating revenues, other utility operating revenues increased to 5.0% from 4.7%. The increase is primarily due to an increase in service and finance charges and wastewater revenue.

Non-Utility Operating Revenue

Non-utility operating revenue, derived from non-regulated water and wastewater operations, increased from $4.0 million in 2013 to $4.1 million in 2014. The increase is primarily due to an approximately $0.3 million increase in water and wastewater 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 a decrease in Artesian Utility revenue, related to a decrease in wastewater contract services.

Operating Expenses

Operating expenses, excluding depreciation and income taxes, increased $0.6 million, or 1.5%, to $41.4 million in 2014. 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 1.2%, in 2014 as compared to 2013, is primarily comprised of an increase in payroll and employee benefit expenses, partially offset by a decrease in administration expenses.

Payroll and employee benefit costs increased $1.0 million, or 5.3%, primarily the result of an increase in wages and an increase in medical benefit premiums, partially offset by the reclassification of personnel costs to overhead for capital projects based on a review of job responsibilities.

Administration expenses decreased approximately $0.9 million, or 17.6%, of which $0.8 million is due to decreased 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, which is partially offset by an increase in rate case expense of $0.2 million.

Non-utility expenses increased approximately $0.1 million, or 3.3%, primarily the result of an increase in SLP plan repairs. The increased repair costs are a result of increased SLP Plan participation.

Percentage of Operating and Maintenance Expenses

	2014		2013		2012	
Payroll and Associated Expenses	51.8	%	49.8	%	50.8	%
Administrative	19.4		21.7		20.1	
Purchased Water	10.9		11.0		11.2	

Repair and Maintenance	8.6	8.2	8.5
Water Treatment	3.4	3.5	3.6
Non-utility Operating	5.9	5.8	5.8
Total	100.0 %	100.0 %	100.0%

Property and other taxes increased by $0.2 million, or 4.0%, compared to the same period in 2013, 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.

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The ratio of operating expense, excluding depreciation and income taxes, to total operating revenues was 57.1% for the year ended December 31, 2014, compared to 59.0% for the year ended December 31, 2013.

Depreciation and amortization expense increased $0.4 million, or 5.1%, 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 $0.8 million, primarily due to higher pre-tax income for the year ended December 31, 2014, compared to the year ended December 31, 2013. Our total effective income tax rate, or ETR, for 2014 and 2013 was 40.1% and 40.2%, respectively.

Other Income, Net

Miscellaneous income decreased $24,000, primarily due to a refund of assessment payments previously paid to the Delaware Public Service Commission, or DEPSC, received in 2013. 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 2013 reflected an assessment that covers 2011. There were no amounts refunded to Artesian in 2014. 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. The decrease in miscellaneous income is partially offset by an increase in the amount of the annual CoBank investment patronage distribution.

Interest Charges

Interest expense increased $0.3 million, due to accrual of prejudgment interest expense related with the litigation against Chester Water Authority in regard to the proper determination of the rate charged for water purchased under contract from Chester Water Authority, which is partially offset by a decrease in long-term debt outstanding.

Net Income

For the year ended December 31, 2014, our net income applicable to common stock increased $1.2 million compared to the same period a year ago. This increase in net income was due to higher operating income margins and decreased legal costs. The increased water sales revenue is primarily due to temporary rate increases placed in effect on June 10, 2014, and November 13, 2014 in addition to an increase in overall water consumption. A portion of the second step of temporary increases was held in reserve based on an estimated outcome and is not reflected in net income. The decrease of $0.8 million in legal costs 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.

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 was 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 was 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 was 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.

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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 followed 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 by 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 was 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 was primarily due to an approximately $271,000 increase in water and wastewater SLP Plans revenue. The increase in non-utility operating revenue was 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.

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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 included 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, was 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 was 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.

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.

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.

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Liquidity and Capital Resources

Overview

Our primary sources of liquidity for the year ended December 31, 2014 were $18.3 million provided by cash flow from operating activities, $3.8 million in net contributions and advances from developers and $1.7 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 dividends totaling $7.5 million, $7.2 million and $6.9 million in 2014, 2013 and 2012, 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 $18.5 million as of December 31, 2014, an increase of $8.2 million over the amount outstanding as of December 31, 2013, compared to a decrease of $0.4 million for the year ended December 31, 2013. The increase in overall borrowings during 2014 as compared to 2013 was primarily the result of higher investments made in utility plant in 2014. In addition, pursuant to the Order issued on September 30, 2014 by the United States District Court for the Eastern District of Pennsylvania regarding the complaint filed on December 22, 2010 by Artesian Water against Chester Water Authority, or CWA, Artesian Water was required to pay CWA amounts withheld related to CWA rate increases from 2008, 2009, and 2010 totaling approximately $3.1 million. The approximately $3.1 million withheld from Artesian Water's previous payments to CWA were accrued by Artesian Water when originally invoiced by CWA. Artesian Water financed the $3.1 million payment using existing lines of credit. The $3.1 million withheld was paid by Artesian Water to CWA in October 2014.

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 2015 will be approximately $21.1 million. Our total obligations related to interest and principal payments on indebtedness, rental payments and water service interconnection agreements for 2015 are anticipated to be approximately $12.0 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.

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Investment in Plant and Systems

The primary focus of Artesian's investment was to continue to provide high quality reliable service to our growing service territory. We invested $23.7 million in capital expenditures during 2014 compared to $21.2 million invested during the same period in 2013. During 2014, we invested $7.8 million to enhance or improve existing treatment facilities and sources of supply and for the rehabilitation of pumping equipment to better serve our customers. We invested $1.2 million to upgrade and automate our meter reading equipment. We invested approximately $8.4 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 $0.5 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 $2.8 million for the installation of water mains and hydrants in 2014 compared to $4.3 million in 2013. We invested $1.8 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. The investment in general plant also includes an additional investment of $0.8 million for transportation and equipment purchases. An additional $0.4 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	2014	2013	2012
Source of supply	$945	$885	$1,321
Treatment and pumping	6,914	1,857	5,025
Transmission and distribution	10,220	9,016	7,681
General plant and equipment	2,622	4,253	3,460
Developer financed utility plant	2,784	4,292	1,632
Wastewater facilities	457	1,094	1,632
Allowance for Funds Used During Construction, AFUDC	(212)	(209)	(205)
Total	$23,730	$21,188	$20,546

Of the $21.1 million we expect to invest in 2015, approximately $7.9 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 $1.4 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 $4.9 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 $1.1 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 $4.7 million in general plant, which includes new corporate automation, building renovations and transportation and equipment upgrades. Additionally, $1.1 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. The company's investment for 2015 is partially offset by expected developer contributions and advances of $5.9 million.

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.

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.

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Lines of Credit

At December 31, 2014, 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, 2014, there was $31.5 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 28, 2015 or any date on which Citizens demands payment.

At December 31, 2014, 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, 2014, there was $10.0 million of available funds under this line of credit. The interest rate for borrowings under this line is LIBOR plus 1.50%. CoBank may make an annual patronage refund, which has been equal to 1.00% of the average line of credit and loan volume outstanding by Artesian during each of the years ended December 31, 2014, December 31, 2013, and December 31, 2012. The patronage refunds earned by Artesian for the years ended December 31, 2014, December 31, 2013 and December 31, 2012 were $682,000, $629,000 and $654,000, respectively. The term of this line of credit expires on January 12, 2016.

Line of Credit Commitments	Commitment Due by Period			
In thousands	Less than 1 Year	1-3 Years	4-5 Years	Over 5 Years
Lines of Credit	$18,491	$-----	$-----	$-----

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 45.8% at December 31, 2014. 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, 2014, we were in compliance with these covenants.

Contractual Obligations	Payments Due by Period				
In thousands	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years	Total
First mortgage bonds (principal and interest)	$6,903	$13,694	$35,325	$105,575	$161,497
State revolving fund loans (principal and interest)	984	1,969	1,969	7,104	12,026
Operating leases	73	107	112	1,533	1,825
Unconditional purchase obligations	3,813	7,637	7,626	7,637	26,713
Tank painting contractual obligation	306	306	-	-	612
Total contractual cash obligations	$12,079	$23,713	$45,032	$121,849	$202,673

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"). 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, 2014, approximately $2.6 million was borrowed under this Loan. The Company will not request any further funds under this Loan.

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IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

See Note 17 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, 2014 were approximately $18.5 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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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CONSOLIDATED BALANCE SHEETS
(In thousands)

ASSETS	December 31, 2014	December 31, 2013
Utility plant, at original cost less accumulated depreciation	$393,793	$378,960
Current assets		
Cash and cash equivalents	243	422
Accounts receivable (less allowance for doubtful accounts 2014 - $250; 2013-$221)	5,065	5,115
Income tax receivable	3,068	455
Unbilled operating revenues	3,314	3,009
Materials and supplies	1,890	1,485
Prepaid property taxes	1,401	1,491
Prepaid expenses and other	1,667	1,277
Total current assets	16,648	13,254
Other assets		
Non-utility property (less accumulated depreciation 2014-$468; 2013-$389)	4,030	4,142
Other deferred assets	5,181	5,172
Total other assets	9,211	9,314
Regulatory assets, net	2,561	2,304
	$422,213	$403,832
LIABILITIES AND STOCKHOLDERS' EQUITY		
Stockholders' equity		
Common stock	$8,912	$8,830
Preferred stock	—	—
Additional paid-in capital	92,545	90,841
Retained earnings	24,148	22,165
Total stockholders' equity	125,605	121,836
Long-term debt, net of current portion	104,954	105,510
	230,559	227,346
Current liabilities		
Lines of credit	18,491	10,332
Current portion of long-term debt	1,245	1,132
Accounts payable	3,783	4,140
Accrued expenses	1,513	3,710
Overdraft payable	141	746
Deferred income taxes	812	838
Accrued interest	1,428	1,054
Customer deposits	713	801
Other	2,066	2,810
Total current liabilities	$30,192	$25,563
Commitments and contingencies (Note 10)	—	—
Deferred credits and other liabilities		
Net advances for construction	$10,228	$11,427
Postretirement benefit obligation	268	309

Deferred investment tax credits	581	601
Utility plant retirement cost obligation	913	979
Deferred income taxes	57,043	49,742
Total deferred credits and other liabilities	$69,033	$63,058
Net contributions in aid of construction	92,429	87,865
	$422,213	$403,832

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, 2014	2013	2012
Operating revenues			
Water sales	$64,667	$61,846	$63,607
Other utility operating revenue	3,648	3,253	3,169
Non-utility operating revenue	4,150	3,974	3,787
	72,465	69,073	70,563
Operating expenses			
Utility operating expenses	34,893	34,509	34,117
Non-utility operating expenses	2,193	2,121	2,100
Depreciation and amortization	8,673	8,251	7,930
Taxes			
State and federal income taxes			
Current	(900)	1,725	1,940
Deferred	7,275	3,863	4,676
Property and other taxes	4,285	4,120	3,945
	56,419	54,589	54,708
Operating income	16,046	14,484	15,855
Other income, net			
Allowance for funds used during construction (AFUDC)	329	324	323
Miscellaneous	524	548	713
	853	872	1,036
Income before interest charges	16,899	15,356	16,891
Interest charges	7,393	7,055	7,045
Net income applicable to common stock	$9,506	$8,301	$9,846
Income per common share:			
Basic	$1.07	$0.95	$1.14
Diluted	$1.07	$0.94	$1.13
Weighted average common shares outstanding:			
Basic	8,884	8,774	8,666
Diluted	8,926	8,836	8,717
Cash dividends per share of common stock	$0.8477	$0.8229	$0.7913

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,		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$9,506	$8,301	$9,846
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,673	8,251	7,930
Deferred income taxes, net	7,255	3,843	4,191
Stock compensation	135	123	108
AFUDC, equity portion	(212)	(208)	(205)
Changes in assets and liabilities:			
Accounts receivable, net of allowance for doubtful accounts	147	457	(757)
Income tax receivable	(2,613)	(334)	252
Unbilled operating revenues	(305)	(12)	639
Materials and supplies	(405)	(132)	130
Prepaid property taxes	90	(163)	(35)
Prepaid expenses and other	(390)	59	(179)
Other deferred assets	(172)	(139)	(266)
Regulatory assets	(307)	50	341
Accounts payable	(357)	641	715
Accrued expenses	(2,197)	280	1,177
Accrued interest	374	(11)	(85)
Customer deposits and other, net	(832)	81	(348)
Postretirement benefit obligation	(41)	(65)	(81)
NET CASH PROVIDED BY OPERATING ACTIVITIES	18,349	21,022	23,373
CASH FLOWS USED IN INVESTING ACTIVITIES			
Capital expenditures (net of AFUDC, equity portion)	(23,730)	(21,188)	(20,546)
Proceeds from sale of assets	35	33	29
NET CASH USED IN INVESTING ACTIVITIES	(23,695)	(21,155)	(20,517)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net repayments under lines of credit agreements	8,159	(385)	(1,023)
(Decrease) increase in overdraft payable	(605)	(4)	385
Net advances and contributions in aid of construction	3,808	5,701	3,629
Change in deferred debt issuance costs	120	120	119
Net proceeds from issuance of common stock	1,651	2,439	2,079
Dividends paid	(7,523)	(7,207)	(6,850)
Issuance of long-term debt	689	385	729
Principal repayments of long-term debt	(1,132)	(1,111)	(1,618)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	5,167	(62)	(2,550)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(179)	(195)	306
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	422	617	311
CASH AND CASH EQUIVALENTS AT END OF YEAR	$243	$422	$617

Supplemental Disclosures of Cash Flow Information:			
Utility plant received as construction advances and contributions	$1,491	$948	$1,904
Contractual amounts of contributions in aid of construction due from developers included in accounts receivable	$456	$349	$629
Contractual amounts of contributions in aid of construction received from developers previously included in accounts receivable	$361	$505	$602
Supplemental Disclosures of Cash Flow Information:			
Interest paid	$7,019	$7,066	$7,255
Income taxes paid	$1,615	$2,014	$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, 2011	7,729	882	$ 7,729	$ 882	$ 86,311	$ 18,075	$ 112,997
Net income	—	—	—	—	—	9,846	9,846
Cash dividends declared							
Common stock	—	—	—	—	—	(6,850)	(6,850)
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							
Common stock	—	—	—	—	—	(7,207)	(7,207)
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
Net income	—	—	—	—	—	9,506	9,506
Cash dividends declared							
Common stock	—	—	—	—	—	(7,523)	(7,523)
Issuance of common stock							
Dividend reinvestment plan	21	—	21	—	438	—	459
Employee stock options and awards(4)	44	—	44	—	920	—	964
Employee Retirement Plan(3)	17	—	17	—	346	—	363
Balance as of December 31, 2014	8,030	882	$ 8,030	$ 882	$ 92,545	$ 24,148	$ 125,605

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(1) At December 31, 2014, 2013, and 2012, Class A Common Stock had 15,000,000shares authorized. For the same periods, shares issued were 8,059,654, 7,977,546 and 7,856,485, respectively.

(2) At December 31, 2014, 2013, and 2012, 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) 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 accounting principles generally accepted in the United States 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 capitalized 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 the 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 2014, 2013, and 2012 was 8.2%.

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Utility plant comprises:
In thousands

	Estimated Useful Life (In Years)	December 31, 2014	2013
Utility plant at original cost			
Utility plant in service-Water			
Intangible plant	—	$140	$140
Source of supply plant	45-85	19,029	17,778
Pumping and water treatment plant	8-62	73,432	65,089
Transmission and distribution plant			
Mains	81	216,174	205,759
Services	39	34,708	32,912
Storage tanks	76	23,943	23,895
Meters	26	22,460	21,585
Hydrants	60	11,540	10,964
General plant	3-31	52,081	49,593
Utility plant in service-Wastewater			
Treatment and Disposal Plant	35-62	12,815	12,420
Collection Mains & Lift Stations	81	6,900	6,745
General plant	3-31	883	860
Property held for future use	—	14,440	14,865
Construction work in progress	—	3,180	5,793
		491,725	468,398
Less – accumulated depreciation		97,932	89,438
		$393,793	$378,960

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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%, 2.30% and 2.29% for 2014, 2013 and 2012, 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	2014	2013

Postretirement benefit obligation	$384	$438
Deferred income taxes	461	476
Goodwill	325	333
Deferred acquisition and franchise costs	756	792
Expense of rate and regulatory proceedings	635	265
Regulatory assets, net	$2,561	$2,304

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.

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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 the remaining other deferred assets, approximately $0.3 million, is in relation to the Mountain Hill acquisition.

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

In thousands	2014	2013
Debt issuance cost	$1,869	$1,989
Investment in Co-Bank	2,851	2,680
Other	461	503
	$5,181	$5,172

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 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.

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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 $135,000, $123,000 and $108,000 for awards and options granted in 2014, 2013 and 2012 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 $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. The $135,000 in 2014 was the amount amortized for stock options awarded in 2014 and 2013.

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 2014, 2013 and 2012 under the 2005 Equity Compensation Plan (See Note 8 "Stock Compensation Plans").

	2014	2013	2012
Expected Dividend Yield	3.88%	3.63%	4.18%
Expected Stock Price Volatility	26.50%	26.16%	25.13%
Weighted Average Risk Free Interest Rate	2.24%	1.68%	1.87%
Weighted Average Expected Life of Options (in years)	7.52	9.41	9.47

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 2013 grants. The risk free interest rate for the 2014 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.

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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 $0.3 million and $0.2 million at December 31, 2014 and December 31, 2013 respectively. The corresponding expense for the year ended December 31, 2014 and 2013 was $0.2 million and $0.2 million, respectively. The following table summarizes the changes in the Company's accounts receivable balance:

	December 31,		
In thousands	2014	2013	2012
Customer accounts receivable – water	$4,020	$3,902	$3,988
Other	1,295	1,434	1,981
	5,315	5,336	5,969
Less allowance for doubtful accounts	250	221	241
Net accounts receivable	$5,065	$5,115	$5,728

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

	December 31,		
In thousands	2014	2013	2012
Beginning balance	$221	$241	$216
Allowance adjustments	194	180	215
Recoveries	64	115	141
Write off of uncollectible accounts	(229)	(315)	(331)
Ending balance	$250	$221	$241

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.

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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, 2014 and December 31, 2013 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,	
	2014	2013
Carrying amount	$106,199	$106,642
Estimated fair value	129,243	124,461

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.

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NOTE 3

INCOME TAXES

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

As of December 31, 2014, Artesian Resources had fully utilized all of its federal net operating loss carrybacks and carry-forwards. During 2014, Artesian Resources incurred a federal net operating loss of $6.0 million, of which Artesian Resources will elect to carryback to 2012 and 2013 tax years. The carryback results in estimated refunds of $1.2 million and an additional alternative minimum tax (AMT) credit of $0.8 million. The remaining federal net operating loss available to carryforward is approximately $0.2 million.

As of December 31, 2014, Artesian Resources has separate company state net operating loss carry-forwards aggregating approximately $17.5 million. These net operating loss carry-forwards will expire if unused between 2024 and 2035. 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 $61,000 in 2013 to approximately $65,000 in 2014.

At December 31, 2014, for federal income tax purposes, there were alternative minimum tax credit carry-forwards aggregating $5.5 million resulting from the payment of alternative minimum tax in prior years. These alternative minimum tax credit carry-forwards may be carried forward indefinitely to offset future regular federal income taxes. The Company remains subject to examination by Federal and State authorities for tax years 2011 through 2014.

Components of Income Tax Expense

	For the Year Ended December 31,		
In thousands			
State income taxes	2014	2013	2012
Current	$173	$526	$145
Deferred	1,231	706	1,312
Total state income tax expense	$1,404	$1,232	$1,457

	For the Year Ended December 31,		
Federal income taxes	2014	2013	2012
Current	$(1,073)	$1,199	$1,795
Deferred	6,044	3,157	3,364
Total federal income tax expense	$4,971	$4,356	$5,159

Reconciliation of effective tax rate:

	For the Year Ended December 31,					
In thousands	2014 Amount	2014 Percent	2013 Amount	2013 Percent	2012 Amount	2012 Percent
Reconciliation of effective tax Rate						
Income before federal and state income taxes	$15,881	100.0	$13,890	100.0	$16,460	100.0
Amount computed at statutory rate	5,400	34.0	4,722	34.0	5,596	34.0
Reconciling items						

State income tax-net of federal tax benefit	918	5.8	804	5.8	952	5.8
Other	57	0.3	62	0.4	68	0.4
Total income tax expense and effective rate	$6,375	40.1	$5,588	40.2	$6,616	40.2

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Deferred income taxes at December 31, 2014, 2013, and 2012 were comprised of the following:

In thousands	For the Year Ended December 31, 2014	2013	2012
Deferred tax assets related to:			
Federal alternative minimum tax credit carry-forwards	$5,459	$4,643	$5,031
Federal and state operating loss carry-forwards	1,045	544	481
Bad debt allowance	99	88	96
Valuation allowance	(65)	(61)	(57)
Stock options	397	343	294
Other	269	264	326
Total deferred tax assets	$7,204	$5,821	$6,171
Deferred tax liabilities related to:			
Property plant and equipment basis differences	$(63,427)	$(55,066)	$(51,687)
Uncertain tax position	(179)	-	-
Expenses of rate proceedings	(214)	(86)	(53)
Property taxes	(505)	(592)	(496)
Other	(734)	(657)	(651)
Total deferred tax liabilities	$(65,059)	$(56,401)	$(52,887)
Net deferred tax liability	$(57,855)	$(50,580)	$(46,716)
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	$(812)	$(838)	$(837)
Non-current deferred tax liability	(57,043)	(49,742)	(45,879)
Net deferred tax liability	$(57,855)	$(50,580)	$(46,716)

Schedule of Valuation Allowance

In thousands	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions	Balance at End of Period
Classification				
For the Year Ended December 31, 2014 Valuation allowance for deferred tax assets	$ 61	$ 4	—	$ 65
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

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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. In 2014, the Company changed its tax method of accounting for qualifying utility system repairs effective with the tax year ended December 31, 2014 and for prior tax years. The tax accounting method was changed to permit the expensing of qualifying utility asset improvement costs that were previously being capitalized and depreciated for book and tax purposes. The Company will recognize a tax deduction on its 2014 Federal tax return when filed of $8.5 million for qualifying capital expenditures made prior to 2014 and an additional income tax deduction of $3.3 million for 2014 activity.

The Company establishes reserves for uncertain tax positions based upon management's judgment as to the sustainability of these positions. These accounting estimates related to the uncertain tax position reserve require judgments to be made as to the sustainability of each uncertain tax position based on its technical merits. The Company believes its tax positions comply with applicable law and that it has adequately recorded reserves as required. However, to the extent the final tax outcome of these matters is different than the estimates recorded, the Company would then adjust its tax reserves or unrecognized tax benefits in the period that this information becomes known. The Company has elected to recognize accued interest (net of related tax benefits) and penalties related to uncertain tax positions as a component of its income tax expense. Currently there are no interest and penalties accrued on the Company's uncertain tax positions as of December 31, 2014.

The following table provides the changes in the Company's unrecognized tax benefits:

	For the year ended December 31, 2014		
In thousands	Tax	Interest	Penalty
Balance at beginning of year			
Additions based on tax positions related to the current year	$ 179	-	-
Additions based on tax positions related to prior years	-	-	-
Reductions for tax positions of prior years	-	-	-
Settlements	-	-	-
Lapses in Statutes of Limitations	-	-	-
Balance at end of year	$ 179	$ 0	$ 0

NOTE 4

PREFERRED STOCK

As of December 31, 2014 and 2013, Artesian Resources had no preferred stock outstanding. Artesian Resources has 100,000 shares of $1.00 par value Series Preferred stock authorized but unissued.

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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 21,000, 26,800 and 22,363 shares at fair market value for the investment of \$459,000, \$599,000, and \$461,000 of their monies in the years 2014, 2013, and 2012, respectively.

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NOTE 6

DEBT

At December 31, 2014, 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, 2014, there was $31.5 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 28, 2015 or any date on which Citizens demands payment.

At December 31, 2014, 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 $10.0 million of this line available for the operations of Artesian Water Maryland. As of December 31, 2014, there was $10.0 million of available funds under this line of credit. The interest rate for borrowings under this line is LIBOR plus 1.50%. CoBank may make an annual patronage refund, which has been equal to 1.00% of the average loan volume outstanding by Artesian during each of the years ended December 31 2014, December 31, 2013 and December 31, 2012. The patronage refunds earned by Artesian for the years ended December 31, 2014, December 31, 2013 and December 31, 2012 were $682,000, $629,000 and $654,000, respectively.The term of this line of credit expires on January 12, 2016.

Pursuant to the Order issued on September 30, 2014 by the United States District Court for the Eastern District of Pennsylvania regarding the complaint filed on December 22, 2010 by Artesian Water against Chester Water Authority, or CWA, Artesian Water was required to pay CWA amounts withheld related to CWA rate increases from 2008, 2009, and 2010 totaling approximately $3.1 million and $379,000 in prejudgment and post judgment interest. Artesian Water financed the $3.1 million and $379,000 accrued interest payment using the existing lines of credit noted above. The $3.1 million withheld was paid by Artesian Water to CWA in October 2014 and $379,000 in prejudgment and post judgment interest was paid in January 2015.

The weighted average interest rate on the lines of credit above paid by the Company was 1.33% for the year ended December 31, 2014. 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, 2014, we were in compliance with these covenants.

Long-term debt consists of:

	December 31,	
In thousands	2014	2013
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	11,400	12,000
	96,800	97,400
State revolving fund loans		
4.48%, due August 1, 2021	1,954	2,187
3.57%, due September 1, 2023	796	869

3.64%, due May 1, 2025	1,364	1,469
3.41%, due February 1, 2031	2,700	2,820
3.40%, due July 1, 2032	2,585	1,897
	9,399	9,242
Sub-total	106,199	106,642
Less: current maturities (principal amount)	1,245	1,132
Total long-term debt	$104,954	$105,510

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

In thousands	2015	2016	2017	2018	2019	Thereafter
First Mortgage bonds	$600	$600	$600	$25,600	$600	$ 68,800
State revolving fund loans	645	670	696	724	752	5,912
Total payments	$1,245	$1,270	$1,296	$26,324	$1,352	$ 74,712

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NOTE 7

NON-UTILITY OPERATING REVENUE AND EXPENSES

Non-utility operating revenue consisted of $4.1 million, $3.9 million, and $3.2 million recognized by Artesian Utility in 2014, 2013 and 2012, respectively. In addition, $0.6 million was from Artesian Resources' water and sewer Service Line Protection Plans in 2012. 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.
Non-utility operating expenses are as follows:

In thousands	2014	2013	2012
Artesian Utility	$2,147	$2,052	$1,777
Artesian Development	46	40	42
Artesian Resources	-	-	263
Artesian Consulting Engineers	-	29	18
Total	$2,193	$2,121	$2,100

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NOTE 8

STOCK COMPENSATION PLANS

On May 25, 2005, the Company adopted the 2005 Equity Compensation Plan, or the Plan, which replaced previous Non-Qualified Stock and Incentive Stock Option Plans. 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.

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

	2014 Shares	2014 Weighted Average Exercise Price	2013 Shares	2013 Weighted Average Exercise Price	2012 Shares	2012 Weighted Average Exercise Price
Plan options						
Outstanding at beginning of year	387,000	$ 18.96	421,500	$ 18.30	450,000	$ 17.61
Granted	33,750	21.86	33,750	22.66	33,750	19.01
Exercised	(44,500)	16.45	(68,250)	16.68	(62,250)	13.68
Expired	—	—	—	—	—	—
Outstanding at end of year	376,250	$ 19.52	387,000	$ 18.96	421,500	$ 18.30
Options exercisable at year end	342,500	$ 19.29	353,250	$ 18.61	387,750	$ 18.24

The fair value per share of options granted during 2014, 2013 and 2012 were $3.95, $4.04 and $2.92, respectively, as estimated using the Black-Scholes Merton option pricing model. The total intrinsic value of options exercised during 2014, 2013 and 2012 were $247,000, $367,000 and $449,000, respectively. There were no fully vested shares granted during 2014. During 2014, we received $732,227 in cash from the exercise of options, with a $98,344 tax benefit realized for those options.

The following tables summarize information about employee and director stock options outstanding at December 31, 2014:

Options Outstanding

Range of Exercise Price	Shares Outstanding at December 31, 2014	Weighted Average Remaining Life	Weighted Average Exercise Price	Aggregate Intrinsic Value
$15.26 - $19.63	195,750	4.96 Years	$ 18.28	$843,939
$19.64 - $22.66	180,500	3.97 Years	$ 20.89	$313,057

Options Exercisable

Range of Exercise Price	Shares Exercisable at December 31, 2014	Weighted Average Remaining Life	Weighted Average Exercise Price	Aggregate Intrinsic Value
$15.26 - $19.63	195,750	4.96 Years	$ 18.28	$843,939
$19.64 - $22.66	146,750	2.74 Years	$ 20.64	$288,419

As of December 31, 2014, there was $46,000 of total unrecognized expense related to non-vested option shares granted under the Plan. The cost will be recognized over the remaining 0.34 years vesting period of the unvested options.

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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 2014, 2013 and 2012. The 401(k) Plan expenses, which include Company contributions and administrative fees, for the years 2014, 2013 and 2012, were approximately $808,000, $768,000, and $771,000, respectively.

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 2014, 2013 and 2012, were approximately $244,000, $246,000, and $266,000, 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 $121,000, $126,000, and $120,000 for 2014, 2013 and 2012, 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 2014	2013
Change in Accumulated Postretirement Benefit Obligation		
Accumulated Postretirement Benefit Obligation at the Beginning of the Year	$748	$764
Service Cost	—	—
Interest Cost	27	28
Actuarial (Gain) or Loss	12	82
Benefits Paid	(126)	(131)
Plan Participant's Contributions	5	5
Accumulated Postretirement Benefit Obligation at the End of the Year	666	748
Change in Plan Assets		
Fair Value of Plan Assets at the Beginning of the Year	—	—
Benefits Paid	(126)	(131)
Employer Contributions	121	126
Plan Participant's Contributions	5	5
Fair Value of Assets at the End of the Year	—	—
Net Amount Recognized		
Funded Status	(667)	(748)
Unrecognized Transition Obligation Asset	-	-
Unrecognized Net Gain or Loss	284	310
Net Amount Recognized:	(383)	(438)
Amounts Recognized in the Statement of Financial Position		
Accrued Benefit Liability-Current	(115)	(129)
Accrued Benefit Liability-Noncurrent	(268)	(309)
Net Amount Recognized	$(383)	$(438)
Weighted Average Assumptions at the End of the Year		
Discount Rate	3.65 %	4.00 %
Assumed Health Care Cost Trend Rates		
Health Care Cost Trend Rate Assumed for Next Year	5.00 %	5.00 %
Ultimate Rate	3.50 %	3.50 %
Year that the Ultimate Rate is Reached	2018	2017

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

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

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Contributions

Artesian Water expects to contribute $115,000 to its postretirement benefit plan in 2015.

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

In thousands	Other Benefits
2015	$ 115
2016	104
2017	93
2018	81
2019	69
2020 through 2023	210
	$ 672

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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 2014, 2013 and 2012 were $15,900, $15,700, and $15,400, respectively. The future minimum rental payment as disclosed in the following table is calculated using CPI-U as of October 31, 2014 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 2014, 2013 and 2012 were $34,000, $33,000 and $32,000, 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 2014, 2013 and 2012 were $43,000, $41,700 and $41,000, respectively. The agreement can be terminated by giving 180 day notice prior to the termination date.

Future minimum annual rental payments related to noncancellable operating leases for the years subsequent to 2014 are as follows:

In thousands	
2015	$73
2016	53
2017	54
2018	55
2019	57
2020 through 2043	1,533
	$1,825

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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 2015 through 2019 and the aggregate total for the years 2020 and 2021, calculated at the noticed rates, are as follows:

In thousands	
2015	$3,813
2016	3,824
2017	3,813
2018	3,813
2019	3,813
2020 through 2021	7,637
	$26,713

Expenses for purchased water were $4.0 million, $4.0 million, and $4.0 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Other Commitments

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 in total for the years 2014 through 2016 is $804,000. In 2014, the 3-year agreement with Worldwide Industries Corporation was amended to include an additional $113,000 in expenditures related to cleaning and painting tanks. The tank painting expense for 2014, 2013 and 2012 was $342,000, $377,000, and $403,000.

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 2015 through 2019 are as follows:

In thousands	
2015	$1,380
2016	2,315
2017	1,940
2018	1,405
2019	255
	$7,295

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.

Additionally, a legal matter involving Chester Water Authority was resolved in 2014. See Note 16 to our Consolidated Financial Statements for a full description of legal proceedings.

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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, 2014, Artesian Water was serving approximately 80,600 customers, Artesian Water Maryland was serving approximately 2,300 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, 2014, Artesian Wastewater was serving approximately 1,300 customers, the majority of which are located in Sussex County, Delaware.

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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.

On April 11, 2014, Artesian Water filed a request with the DEPSC to implement new rates to meet a requested increase in revenue of 15.90%, or approximately $10.0 million, on an annualized basis. The actual effective increase is less than 15.90% since, in accordance with applicable law, on June 10, 2014, Artesian Water placed temporary rates into effect designed to generate an increase in annual operating revenue of approximately 3.98%, or $2.5 million, on an annualized basis, until permanent rates are determined by the DEPSC. Artesian Water had been permitted to recover specific investments made in infrastructure through the assessment of a cumulative 3.32% Distribution System Improvement Charge, or DSIC, which was set to zero when temporary rates were placed into effect. Also, as permitted by law, on November 13, 2014 we placed into effect a second step of temporary rates designed to generate an increase in annual operating revenue of approximately 7.17%, or $4.5 million, on an annualized basis, subject to approval by the DEPSC, until permanent rates are determined by the DEPSC. A portion of the second step of temporary increases was held in reserve based on an estimated outcome and is not reflected in income. The new rates are designed to support Artesian Water's ongoing capital improvement program and to cover increased costs of operations, including water quality testing, chemicals and electricity for water treatment, taxes, labor and benefits. 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 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 34.80%, 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. The increase in rates were fully implemented as of December 31, 2014. Based on the number of households at the time of the settlement, the new rates will provide Artesian Wastewater approximately $174,000 in additional annual revenue. The settlement also authorized a return on equity of 10%.

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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 November 2012, Artesian Water filed an application with the DEPSC for approval to collect an additional DSIC rate of 1.45% effective January 1, 2013. This rate was based on approximately $5.6 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 an additional DSIC rate of 0.50% 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 an additional DSIC rate of 1.23% 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. Once temporary rates were placed into effect on June 10, 2014, the DSIC rate was set to zero. For the years ended December 31, 2014 and December 31, 2013, we earned approximately $0.8 million and $1.1 million in DSIC revenue. In November 2014, Artesian Water filed an application with the DEPSC for approval to collect a collect a DSIC rate of 0.34% effective January 1, 2015. This rate was based on approximately $1.3 million in eligible plant improvements since the last rate application. On December 16, 2014, the DEPSC approved the DSIC effective January 1, 2015, subject to audit at a later date.

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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,		
	2014	2013	2012
	(in thousands)		
Weighted average common shares outstanding during the period for Basic computation	8,884	8,774	8,666
Dilutive effect of employee stock options	42	62	51
Weighted average common shares outstanding during the period for Diluted computation	8,926	8,836	8,717

For the years ended December 31, 2014 and December 31, 2013, employee stock options to purchase 67,500 and 33,750 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, 2014, 8,030,677 shares of Class A Stock and 881,452 shares of Class B Stock were issued and outstanding. 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. The par value for both classes is $1.00 per share. For the years ended December 31, 2014, December 31, 2013 and December 31, 2012, the Company issued 82,108, 119,733 and 99,330 shares of Class A Stock, respectively.

Equity per common share was $14.14, $13.89 and $13.64 at December 31, 2014, December 31, 2013 and December 31, 2012, respectively. These amounts were computed by dividing common stockholders' equity by the number of weighted average shares of common stock outstanding on December 31, 2014, December 31, 2013 and December 31, 2012, respectively.

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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, 2014 and 2013. 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)	2014	2013	2014	2013	2014	2013	2014	2013
Operating revenues	$16,900	$16,327	$17,891	$17,780	$19,595	$18,073	$18,079	$16,893
Operating income	$3,146	$2,738	$3,649	$4,145	$5,331	$4,324	$3,920	$3,277
Net income applicable to common stock	$2,083	$1,640	$1,962	$2,512	$3,317	$2,602	$2,144	$1,547
Income per common share								
Basic	$0.24	$0.19	$0.22	$0.29	$0.37	$0.30	$0.24	$0.18
Diluted	$0.23	$0.19	$0.22	$0.28	$0.37	$0.29	$0.24	$0.17

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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, 2014 is approximately $325,000. The owner of W.F. Construction is the husband of Mrs. Jennifer Finch, Vice President and Assistant Treasurer of Artesian Resources. Approximately $276,000 and $49,000 were paid to W.F. Construction for the years ended December 31, 2014 and December 31, 2013, respectively. As of December 31, 2013, the Company had an accounts payable balance due to W.F. Construction of approximately $89,000. There was no accounts payable balance due to W. F. Construction as of December 31, 2014. 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 – LEGAL PROCEEDINGS

On September 30, 2014, the United States District Court for the Eastern District of Pennsylvania, or the Court, issued an Order regarding the complaint filed on December 22, 2010 by Artesian Water, against Chester Water Authority, or CWA. The complaint claimed breach of contract, unjust enrichment, and requested declaratory judgment in relation to an interconnection agreement with CWA to supply bulk water supplies to Artesian Water. The Order of the Court stated the following:

- The Addendum to the Interconnection Agreement between Artesian Water and CWA is a valid and enforceable contract by which CWA agreed to supply, and Artesian Water agreed to purchase, bulk water supplies, or the Supplies; and

- CWA's calculation of rate increases for the Supplies in 2008, 2009, and 2010 were valid; and

- Artesian Water is required to pay CWA amounts withheld related to CWA rate increases from 2008, 2009, and 2010 totaling approximately $3.1 million; and

- Artesian Water is not required to pay a 10% late fee totaling approximately $300,000 on the amounts withheld related to CWA rate increases from 2008, 2009, and 2010; and

- CWA shall file documentation no later than October 14, 2014 supporting the total amount of its damages in connection with Artesian Water's failure to pay for Supplies purchased beginning on July 1, 2010 at the rate then charged by CWA.

With regard to the third order above, the approximately $3.1 million withheld from Artesian Water's previous payments to CWA were accrued by Artesian Water when originally invoiced by CWA and were paid by Artesian Water to CWA in October 2014. In addition, with regard to the fifth order above, CWA requested approximately $379,000 in prejudgment and post judgement interest related to amounts withheld, which was accrued by Artesian Water as of December 31, 2014 and subsequently paid in January 2015. This amount is calculated at 6% per annum on outstanding amounts withheld.

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NOTE 17

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

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 guidance 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. Based on the nature of our current contractual agreements with public sector entities, management does not expect the adoption of this guidance to have a material impact on the Company's financial statements.

In April 2014, the FASB issued amended guidance for reporting discontinued operations. The guidance also addresses sources of confusion and inconsistent application related to financial reporting of discontinued operations guidance in U.S. GAAP. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results. Examples include a disposal of a major geographic area, a major line of business, or a major equity method investment. In addition, the new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. The new guidance also requires disclosure of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. This disclosure will provide users with information about the ongoing trends in a reporting organization's results from continuing operations. The amendments in this guidance enhance convergence between U.S. GAAP and International Financial Reporting Standards (IFRS). The amendments are effective in the first quarter of 2015 for public organizations with calendar year ends. Early adoption is permitted. Management does not expect a material impact on the Company's financial statements due to the adoption of this guidance.

In May 2014, the FASB issued amended guidance for reporting revenue from contracts with customers. This guidance affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

· Identify the contract(s) with a customer.
· Identify the performance obligations in the contract.
· Determine the transaction price.
· Allocate the transaction price to the performance obligations in the contract.
· Recognize revenue when (or as) the entity satisfies a performance obligation.

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An entity should apply the amendments in this guidance using one of the following two methods:

1. Retrospectively to each prior reporting period presented and the entity may elect any of the following practical expedients:
- For completed contracts, an entity need not restate contracts that begin and end within the same annual reporting period.
- For completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods.
- For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to remaining performance obligations and an explanation of when the entity expects to recognize that amount as revenue.

2. Retrospectively with the cumulative effect of initially applying this ASU recognized at the date of initial application. If an entity elects this transition method it also should provide the additional disclosures in reporting periods that include the date of initial application of:
- The amount by which each financial statement line item is affected in the current reporting period by the application of this ASU as compared to the guidance that was in effect before the change.
- An explanation of the reasons for significant changes.

For a public entity, the amendments in this guidance are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. Management does not expect a material impact on the Company's financial statements due to the adoption of this guidance, once applicable to the Company.

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In June 2014, the FASB issued amended guidance for share-based payment awards that require a specific performance target to be achieved before the employee can benefit from the award and also require an employee to render service until the performance target is achieved. The amendments in the guidance require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance as it relates to awards with performance conditions that affect vesting to account for such awards. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. Entities may apply the amendments in this guidance either: (a) prospectively to all awards granted or modified after the effective date; or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. If retrospective transition is adopted, the cumulative effect of applying this guidance as of the beginning of the earliest annual period presented in the financial statements should be recognized as an adjustment to the opening retained earnings balance at that date. In addition, if retrospective transition is adopted, an entity may use hindsight in measuring and recognizing the compensation cost. The amendments in this guidance are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. Management does not expect a material impact on the Company's financial statements due to the adoption of this guidance.

In November 2014 the FASB has issued amended guidance for Pushdown Accounting. The amendments apply to the separate financial statements of an acquired entity and its subsidiaries that are a business or nonprofit activity (either public or nonpublic) upon the occurrence of an event in which an acquirer (an individual or an entity) obtains control of the acquired entity.The amendments in this guidance provide an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. An acquired entity may elect the option to apply pushdown accounting in the reporting period in which the change-in-control event occurs. An acquired entity should determine whether to elect to apply pushdown accounting for each individual change-in-control event in which an acquirer obtains control of the acquired entity. If pushdown accounting is not applied in the reporting period in which the change-in-control event occurs, an acquired entity will have the option to elect to apply pushdown accounting in a subsequent reporting period to the acquired entity's most recent change-in-control event. An election to apply pushdown accounting in a reporting period after the reporting period in which the change-in-control event occurred should be considered a change in accounting principle. If pushdown accounting is applied to an individual change-in-control event, that election is irrevocable. If an acquired entity elects the option to apply pushdown accounting in its separate financial statements, it should disclose information in the current reporting period that enables users of financial statements to evaluate the effect of pushdown accounting. The amendments are effective on November 18, 2014. After the effective date, an acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event. However, if the financial statements for the period in which the most recent change-in-control event occurred already have been issued or made available to be issued, the application of this guidance would be a change in accounting principle. Management does not expect a material impact on the Company's financial statements due to the adoption of this guidance.

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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, 2014 and 2013 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. 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, 2014 and 2013, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, 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, 2014, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 13, 2015 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Bethesda, Maryland
March 13, 2015

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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 defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based upon this 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 effective in providing 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, 2014 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control Integrated Framework (2013)." Based on this assessment, Management determined that at December 31, 2014, 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, 2014 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, 2014 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Date: March 13, 2015

CHIEF EXECUTIVE OFFICER:	CHIEF FINANCIAL OFFICER:
/s/ DIAN C. TAYLOR	/s/ DAVID B. SPACHT
Dian C. Taylor	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, 2014, based on criteria established in Internal Control – Integrated Framework (2013) 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, 2014, 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, 2014 and 2013, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014 and our report dated March 13, 2015 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Bethesda, Maryland
March 13, 2015

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Name	Age	Position
Dian C. Taylor	69	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. Qualifications: Ms. Dian Taylor has over 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.
Kenneth R. Biederman	71	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.	59	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 29 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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Nicholle R. Taylor	47	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. 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.
William C. Wyer	68	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. 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.
Joseph A. DiNunzio, CPA, CGMA	52	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.

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Jennifer L. Finch, CPA	46	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.	58	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	55	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	57	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	36	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. Kenneth R. Biederman has been nominated for election to the Board of Directors at the shareholders Annual Meeting to be held May 6, 2015.

The Board, which met eleven times in 2014, 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 ensu