



OVER 100 YEARS OF SUPERIOR SERVICE

Artesian Water Company

Artesian Wastewater Management

Artesian Utility Development

Artesian Water Pennsylvania

Artesian Water Maryland

Artesian Wastewater Maryland

Via DelaFile

May 15, 2018

Matthew Hartigan, Interim Executive Director  
Delaware Public Service Commission  
861 Silver Lake Blvd.  
Cannon Building, Suite 100  
Dover, DE 19904

RE: Section 215 Application

Dear Mr. Hartigan:

Attached please find Artesian Wastewater Management's application for approval to issue two long-term debt obligations pursuant to 26 Del. C. § 215. In accordance with Delaware Public Service Commission Title 26, Minimum Filing Requirements, 1002 Part D, a Notice of Intent to File was submitted on April 23, 2018 via DelaFile.

Please feel free to contact me at (302) 453-6986 should you have any questions regarding this application.

Sincerely,

Scott W. Stephan  
Rates Analyst



**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF DELAWARE**

IN THE MATTER OF THE APPLICATION :  
OF ARTESIAN WASTEWATER :  
MANAGEMENT, INC. FOR APPROVAL : PSC DOCKET NO. \_\_\_\_\_  
PURSUANT TO 26 Del. C. § 215 FOR THE :  
ISSUANCE OF LONG TERM DEBT :  
OBLIGATIONS :

**ARTESIAN WASTEWATER MANAGEMENT, INC.’S APPLICATION  
FOR APPROVAL OF THE ISSUANCE OF LONG-TERM DEBT OBLIGATIONS**

Pursuant to Section 215(a)(2) of Title 26 of the Delaware Code, Artesian Wastewater Management, Inc., a Delaware corporation (“Artesian”), respectfully requests that the Public Service Commission of the State of Delaware (the “Commission”) approve the issuance of two long-term debt obligations in the principal amount of up to \$7,500,000 and \$4,500,000 respectively.

**GENERAL INFORMATION**

1. Applicant’s Name and Address. Applicant’s name is Artesian Wastewater Management, Inc. Artesian’s address is 664 Churchmans Road, Newark, Delaware 19702. Artesian has been providing wastewater service to the public since 2004. Artesian is presently providing public wastewater service to approximately 1,868 customers in Sussex County, Delaware.

2. Applicant’s Attorney’s Name and Address. Applicant’s attorney is Karl G. Randall, General Counsel and Assistant Secretary of Artesian, whose address is 664 Churchmans Road, Newark, Delaware 19702.

3. Ownership of Voting Stock of Applicant. All the voting stock of Artesian is owned by Artesian Resources Corporation, a Delaware corporation (“ARC”), which is a publicly traded company.

## **DETAILED DESCRIPTION OF THE DEBT TO BE ISSUED**

4. The long-term debt obligations will be issued as follows:

a) Artesian Wastewater Management, Inc. and CoBank, ACB will enter into a Master Loan Agreement (“Agreement”) in order to facilitate the making of loans between each party. Loans issued subject to the Agreement shall be evidence by a supplemental agreement which sets forth the specific terms and conditions for each future loan. A draft copy of the Master Loan Agreement is attached hereto as Exhibit A.

b) Pursuant to the First Supplement to the Agreement (“Supplement 1”), Artesian and CoBank will enter into a long-term debt obligation to finance the construction of a pipeline between Allen Harim Foods, LLC and the Company’s Northern Sussex Water Recycling Facility (“ANSWRF Loan”). The ANSWRF Loan will be in a principal amount of up to \$7,500,000. The loan has been structured so that initially the Company can drawdown proceeds as project costs are incurred. During the drawdown period, interest will accrue at Cobank’s weekly quoted rate, currently 3.93%. Once the drawdowns for the project are completed, the loan proceeds will be converted into a long-term debt obligation as evidenced by the promissory note included with Supplement 1. A draft copy of Supplement 1 is attached hereto as Exhibit B. The terms of the promissory note will be made in accordance with the Commitment Letter between Artesian and CoBank, a copy of which is attached hereto as Exhibit C.

c) Pursuant to the Second Supplement to the Agreement (“Supplement 2”), Artesian and CoBank will enter into a long-term debt obligation to finance the expansion and upgrade of the Stonewater Wastewater Treatment Facility (“Stonewater

Loan”). The Stonewater Loan will be in a principal amount of up to \$4,500,000. The loan has been structured so that initially the Company can drawdown proceeds as project costs are incurred. During the drawdown period, interest will accrue at CoBank’s weekly quoted rate, currently 3.93%. Once the drawdowns for the project are completed, the loan proceeds will be converted into a long-term debt obligation as evidenced by the promissory note included with Supplement 2. A draft copy of Supplement 2 is attached hereto as Exhibit D. The terms of the promissory note will be made in accordance with the Commitment Letter between Artesian and Cobank, a copy of which is attached hereto as Exhibit C.

#### **REASONS FOR LONG TERM DEBT ISSUANCE**

5. The purpose of the ANSWRF Loan is to provide long-term financing for approximately 60% of the cost to construct a pipeline between the properties of Allen Harim Foods, LLC and Artesian’s Northern Sussex Water Recycling Facility.

6. The purpose of the Stonewater Loan is to provide long-term financing for the expansion and upgrade of the Stonewater Wastewater Treatment Facility.

#### **SELECTION OF TRANSACTION**

7. Artesian’s financial strategy was to obtain long term financing, when necessary, at favorable interest rates. The ANSWRF and Stonewater Loans will also provide financial flexibility to the Company during the construction phases for both projects.

#### **REGULATORY ASSET**

8. Artesian expects to incur approximately \$75,000 of costs to issue both long-term debt obligations. As part of this application, Artesian is requesting that all issuance costs be recorded as a regulatory asset and amortized over the life of the loans.

## **SEC FILINGS AND OTHER DOCUMENTS**

9.     SEC Filings. Copies of ARC's most recent Form 10-K and Form 10-Q are attached hereto as Exhibits E and F, respectively. The foregoing filings describe Artesian as well as ARC and its other subsidiaries.

10.    Registration Statement or Prospectus. No registration statement or prospectus has been used in connection with the proposed Long Term Debt Obligations.

11.    Opinion of Counsel and other Documents. An opinion from Artesian's outside counsel, an executed Master Loan Agreement, an executed First Supplement and the related Promissory Note for the ANSWRF Loan, and an executed Second Supplement and the related Promissory Note for the Stonewater Loan will be provided to the Commission as they become available.

12.    Schedules. Completed Schedules 1, 2, and 3 are attached hereto as Exhibit G.

**WHEREFORE**, Artesian respectfully requests that the Commission: (1) approve the Master Loan Agreement between Artesian and CoBank; (2) approve the ANSWRF Loan in the aggregate principal amount of up to \$7,500,000 in accordance with the terms of Supplement 1 of the Master Loan Agreement and the related Commitment Letter; (3) approve the Stonewater Loan in the aggregate principal amount of up to \$4,500,000 in accordance with the terms of Supplement 2 of the Master Loan Agreement and the related Commitment Letter; and (4) approve the creation of a regulatory asset to amortize all issuance costs over the 20-year life of the long term debt obligations.

**ARTESIAN WASTEWATER MANAGEMENT, INC.**  
a Delaware corporation




David B. Spacht  
Chief Financial Officer and Treasurer

STATE OF DELAWARE    )  
                                  ) ss.  
NEW CASTLE COUNTY    )

BE IT REMEMBERED that on this 11<sup>th</sup> day of May, 2018, personally came before me, the Subscriber, a Notary Public of the State of Delaware, David B. Spacht, known to me to be the Chief Financial Officer and Treasurer of Artesian Wastewater Management, Inc., a corporation existing under the laws of the State of Delaware, and in his capacity as such, and being authorized so to do, acknowledged that he executed this Application in his own hand for the corporation.

AS GIVEN under my Hand and Seal of Office the day and year aforesaid.



  
Notary Public  
My Commission Expires: 3/14/2020

## MASTER LOAN AGREEMENT

**THIS MASTER LOAN AGREEMENT** (this “Agreement”) is entered into as of January [●], 2018, between **ARTESIAN WASTEWATER MANAGEMENT, INC.**, a corporation organized and existing under the laws of the State of Delaware (the “Company”), and **CoBANK, ACB**, a federally chartered instrumentality of the United States (“CoBank”).

### **BACKGROUND**

From time to time, CoBank may make loans and extend other types of credit to or for the account of the Company (each, a “Loan”). Each such Loan shall be evidenced by a [**Supplement (as defined below)**], which shall set forth the specific terms of the Loan(s) to be made pursuant to such Supplement. In order to facilitate the making of Loans, the parties desire to enter into a master agreement. Such is the purpose of this Agreement.

**NOW, THEREFORE**, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

### **ARTICLE 1 DEFINITIONS AND RULES OF INTERPRETATION**

**SECTION 1.01 Definitions.** Except as otherwise expressly provided in this Agreement, capitalized terms used in this Agreement and defined in Exhibit A hereto shall have the meanings set forth in such Exhibit.

**SECTION 1.02 Rules of Interpretation.** Except as otherwise expressly provided in this Agreement, the rules of interpretation set forth in Exhibit A shall apply to this Agreement.

### **ARTICLE 2 THE SUPPLEMENTS**

**SECTION 2.01 Supplements.** In the event the Company desires to borrow from CoBank and CoBank is willing to lend to the Company, the parties will enter into a supplement to this Agreement (each a “Supplement”). Each Supplement will set forth CoBank’s binding commitment to make a Loan or Loans to the Company, the amount of the Loan(s), the purpose of the Loan(s), the interest and/or fee provisions applicable to the Loan(s), the repayment terms of the Loan(s), and any other terms and conditions applicable to the particular Loan(s). In the absence of a Supplement duly executed by CoBank, CoBank shall have no obligation to make a Loan to the Company under this Agreement; provided, however, each Supplement shall be irrevocable for its full term.

**SECTION 2.02 Notice and Manner of Borrowing.** Except as otherwise provided in a Supplement: (A) Loans will be made available on any Business Day upon the written, telephonic, or, if provided by separate agreement between the parties, electronic request of an officer or employee of the Company; provided, however that any request made telephonically shall, if required by CoBank, be promptly confirmed in writing; (B) requests for Loans must be received by CoBank not later than 12:00 Noon Mountain Time on the date the Loan is to be made; and (C) Loans will be made available by wire transfer of immediately available funds to such account or accounts as may be authorized by the Company on forms supplied or approved by CoBank.

**SECTION 2.03 Promissory Notes.** The Company's obligation to repay the Loan(s) made under each Supplement shall be evidenced by a promissory note in form and content acceptable to CoBank (each, as amended or restated from time to time, a "Promissory Note").

**SECTION 2.04 Security and Guarantees.**

(A) **Security.** The Company's obligations under the Credit Documents shall be secured by a: (1) first priority Lien on all equity which the Company may now own or hereafter acquire in CoBank; (2) a first priority Lien on all real and other personal property of the Company (other than property specially excepted by CoBank in writing), whether now existing or hereafter acquired; and (3) all proceeds thereof (collectively, the "Collateral"). The Company agrees to take such steps (including the execution and recording of such instruments and documents) as CoBank may from time to time reasonably require in order to enable CoBank to obtain, perfect and maintain its Lien on the Collateral.

(B) **Guarantee of Payment.** In addition to the above, the Company's obligations under the Credit Documents shall be guaranteed by Artesian Resources Corporation (the "Guarantor") pursuant to a continuing guarantee of payment in form and content acceptable to CoBank (as amended or restated from time to time, the "Guaranty").

**SECTION 2.05 CoBank Books and Records.** CoBank will keep a record of: (A) the date and amount of each Loan; (B) the interest rate elections and/or interest rates applicable to all Loans, and the effective dates of all changes thereto; (C) all fees and expenses due and payable to CoBank hereunder and under the other Credit Documents; and (D) the date and amount of all principal, interest, and fees paid by the Company to CoBank hereunder and under the other Credit Documents. To the extent permitted by applicable Law, such record (and all computer printouts thereof) shall be presumed correct absent proof of error as to the obligations of the Company therein recorded; provided, that the failure of CoBank to maintain such record, or any error therein, shall not in any manner affect the obligation of the Company to repay (with applicable interest) any Loan hereunder in accordance with the terms of this Agreement and the other Credit Documents.

**SECTION 2.06 Business Days.** Notwithstanding the terms of any Supplement, Promissory Note, or other Credit Document, if any date on which principal, interest, fees, or other amount is due and payable is not a Business Day, then such payment shall be due and payable on the next Business Day and, in the case of principal, interest shall continue to accrue on the amount thereof until paid.

**SECTION 2.07 Method of Payment.** The Company shall make all payments to CoBank under this Agreement and the other Credit Documents by wire transfer of immediately available funds, or, if specified by separate agreement between the Company and CoBank, by automated clearing house or other similar cash handling processes. Wire transfers shall be made to ABA No. 307088754 for advice to and credit of "CoBANK" (or to such other account as CoBank may direct by notice). In the event that the Company intends to make any payment on a date other than a scheduled payment date, then the Company shall give CoBank telephonic notice no later than 12:00 Noon Mountain Time of its intent to pay by wire, and funds received after 3:00 P.M. Mountain Time shall, in CoBank's discretion, be credited on the next Business Day. The Company agrees that CoBank shall not be obligated to present any Promissory Note for payment as a condition for receiving payment thereon.

**ARTICLE 3  
CONDITIONS PRECEDENT**

**SECTION 3.01 Conditions to this Agreement and Initial Supplement.** This Agreement and the initial Supplement attached hereto are subject to the following conditions precedent

(which in the case of instruments and documents, must be in form and content reasonably acceptable to CoBank):

**(A) This Agreement.** CoBank and the Company shall have duly executed and delivered this Agreement.

**(B) The Initial Supplement and Promissory Note.** CoBank and the Company shall have duly executed and delivered the initial Supplement hereto, and the Company shall have duly executed and delivered the Promissory Note evidencing the Company's obligation to repay the Loans made under the initial Supplement hereto.

**(C) Secretary's Certificate.** CoBank shall have received a certificate of the Secretary or Assistant Secretary of the Company dated as of the date of this Agreement (or as of such other date as may be acceptable to CoBank) attaching and certifying as to each of the following (which certificate and attachments must be in form and content reasonably acceptable to CoBank): (1) the resolutions of the Company's board of directors authorizing the execution and delivery of this Agreement, the initial Supplement hereto, the Promissory Note related thereto, and all Credit Documents contemplated hereby or by the initial Supplement hereto (collectively, the "Initial Credit Documents"); (2) a certificate of incumbency setting forth the names and true ink signatures of each officer of the Company authorized to sign the Initial Credit Documents; (3) a copy of the certificate of incorporation of the Company, as amended to the date of this Agreement, certified by the Secretary of State (or equivalent) of the Company's state of incorporation or formation within thirty (30) days of the date of this Agreement; (4) a certificate issued by the Secretary of State (or equivalent) of the Company's state of incorporation or formation dated within thirty days of the date of this Agreement (or within such other number of days as may be agreeable to CoBank), attesting to the good standing of the Company in such state; and (5) the bylaws of the Company, as amended to the date of this Agreement.

**(D) Guaranty and Related Documents.** CoBank shall have received: (1) a duly executed Guaranty; (2) a certificate of the Secretary or Assistant Secretary of the Guarantor dated as of the date of this Agreement (or as of such other date as may be acceptable to CoBank) attaching and certifying as to each of the following (which certificate and attachments must be in form and content reasonably acceptable to CoBank): (1) the resolutions of the Guarantor's board of directors authorizing the execution and delivery of the Guaranty; (2) a certificate of incumbency setting forth the names and true ink signatures of each officer of the Guarantor authorized to sign the Guaranty; (3) a copy of the certificate of incorporation of the Guarantor, as amended to the date of this Agreement, certified by the Secretary of State (or equivalent) of the Guarantor's state of incorporation or formation within thirty (30) days of the date of this Agreement; (4) a certificate issued by the Secretary of State (or equivalent) of the Guarantor's state of incorporation or formation dated within thirty days of the date of this Agreement (or within such other number of days as may be agreeable to CoBank), attesting to the good standing of the Guarantor in such state; and (5) the bylaws of the Guarantor, as amended to the date of this Agreement.

**(E) Consents and Approvals.** [CoBank shall have received such evidence as CoBank may reasonably require that all filings, consents and approvals required to be obtained by the Company have been obtained, are in full force and effect, and are final and not subject to appeal.]<sup>1</sup>

**(F) Opinion of Counsel.** CoBank shall have received an opinion of counsel to the Company and the Guarantor (which opinion and counsel must be acceptable to CoBank).

<sup>1</sup> Internal Note: Artesian to advise as to consents required.

(G) **Fees and Other Charges.** CoBank shall have received all fees or other charges provided for herein.

(H) **Insurance.** [CoBank shall have received such evidence as CoBank may require that the Company is in compliance with [Section 5.03] hereof (including the flood insurance requirements thereof).]<sup>2</sup>

(I) **Officer's Certificate.** CoBank shall have received an original certificate from an officer of the Company acceptable to CoBank dated as of the date hereof substantially in the form attached hereto as Exhibit C.

**SECTION 3.02 Conditions to Each New Supplement.** CoBank's obligation to make the initial Loan under each Supplement (other than the initial Supplement executed on the date hereof) executed after the date hereof is subject to the following conditions precedent (which in the case of instruments and documents, must be in form and content acceptable to CoBank):

(A) **Supplement.** CoBank and the Company shall have duly executed and delivered the Supplement.

(B) **Promissory Note.** CoBank shall have received an original Promissory Note, duly executed by the Company.

(C) **Other Loan Documents.** CoBank shall have received duly executed originals of all other Credit Documents contemplated by the Supplement.

(D) **Security.** (1) The Company and CoBank shall have entered into a supplemental mortgage in form and content reasonably satisfactory to CoBank (the "Supplemental Mortgage"); and (2) CoBank shall have received such evidence as may be satisfactory to CoBank that the Supplemental Mortgage and one or more UCC-1 financing statements or amendments to the existing UCC-1 financing statements have been recorded in each place required by Law in order for the Mortgage, as supplemented by the Supplemental Mortgage, to accord CoBank a duly perfected and recorded Lien on the Collateral as security for the additional obligations then being incurred.

(E) **Secretary's Certificate.** CoBank shall have received a certificate of the Secretary or Assistant Secretary of the Company, dated as of the date of the Credit Documents then being executed (or as of such other date as may be acceptable to CoBank), attaching and certifying as to each of the following (which certificate and attachments must be in form and content acceptable to CoBank): (1) the resolutions of the Company's board of directors authorizing the execution and delivery of the Credit Documents then being entered into in connection with such Supplement; (2) a certificate of incumbency setting forth the names and true ink signatures of each officer of the Company authorized to sign such Credit Documents; (3) the certificate of incorporation of the Company, as amended to the date of the Supplement; (4) a certificate issued by the Secretary of State (or equivalent) of the Company's state of incorporation or formation dated within thirty days of the date of the Supplement (or within such other number of days as may be agreeable to CoBank), attesting to the good standing of the Company (or such other Person) in such state; and (5) the bylaws of the Company, as amended to the date of the Supplement.

(F) **Consents and Approvals.** CoBank shall have received such evidence as CoBank may reasonably require that all consents and approvals that are required to be obtained by the Company and each other Person in connection with the Credit Documents or the project or activity then being

<sup>2</sup> NTD: Consider whether this should be a post-closing deliverable.

financed, have been obtained and are in full force and effect, including any approvals required to be obtained from the Department of Natural Resources and Environmental Control of the State of Delaware.

(G) **Fees and Other Charges.** CoBank shall have received any fees or other charges provided for herein or in such Supplement.

(H) **[Reserved]**

(I) **[Reserved]**

(J) **Officer's Certificate.** CoBank shall have received an original certificate from an officer of the Company acceptable to CoBank dated as of the date of the Supplement and in form and substance acceptable to CoBank.

(K) **Other Matters.** CoBank shall have received such additional certificates, opinions and other documents as CoBank shall have reasonably required, and all legal matters incident to the consummation of the transactions contemplated by the Supplement shall be satisfactory to CoBank and its counsel in all respects.

**SECTION 3.03 Conditions to Each Loan.** CoBank's obligation under each Supplement to make any Loan to the Company thereunder, including the initial Loan thereunder, is subject to the conditions that: (A) each of the representations and warranties made or deemed made by the Company herein, in the Supplement, and in each other Loan Document, shall be true and correct in all material respects as of the date of the Loan; and (B) the Company shall have satisfied all conditions precedent set forth in the Supplement. Without limiting clause (A) above, CoBank's obligation under a Supplement to make any Loan to the Company is subject to the condition precedent that no Default or Event of Default shall have occurred and be continuing under such Supplement.

## **ARTICLE 4 REPRESENTATIONS AND WARRANTIES**

To induce CoBank to enter into each Supplement hereto and, except as provided below, make each Loan to the Company, the Company represents and warrants that:

**SECTION 4.01 Organizations and Good Standing.** The Company: (A) is a corporation duly organized, validly existing and in good standing under the Laws of the State of Delaware; and (B) has all requisite corporate power and authority to own and operate its properties, to carry on its business as now conducted and as proposed to be conducted, and to enter into and perform the Credit Documents to which it is a party.

**SECTION 4.02 Ownership and Subsidiaries.** The Company is owned 100% by the Guarantor and has no Subsidiaries.

### **SECTION 4.03 Financial Statements.**

(A) The Annual Financial Statements have been prepared in accordance with generally accepted accounting principles consistently applied and the applicable provisions of the regulatory authorities having jurisdiction in the premises, are correct and complete, and present fully and fairly the financial position of the Company as of the dates thereof and the results of their operations and changes in its financial position for the periods covered thereby.

**(B)** Since the date of the Annual Financial Statements: (1) there has been no material adverse change in the condition (financial or otherwise), business or operations of the Company or the Guarantor from that presented in the Annual Financial Statements; and (2) except as may have arisen in the ordinary course or as may have been disclosed in any officer's certificate submitted in connection with such Supplement, there are no liabilities of the Company, fixed or contingent, which are material but not reflected in the Annual Financial Statements.

**(C)** All budgets, projections, feasibility studies, and other similar documentation submitted by the Company to CoBank in connection with the applicable Supplement were based upon assumptions that were reasonable at such time and as of the date hereof no fact has come to light, and no event has occurred, that would cause any such assumption not to be reasonable.

**SECTION 4.04 Litigation.** Except as set forth on Schedule 4.04 hereof or in the officer's certificate furnished in connection with a Supplement, there are no actions, suits or proceedings pending or, to the best of the knowledge of the Company, threatened against or affecting the Company at law or in equity or before or by any Governmental Authority, that would reasonably be expected to involve the possibility of any material judgment or liability against the Company or otherwise have a Material Adverse Effect. The Company is not in default with respect to any order of any court or Governmental Authority.

**SECTION 4.05 Taxes.** The Company has filed prior to delinquency all required tax returns and paid all applicable federal, state and local taxes, other than taxes not yet due or that may hereafter be paid without penalty, and the Company has no knowledge of any material deficiency or additional assessment in connection therewith not provided for on the books of the Company.

**SECTION 4.06 Liens.** [There are no Liens on any property of the Company other than the Lien of the Mortgage and Permitted Encumbrances.]<sup>3</sup>

**SECTION 4.07 Title to Properties.** The Company has good title to all its property and assets reflected in its Annual Financial Statements (other than property or assets subsequently disposed of in the normal and ordinary course of business).

**SECTION 4.08 Consents and Approvals.** Except for such as shall have been made or obtained and are in full force and effect or as described on Schedule 4.08, no filing with and no consent, permission, authorization, order or license or other action of or by any Governmental Authority or of any party to any agreement to which the Company is a party or by which it or any of its property may be bound or affected, is necessary in connection with the execution, delivery, performance or enforcement of the Credit Documents.

**SECTION 4.09 Calamities, Strikes, etc.** Since December 31, 2016, the business, properties and assets of the Company have not been adversely affected in any substantial way as the result of any fire, explosion, accident, windstorm, strike, labor disturbance, lockout, combination of workmen, requisition or taking of property by the United States or any agency thereof or by the State of Delaware or any municipality or other agency thereof, flood, drought, embargo, riot, war or act of God or the public enemy.

**SECTION 4.10 Restrictions on the Company.** The Company is not a party to or bound by any contract, indenture, agreement or instrument, or any law, rule or regulation, any judgment or order of any court or Governmental Authority that restricts or limits the right or ability of the Company to enter

<sup>3</sup> Internal Note: Company to confirm.

into and perform any of the Credit Documents.<sup>4</sup> No action on the part of any shareholder of the Company is necessary in connection with the execution and delivery by the Company of and the performance by the Company of its obligations under the Credit Documents.

**SECTION 4.11 No Conflicts.** The execution and delivery of the Credit Documents and the consummation of the transactions therein contemplated, and the compliance with the Credit Documents by the Company, will not conflict with or result in a breach of any of the terms, conditions or provisions of, or constitute a default under, or result in the creation or imposition of any Lien upon any of the property or assets of the Company (other than the Lien created by the Credit Documents), pursuant to the terms of the charter or by-laws of the Company, or any indenture, mortgage, deed of trust or other agreement or instrument for borrowed money to which the Company or the Guarantor is a party, or by which the property or assets of either may be bound or affected.

**SECTION 4.12 No Defaults.** The Company is operating its business in compliance with the terms of the Credit Documents, and no Default or Event of Default exists.

**SECTION 4.13 Compliance with Laws.**

(A) The Company is not (i) in default with respect to any order, writ, injunction or decree of any court or (ii) in default in any material respect under any law, ordinance, order, regulation, license or demand (including ERISA, the Occupational Safety and Health Act of 1970 and laws and regulations establishing quality criteria and standards for air, water, land and toxic waste) of any Governmental Authority, default under which would have consequences that could reasonably be expected to have a Material Adverse Effect.

(B) The Company is not in violation of any applicable Federal, state or local laws, statutes, rules, regulations, ordinances, permit, licenses or authorizations relating to public health, safety or the environment, including, without limitation, relating to releases, discharges, emissions or disposals to air, water, land or ground water, to the withdrawal or use of ground water, to the use, handling or disposal of polychlorinated biphenyls (PCBs), asbestos or urea formaldehyde, to the treatment, storage, disposal or management of hazardous substances (including, without limitation, petroleum, crude oil or any fraction thereof or other hydrocarbons), pollutants or contaminants, to exposure to toxic, hazardous or other controlled, prohibited or regulated substances which violation could reasonably be expected to have a Material Adverse Effect. The Company does not know of any liability or class of liability of the Company under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (42 U.S.C. Section 9601 et seq.), or the Resource Conservation and Recovery Act of 1976, as amended (42 U.S.C. Section 6901 et seq.).

**SECTION 4.14 Validity; Enforceable Obligations.** This Agreement and the other Credit Documents have been duly executed and delivered and constitute legal, valid and binding obligations of the Company enforceable against the Company in accordance with their respective terms, except as may be limited by bankruptcy or insolvency laws or similar laws affecting creditors' rights generally or by general equitable principles.

**SECTION 4.15 Full Disclosure.** The Financial Statements referred to in Section 4.03 of this Agreement do not, nor does any other written statement furnished to CoBank by the Company in connection herewith, contain at the time made any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained therein or herein not misleading. As of the date hereof, there is no fact peculiar to the Company that the Company has not disclosed to CoBank in writing

<sup>4</sup> NTD: Deleted language covered by Section 4.08.

that materially affects adversely nor, so far as the Company now can reasonably foresee, will materially affect adversely the properties, business, prospects, profits or condition (financial or otherwise) of the Company.

**SECTION 4.16 Use of Proceeds.** None of the transactions contemplated by this Agreement or any Supplement (including, without limitation, the use of proceeds from the Loans) will violate or result in a violation of Section 7 of the Securities Exchange Act of 1934, as amended, or any regulation issued pursuant thereto, including, without limitation, Regulations G, T and X of the Board of Governors of the Federal Reserve System, 12 C.F.R., Chapter II. The Company does not intend to purchase, with the proceeds of the Loans, any “margin stock” within the meaning of said Regulation G. None of the proceeds from the Loans will be used to purchase, or refinance any borrowing the proceeds of which were used to purchase, any “security” within the meaning of the Securities Exchange Act of 1934, as amended.

**SECTION 4.17 ERISA.** The consummation of the transactions provided for in the applicable Supplement and compliance by the Company with the provisions thereof will not involve any prohibited transaction within the meaning of ERISA or Section 4975 of the Code. Each “Plan” (as hereinafter defined) complies in all material respects with all applicable statutes and governmental rules and regulations, and (i) no “Reportable Event” (as hereinafter defined) has occurred and is continuing with respect to any Plan, (ii) the Company has not withdrawn from any Plan or instituted steps to do so, and (iii) no steps have been instituted to terminate any Plan. No condition exists or event or transaction has occurred in connection with any Plan that could result in the incurrence by the Company of any material liability, fine or penalty. No Plan maintained by the Company, nor any trust created thereunder, have incurred any “accumulated funding deficiency” as defined in Section 302 of ERISA nor does the present value of all benefits vested under all Plans exceed, as of the last annual valuation date, the value of the assets of the Plans allocable to such vested benefits. The Company does not have any contingent liability with respect to any post-retirement “welfare benefit plans” (as such term is defined in ERISA) except as has been disclosed to CoBank.

**SECTION 4.18 Principal Place of Business; Records.** The principal place of business and chief executive office of the Company and the place where the records of the Company are kept is at the address of the Company shown in Schedule 8.02 of this Agreement.

**SECTION 4.19 Rate Matters.** [The Company’s current rates for the provision of wastewater services have been approved by all necessary Governmental Authorities, including, without limitation, the Delaware Public Service Commission.]<sup>5</sup> There are no pending, nor to the Company’s knowledge, any threatened, proceedings before any Governmental Authority the objective or result of which is or could be to materially reduce or otherwise materially change adversely any of the Company’s rates for the provision of water services or otherwise have a Material Adverse Effect.

**SECTION 4.20 System Condition.** The Company’s facilities reasonably meet present demand in all material respects, are constructed in a good and workmanlike manner, are in good working order and condition, and comply in all material respects with all applicable laws, rules, regulations, orders, codes, and the like. [The Company has wastewater operating, discharge, and other permits that are necessary adequately to service the present and reasonably anticipated needs of its customers.]<sup>6</sup>

**SECTION 4.21 [Intentionally Omitted]**

<sup>5</sup> Internal Note: Company to confirm.

<sup>6</sup> Internal Note: To be confirmed.

**SECTION 4.22 Investment Company Act.** The Company is not an “investment company” as that term is defined in, or otherwise subject to regulation under, the Investment Company Act of 1940, as amended.

**SECTION 4.23 No Default Under Other Agreements.** The Company is not in default in any respect under any contract, lease, loan agreement, indenture, mortgage, security agreement or other agreement or obligation to which it is a party or by which any of its properties is bound which default has had or would be reasonably expected to have a Material Adverse Effect.

**SECTION 4.24 Indebtedness.** As of the Closing Date, except as set forth on Schedule 4.24, the Company has no Indebtedness. .

**SECTION 4.25 Solvency.** The Company is and, after the consummation of the transactions contemplated by this Agreement and the other Credit Documents, will be Solvent.

**SECTION 4.26 Insurance.** The Company maintains insurance for the benefit of the Company with responsible and reputable insurance companies or associations in such amounts and covering such risks as are required by Section 6.14 hereof.

**SECTION 4.27 Franchise, Licenses, Etc.** The Company possesses all material franchises, certificates, licenses, permits and other authorizations necessary for the operation of its businesses.

**SECTION 4.28 Sanctions.** None of the Company, any of its Subsidiaries or, to the knowledge of the Company, any director, officer, employee, agent or affiliate of the Company or any of its Subsidiaries is a Person that is, or is owned or controlled by Persons that are: (A) the subject/target of any sanctions administered or enforced by the U.S. Department of the Treasury’s Office of Foreign Assets Control (“OFAC”), the U.S. Department of State, or other relevant sanctions authority (collectively “Sanctions”) or (B) located, organized or resident in a country or territory that is, or whose government is, the subject of Sanctions.

## **ARTICLE 5 FURNISHING FINANCIAL AND OTHER INFORMATION**

The Company hereby covenants and agrees that so long as this Agreement is in effect and until the Loans, together with interest, fees and other monetary obligations hereunder have been paid in full and all commitments have expired or been terminated:

**SECTION 5.01 Annual Financial Statements of Company.** The Company will furnish, or cause to be furnished, to CoBank as soon as available, and in any event within 120 days after the close of each fiscal year of the Company:

(i) a consolidated balance sheet of the Company and its affiliates as of the close of such fiscal year, and

(ii) consolidated statements of income, retained earnings and cash flow of the Company and its affiliates for such fiscal year,

in each case setting forth in comparative form the figures for the preceding fiscal year, all in reasonable detail and prepared in conformity with GAAP consistently applied.

**SECTION 5.02 Financial Statements of the Guarantor.**<sup>7</sup>

(i) **Quarterly Statements.** As soon as available and in any event within forty five (45) days after the end of each quarterly fiscal period (except the last) of each fiscal year of the Guarantor, the Company will deliver to CoBank copies of:

(A) consolidated balance sheets of the Guarantor and its subsidiaries as of the close of such quarterly period, and

(B) consolidated statements of income, retained earnings and cash flows of the Guarantor and its subsidiaries, for such quarterly period and for the portion of the fiscal year ending with such period,

in each case setting forth in comparative form the figures for the corresponding period of the preceding fiscal year, all in reasonable detail prepared in conformity with GAAP **[and certified as presenting fairly the financial condition of the Guarantor and its subsidiaries as of the end of such period and the results of their operations for such period, subject to changes resulting from year-end adjustments, by the chief financial officer of the Guarantor.]**

(ii) **Annual Statements.** As soon as available and in any event within one hundred twenty (120) days after the close of each fiscal year of the Guarantor, the Company will deliver to CoBank, copies in duplicate of:

(A) consolidated balance sheets of the Guarantor and its subsidiaries as of the close of such fiscal year, and

(B) consolidated statements of income, retained earnings and cash flow of the Guarantor and its subsidiaries for such fiscal year,

in each case setting forth in comparative form the consolidated figures for the preceding fiscal year, all in reasonable detail and accompanied by the consolidating schedules related thereto and an opinion thereon of a firm of independent certified public accountants of recognized national standing selected by the Guarantor to the effect that the consolidated financial statements have been prepared in conformity with GAAP and present fairly the financial condition of the Guarantor and its subsidiaries as of the end of such fiscal year and the results of their operations for the fiscal year then ended and a written statement from such accountants that their examination in connection with such financial statements has been made in accordance with generally accepted auditing standards and auditing procedures as were considered necessary in the circumstances, and, to the extent applicable, disclosing all defaults by the Guarantor in the performance of any obligation or under its certificate of incorporation of which they have obtained knowledge in making the examination necessary to their opinion

**SECTION 5.03 SEC and Other Related Reports.** The Company will deliver to CoBank, promptly upon their becoming available, copies of all registration and proxy statements and reports that the Company or the Guarantor shall file with the Securities and Exchange Commission or any successor and corresponding Governmental Authority, and copies of such financial statements, reports, proxy statements and returns as the Company, or the Guarantor, shall send to its or their stockholders or file with any securities exchange.

<sup>7</sup> Internal Note: Is this ok?

**SECTION 5.04 Requested Information.** The Company with reasonable promptness shall furnish to CoBank such other data and information as may reasonably be requested.

**SECTION 5.05 Officer's Annual Certificate.** Concurrently with delivery of the financial statements referred to in Section 5.01 hereof, the Company will deliver to CoBank a certificate of its [President or its Treasurer or Controller<sup>8</sup>] in the form attached hereto as Exhibit B.

**SECTION 5.06 Inspection.** The Company will permit CoBank, or such person or persons as CoBank may designate in writing, to visit and inspect any of the properties of the Company and to examine its books of account and discuss its affairs, finances and accounts with its officers and independent public accountants (and by this provision the Company authorizes said accountants to discuss with CoBank the finances and affairs of the Company), all at such reasonable times and as often as CoBank may desire; provided that, unless a Default or Event of Default exists, CoBank shall bear the cost of any such inspection.

**SECTION 5.07 Notice of Default.** Promptly after becoming aware thereof, the Company will deliver to CoBank notice of the occurrence of any Default or Event of Default.

**SECTION 5.08 Notice of Non-Environmental Litigation.** Promptly after the commencement thereof, the Company will deliver to CoBank notice of the commencement of all actions, suits, or proceedings before any court, arbitrator, or Governmental Authority affecting it that, if adversely determined, could have a Material Adverse Effect.

**SECTION 5.09 Notice of Environmental Matters.** Without limiting the provision of Section 5.08 hereof, promptly after receipt thereof, the Company will deliver to CoBank notice of its receipt of all pleadings, orders, complaints, indictments, or other written communications alleging a condition that would reasonably be expected to require the Company to undertake or to contribute to a cleanup or other response under any Environmental Law, or that seeks material penalties, damages, injunctive relief, or criminal sanctions related to alleged violations of any Environmental Law, or that makes any material claim for personal injury or property damage as a result of environmental factors or conditions or that, if adversely determined, could otherwise have a Material Adverse Effect.

**SECTION 5.10 ERISA Reportable Events.** Within 10 days after the Company becomes aware of the occurrence of any Reportable Event with respect to the Company, the Company will deliver to CoBank a statement describing such Reportable Event and the actions proposed to be taken in response to such Reportable Event.

## **ARTICLE 6 COVENANTS**

The Company hereby covenants and agrees that so long as this Agreement is in effect and until the Loans, together with interest, fees and other monetary obligations hereunder have been paid in full and all commitments have expired or been terminated:

**SECTION 6.01 Compliance With Laws and Agreements.** The Company will comply with (i) all Applicable Laws of all Governmental Authorities and of any court, arbitrator or grand jury, in respect of the conduct of its business and the ownership of its properties (including, without limitation, applicable statutes, rules, regulations, orders and restrictions relating to equal employment opportunities or Environmental Laws), the violation of which could reasonably be expected to have a Material Adverse Effect; and (ii) all agreements, indentures, mortgages and other instruments to which it is a party or by

<sup>8</sup> Internal Note: Artesian to confirm it has officers holding these titles.

which it or any of its property is bound, the violation of which could reasonably be expected to have a Material Adverse Effect.

**SECTION 6.02 Capitalization.** The Company agrees to purchase such equity in CoBank as CoBank may from time to time require in accordance with its Bylaws and Capital Plan (as each may be amended from time to time), except that the maximum amount of equity that the Company may be required to purchase in CoBank in connection with a particular Loan may not exceed the maximum amount permitted by the CoBank's Bylaws at the time the Supplement relating to that Loan is entered into or such Loan is renewed or refinanced by CoBank. The rights and obligations of the parties with respect to such equity and any distributions made on account thereof or on account of Company's patronage with CoBank shall be governed by the CoBank's Bylaws and Capital Plan (as each may be amended from time to time). All such investments and all other equities that the Company may now own or hereafter acquire or be allocated in CoBank shall be subject to a statutory first Lien in favor of CoBank. CoBank shall not be obligated to set off or otherwise apply such equities to the Company's obligations to CoBank.

**SECTION 6.03 Licenses, Etc.** The Company will duly and lawfully obtain and maintain in full force and effect all licenses, certificates, permits, authorizations, approvals and the like that are material to the conduct of its business or that otherwise may be required by laws, to the extent the failure to do so could have a Material Adverse Effect.

**SECTION 6.04 Wastewater Rights.** The Company will maintain and procure all wastewater operating, discharge, and other permits that are necessary to serve the present and reasonably anticipated needs of its customers.

**SECTION 6.05 Loans and Investments.** The Company will not, after the date hereof, make any loan or advance to, invest in, purchase or make any commitment to purchase any commercial paper, stock, bonds, notes, or other securities of any person or entity (each, whether made directly or indirectly, (an "Investment"), other than:

(A) commercial paper maturing not in excess of one year from the date of acquisition and rated "P1" by Moody's or "A1" by S&P on the date of acquisition;

(B) certificates of deposit in North American commercial banks rated "C" or better by Keefe, Bruyette & Woods, Inc., or "3" or better by Cates Consulting Analysts, maturing not in excess of one year from the date of acquisition;

(C) securities or deposits issued, guaranteed, or fully insured as to payment by the United States government or any agency thereof, and equity or investments in CoBank;

(D) repurchase agreements of any bank or trust company incorporated under the laws of the United States of America or any state thereof and fully secured by a pledge of obligations issued or fully and unconditionally guaranteed by the United States government;

(E) stocks and other voting securities that are not included within the scope of clauses (A) through (D) above and are issued by corporations or other entities not engaged in any business other than the water or wastewater utility business and that are incorporated or organized under the laws of the United State of America or any state thereof; provided that prior to or as a result of such investment the Company holds not less than seventy five percent (75%) of the voting securities of such corporation or entity; and

(F) commercial paper, bonds, stocks or other securities that are not included within the scope of clauses (A) through (E) above and are issued by corporations or other entities incorporated or organized under the laws of the United State of America or any state thereof (collectively, “Other Investments”); provided that the aggregate amount (calculated based on cost) of all such Other Investments shall not at any time exceed One Million Dollars (\$1,000,000).

**SECTION 6.06 Guarantees.** The Company will not guarantee, assume or otherwise become obligated or liable with respect to the indebtedness or other obligations of any person or entity, other than in the ordinary course of its business.

**SECTION 6.07 Mergers; Acquisitions: Etc.** The Company will not: (A) merge or consolidate with any other entity unless the Company shall be the continuing and surviving corporation and, after such merger or consolidation, there shall exist no Default or Event of Default; or (B) commence operations under any other name, organization or entity.

**SECTION 6.08 Transfer of Assets.** The Company will not sell, transfer, lease, enter into any contract for the sale, transfer or lease of, or otherwise dispose of, any of its assets, except in the ordinary course of its business.

**SECTION 6.09 Change in Business.** The Company will not engage in any business activity or operation different from the business of providing wastewater services to its customers.

**SECTION 6.10 Distributions.** The Company will not make, declare or pay, directly or indirectly, any dividend or other distribution of assets to shareholders of the Company, or retire, redeem, purchase or otherwise acquire for value any shares of stock of the Company, if at the time thereof or after giving effect thereto a Default or Event of Default exists or would exist.

**SECTION 6.11 Preservation of Existence, Franchise and Assets.** The Company will do all things necessary to preserve and keep in full force and effect its existence, rights, franchises and authority. The Company shall generally maintain its properties, real and personal, in good condition, and the Company shall not waste or otherwise permit such properties to deteriorate, reasonable wear and tear excepted.

**SECTION 6.12 Books and Records.** The Company will keep complete and accurate books and records of its transactions in accordance with good accounting practices on the basis of GAAP (including the establishment and maintenance of appropriate reserves).

**SECTION 6.13 Payment of Taxes and Other Indebtedness.** The Company will pay, settle or discharge (a) all taxes, assessments and governmental charges or levies imposed upon it, or upon its income or profits, or upon any of its properties, before they shall become delinquent, (b) all lawful claims (including claims for labor, materials and supplies) which, if unpaid, might give rise to a Lien upon any of its properties, and (c) all of its other Indebtedness as it shall become due (to the extent such repayment is not otherwise prohibited by this Agreement); provided, however, that the Company shall not be required to pay any such tax, assessment, charge, levy, claim or Indebtedness which is being contested in good faith by appropriate proceedings and as to which adequate reserves therefore have been established in accordance with GAAP, unless the failure to make any such payment (i) would give rise to an immediate right to foreclose or collect on a Lien securing such amounts or (ii) would have or would reasonably be expected to have a Material Adverse Effect.

**SECTION 6.14 Insurance.** The Company will at all times maintain in full force and effect insurance (including worker’s compensation insurance, liability insurance, casualty insurance and business

interruption insurance) with responsible and reputable insurance companies in such amounts, covering such risks and liabilities and with such deductibles or self-insurance retentions as is usually carried by companies engaged in similar businesses and owning similar properties in the same general areas in which the Company operates. **[In addition, in the event any property of the Company is located in a flood zone, the Company will maintain such flood insurance as may be required by CoBank in accordance with law].**<sup>9</sup> The Company agrees to deliver to CoBank such proof of compliance with this Section as CoBank may from time to time require.

**SECTION 6.15 Performance of Obligation.** The Company will perform in all material respects all of its obligations under the terms of all material agreements, indentures, mortgages, security agreements or other debt instruments to which it is a party or by which it is bound.

**SECTION 6.16 [Reserved]**<sup>10</sup>

**SECTION 6.17 [Reserved]**<sup>11</sup>

**SECTION 6.18 Arm's-Length Transactions.** Except as set forth on Schedule 6.18,<sup>12</sup> the Company will not enter into any transaction or series of transactions, whether or not in the ordinary course of business, with any officer, director or Affiliate other than on terms and conditions substantially as favorable to the Company as would be obtainable in a comparable arm's-length transaction with a Person other than an officer, director or Affiliate.

**SECTION 6.19 Fiscal Year; Organization Documents.** The Company will not (a) change its fiscal year or (b) change its form of organization from a corporation organized under the laws of the State of Delaware.

**SECTION 6.20 Liens.** **[The Company will not contract, create, incur, assume or permit to exist any Lien with respect to any of its property or assets of any kind (whether real or personal, tangible or intangible), whether now owned or after acquired, except for the Lien of the Mortgage and Liens permitted by the Mortgage.]**<sup>13</sup>

**SECTION 6.21 Indebtedness.** The Company will not, nor will it permit any of its Subsidiaries to incur, assume, guarantee or in any other manner become liable, with respect to any indebtedness or liability for borrowed money, letters of credit, or the deferred purchase price of property or services (including Capital Leases), except for: (A) debt to CoBank; (B) accounts payable to trade creditors incurred in the ordinary course of business; (C) current operating liabilities (other than for borrowed money) incurred in the ordinary course of business; (D) indebtedness existing on the Closing Date and listed on Schedule 6.21; and (E) debt subordinated to all Company Obligations pursuant to a subordination agreement in form and content acceptable to CoBank.

**SECTION 6.22 Debt Service Coverage Ratio.** **[Commencing for the Fiscal Year beginning on January 1, 2019 and ending December 31, 2019, the Company shall have for each fiscal year of the Company, a Debt Service Coverage Ratio of not less than 1.25 to 1.00.]**<sup>14</sup>

<sup>9</sup> To be discussed.

<sup>10</sup> NTD: See § 5.06, inspections are covered therein.

<sup>11</sup> NTD: See § 6.09, no change in Company business is covered therein.

<sup>12</sup> Internal Note: Company to confirm.

<sup>13</sup> NTD: Subject to review of Mortgage.

<sup>14</sup> NTD: Under review by the Company.

**SECTION 6.23 Total Debt to Capitalization Ratio.** The Company will have at the end of each fiscal year of the Company, a Total Debt to Total Capitalization Ratio of not greater than 65%.

**SECTION 6.24 Sanctions, Etc.** The Company will not, directly or indirectly, use the proceeds of the Loans, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other person, to fund any activities or business of or with any Person, or in any country or territory, that, at the time of such funding, is, or whose government is, the subject of any sanctions administered or enforced by the U.S. Department of the Treasury's Office of Foreign Assets Control, the U.S. Department of State, or other relevant sanctions authority. In addition, the Company agrees that: (1) it will not become a Person described or designated in the Specially Designated Nationals and Blocked Persons List of the Office of Foreign Assets Control or in Section 1 of the Anti-Terrorism Order, or knowingly engage in any dealings or transactions with any such Person; and (2) no part of the proceeds of the Loans will be used, directly or indirectly, in furtherance of an offer, payment, promise to pay, or authorization of the payment or giving of money, or anything else of value, to any person in violation of any applicable anti-corruption law.

**SECTION 6.25 Post-Closing Items.** On or before <>, 2018 [DRAFTING NOTE: Date to be inserted will be the 120<sup>th</sup> day from closing], the Company agrees to:

(A) **Mortgage.** Enter into a mortgage and security agreement in form and content acceptable to CoBank (as amended or restated from time to time, the "Mortgage") granting to CoBank a first priority Lien on the Collateral;

(B) **Proof of Recoding, Etc.** Furnish to CoBank such evidence as may be satisfactory to CoBank that: (a) the Mortgage and one or more UCC-1 financing statements in form and content acceptable to CoBank have been recorded in each place required by law in order to render effective the Lien of the Mortgage; (b) all taxes and fees arising in connection therewith or in connection with the Loans contemplated hereby have been paid; (c) there are no Liens on any property of the Company other than Liens permitted by this Agreement or the Mortgage; and (d) the Company is in compliance with all insurance requirements contained in the Mortgage and Section 6.14 hereof this Agreement; and

(C) **Post-Closing Opinion of Counsel.** Furnish to CoBank an opinion of counsel to the Company (which counsel and opinion must be acceptable to CoBank) to the effect that: (a) the Mortgage has been recorded in each place required by law in order to render effective the Lien of the Mortgage; and (b) UCC-1 financing statements in proper form have been duly filed in all places required by law in order to perfect the Lien of the Mortgage on that portion of the Collateral in which a Lien can be perfected by filing a UCC-1 financing statement.

## ARTICLE 7 EVENTS OF DEFAULT

**SECTION 7.01 Events of Default.** An Event of Default shall exist upon the occurrence of any of the following specified events (each an "Event of Default"):

(A) **Payment.** The Company shall default in the payment when due of any principal of any of the Loans or in the payment when due of any interest on the Loans or of any fees or other amounts owing hereunder or under any of the other Credit Documents.

(B) **Representations.** Any representation, warranty or statement made or deemed to be made by the Company herein, in any of the other Credit Documents, or in any statement or certificate

delivered or required to be delivered pursuant hereto or thereto shall prove untrue in any material respect on the date as of which it was made or deemed to have been made.

(C) **Certain Covenants.** The failure by the Company to perform or comply with any covenant or agreement set forth in this Agreement (excluding Sections 6.21, [6.22], and 6.23), and such failure continues for thirty (30) days after written notice thereof shall have been delivered by CoBank to the Company;

(D) **Other Covenants.** The failure by the Company to perform or comply with Sections 6.21, [6.22,] or 6.23 of this Agreement or to use the proceeds of any Loan for a purpose other than the purpose(s) set forth in the Supplement relating to the Loan.

(E) **Cross-Default.** The occurrence of any event of default under, or lapse of or failure on the part of the Company to observe, keep, or perform any covenant or agreement contained in any other Credit Document or any other agreement between the Company and CoBank, including, without limitation, any guaranty, loan agreement, security agreement, pledge agreement, indenture, mortgage or other agreement.

(F) **Other Indebtedness.** The Company should fail to pay when due any indebtedness to any other Person for borrowed money or any long-term obligation for the deferred purchase price of property (including any capitalized lease), or any other event occurs which, under any agreement or instrument relating to such indebtedness or obligation, has the effect of accelerating or permitting the acceleration of such indebtedness or obligation, whether or not such indebtedness or obligation is actually accelerated or the right to accelerate is conditioned on the giving of notice, the passage of time, or otherwise.

(G) **Judgment.** The rendering against the Company of a judgment for the payment of moneys in excess of Five Hundred Thousand Dollars (\$500,000) and the continuance of such judgment unsatisfied and without stay of execution thereon for a period of forty-five (45) days after the entry of such judgment, or the continuance of such judgment unsatisfied for a period of forty-five (45) days after the termination of any stay of execution thereon entered within such first mentioned forty-five (45) days.

(H) **Bankruptcy, etc.** The occurrence of any of the following with respect to the Company (i) a court or governmental agency having jurisdiction in the premises shall enter a decree or order for relief in respect of the Company in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or appoint a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or for any part of its property or order the winding up or liquidation of its affairs; or (ii) an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect is commenced against the Company and such petition remains unstayed and in effect for a period of 60 consecutive days; or (iii) the Company shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consent to the entry of an order for relief in an involuntary case under any such law, or consent to the appointment or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any substantial part of its property or make any general assignment for the benefit of creditors; or (iv) the Company shall become insolvent or shall admit in writing its inability to pay its debts generally as they become due or any action shall be taken by the Company in furtherance of any of the aforesaid purposes.

(I) **ERISA.** The occurrence of any of the following events or conditions if the same, individually or in the aggregate, would be reasonably expected to result in a liability of an amount greater than or equal to \$500,000: (A) any "accumulated funding deficiency," as such term is defined in Section 302 of ERISA and Section 412 of the Code, whether or not waived, shall exist with respect to any Plan, or

any Lien shall arise on the assets of the Company or any ERISA Affiliate in favor of the PBGC or a Plan; (B) a Termination Event shall occur with respect to a Single Employer Plan, which is, in the reasonable opinion of CoBank, likely to result in the termination of such Plan for purposes of Title IV of ERISA; (C) a Termination Event shall occur with respect to a Multiemployer Plan or Multiple Employer Plan, which is, in the reasonable opinion of CoBank, likely to result in (i) the termination of such Plan for purposes of Title IV of ERISA, or (ii) the Company or any ERISA Affiliate incurring any liability in connection with a withdrawal from, reorganization of (within the meaning of Section 4241 of ERISA), or insolvency (within the meaning of Section 4245 of ERISA) of such Plan; or (D) any prohibited transaction (within the meaning of Section 406 of ERISA or Section 4975 of the Code) or breach of fiduciary responsibility shall occur which would be reasonably expected to subject the Company or any ERISA Affiliate to any liability under Sections 406, 409, 502(i), or 502(1) of ERISA or Section 4975 of the Code, or under any agreement or other instrument pursuant to which the Company or any ERISA Affiliate has agreed or is required to indemnify any person against any such liability.

**(J) Events Relating To Guarantor.** The Guaranty shall, at any time, cease to be in full force and effect, or shall be revoked or declared null and void, or the validity or enforceability thereof shall be contested by the Guarantor, or the Guarantor shall deny any further liability or obligation thereunder, or shall fail to perform its obligations thereunder, or any representation or warranty set forth therein shall be breached, or a default set forth in Subsections (F) through (I) hereof shall occur with respect to the Guarantor.

**SECTION 7.02 Acceleration; Remedies.** Upon the occurrence and during the continuance of a Default or an Event of Default, CoBank shall have no obligation to make any Loan to the Company and may discontinue doing so at any time without prior notice. In addition, upon the occurrence of an Event of Default and at any time thereafter unless and until such Event of Default has been waived by CoBank, CoBank may, by written notice to the Company, take any of the following actions:

**(A) Termination of Commitments.** Declare all commitments terminated whereupon the commitments shall be immediately terminated; provided, however, that upon the occurrence of an Event of Default under Section 7.01(H) hereof, all commitments shall automatically terminate without the need to provide notice of any kind, which is hereby waived by the Company.

**(B) Acceleration of Loans.** Declare the unpaid amount of all Company Obligations to be due whereupon the same shall be immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Company; provided, however, that upon the occurrence of an Event of Default under Section 7.01(H) hereof, the Company Obligations shall become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Company.

**(C) Enforcement of Rights.** Enforce any and all rights and interests created and existing under the Credit Documents, including, without limitation, all rights of set-off.

**(D) Other Rights.** Exercise all other rights provided in this Agreement, any other Credit Document, or under law.

In addition to the foregoing, upon the occurrence and during the continuance of an Event of Default the unpaid principal balance of the Loans, together with any overdue payments of interest, fees or other charges hereunder, shall automatically accrue interest at the Default Rate.

**SECTION 7.03 Application of Payments After Event of Default.** Notwithstanding any other provisions of this Agreement, after the exercise of any remedies by CoBank pursuant to Section 7.02

(or after the commitments shall automatically terminate and the Loans (with accrued interest thereon) and all other amounts under the Credit Documents shall automatically become due and payable in accordance with the terms of such Section), all amounts collected or received by CoBank on account of amounts outstanding under any of the Credit Documents shall be applied as follows:

FIRST, to the payment of all reasonable out-of-pocket costs and expenses (including without limitation reasonable Attorney Costs) of CoBank in connection with administering and enforcing the rights of CoBank under the Credit Documents;

SECOND, to payment of any fees or surcharges owed to CoBank;

THIRD, to the payment of all accrued interest payable to the CoBank hereunder and under the Supplements and Promissory Notes;

FOURTH, to the payment of the outstanding principal amount of the Loans;

FIFTH, to all other obligations which shall have become due and payable under the Credit Documents and not repaid pursuant to clauses "FIRST" through "FOURTH" above; and

SIXTH, to the payment of the surplus, if any, to whoever may be lawfully entitled to receive such surplus.

In carrying out the foregoing, amounts received shall be applied in the numerical order provided until exhausted prior to application to the next succeeding category.

## **ARTICLE 8 MISCELLANEOUS**

**SECTION 8.01 Broken Funding Surcharge.** [Notwithstanding the terms of any Supplement or Promissory Note, the Company agrees to: (A) give CoBank not less than three (3) Business Days' prior notice in the event it desires to repay any Loan balance bearing interest at a fixed rate prior to the last day of the fixed rate period; and (B) pay to CoBank a broken funding surcharge in the amount set forth below in the event the Company: (1) repays any fixed rate balance prior to the last day of its fixed rate period (whether such payment is made voluntarily, as a result of an acceleration, or otherwise); (2) converts any fixed rate balance to another fixed rate or to a variable rate prior to the last day of the fixed rate period applicable to such balance; or (3) fails to borrow any fixed rate balance on the date scheduled therefor. The surcharge shall be in an amount equal to the greater of (i) the sum of the present value of: (A) any funding losses imputed by CoBank to have been incurred as a result of such payment, conversion or failure; plus (B) a per annum yield of ½ of 1% of the amount repaid, converted or not borrowed for the period such amount was scheduled to have been outstanding at such fixed rate, or (ii) \$300.00. Such surcharge shall be determined and calculated in accordance with methodology established by CoBank, a copy of which will be made available upon request. Notwithstanding the foregoing, in the event of a conflict between the provisions of this subsection and of the broken funding charge section of a forward fix agreement between CoBank and the Company, the provisions of the forward fix agreement shall control.]<sup>15</sup>

**SECTION 8.02 Notices and Other Communications; Facsimile Copies.**

<sup>15</sup> Internal Note: Company to confirm prepayment penalty.

(A) **General.** Unless otherwise expressly provided herein, all notices and other communications provided for hereunder shall be in writing (including by facsimile transmission). All written notices and all other communications expressly permitted hereunder to be given by telephone shall be made to the applicable address, facsimile number, electronic mail address or telephone number specified for such Person on Schedule 8.02 or to such other address, facsimile number, electronic mail address or telephone number as shall be designated by such party in a notice to the other parties. All such notices and other communications shall be deemed to be given or made upon the earlier to occur of (i) actual receipt by the relevant party hereto and (ii) (A) if delivered by hand or by courier, when signed for by or on behalf of the relevant party hereto; (B) if delivered by facsimile, when sent and receipt has been confirmed by telephone; and (C) if delivered by electronic mail (which form of delivery is subject to the provisions of subsection (C) below), when delivered.

(B) **Effectiveness of Facsimile Documents and Signatures.** Credit Documents may be executed in counterparts (and by different parties in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single agreement. In addition, if authorized by CoBank, Credit Documents may be delivered by electronic means. The effectiveness of any such documents and signatures shall, subject to applicable law, have the same force and effect as manually-signed originals and shall be binding on the Company and CoBank. CoBank may also require that any such documents and signatures be confirmed by a manually-signed original thereof; provided, however, that the failure to request or deliver the same shall not limit the effectiveness of any facsimile document or signature.

(C) **Limited Use of Electronic Mail.** Electronic mail and internet and intranet websites may be used only to distribute routine communications, such as financial statements and other information as provided in Sections 5.01 through 5.04, and to distribute Credit Documents for execution by the parties thereto, and, unless otherwise provided herein or authorized by CoBank in writing, may not be used for any other purpose.

(D) **Reliance by CoBank.** CoBank shall be entitled to rely and act upon any notices (including telephonic notices of borrowing and interest elections) purportedly given by or on behalf of the Company even if (i) such notices were not made in a manner specified herein, were incomplete or were not preceded or followed by any other form of notice specified herein, or (ii) the terms thereof, as understood by the recipient, varied from any confirmation thereof. The Company shall indemnify CoBank from all losses, costs, expenses and liabilities resulting from the reliance by such Person on each notice purportedly given by or on behalf of the Company. All telephonic notices to and other communications with CoBank may be recorded by CoBank, and the Company hereby consents to such recording.

**SECTION 8.03 Rights of Set-Off.** In addition to any rights now or hereafter granted under applicable law or otherwise, and not by way of limitation of any such rights, upon the occurrence of an Event of Default and the commencement of remedies described in Section 7.02, CoBank is authorized at any time and from time to time, without presentment, demand, protest or other notice of any kind (all of which rights being hereby expressly waived), to hold, set-off and appropriate and apply any and all proceeds of any equity in CoBank, any deposits (general or special), and any other indebtedness at any time held or owing by CoBank (whether or not due) to or for the credit or the account of the Company against the Company Obligations irrespective of whether CoBank shall have made any demand hereunder and although such Company Obligations, or any of them, may be contingent or unmatured; provided, however, that CoBank shall not be obligated to effect any such setoff. The Company hereby agrees that any Person purchasing a participation in the Loans and commitments hereunder pursuant to Section 8.03 may exercise all rights of set-off with respect to its participation interest as fully as if such Person were a signatory hereto and a lender hereunder.

**SECTION 8.04 Successors and Assigns.**

(A) **Generally.** The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that the Company may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of CoBank. Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, Participation Purchasers to the extent provided in subsection (B) of this Section and, to the extent expressly contemplated hereby, the Indemnities) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(B) **Participations.** Without limiting the foregoing, CoBank may at any time, without the consent of, or notice to, the Company, sell participations to any Person (each, a "Participation Purchaser") in all or a portion of CoBank's rights and/or obligations under this Agreement and the other Credit Documents (including all or a portion of the commitments and/or the Loans); provided that (i) if such sale is other than to a Farm Credit System Institution, such sale shall be subject to the Company's consent, which shall not be unreasonably withheld or delayed, (ii) CoBank's obligations under this Agreement shall remain unchanged, (iii) CoBank shall remain solely responsible to the Company for the performance of such obligations and (iv) the Company and CoBank shall continue to deal solely and directly with CoBank in connection with CoBank's rights and obligations under this Agreement. Any agreement or instrument pursuant to which CoBank sells such a participation shall provide that CoBank shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that CoBank will not, without the consent of the Participation Purchaser, agree to any amendment, waiver or other modification described in Section 8.06 that directly affects such Participation Purchaser. To the extent permitted by law, each Participation Purchaser also shall be entitled to the benefits of Section 8.02 as though it were a signatory hereto and a lender hereunder, provided such Participation Purchaser agrees to share any amount received in excess of its pro rata share with CoBank and all other Participation Purchasers.

(C) **Nonrestricted Assignments.** CoBank may at any time pledge or assign a security interest in all or any portion of its rights under the Credit Documents (including under the Promissory Notes) to secure obligations of CoBank, including any pledge or assignment to secure obligations arising in connection with the issuance of notes by the Federal Farm Credit Banks Funding Corporation; provided that no such pledge or assignment shall release CoBank from any of its obligations hereunder or substitute any such pledgee or assignee for CoBank as a party hereto.

(D) **Information.** CoBank may furnish any information concerning the Company in the possession of CoBank from time to time to Participation Purchasers (including prospective Participation Purchasers).

**SECTION 8.05 No Waiver; Remedies Cumulative.** No failure or delay on the part of CoBank in exercising any right, power or privilege hereunder or under any other Credit Document and no course of dealing between the Company and CoBank shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege hereunder or under any other Credit Document preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder or thereunder. The rights and remedies provided herein are cumulative and not exclusive of any rights or remedies which CoBank would otherwise have. No notice to or demand on the Company in any case shall entitle the Company to any other or further notice or demand in similar or other circumstances or constitute a waiver of the rights of CoBank to any other or further action in any circumstances without notice or demand.

**SECTION 8.06 Payment of Expenses, Etc.**

(A) The Company agrees (i) to pay or reimburse CoBank for all costs and expenses incurred in connection with the preparation, negotiation and execution of this Agreement and the other Credit Documents and any amendment, waiver, consent or other modification of the provisions hereof and thereof (whether or not the transactions contemplated hereby or thereby are consummated), and the consummation and administration of the transactions contemplated hereby and thereby, including all Attorney Costs (including, without limitation, the reasonable fees and expenses of Sherman & Howard L.L.C., special counsel to CoBank), and (ii) to pay or reimburse CoBank for all costs and expenses incurred in connection with the enforcement, attempted enforcement, or preservation of any rights or remedies under this Agreement or the other Credit Documents (including all such costs and expenses incurred during any “workout” or restructuring in respect of the Company Obligations and during any legal proceeding, including any bankruptcy or insolvency proceeding of the Company), including all Attorney Costs. The foregoing costs and expenses shall include all search, filing, recording, title insurance and appraisal charges and fees and taxes related thereto, and other out-of-pocket expenses incurred by CoBank and the cost of independent public accountants and other outside experts retained by CoBank. All amounts due under this Section 8.06(A) shall be payable within ten Business Days after written notice is provided to the Company demanding payment therefor. In addition, the Company will pay all taxes (including interest and penalties) that may be payable in respect of the execution and delivery of this Agreement or any other Credit Documents or of any amendment of, or waiver or consent under or with respect to, this Agreement or any other Credit Document, and will hold CoBank harmless against any loss or liability resulting from nonpayment or delay in payment of any such tax. The obligations of the Company under this Section 8.06 shall survive the payment of the Loans.

(B) Whether or not the transactions contemplated hereby are consummated, the Company shall indemnify and hold harmless the Indemnities from and against any and all liabilities, obligations, losses, damages, penalties, claims, demands, actions, judgments, suits, costs, expenses and disbursements (including Attorney Costs) of any kind or nature whatsoever which may at any time be imposed on, incurred by or asserted against any such Indemnitee in any way relating to or arising out of or in connection with (a) the execution, delivery, enforcement, performance or administration of any Credit Document or any other agreement, letter or instrument delivered in connection with the transactions contemplated thereby or the consummation of the transactions contemplated thereby, (b) any commitment or any Loan, (c) any actual or alleged presence or release of hazardous materials on or from any property currently or formerly owned or operated by the Company, any Subsidiary of the Company, or any liability resulting from any actual or alleged violation of Environmental Laws related in any way to the Company, any Subsidiary of the Company or (d) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory (including any investigation of, preparation for, or defense of any pending or threatened claim, investigation, litigation or proceeding) and regardless of whether any Indemnitee is a party thereto (all the foregoing, collectively, the “Indemnified Liabilities”), in all cases, whether or not caused by or arising, in whole or in part, out of the negligence of the Indemnitee; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such liabilities, obligations, losses, damages, penalties, claims, demands, actions, judgments, suits, costs, expenses or disbursements are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee. No Indemnitee shall be liable for any indirect or consequential damages relating to this Agreement or any other Credit Document or arising out of its activities in connection herewith or therewith (whether before or after the Closing Date). All amounts due under this Section 8.06(B) shall be payable within ten Business Days after written notice is provided to the Company demanding payment therefor. The agreements in this Section shall survive the termination of any commitment provided under a Supplement and the repayment, satisfaction or discharge of all Company Obligations.

(C) **Payments Free of Taxes.** Any and all payments by or on account of any Company Obligation to CoBank under any Credit Document shall be made without deduction or withholding for any

taxes, except as required by Applicable Law. If any Applicable Law requires the deduction or withholding of any tax from any such payment by the Company, then: (1) the Company shall be entitled to make such deduction or withholding and shall timely pay the full amount deducted or withheld to the relevant Governmental Authority in accordance with Applicable Law; and (2) the sum payable by the Company shall be increased as necessary so that after such deduction or withholding has been made (including such deductions and withholdings applicable to additional sums payable under this Section) CoBank receives an amount equal to the sum it would have received had no such deduction or withholding been made. The Company's obligations under this Section shall survive the repayment, satisfaction or discharge of all Company Obligations.

**SECTION 8.07 Amendments, Waivers and Consents.** Neither this Agreement, nor any other Credit Document nor any of the terms hereof or thereof may be amended, changed, waived, discharged or terminated unless such amendment, change, waiver, discharge or termination is in writing and signed by CoBank and the Company; provided that no such amendment, change, waiver, discharge or termination shall without the consent of each Participation Purchaser affected thereby:

- (A) extend the maturity date of any Loan, or postpone or extend the time for any payment or prepayment of principal;
- (B) reduce the rate or extend the time of payment of interest (other than as a result of waiving the applicability of any post-default increase in interest rates) thereon or fees or other amounts payable hereunder;
- (C) reduce or waive the principal amount of any Loan;
- (D) increase or extend any commitment (it being understood and agreed that a waiver of any Default or Event of Default shall not constitute a change in the terms of any commitment);
- (E) release the Company from its obligations under the Credit Documents;
- (F) amend, modify or waive any provision of this Section 8.07, or Sections 7.01(A), 8.03, 8.04 or 8.06; or
- (G) consent to the assignment or transfer by the Company of any of its rights and obligations under (or in respect of) the Credit Documents.

**SECTION 8.08 Counterparts.** This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but all of which shall constitute one and the same instrument.

**SECTION 8.09 Headings.** The headings of the sections and subsections hereof are provided for convenience only and shall not in any way affect the meaning or construction of any provision of this Agreement.

**SECTION 8.10 Survival of Indemnification and Representations and Warranties.** All indemnities set forth herein and all representations and warranties made herein shall survive the execution and delivery of this Agreement, the making of the Loans, and the repayment of the Loans and other Company Obligations and the termination of any commitment made under a Supplement.

**SECTION 8.11 Governing Law. THIS AGREEMENT AND THE OTHER CREDIT DOCUMENTS AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER AND**

**THEREUNDER SHALL BE GOVERNED BY AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE.** The Company irrevocably consents to the service of process out of any competent court in any action or proceeding with respect to this Agreement by the mailing of copies thereof by registered or certified mail, postage prepaid, to it at the address for notices pursuant to Section 8.02, such service to become effective 30 days after such mailing. Nothing herein shall affect the right of CoBank to serve process in any other manner permitted by law.

**SECTION 8.12 Waiver of Jury Trial. EACH OF THE PARTIES TO THIS AGREEMENT HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT, ANY OF THE OTHER CREDIT DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY AND THEREBY.**

**SECTION 8.13 Severability.** If any provision of any of the Credit Documents is determined to be illegal, invalid or unenforceable, such provision shall be fully severable and the remaining provisions shall remain in full force and effect and shall be construed without giving effect to the illegal, invalid or unenforceable provisions.

**SECTION 8.14 Further Assurances.** The Company agrees, upon the request of CoBank, to promptly take such actions, as reasonably requested, as are necessary to carry out the intent of this Agreement and the other Credit Documents.

**SECTION 8.15 Entirety.** This Agreement together with the other Credit Documents represent the entire agreement of the parties hereto and thereto, and supersede all prior agreements and understandings, oral or written, if any, including any commitment letters or correspondence relating to the Credit Documents or the transactions contemplated herein and therein.

**SECTION 8.16 Binding Effect; Continuing Agreement.**

(A) This Agreement shall become effective at such time as all of the conditions set forth in Section 3.01 have been satisfied or waived by CoBank and it shall have been executed by the Company and CoBank, and thereafter this Agreement shall be binding upon and inure to the benefit of the Company and CoBank and their respective successors and assigns.

(B) This Agreement shall be a continuing agreement and shall remain in full force and effect until all Loans, interest, fees and other Company Obligations have been paid in full and all commitments made under the Supplements shall have expired or has been terminated. Upon termination, the Company shall have no further obligations (other than the indemnification provisions that survive) under the Credit Documents; provided that should any payment, in whole or in part, of the Company Obligations be rescinded or otherwise required to be restored or returned by CoBank, whether as a result of any proceedings in bankruptcy or reorganization or otherwise, then the Credit Documents shall automatically be reinstated and all amounts required to be restored or returned and all costs and expenses incurred by CoBank in connection therewith shall be deemed included as part of the Company Obligations.

**SECTION 8.17 Confidentiality.** CoBank agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential); (b) to the extent requested by any regulatory authority; (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process (provided, in the event of any disclosure pursuant to this clause (c), CoBank shall

promptly notify the Company of its disclosure of such Information); (d) to any other party to this Agreement; (e) in connection with the exercise of any remedies hereunder or any suit, action or proceeding relating to this Agreement or the enforcement of rights hereunder; (f) subject to an agreement containing provisions substantially the same as those of this Section 8.17, to (i) any Participation Purchaser in, or any prospective Participation Purchaser in, any of its rights or obligations under this Agreement or (ii) any direct or indirect contractual counterparty or prospective counterparty (or such contractual counterparty's or prospective counterparty's professional advisor) to any credit derivative transaction relating to obligations of the Company; (g) with the consent of the Company; (h) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Section 8.17 or (ii) has been available or becomes available to CoBank on a nonconfidential basis from a source other than the Company; or (i) to the National Association of Insurance Commissioners or any other similar organization or any nationally recognized rating agency that requires access to information about CoBank's or its Affiliates' portfolio in connection with ratings issued with respect to CoBank or its Affiliates. For the purposes of this Section 8.17, "Information" means all information received from the Company relating to the Company or its Subsidiaries or business. Any Person required to maintain the confidentiality of Information as provided in this Section 8.17 shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information. Notwithstanding anything herein to the contrary, "Information" shall not include, and CoBank and the Company may disclose to any and all Persons, without limitation of any kind, any information with respect to the "tax treatment" and "tax structure" (in each case, within the meaning of Treasury Regulation Section 1.6011-4) of the transactions contemplated hereby and all materials of any kind (including opinions or other tax analyses) that are provided to CoBank or the Company relating to such tax treatment and tax structure; provided that with respect to any document or similar item that in either case contains information concerning the tax treatment or tax structure of the transaction as well as other information, this sentence shall only apply to such portions of the document or similar item that relate to the tax treatment or tax structure of the Loans and transactions contemplated hereby.

**SECTION 8.18 USA PATRIOT ACT.** CoBank hereby notifies the Company that pursuant to the requirements of the USA Patriot Act (Title III of Publ. 107 56 (signed into law October 26, 2001)) (the "Act"), it is required to obtain, verify and record information that identifies the Company, which information includes the name and address of the Company and other information that will allow CoBank to identify the Company in accordance with the Act.

[Remainder of Page Intentionally Left Blank]

Each of the parties hereto has caused a counterpart of this Master Loan Agreement to be duly executed and delivered as of the date first above written.

**ARTESIAN WASTEWATER MANAGEMENT,  
INC.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**CoBANK, ACB**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

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**DRAFT**

## EXHIBIT A

## DEFINITIONS AND RULES OF INTERPRETATION

**SECTION 1.01 Definitions.** As used in the Agreement, any amendment thereto, or in any other Credit Document, the following terms shall have the following meanings:

“**Affiliate**” means, with respect to any Person, any other Person directly or indirectly controlling (including but not limited to all directors and officers of such Person), controlled by or under direct or indirect common control with such Person. A Person shall be deemed to control a corporation if such Person possesses, directly or indirectly, the power (a) to vote 10% or more of the securities having ordinary voting power for the election of directors of such corporation or (b) to direct or cause direction of the management and policies of such corporation, whether through the ownership of voting securities, by contract or otherwise.

“**Agreement**” shall have the meaning set forth in the introductory clause hereof, and shall be deemed to include each exhibit, schedule or Supplement, and all amendments hereto.

[“**Annual Financial Statements**” shall mean: (1) in the case of the Initial Credit Documents, the consolidated annual financial statements of the Company and its Affiliates for the year ended December 31, 2016; (2) in the case of each subsequent Supplement, the latest annual financial statements furnished to CoBank under Sections 5.01 and 5.02(ii) hereof prior to the date of the Supplement.]<sup>1</sup>

“**Applicable Law**” means all laws, rules, regulations, codes, and ordinances applicable to the Person, conduct, transaction, covenant or contract in question.

“**Attorney Costs**” means all reasonable fees and disbursements of any law firm or other external counsel.

“**Banking Day**” shall mean a day that is both a Business Day and a day on which dealings between banks are carried on in U.S. dollar deposits in the London interbank market.

“**Business Day**” means any day other than a Saturday, a Sunday, a legal holiday or a day on which CoBank is closed for business.

“**Closing Date**” means the date hereof.

“**CoBank**” shall have the meaning set forth in the introductory clause hereof, and shall include its successors and assigns.

“**CoBank Base Rate**” shall mean the rate of interest established by CoBank from time to time as its CoBank Base Rate, which rate is intended by CoBank as a reference rate and not its lowest rate. The CoBank Base Rate will change on the effective date of each change in the rate.

“**Code**” means the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations promulgated thereunder.

“**Collateral**” shall have the meaning set forth in Section 2.04(A) hereof.

“**Company**” means Artesian Wastewater Company, Inc.

<sup>1</sup> Internal Note: Company to confirm whether this definition works.

**“Company Obligations”** means, without duplication, all of the obligations of the Company to CoBank, whenever arising, under this Agreement, the Supplements, the Promissory Notes or any of the other Credit Documents, including, without limitation, the obligation to pay principal, interest, fees, [surcharges, premiums,] expense, and other amounts owing hereunder.

**“Credit Documents”** means this Agreement, the Supplements, the Promissory Notes, the Mortgage, and all instruments or documents executed or furnished in connection with this Agreement, any Supplement, or any Promissory Note, including the Mortgage, the Guaranty, and all officer certificates, opinions, and financial statements furnished hereunder or thereunder (as each may be amended or restated from time to time).

[**“Debt Service Coverage Ratio”** shall mean the ratio of: (1) operating revenue minus operating expenses for the fiscal year, plus depreciation, amortization expenses for such fiscal year; to (2) all principal payments due within the period on all Long-Term Debt plus interest expense (all as calculated on a unconsolidated basis for the applicable fiscal year in accordance with GAAP consistently applied or the appropriate standards of the regulatory agency having jurisdiction over the Company). For the avoidance of doubt, in calculating operating expenses, interest expense and income taxes will not be included.]<sup>2</sup>

**“Default”** means any event, act or condition which with notice or lapse of time, or both, would constitute an Event of Default.

**“Default Rate”** shall mean: (1) in the case of principal, 2% per annum in excess of the rates otherwise in effect on such principal; and (2) in the case of other sums owing hereunder or under any other Credit Documents, the CoBank Base Rate plus 2% per annum.

**“Dollars”** and **“\$”** means dollars in lawful currency of the United States of America.

**“Environmental Laws”** means any current or future legal requirement of any Governmental Authority pertaining to (a) the protection of health, safety, and the indoor or outdoor environment, (b) the conservation, management, or use of natural resources and wildlife, (c) the protection or use of surface water and groundwater or (d) the management, manufacture, possession, presence, use, generation, transportation, treatment, storage, disposal, release, threatened release, abatement, removal, remediation or handling of, or exposure to, any hazardous or toxic substance or material or (e) pollution (including any release to land surface water and groundwater) and includes, without limitation, the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 USC 9601 et seq., Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976 and Hazardous and Solid Waste Amendment of 1984, 42 USC 6901 et seq., Federal Water Pollution Control Act, as amended by the Clean Water Act of 1977, 33 USC 1251 et seq., Clean Air Act of 1966, as amended, 42 USC 7401 et seq., Toxic Substances Control Act of 1976, 15 USC 2601 et seq., Hazardous Materials Transportation Act, 49 USC App. 1801 et seq., Occupational Safety and Health Act of 1970, as amended, 29 USC 651 et seq., Oil Pollution Act of 1990, 33 USC 2701 et seq., Emergency Planning and Community Right-to-Know Act of 1986, 42 USC 11001 et seq., National Environmental Policy Act of 1969, 42 USC 4321 et seq., Safe Drinking Water Act of 1974, as amended, 42 USC 300(f) et seq., any analogous implementing or successor law, and any amendment, rule, regulation, order, or directive issued thereunder.

<sup>2</sup> Internal Note: Company to review. These changes conform to financial covenants in A & R unsecured facility for Artesian Water Company, Inc.

“**ERISA**” means the Employee Retirement Income Security Act of 1974, as amended, and any successor statute thereto, as interpreted by the rules and regulations thereunder, all as the same may be in effect from time to time. References to sections of ERISA shall be construed also to refer to any successor sections.

“**ERISA Affiliate**” means an entity, whether or not incorporated, which is under common control with the Company or any of its Subsidiaries within the meaning of Section 4001(a)(14) of ERISA, or is a member of a group which includes the Company or any of its Subsidiaries and which is treated as a single employer under Sections 414(b), (c), (m), or (o) of the Code.

“**Event of Default**” has the meaning specified in Section 7.01.

“**Financial Officer**” means any one of the chief financial officer, the chief accounting officer, the Vice President, Finance or the Senior Vice President, Finance and Planning of the Company.<sup>3</sup>

“**GAAP**” means generally accepted accounting principles in the United States applied on a consistent basis.

“**Governmental Authority**” means any Federal, state, local or foreign court or governmental agency, authority, instrumentality or regulatory body.

“**Guarantor**” shall have the meaning set forth in Section 2.04(B) hereof.

“**Guaranty Obligations**” means, with respect to any Person, without duplication, any obligations (other than endorsements in the ordinary course of business of negotiable instruments for deposit or collection) guaranteeing any Indebtedness of any other Person in any manner, whether direct or indirect, and including without limitation any obligation, whether or not contingent, (a) to purchase any such Indebtedness or any property constituting security therefore, (b) to advance or provide funds or other support for the payment or purchase of such Indebtedness or to maintain working capital, solvency or other balance sheet condition of such other Person (including, without limitation, maintenance agreements, comfort letters, take or pay arrangements, put agreements or similar agreements or arrangements) for the benefit of the holder of Indebtedness of such other Person, (c) to lease or purchase property, securities or services primarily for the purpose of assuring the owner of such Indebtedness or (d) to otherwise assure or hold harmless the owner of such Indebtedness against loss in respect thereof. The amount of any Guaranty Obligation hereunder shall (subject to any limitations set forth therein) be deemed to be an amount equal to the outstanding principal amount (or maximum principal amount, if larger) of the Indebtedness in respect of which such Guaranty Obligation is made.

“**Indebtedness**” of any Person means, without duplication, (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, or upon which interest payments are customarily made, (c) all obligations of such Person under conditional sale or other title retention agreements relating to property purchased by such Person to the extent of the value of such property (other than customary reservations or retentions of title under agreements with suppliers entered into in the ordinary course of business), (d) all obligations, other than intercompany items and trade payables incurred in the ordinary course of business, of such Person issued or assumed as the deferred purchase price of property or services purchased by such Person which would appear as liabilities on a balance sheet of such Person, (e) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on, or payable out of the proceeds of production from, property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed, (f) all Guaranty Obligations of such Person, (g) the

<sup>3</sup> NTD: Definition of “Financial Statements” deleted as duplicative of definition for “Annual Financial Statements.”

principal portion of all obligations of such Person under (i) capital lease obligations and (ii) Off Balance Sheet Indebtedness, (h) all obligations of such Person to repurchase any securities which repurchase obligation is related to the issuance thereof, including, without limitation, obligations commonly known as residual equity appreciation potential shares, (i) all net principal obligations of such Person in respect of interest rate protection agreements, foreign currency exchange agreements, commodity purchase or option agreements or other interest or exchange rate or commodity price hedging agreements, and (j) the maximum amount of all performance and standby letters of credit issued or bankers' acceptances facilities created for the account of such Person and, without duplication, all drafts drawn thereunder (to the extent unreimbursed).

“**Indemnified Liabilities**” has the meaning set forth in Section 8.06(B).

“**Indemnities**” means, collectively, CoBank and its respective Affiliates, directors, officers, employees, counsel, agents and attorneys-in-fact.

“**Initial Credit Documents**” shall have the meaning set forth in Section 3.01(C) hereof.

“**Investment**” shall have the meaning set forth in Section 6.05 hereof.

“**Lien**” means any mortgage, pledge, hypothecation, assignment, deposit arrangement, security interest, encumbrance, lien (statutory or otherwise), preference, priority or charge of any kind (including any agreement to give any of the foregoing, any conditional sale or other title retention agreement, any financing or similar statement or notice filed under the Uniform Commercial Code as adopted and in effect in the relevant jurisdiction or other similar recording or notice statute, and any lease in the nature thereof).

“**Loans**” shall have the meaning set forth in the Recitals hereof.

“**Long-Term Debt**” means, for the Company, the sum of (1) all indebtedness for borrowed money, (2) obligations that are evidenced by notes, bonds, debentures or similar instruments, and (3) that portion of obligations with respect to capital leases or other capitalized agreements that are properly classified as a liability on the balance sheet in conformity with GAAP or that are treated as operating leases under regulations applicable to them but that otherwise would be required to be capitalized under GAAP, in each case having a maturity of more than one year from the date of its creation or having a maturity within one year from such date but that is renewable or extendible, at the Company's option, to a date more than one year from such date or that arises under a revolving credit or similar agreement that obligates the lender(s) to extend credit during a period of more than one year from such date, including all current maturities in respect of such indebtedness whether or not required to be paid within one year from the date of its creation.

“**Material Adverse Effect**” means a material adverse effect on (a) the operations, business, assets, or condition (financial or otherwise) of the Company and its Subsidiaries, taken as a whole, (b) the ability of the Company to perform its obligations under this Agreement or (c) the validity or enforceability of this Agreement, any of the other Credit Documents, or the rights and remedies of CoBank hereunder or thereunder.

“**Moody's**” means Moody's Investors Service, Inc., or any successor or assignee of the business of such company in the business of rating securities.

“**Mortgage**” shall have the meaning set forth in Section 6.25 hereof.

“**Multiemployer Plan**” means a Plan covered by Title IV of ERISA which is a multiemployer plan as defined in Section 3(37) or 4001(a)(3) of ERISA.

**“Multiple Employer Plan”** means a Plan covered by Title IV of ERISA, other than a Multiemployer Plan, which the Company or any ERISA Affiliate and at least one employer other than the Company or any ERISA Affiliate are contributing sponsors.

**“Net Worth”** means total assets less total liabilities, both as determined in accordance with GAAP consistently applied, except that in determining Total Capitalization, contributions in aid of construction, advances for construction, customer deposits, or similar items reducing rate base calculations will be excluded.

**“OFAC”** shall have the meaning set forth in Section 4.28 hereof.

**“Off Balance Sheet Indebtedness”** means any obligation of a Person that would be considered indebtedness for tax purposes but is not set forth on the balance sheet of such Person, including, but not limited to, (a) any synthetic lease, tax retention operating lease, off balance sheet loan or similar off-balance sheet financing product of such Person, (b) the aggregate amount of uncollected accounts receivables of such Person subject at such time to a sale of receivables (or similar transaction) and (c) obligations of any partnership or joint venture that is recourse to such Person.

**“Other Investments”** shall have the meaning set forth in Section 6.05(F) hereof.

**“Participation Purchaser”** means any Person (other than a natural person or the Company or any of the Company’s Affiliates or Subsidiaries) to whom CoBank sells a participation as specified in Section 8.04(B).

**“PBGC”** means the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA and any successor thereto.

**[“Permitted Encumbrances” shall have the meaning set forth in the Mortgage.]<sup>4</sup>**

**“Person”** means any individual, partnership, joint venture, firm, corporation, association, trust, limited liability company or other enterprise (whether or not incorporated), or any government or political subdivision or any agency, department or instrumentality thereof

**“Plan”** means any employee benefit plan (as defined in Section 3(3) of ERISA) which is covered by ERISA and with respect to which the Company or any ERISA Affiliate is ( or, if such plan were terminated at such time, would under Section 4069 of ERISA be deemed to be) an “employer” within the meaning of Section 3(5) of ERISA.

**“Promissory Note”** shall have the meaning set forth in Section 2.03 hereof.

**“Regulation D, O, T, U or X”** means Regulation D, O, T, U or X, respectively, of the Board of Governors of the Federal Reserve System as from time to time in effect, any amendment thereto and any successor to all or a portion thereof.

**“Reportable Event”** means a “reportable event” as defined in Section 4043 of ERISA with respect to which the notice requirements to the PBGC have not been waived.

**“S&P”** means Standard & Poor’s Ratings Services, a division of McGraw Hill, Inc., or any successor or assignee of the business of such division in the business of rating securities.

<sup>4</sup> NTD: Subject to review of Mortgage.

“**Sanctions**” shall have the meaning set forth in Section 4.28 hereof.

“**Single Employer Plan**” means any Plan which is covered by Title IV of ERISA, but which is not a Multiemployer Plan or a Multiple Employer Plan.

“**Solvent**” means, with respect to the Company as of a particular date, that on such date (a) the Company is able to pay its debts and other liabilities, contingent obligations and other commitments as they mature in the normal course of business, (b) the Company does not intend to, and does not believe that it will, incur debts or liabilities beyond the Company’s ability to pay as such debts and liabilities mature in their ordinary course, (c) the Company is not engaged in a business or a transaction, and is not about to engage in a business or a transaction, for which the Company’s assets would constitute unreasonably small capital after giving due consideration to the prevailing practice in the industry in which the Company is engaged or is to engage and [(d) the fair value of the assets of the Company, taken as a whole on a going concern basis, is greater than the total amount of liabilities, including, without limitation, contingent liabilities, of the Company.]<sup>5</sup> In computing the amount of contingent liabilities at any time, it is intended that such liabilities will be computed as the amount which, in light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

“**Subsidiary**” means, as to any Person, (a) any corporation more than 50% of whose stock of any class or classes having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation (irrespective of whether or not, at the time, any class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time owned by such Person directly or indirectly through Subsidiaries and (b) any partnership, association, joint venture, limited liability company or other entity in which such Person directly or indirectly through Subsidiaries has more than 50% equity interest at any time.

“**Supplemental Mortgage**” shall have the meaning set forth in Section 3.02(D) hereof.

“**Termination Event**” means (a) with respect to any Single Employer Plan, the occurrence of a Reportable Event or the substantial cessation of operations (within the meaning of Section 4062(e) of ERISA), (b) the withdrawal of the Company or any ERISA Affiliate from a Multiple Employer Plan during a plan year in which it was a substantial employer (as such term is defined in Section 4001(a)(2) of ERISA), or the termination of a Multiple Employer Plan, (c) the distribution of a notice of intent to terminate or the actual termination of a Plan pursuant to Section 4041 (a)(2) or 4041A of ERISA, (d) the institution of proceedings to terminate or the actual termination of a Plan by the PBGC under Section 4042 of ERISA, (e) any event or condition which constitutes grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or (f) the complete or partial withdrawal of the Company or any ERISA Affiliate from a Multiemployer Plan.

“**Total Capitalization**” shall mean total Indebtedness plus Net Worth.

“**Total Debt to Total Capitalization Ratio**” shall mean a ratio of total Indebtedness to the Total Capitalization.

## RULES OF INTERPRETATION

<sup>5</sup> Internal Note: Company to confirm Borrower will be solvent at closing for purposes of clause (d) and making the representation in Section 4.25.

**SECTION 2.01 Rules of Interpretation.** The following rules of interpretation shall apply to the Agreement, the other Credit Documents and all amendments to either of the foregoing:

**Accounting Terms.** Except as otherwise expressly provided herein, all accounting terms used herein shall be interpreted, and all financial statements and certificates and reports as to financial matters required to be delivered to CoBank hereunder shall be prepared, in accordance with GAAP applied on a consistent basis.

**Number.** All terms stated in the singular shall include the plural, and all terms stated in the plural shall include the singular.

**Including.** The term “including” shall be construed as meaning “including, but not limited to”.

**Default.** The expression “while any Default or Event of Default shall have occurred and be continuing” (or like expression) shall be deemed to include the period following any acceleration of the Company Obligations (unless such acceleration is rescinded).

**References** in this Agreement to “Articles”, “Sections”, “Schedules” or “Exhibits” shall be to Articles, Sections, Schedules or Exhibits of or to this Agreement unless otherwise specifically provided.

**Renewal of Commitment.** References in the Agreement or any Supplement to the renewal of a Commitment shall not be construed as obligating CoBank to renew a Commitment, and no obligation to renew a Commitment shall arise unless contained in a writing signed by CoBank.

**Conflict.** In the event of any conflict between the terms of this Agreement and the terms set forth in a Supplement, the terms set forth in the applicable Supplement shall prevail.

DRAFT

**EXHIBIT B**

**FORM OF ANNUAL COMPLIANCE CERTIFICATE**

**TO:** COBANK, ACB

**FROM:** ARTESIAN WASTEWATER MANAGEMENT, **INC.**

**DATE:** \_\_\_\_\_, 20\_\_\_\_

**SUBJECT:** COMPLIANCE CERTIFICATE FOR FISCAL PERIOD ENDING ON \_\_\_\_\_, 20\_\_\_\_.

Reference is hereby made to that certain Master Loan Agreement dated as of [●], 2018 (the “Credit Agreement”), between **ARTESIAN WASTEWATER MANAGEMENT, INC.** (the “Company”) and **COBANK, ACB** (“CoBank”). Capitalized terms used in this certificate and not defined herein shall have the meanings given to those terms in the Credit Agreement.

I am the \_\_\_\_\_<sup>1</sup> of the Company and am furnishing this Certificate to you pursuant to Section 5.05 of the Credit Agreement.

Attached hereto are the annual financial statements required by Section 5.01 of the Credit Agreement, which have been prepared in conformity with GAAP consistently applied.

In addition to the above, attached hereto is a certificate calculating the financial covenants set forth in Sections [6.22] and 6.23 of the Credit Agreement. The undersigned hereby certifies that the financial covenants were calculated in a manner consistent with the requirements of the Credit Agreement.

I hereby certify that a review in reasonable detail of the activities of the Company during the period covered by the financial statements attached hereto has been made or caused to be made under my supervision and that *[please check one of the following boxes and, if the second box is checked, complete the information required thereunder]:*

Such review has not disclosed the existence during or at the end of the period covered by the financial statements of any condition or event which constitutes a Default or an Event of Default;

Such review has disclosed the existence of the following Default(s) and/or Event(s) of Default *[specify the nature and period of existence thereof and what action the Company has taken, is taking and proposes to take with respect thereto]:* \_\_\_\_\_.

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Print Name)

\_\_\_\_\_  
(Title)

<sup>1</sup> Must be from the President, Treasurer or Controller.

**ARTESIAN WASTEWATER MANAGEMENT, INC.**

**FINANCIAL COVENANT CERTIFICATE**

For fiscal year ending on \_\_\_\_\_

The undersigned hereby certifies to **COBANK, ACB** that set forth below are: (1) the financial ratios that the Company was required to achieve for the fiscal year end covered by this Certificate; and (2) the actual results achieved by the Company:

<b>RATIO</b>	<b>Required</b>	<b>Achieved</b>
<b>[Debt Service Coverage Ratio:</b> •	<b>1.25]</b>	
Total Debt To Capitalization Ratio •	65%	

All of the above ratios were calculated in accordance with the terms of the Credit Agreement.

**ARTESIAN WASTEWATER MANAGEMENT, INC.**

By: \_\_\_\_\_  
Its: Chief Financial Officer

**DRAFT**

**SCHEDULE 4.04**

**LITIGATION**

**None**

**DRAFT**

**SCHEDULE 4.08**

**CONSENTS AND APPROVALS**

1. Public Service Commission Approval

**DRAFT**

**SCHEDULE 4.24**  
**INDEBTEDNESS**

Citizens Bank Line of Credit

**DRAFT**

**SCHEDULE 6.18**

**ARM'S LENGTH TRANSACTIONS**

**DRAFT**

**SCHEDULE 6.21**

**INDEBTEDNESS**

1. Citizens Bank Line of Credit

**DRAFT**

**SCHEDULE 8.02**

**WRITTEN NOTICE AND TELEPHONIC COMMUNICATIONS**

**If to CoBank, to:**

CoBank, ACB  
6340 S. Fiddlers Green Circle  
Greenwood Village, Colorado 80111  
Facsimile: (303) 740-4002  
E-Mail: [bervin@cobank.com](mailto:bervin@cobank.com)  
Attention: Energy & Water Group

**If to Artesian, to:**

Artesian Wastewater Management, Inc.  
664 Churchmans Road  
Newark, DE 19702  
Facsimile: (302) 453-6957  
E-Mail: [dspacht@artesianwater.com](mailto:dspacht@artesianwater.com)  
Attention: Chief Financial Officer

**DRAFT**

**SUPPLEMENT TO MASTER LOAN AGREEMENT  
(\$7,500,000 Multiple Advance Term Loan Facility)**

**THIS SUPPLEMENT TO MASTER LOAN AGREEMENT** (this “Supplement”) is entered into as of April ◊, 2018, between **ARTESIAN WASTEWATER MANAGEMENT, INC.**, a corporation organized and existing under the laws of the State of Delaware (the “Company”), and **CoBANK, ACB**, a federally chartered instrumentality of the United States (“CoBank”), and supplements the Master Loan Agreement dated as of April ◊, 2018, between the Company and CoBank (as amended or restated from time to time, the “MLA”).

**SECTION 1. The Commitment.** On the terms and conditions set forth in the MLA and this Supplement, CoBank agrees to make loans (the “Loans”) to the Company from time to time during the period set forth below, in an aggregate principal amount not to exceed \$7,500,000 (the “Commitment”). Under the Commitment, amounts borrowed and later repaid may not be reborrowed.

**SECTION 2. Purpose.** The purpose of the Commitment is to provide long-term financing for approximately 60% of the cost to construct a pipeline (the “Project”) between the Company’s Northern Sussex Water Recycling Facility to the properties of Allen Harim Foods, LLC (“AHF”) pursuant [to the **[Wastewater Services Agreement]** dated as of September 27, 2016, between the Company and AHF (as amended or restated from time to time, the “Contract”).]

**SECTION 3. Term of Commitment.** The term of the Commitment shall be from the date when all conditions precedent set forth herein and the MLA shall have been satisfied up to (but not including) **[April ◊, 2019, or such later date as CoBank may, in its sole discretion, authorize in writing. [DRAFTING NOTE: The date to be inserted will be the first anniversary of the date hereof]**

**SECTION 4. Availability.** The Loans will be made available as provided in Section 2.02 of the MLA; provided, that, for the avoidance of doubt, CoBank agrees that the full Commitment may be borrowed by the Company in a single Loan.

**SECTION 5. Interest.**

**(A) Interest Rate Options.** The Company agrees to pay interest on the unpaid principal balance of the Loans in accordance with one or more of the following interest rate options, as selected by the Company in accordance with the terms hereof:

**(1) Weekly Quoted Variable Rate Option.** At a rate per annum equal to the rate of interest established by Lender in its sole discretion in each instance on the first Business Day of each week (the “Weekly Variable Rate Option”). The rate established by Lender shall be effective until the first Business Day of the next week. Each change in the rate shall be applicable to all balances subject to this option and information about the then current rate shall be made available upon telephonic request.

**(2) Quoted Fixed Rate Option.** At a fixed rate per annum to be quoted by Lender in its sole discretion in each instance on the date the rate is to take effect (the “Quoted Fixed Rate Option”). Rate quotes shall be made available upon telephonic request received not later than 9:00 AM Mountain Time on the date the rate is to take effect. Under this option, balances of \$1,000,000 or more may be fixed at such rates and for such periods (each, a “Quoted Fixed Rate Period”) as may be agreeable to Lender in its sole discretion in each instance, except that the maximum number of balances that may be subject to this option at any time shall be five (5).

**(B) Elections.** Subject to the limitations set forth above, the Company: (1) may, on any Business Day, elect to convert balances bearing interest at the Weekly Variable Rate Option to the Quoted Fixed Rate Option; and (2) may on the last day of any Quoted Fixed Rate Period, elect to re-fix the rate under the Quoted Fixed Rate Option or convert the balance to the Weekly Variable Rate Option. In the absence of an election provided for herein at the Closing, the Company shall initially be deemed to have elected the Weekly Variable Rate Option. All elections provided for herein shall be made in writing, or, if provided by separate agreement between the parties, electronically, and must be received not later than 10:00 AM Mountain Time on the applicable Business Day. All interest rate elections made by the Company shall be irrevocable.

**(C) Calculation and Payment.** Interest shall be calculated on the actual number of days each Loan is outstanding on the basis of a year consisting of 360 days. In calculating interest, the date each Loan is made shall be included and the date each principal installment is repaid shall, if received before 11:00 AM Mountain Time, be excluded. Interest shall be calculated and paid quarterly in arrears on the last day of each March, June, September and December.

**SECTION 6. Underwriting Fee. None [Waived by CoBank].**

**SECTION 7. Repayment.** [The Company agrees to repay each Loan in eighty (80) consecutive quarterly installments, each due on the last day of each March, June, September, and December, with the first installment due on March 31, 2019, and the last installment due on December 31, 2038. The amount of each installment shall be the same principal amount that would be required to be repaid if the Loan was scheduled to be repaid in level installments of principal and interest and such schedule was calculated using: (A) in the event the rate is fixed pursuant to the Quoted Fixed Rate Option, the rate of interest accruing on the Loan; and (B) in the event the Loan is accruing interest at the Variable Rate Option, the rate in effect on the date the Commitment expires; provided, however, that the last installment of each Loan shall be in an amount equal to the then unpaid principal balance of the Loan.]<sup>1</sup>

**SECTION 8. Prepayment.** Subject to Section 8.01 of the MLA, the Company may prepay the Loans in whole or in part upon three (3) Business Day's prior written notice. All partial prepayments shall be applied to the Loans in the inverse order of their maturity and to such fixed and variable rate balances outstanding on the Loans as CoBank shall specify in its reasonable discretion.

**SECTION 9. Promissory Note.** The Company's obligation to repay the Loans shall be evidenced by a promissory note in substantially the form attached hereto as Exhibit A (the "Promissory Note").

**SECTION 10. Security.** The Company's obligations hereunder, under the MLA, and under the Promissory Note shall be secured as provided in Section 2.04(A) of the MLA. In addition, the Company's obligations shall be guaranteed by the Guarantor as provided in Section 2.04(B) of the MLA.

**SECTION 11. Conditions Precedent.** CoBank's obligation to make the initial Loan hereunder is subject to the conditions precedent set forth in Article 3 of the MLA. Without limiting Section 3.01 of the MLA, CoBank's obligation to make the initial Loan hereunder is subject to the condition precedent that CoBank receive such evidence as it may reasonably require that the Company has obtained all permits and other authorizations required to commence construction of the Project.

<sup>1</sup> Internal Note: D. Spacht to review.

**SECTION 12. Additional Affirmative Covenants.** In addition to the affirmative covenants set forth in the MLA, the Company agrees that:

(A) **Compliance with Contract.** It will comply in all material respects with the Contract; and

(B) **Notice.** It will furnish to CoBank, promptly after learning of same, notice of: (1) the occurrence of any breach, default, or event of default by the Company or AHF under the Contract; and (2) the commencement of any material litigation, arbitration or like proceeding by the Company or AHF involving the Contract or the Project.

**SECTION 13. Additional Event of Default.** In addition to the Events of Default set forth in Article 8 of the MLA, the Company agrees that in the event the Company fails to timely comply with any provision of Section 12 hereof and such failure continues for thirty (30) days after written notice thereof is delivered by CoBank to the Company, such failure shall constitute an Event of Default under Article 8 of the MLA (and the MLA is hereby deemed amended to so provide).

**SECTION 14. Counterparts and Electronic Delivery.** This Supplement may be executed in counterparts (and by different parties in different counterparts), each of which shall constitute an original, and all of which when taken together shall constitute a single agreement. In addition, this Supplement may be delivered by electronic means.

(Signature Page(s) Follow)

DRAFT

**IN WITNESS WHEREOF**, the parties have caused this Supplement to be executed by their duly authorized officers as of the date shown above.

**CoBANK, ACB**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**ARTESIAN WASTEWATER MANAGEMENT, INC.**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

DRAFT

**EXHIBIT A****Loan No. RX1447T1****PROMISSORY NOTE  
ARTESIAN WASTEWATER MANAGEMENT, INC.****\$7,500,000****April 20, 2018**

FOR VALUE RECEIVED, ARTESIAN WASTEWATER MANAGEMENT, INC. (the “Maker”) promises to pay to COBANK, ACB (the “Payee”) or its assigns in U.S. dollars and in immediately available funds, the principal sum of SEVEN MILLION FIVE HUNDRED THOUSAND DOLLARS AND 00/100 CENTS (\$7,500,000) in eighty (80) consecutive quarterly installments, each in an amount and each due and payable on the dates provided in the “Supplement” (as hereinafter defined). The undersigned also promises to pay to the Payee interest on the unpaid principal balance hereof in like money at the rates of interest, at the times, and calculated in the manner set forth in the “Supplement” and the “Master Loan Agreement” (both as hereinafter defined). For purposes hereof, the term: (1) “Supplement” shall mean that certain Supplement To Master Loan Agreement (\$7,500,000 Capital Expenditures Facility) dated as of April 20, 2018, and numbered RX1447T1, as such Supplement may be amended or restated from time to time; and (2) “Master Loan Agreement” shall mean that certain Master Loan Agreement dated April 20, 2018, and numbered RX1447, as that agreement may be amended or restated from time to time.

Subject to the payment of a premium calculated in accordance with Section 8.01 of the Master Loan Agreement, the Maker may, on three (3) Business Day’s prior written notice, prepay this Promissory Note in whole or in part, together with accrued interest on the amount thereof. All partial prepayments shall be applied in the manner set forth in the Supplement.

Notwithstanding any other provision hereof: (1) if any date on which principal and interest are due is not a Business Day, then such payment shall be made on the next Business Day and interest on any principal amount not paid on the original installment due date shall continue to accrue until such payment is made; (2) if any installment of interest or principal is not paid when due, then such installment shall be due and payable on demand; and (3) upon the occurrence of an “Event of Default” (as defined in the Master Loan Agreement) until such Event of Default shall have been waived or cured in a manner satisfactory to CoBank, interest on the unpaid principal balance hereof shall accrue at 2% per annum in excess of the rate(s) of interest that would otherwise be in effect.

Payments on this Promissory Note shall be made as provided in Section 2.07 of the Master Loan Agreement. The Maker agrees that the Payee shall not be obligated to present this Promissory Note for payment.

This Promissory Note is given to evidence one or more loans made by the Payee to the Maker under the Master Loan Agreement and the Supplement, and is the Promissory Note referred to in the Supplement. Capitalized terms used herein and not defined herein shall have the meanings given to those terms in the Master Loan Agreement or in the Supplement.

This Promissory Note is secured as provided in the first sentence of Section 2.04 of the Master Loan Agreement. In addition, this Promissory Note is guaranteed as provided in Section 2.04(B) of the MLA. Upon the occurrence of an Event of Default under the Master Loan Agreement (as modified by the Supplement), the principal amount hereof, together with accrued interest hereon and any premium owing under Section 8.01 of the Master Loan Agreement, may be declared to be due and payable in the manner, upon the conditions, and with the effect provided in the Master Loan Agreement.

## EXHIBIT B

The Payee will keep a record of: (A) the unpaid principal balance hereof; (B) the interest rate(s) applicable to the unpaid principal balance hereof and the effective dates of any changes thereto; (C) all fees and expenses due and payable hereunder; and (D) the date and amount of all principal, interest, and fees paid by the Maker. To the extent permitted by applicable Law, such record (and all computer printouts thereof) shall be presumed correct absent manifest error as to the obligations of the Maker therein recorded; provided, that the failure of Payee to maintain such record, or any error therein, shall not in any manner affect the obligation of the Company to repay (with applicable interest) any loan in accordance with the terms of this Note, the Supplement, and the Master Loan Agreement.

The Maker hereby waives presentment for payment, demand, protest and notice of dishonor and nonpayment of this Promissory Note, and all defenses on the grounds of delay or of any extension of time for the payment hereof which may be hereafter given by the holder or holders hereof, and it is specifically agreed that the obligations of the Maker shall not be affected or altered to the prejudice of the holder or holders hereof by reason of the assumption of payment of the same by any other person or entity.

This Promissory Note shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to choice of law doctrine.

(Signature on Next Page)

DRAFT

**ARTESIAN WASTEWATER MANAGEMENT, INC.**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

DRAFT



6340 South Fiddlers Green Circle  
Greenwood Village, CO 80111  
800-542-8072  
www.cobank.com

May 7, 2018

Mr. David Spacht, CFO  
Artesian Wastewater Management, Inc.  
664 Churchman's Road  
Newark, DE 19702

Dear Mr. Spacht:

The purpose of this letter is to confirm the agreement between CoBank, ACB ("CoBank") and Artesian Wastewater Management, Inc. (the "Company") regarding the forward setting of a fixed rate for funds in the amount described below. The terms of our agreement are as follows:

1. Amount to be fixed: \$ 12,000,000 ("Fixed Amount")
2. Fixed rate: 5.12% % per annum ("Fixed Rate")
3. Date Fixed Rate locks: May 7, 2018
4. Last date the Fixed Rate is available to the Company: December 28, 2018 ("Settlement Date")
5. Date Fixed Rate matures: December 30, 2038
6. Fixed Amount amortizes x Yes  No  
  - a. Amortization maturity date: December 30, 2038
  - b. Fixed Amount amortizes as follows: quarterly beginning March 30, 2019 with payments due on the 30<sup>th</sup> day of each June, September, December and March based on a mortgage style amortization.
7. Interest is payable quarterly on the 30<sup>th</sup> day of each March, June, September and December with the final payment of interest and principal on December 30, 2038.
8. Broken Funding Charge: The Company agrees to pay to CoBank, on demand, a broken funding charge (the "Broken Funding Charge") in the amount specified below if the Company does not, for any reason whatsoever (including, without limitation, the Company's failure to satisfy applicable conditions precedent or the underlying loan commitment having been suspended or canceled), borrow (or otherwise enter into a separate agreement to fix) the entire Fixed Amount on or before the Settlement Date. The Broken Funding Charge shall be in an amount (calculated in accordance with methodology established by CoBank) equal to the present value of the sum of: (a) all losses and expenses incurred by CoBank in retiring, liquidating, or reallocating any debt, obligation, or cost incurred or allocated by CoBank to fund or hedge the Fixed Rate.



Please acknowledge our agreement by signing in the space provided below and by returning this confirmation to CoBank prior to 2:00 p.m. Mountain Time on the date the Fixed Rate is to lock. The individual signing below represents and warrants that he/she is a duly authorized officer of the Company.

**AGREED AND ACCEPTED** as of the date of this letter:

**CoBANK, ACB**

By: [Signature]

Name: Bryan Ervin

Title: Vice President

**Artesian Wastewater Management, Inc.**

By: [Signature]

Name: DAVID B. SPANIER

Title: CFO TEXAS

**SUPPLEMENT TO MASTER LOAN AGREEMENT  
(\$4,500,000 Multiple Advance Term Loan Facility)**

**THIS SUPPLEMENT TO MASTER LOAN AGREEMENT** (this “Supplement”) is entered into as of April <>, 2018, between **ARTESIAN WASTEWATER MANAGEMENT, INC.**, a corporation organized and existing under the laws of the State of Delaware (the “Company”), and **CoBANK, ACB**, a federally chartered instrumentality of the United States (“CoBank”), and supplements the Master Loan Agreement dated as of April <>, 2018, between the Company and CoBank (as amended or restated from time to time, the “MLA”).

**SECTION 1. The Commitment.** On the terms and conditions set forth in the MLA and this Supplement, CoBank agrees to make loans (the “Loans”) to the Company from time to time during the period set forth below, in an aggregate principal amount not to exceed \$4,500,000 (the “Commitment”). Under the Commitment, amounts borrowed and later repaid may not be reborrowed.

**SECTION 2. Purpose.** The purpose of the Commitment is to provide long-term financing for the expansion and upgrade of the Stonewater Wastewater Treatment Facility.

**SECTION 3. Term of Commitment.** The term of the Commitment shall be from the date when all conditions precedent set forth herein and the MLA shall have been satisfied up to (but not including) <>, 2019, or such later date as CoBank may, in its sole discretion, authorize in writing. [DRAFTING NOTE: The date to be inserted will be the 15 month anniversary of the date hereof]

**SECTION 4. Availability.** The Loans will be made available as provided in Section 2.02 of the MLA; provided, that, for the avoidance of doubt, CoBank agrees that the full Commitment may be borrowed by the Company in a single Loan.

**SECTION 5. Interest.**

(A) **Interest Rate Options.** The Company agrees to pay interest on the unpaid principal balance of the Loans in accordance with one or more of the following interest rate options, as selected by the Company in accordance with the terms hereof:

(1) **Weekly Quoted Variable Rate Option.** At a rate per annum equal to the rate of interest established by Lender in its sole discretion in each instance on the first Business Day of each week (the “Weekly Variable Rate Option”). The rate established by Lender shall be effective until the first Business Day of the next week. Each change in the rate shall be applicable to all balances subject to this option and information about the then current rate shall be made available upon telephonic request.

(2) **Quoted Fixed Rate Option.** At a fixed rate per annum to be quoted by Lender in its sole discretion in each instance on the date the rate is to take effect (the “Quoted Fixed Rate Option”). Rate quotes shall be made available upon telephonic request received not later than 9:00 AM Mountain Time on the date the rate is to take effect. Under this option, balances of \$1,000,000 or more may be fixed at such rates and for such periods (each, a “Quoted Fixed Rate Period”) as may be agreeable to Lender in its sole discretion in each instance, except that the maximum number of balances that may be subject to this option at any time shall be five (5).

(B) **Elections.** Subject to the limitations set forth above, the Company: (1) may, on any Business Day, elect to convert balances bearing interest at the Weekly Variable Rate Option to the

Quoted Fixed Rate Option; and (2) may on the last day of any Quoted Fixed Rate Period, elect to re-fix the rate under the Quoted Fixed Rate Option or convert the balance to the Weekly Variable Rate Option. In the absence of an election provided for herein, the Company shall be deemed to have elected the Weekly Variable Rate Option. All elections provided for herein may be made in writing, or, if provided by separate agreement between the parties, electronically, and must be received not later than 10:00 AM Mountain Time on the applicable Business Day. All interest rate elections made by the Company shall be irrevocable.

(C) **Calculation and Payment.** Interest shall be calculated on the actual number of days each Loan is outstanding on the basis of a year consisting of 360 days. In calculating interest, the date each Loan is made shall be included and the date each principal installment is repaid shall, if received before 11:00 AM Mountain Time, be excluded. Interest shall be calculated and paid quarterly in arrears on the last day of each March, June, September and December.

**SECTION 6. Underwriting Fee. None. [Waived by CoBank].**

**SECTION 7. Repayment.** [The Company agrees to repay each Loan in eighty (80) consecutive quarterly installments, each due on the last day of each March, June, September, and December, with the first installment due on <>, 2019, and the last installment due on <>, 2039. The amount of each installment shall be the same principal amount that would be required to be repaid if the Loan was scheduled to be repaid in level installments of principal and interest and such schedule was calculated using: (A) in the event the rate is fixed pursuant to the Quoted Fixed Rate Option, the rate of interest accruing on the Loan; and (B) in the event the Loan is accruing interest at the Variable Rate Option, the rate in effect on the date the Commitment expires; provided, however, that the last installment of each Loan shall be in an amount equal to the then unpaid principal balance of the Loan.]<sup>1</sup>

**SECTION 8. Prepayment.** Subject to Section 8.01 of the MLA, the Company may prepay the Loans in whole or in part upon three (3) Business Day's prior written notice. All partial prepayments shall be applied to the Loans in the inverse order of their maturity and to such fixed and variable rate balances outstanding on the Loans as CoBank shall specify in its reasonable discretion.

**SECTION 9. Promissory Note.** The Company's obligation to repay the Loans shall be evidenced by a promissory note in substantially the form attached hereto as Exhibit A (the "Promissory Note").

**SECTION 10. Security.** The Company's obligations hereunder, under the MLA, and under the Promissory Note shall be secured as provided in Section 2.04(A) of the MLA. In addition, the Company's obligations shall be guaranteed by the Guarantor as provided in Section 2.04(B) of the MLA.

**SECTION 11. Conditions Precedent.** CoBank's obligation to make the initial Loan hereunder is subject to the conditions precedent set forth in Article 3 of the MLA. Without limiting Section 3.01 of the MLA, CoBank's obligation to make the initial Loan hereunder is subject to the condition precedent that CoBank receive such evidence as it may reasonably require that the Company has obtained all permits and other authorizations required to commence construction of the Project.

**SECTION 12. Counterparts and Electronic Delivery.** This Supplement may be executed in counterparts (and by different parties in different counterparts), each of which shall constitute an original,

<sup>1</sup> Internal Note: D. Spacht to review.

and all of which when taken together shall constitute a single agreement. In addition, this Supplement may be delivered by electronic means.

(Signature Page(s) Follow)

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**IN WITNESS WHEREOF**, the parties have caused this Supplement to be executed by their duly authorized officers as of the date shown above.

**CoBANK, ACB**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**ARTESIAN WASTEWATER MANAGEMENT, INC.**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

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**EXHIBIT A****Loan No. RX1447T2****PROMISSORY NOTE  
ARTESIAN WASTEWATER MANAGEMENT, INC.****\$4,500,000****April 15, 2018**

**FOR VALUE RECEIVED, ARTESIAN WASTEWATER MANAGEMENT, INC.** (the “Maker”) promises to pay to **COBANK, ACB** (the “Payee”) or its assigns in U.S. dollars and in immediately available funds, the principal sum of **FOUR MILLION FIVE HUNDRED THOUSAND DOLLARS AND 00/100 CENTS (\$4,500,000)** in eighty (80) consecutive quarterly installments, each in an amount and each due and payable on the dates provided in the “Supplement” (as hereinafter defined). The undersigned also promises to pay to the Payee interest on the unpaid principal balance hereof in like money at the rates of interest, at the times, and calculated in the manner set forth in the “Supplement” and the “Master Loan Agreement” (both as hereinafter defined). For purposes hereof, the term: (1) “Supplement” shall mean that certain Supplement To Master Loan Agreement (\$4,500,000 Capital Expenditures Facility) dated as of April 15, 2018, and numbered RX1447T2, as such Supplement may be amended or restated from time to time; and (2) “Master Loan Agreement” shall mean that certain Master Loan Agreement dated April 15, 2018, and numbered RX1447, as that agreement may be amended or restated from time to time.

Subject to the payment of a premium calculated in accordance with Section 8.01 of the Master Loan Agreement, the Maker may, on three (3) Business Day’s prior written notice, prepay this Promissory Note in whole or in part, together with accrued interest on the amount thereof. All partial prepayments shall be applied in the manner set forth in the Supplement.

Notwithstanding any other provision hereof: (1) if any date on which principal and interest are due is not a Business Day, then such payment shall be made on the next Business Day and interest on any principal amount not paid on the original installment due date shall continue to accrue until such payment is made; (2) if any installment of interest or principal is not paid when due, then such installment shall be due and payable on demand; and (3) upon the occurrence of an “Event of Default” (as defined in the Master Loan Agreement) until such Event of Default shall have been waived or cured in a manner satisfactory to CoBank, interest on the unpaid principal balance hereof shall accrue at 2% per annum in excess of the rate(s) of interest that would otherwise be in effect.

Payments on this Promissory Note shall be made as provided in Section 2.07 of the Master Loan Agreement. The Maker agrees that the Payee shall not be obligated to present this Promissory Note for payment.

This Promissory Note is given to evidence one or more loans made by the Payee to the Maker under the Master Loan Agreement and the Supplement, and is the Promissory Note referred to in the Supplement. Capitalized terms used herein and not defined herein shall have the meanings given to those terms in the Master Loan Agreement or in the Supplement.

This Promissory Note is secured as provided in the first sentence of Section 2.04 of the Master Loan Agreement. In addition, this Promissory Note is guaranteed as provided in Section 2.04(B) of the MLA. Upon the occurrence of an Event of Default under the Master Loan Agreement (as modified by the Supplement), the principal amount hereof, together with accrued interest hereon and any premium owing

## EXHIBIT D

under Section 8.01 of the Master Loan Agreement, may be declared to be due and payable in the manner, upon the conditions, and with the effect provided in the Master Loan Agreement.

The Payee will keep a record of: (A) the unpaid principal balance hereof; (B) the interest rate(s) applicable to the unpaid principal balance hereof and the effective dates of any changes thereto; (C) all fees and expenses due and payable hereunder; and (D) the date and amount of all principal, interest, and fees paid by the Maker. To the extent permitted by applicable Law, such record (and all computer printouts thereof) shall be presumed correct absent manifest error as to the obligations of the Maker therein recorded; provided, that the failure of Payee to maintain such record, or any error therein, shall not in any manner affect the obligation of the Company to repay (with applicable interest) any loan in accordance with the terms of this Note, the Supplement, and the Master Loan Agreement.

The Maker hereby waives presentment for payment, demand, protest and notice of dishonor and nonpayment of this Promissory Note, and all defenses on the grounds of delay or of any extension of time for the payment hereof which may be hereafter given by the holder or holders hereof, and it is specifically agreed that the obligations of the Maker shall not be affected or altered to the prejudice of the holder or holders hereof by reason of the assumption of payment of the same by any other person or entity.

This Promissory Note shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to choice of law doctrine.

(Signature on Next Page)

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**ARTESIAN WASTEWATER MANAGEMENT, INC.**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

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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, 2017

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

## EXHIBIT E

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, 2017 was \$301,328,000 and \$10,142,000, 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, 2017, which trade date was June 30, 2017. 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, 2017, which trade date was June 9, 2017.

As of March 12, 2018 8,341,196 shares of Class A Non-Voting Common Stock and 881,452 shares of Class B Common Stock were outstanding.

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- Exhibit 21-Subsidiaries of the Company
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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 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, our ability to adjust our debt level, interest rate, maturity schedule and structure, 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, 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 Securities Act, Exchange Act and 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, failure to receive regulatory approval, 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 or Artesian Resources, is a Delaware corporation incorporated in 1927, that operates as the holding company of nine wholly-owned subsidiaries offering water, wastewater and other services on the Delmarva Peninsula. The Company's principal executive offices are located at 664 Churchmans Road, Newark, Delaware 19702. 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 in 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, sewer and internal Service Line Protection Plans. Our Class A Non-Voting Common Stock is listed on the NASDAQ Global Select Market and trades under the symbol "ARTNA." Our Class B Common Stock trades on the NASDAQ's OTC Bulletin Board under the symbol "ARTNB."

Artesian Resources operates as the parent holding company of five regulated public utilities: 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, and four non-regulated subsidiaries: Artesian Utility Development, Inc., or Artesian Utility, Artesian Development Corporation, or Artesian Development, Artesian Storm Water Services, Inc., or Artesian Storm Water, and Artesian Consulting Engineers, Inc., or Artesian Consulting Engineers. The terms "we," "our" and the "Company" as used herein refer to Artesian Resources and its subsidiaries. The business activity conducted by each of our subsidiaries is discussed below under separate headings.

**Our Market**

Our current market area is the Delmarva Peninsula. Our largest service area is in the State of Delaware, which had an estimated population of approximately 962,000 at July 1, 2017. According to the US Census Bureau, Delaware's population increased an estimated 7.1% from 2010 to 2017, as compared to the nationwide growth rate of approximately 5.5%. Substantial portions of Delaware, particularly outside of northern 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 Delaware.

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. Our interconnection with Chesapeake City is currently the town's sole source of water with an average daily take of 73,000 gallons.

We hold Certificates of Public Convenience and Necessity, or CPCNs, for approximately 284 square miles of exclusive water service territory, most of which is in Delaware and some in Maryland and Pennsylvania. We hold CPCN's for approximately 26 square miles of wastewater service territory located in Sussex County, Delaware. Our largest connected regional water system, consisting of approximately 141 square miles and 73,000 metered customers, is located in northern New Castle County and portions of southern New Castle County, Delaware. A significant portion of our exclusive service territory is in Sussex County, Delaware and remains undeveloped, and if and when development occurs and there is population growth in these areas, 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 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 Maryland owns and operates 8 public water systems including one in Port Deposit that has the ability to supply up to 1 mgd of water through an intake in the Susquehanna River.

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 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, 2017, Artesian Wastewater owned and operated four wastewater treatment facilities, which are permitted to treat approximately 500,000 gallons per day. In August 2016, Artesian Wastewater and Sussex County, a political subdivision of Delaware, entered into an agreement to provide reciprocal services to address the periodic need of each for additional wastewater treatment and disposal capacity in certain service areas within Sussex County. There are numerous locations in Sussex County where Artesian Wastewater's and Sussex County's facilities are capable of being connected or integrated to allow for the movement and disposal of wastewater generated by one or the other's system in a manner that most efficiently and cost effectively manages wastewater transmission, treatment and disposal.

On September 27, 2016, Artesian Wastewater entered into a wastewater services agreement with Allen Harim Foods, LLC, or Allen Harim, for Artesian Wastewater to provide treatment and disposal services for sanitary wastewater discharged from Allen Harim's properties located in Sussex County, Delaware upon completion of a pipeline to transfer the sanitary wastewater. The pipeline was completed in the second quarter of 2017. The transfer of sanitary wastewater is pending receipt of a construction permit and installation of related on-site improvements by Allen Harim at its facility. On January 27, 2017, Artesian Wastewater entered into a second wastewater agreement with Allen Harim for Artesian Wastewater to provide disposal services for approximately 1.5 mgd of treated industrial process wastewater upon completion of an approximately eight mile pipeline that will transfer the wastewater from Allen Harim's properties to a 90 million gallon storage lagoon at Artesian's Northern Sussex Regional Water Recycling Facility. We will use the reclaimed wastewater for spray irrigation on agricultural land in the area. The completion of the industrial process wastewater pipeline and storage lagoon should occur during the third quarter of 2018.

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, Artesian Utility operates the Water Service Line Protection Plan, or WSLP Plan, the Sewer Service Line Protection Plan, or SSLP Plan, and the Internal Service Line Protection Plan, or ISLP Plan.

We currently operate wastewater treatment facilities for the town of Middletown, in southern New Castle County, Delaware, 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.

# EXHIBIT E

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 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. The ISLP Plan enhances available coverage to include water and wastewater lines within customers' residences. As of December 31, 2017, approximately 19,500, or 24.6%, of our eligible water customers enrolled in the WSLP Plan, approximately 15,400, or 19.5%, of our eligible customers enrolled in the SSLP Plan, and approximately 4,700 or 5.9%, of our eligible customers enrolled in the ISLP Plan. Approximately 1,600 non-utility customers enrolled in one of our three protection plans.

## 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 Storm Water

Artesian Storm Water, incorporated on January 17, 2017, was formed to provide design, installation, maintenance and repair services related to existing or proposed storm water management systems in Delaware and the surrounding areas. The ability to offer storm water services complements the primary water and wastewater services that we provide.

## Artesian Consulting Engineers

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

## **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 of 1974, or Safe Drinking Water Act, the Clean Water Act of 1972, or 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 customers the portion found to be in excess with interest. The timing of our rate increase requests is 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,

## EXHIBIT E

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 August 18, 2015, the DEPSC made a preliminary ruling in response to Artesian Water's April 2014 application to implement new rates to meet a requested increase in revenue of 15.90%, or approximately \$10.0 million, on an annualized basis. The preliminary ruling recommended a permanent rate increase in revenue of approximately \$6.0 million, or 9.50%, on an annualized basis, which was an incremental increase for customers of approximately 6.20% above the Distribution System Improvement Charge, or DSIC, rate previously in effect. On October 6, 2015, a DEPSC order was issued concurring with the preliminary ruling issued on August 18, 2015. On January 19, 2016, a final DEPSC order was issued related to the permanent rate increase and concurred with the October 6, 2015 order. Because the permanent rate increase was less than amounts collected under previously approved temporary increases in rates, Artesian Water was required to refund a portion of the temporary rate increases to its customers. The refund, plus interest, at the average prime rate, for the overpayment from customers was applied to current and future customer bills in October 2015. Because the final rate award was at a level not less than the amount previously reported as income, there was no material impact upon previously reported water sales revenue. The new rates are designed to allow recovery of capital investments made by Artesian Water and to cover increased costs of operations, including water quality testing, chemicals and electricity for water treatment, taxes, labor and benefits.

On January 16, 2018, the DEPSC approved the opening of Docket No. 17-1240 requiring Delaware utilities to determine the impact that the Tax Cuts and Jobs Act of 2017, or TCJA, had on its customers and potential rate relief due to customers. Delaware utilities are required to report their findings back to the DEPSC by March 31, 2018. The Company expects any reduction in corporate income tax expense resulting from the TCJA will be passed through to customers in the form of reduced tariff rates or approved DSIC rate.

### 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 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 5.0% within any 12-month period. The following table summarizes (1) Artesian Water's applications with the DEPSC to collect DSIC rates and (2) the rates upon which the eligible plant improvements are based:

Application Date	11/26/2014	05/28/2015	11/24/2015	05/31/2016	11/29/2016
DEPSC Approval Date	12/16/2014	06/16/2015	12/15/2015	06/28/2016	12/20/2016
Effective Date	01/01/2015	07/01/2015	01/01/2016	07/01/2016	01/01/2017
Cumulative DSIC Rate	0.34%	1.15%	1.57%	2.30%	4.71%
Net Eligible Plant Improvements – Cumulative Dollars (in millions)	\$1.3	\$4.6	\$7.0	\$10.3	\$16.6
Eligible Plant Improvements – Installed Beginning Date	10/01/2014	10/01/2014	10/01/2014	10/01/2014	10/01/2014
Eligible Plant Improvements – Installed Ending Date	10/31/2014	04/30/2015	10/31/2015	4/30/2016	10/31/2016

DEPSC has completed audits for all filings for rates effective through 2016 noted in the table above. The rate effective in 2017 noted in the table above is subject to audit at a later date. For the years ended December 31, 2017, December 31, 2016 and December 31, 2015, we earned approximately \$3,160,000, \$1,306,000 and \$520,000 in DSIC revenue, respectively.

### 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:

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- a signed service agreement with the developer of a proposed subdivision or development, which subdivision or development has been duly approved by the respective county government;
- a petition requesting such service signed by a majority of the landowners of the proposed territory to be served; or
- a 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 we have been granted an exclusive franchise for each of our existing water and wastewater systems in Delaware, our 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.

### 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 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 an interconnection 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 have required the water industry to invest in more advanced treatment systems and processes, which require a heightened level of expertise. Significant enhancements were made to existing facilities to effectively treat and remove compounds as required by government agencies, such as ultra violet oxidation treatment, ceramic membrane filtration and carbon filtration. 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 117 operating and 59 observation and monitoring wells in our Delaware systems. At December 31, 2017, we had allocation permits for 103 wells, and 14 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 adsorption 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, or the NPDES permit program. In accordance with the NPDES permit program, the implementing states set maximum discharge limits for wastewater effluents and overflows from wastewater collection systems. Discharges that exceed the limits specified under the NPDES permit program can lead to the imposition of penalties. 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.

Under Delaware state laws and regulations, we are required to hold a permit from DNREC for the construction, operation, maintenance or repair of any on-site wastewater treatment and disposal systems with daily design flow rates of 2,500 gallons or greater. A classification on the facility is performed in accordance with Regulations Licensing Operators of Wastewater Facilities. The class of operator required for the facility is determined by the Board of Certification for Licensed Wastewater Operations in accordance with Regulations Licensing Operators of Wastewater Facilities. We work to ensure that we operate environmentally friendly wastewater systems that meet federal, state, and local laws.

### **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 adsorption 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 54 different water treatment facilities in our Delaware systems. We have eight separate water treatment facilities in our Maryland systems. All water supplies that we purchase from neighboring utilities are potable.

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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 84% of the overall 7.8 billion gallons of water we distributed in all of our Delaware systems during 2017 came from our groundwater wells, while the remaining 16% came from interconnections with other utilities and municipalities. In Delaware in 2017, we pumped an average of 18.1 mgd from our groundwater wells and obtained an average of approximately 3.4 mgd from interconnections. Our peak water supply capacity currently is approximately 55.0 mgd in Delaware.

The majority of the 0.1 billion gallons of water we distributed in all of our Maryland systems during 2017 came from our groundwater wells, while a portion came from treated surface water. 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 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 two neighboring water utilities and six 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, 2017, 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. Artesian Water Delaware also has an interconnection with the Town of Chesapeake City that provides approximately 73,000 gallons per day on average. The interconnection is currently the town's sole source of water supply. In January 2018, Artesian Water Maryland signed an interconnection agreement with the Town of North East that has a "take or pay" clause requiring us to purchase a minimum of 35,000 gallons per day that shall commence on the first day of the month following the date on which the interconnection is completed. The interconnection completion date is expected to occur during the third quarter of 2018.

As of December 31, 2017, we were serving customers through approximately 1,293 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 have 29 storage tanks in Delaware, most of which are elevated, providing total system storage of 42 million gallons. We have developed and are using an Aquifer Storage and Recovery, or ASR, system in New Castle County, Delaware. Our ASR system provides approximately 130 million gallons of storage capacity, which can be withdrawn at an average rate of approximately 1 mgd. At some locations, we rely on hydropneumatic tanks to maintain adequate system pressures. Where possible, we combine our smaller satellite systems with systems having elevated storage facilities. In Cecil County, Maryland we have 7 storage tanks capable of storing approximately 2.4 million gallons.

## **Additional General Information**

### Seasonality

Substantially all of our water customers are metered, which allows us to measure and bill for our customers' water consumption. Demand for water during the warmer months is generally greater than during cooler months 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.

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## 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, 2017, we employed 233 full-time employees. Of these employees, 48 were officers and managers; 129 were employed as operations personnel, including engineers, technicians, draftsman, maintenance and repair persons, meter readers and utility personnel; and 38 were employed in accounting, budgeting, information systems, human resources, customer relations and public relations. The remaining 18 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](http://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, our Corporate Governance Guidelines, and our Board Committee Charter as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission, or 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. Information contained on our website shall not be deemed incorporated into, or to be a part of, this report.

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 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](http://www.sec.gov), that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

## ITEM 1A. RISK FACTORS

We are exposed to a variety of risks and uncertainties. Most are general risks and uncertainties applicable to all water and wastewater 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.

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 increases 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, as well as from the Delaware River Basin Commission and Susquehanna River Basin Commission for applicable water allocation, water appropriation and water capacity permits related to additional systems that will assist in the operation of our water business. In addition, we rely on governmental approvals in the States of Delaware and Maryland for applicable 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 business in the States of Delaware, Maryland and Pennsylvania or our wastewater business in the States of 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 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 EPA 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.

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 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.

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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.

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.

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

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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:

- Dilutive issuance of our equity securities;
- Incurrence of debt and contingent liabilities;
- Difficulties in integrating the operations and personnel of the acquired businesses;
- Diversion of our management's attention from ongoing business concerns;
- Failure to have effective internal control over financial reporting;
- Overload of human resources; and
- Other 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.

### 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.

### 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

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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.

### 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.

### The Tax Cuts and Jobs Act could affect our financial statements, operating results and financial condition.

On December 22, 2017, the Tax Cuts and Jobs Act, or TCJA, was signed into law and contains many changes for corporate taxpayers and changes specific to public utilities. We are in the process of analyzing the TCJA and its overall impact on the Company, which involves significant judgments to be made by management. As a general matter, the TCJA reduces the federal corporate tax rate to 21 percent from 35 percent, among other things. As a result of such reduction, the Company adjusted its existing deferred income tax balances as of December 31, 2017, which is set forth in more detail in Note 3 (Income Taxes) to the Consolidated Financial Statements. Notwithstanding this adjustment resulting from the reduction in the corporate income tax rate, the overall impact of the TCJA is uncertain and may have a material effect on our financial statements. However, based on its preliminary assessment of the reduction in the federal corporate tax rate, the Company currently expects that its 2018 effective tax rate will be reduced and will result in overall lower tax expense beginning in 2018. Such estimate is based on management's current assumptions with respect to, among other things, the Company's earnings, state income tax levels and tax deductions. The Company's actual effective tax rate in 2018 may differ from management's estimate. The TCJA also includes certain other provisions specifically related to the public utility industry, including the exclusion from utilizing bonus depreciation. The impact with respect to provisions specifically related to the public utility industry or to corporate taxpayers in general may also impact our future financial performance, including our results of operations, cash flows and liquidity, which impacts will largely be determined through future regulatory proceedings.

In addition to analyzing the impacts at the federal level, we are also analyzing the potential impacts of the TCJA at the state level. However, we are limited in our ability to do so as there is not yet complete guidance in certain states as to how to account for the TCJA. With respect to these states, we will account for the changes in income tax balances by making a reasonable estimate. However, once state regulators provide specific guidance, the actual impacts may differ from our estimates, which could have a material effect on our financial statements.

On January 16, 2018, the DEPSC approved the opening of Docket No. 17-1240 requiring Delaware utilities to determine the impact that the TCJA had on its customers and potential rate relief due to customers. Delaware utilities are required to report their findings back to the DEPSC by March 31, 2018. The Company expects any reduction in corporate income tax expense resulting from the TCJA will be passed through to customers in the form of reduced tariff rates or approved DSIC rate.

**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 six 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 are used for utility operations. Artesian Water Pennsylvania owns transmission and distribution mains. Artesian Water Maryland owns land, rights-of-way, easements, 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 in Sussex County, Delaware for the operation of the wastewater facility known as the Artesian Northern Sussex Regional Water Recycling Facility. The following table indicates our utility plant as of December 31, 2017.

**Utility plant comprises:**

*In thousands*

	<u>Estimated Useful Life (In Years)</u>	<u>December 31, 2017</u>
Utility plant at original cost		
Utility plant in service-Water		
Intangible plant	---	\$ 140
Source of supply plant	45-85	20,959
Pumping and water treatment plant	8-62	81,180
Transmission and distribution plant		
Mains	81	252,569
Services	39	42,232
Storage tanks	76	24,729
Meters	26	25,628
Hydrants	60	13,760
General plant	3-31	56,784
Utility plant in service-Wastewater		
Treatment and disposal plant	35-62	17,421
Collection mains and lift stations	81	13,693
General plant	3-31	1,006
Property held for future use	---	14,646
Construction work in progress	---	12,700
		577,447
Less – accumulated depreciation		116,945
		\$ 460,502

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, 2017, 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.

**ITEM 3. LEGAL PROCEEDINGS**

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

**ITEM 4. MINE SAFETY DISCLOSURES**

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

**PART II**

**ITEM 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 12, 2018, the last closing sale price as reported by the NASDAQ Global Select Market was \$35.51 per share. On March 12, 2018 there were 666 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
2017			
First Quarter	\$ 34.21	\$ 29.46	\$ 0.2283
Second Quarter	41.56	32.99	0.2317
Third Quarter	39.80	35.96	0.2317
Fourth Quarter	42.66	37.14	0.2352
2016			
First Quarter	\$ 31.31	\$ 25.52	\$ 0.2216
Second Quarter	33.92	26.26	0.2249
Third Quarter	34.87	26.32	0.2249
Fourth Quarter	33.00	26.78	0.2283

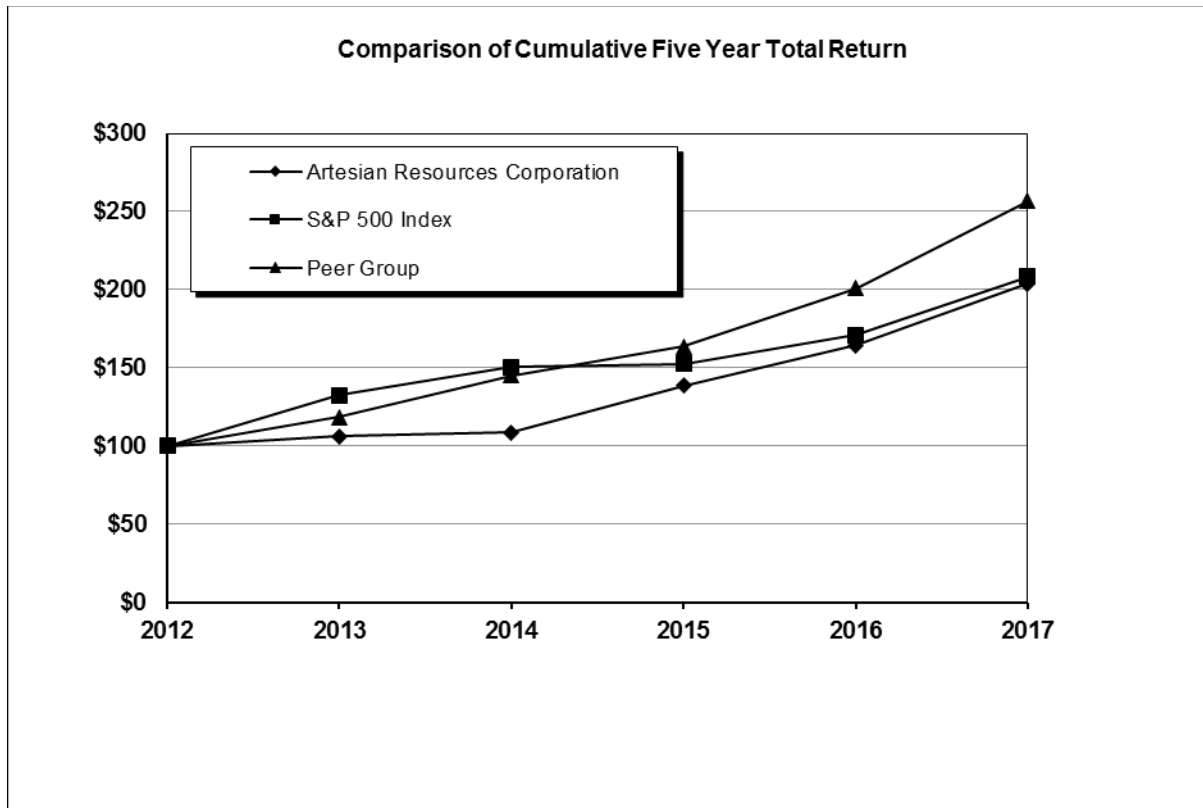
Our Class B Voting Stock, or Class B Stock, is quoted on the OTC Bulletin Board under the symbol "ARTNB." There has been a limited and sporadic public trading market for the Class B Stock. As of March 12, 2018, the last reported trade of the Class B Stock on the OTC Bulletin Board was at a price of \$34.25 per share on March 12, 2018. As of March 12, 2018, we had 151 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.

*Recent Sales of Unregistered Securities*

During the year ended December 31, 2017, we did not issue any unregistered shares of our Class A or Class B Stock.

## EXHIBIT E

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 2012 (assuming a \$100 investment on December 31, 2012, and the reinvestment of any dividends) through December 2017:



Company Name / Index	INDEXED RETURNS					
	Base Period 2012	2013	Years Ending December 31			
	2012	2013	2014	2015	2016	2017
Artesian Resources Corporation	100	106.12	108.60	138.37	164.59	203.79
S&P 500 Index	100	132.39	150.51	152.59	170.84	208.14
Peer Group	100	118.28	145.25	163.77	201.12	256.58

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.

# EXHIBIT E

## 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, 2017, 2016 and 2015 and the consolidated balance sheet data as of December 31, 2017 and 2016 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, 2014 and 2013 and the consolidated balance sheet data as of December 31, 2015, 2014 and 2013 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."

<i>In thousands, except per share and operating data</i>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>STATEMENT OF OPERATIONS DATA</b>					
Operating revenues					
Water sales	\$ 73,058	\$ 70,587	\$ 68,932	\$ 64,667	\$ 61,846
Other utility operating revenue	4,177	3,816	3,694	3,648	3,253
Non-utility operating revenue	5,000	4,686	4,398	4,150	3,974
Total operating revenues	\$ 82,235	\$ 79,089	\$ 77,024	\$ 72,465	\$ 69,073
Operating expenses					
Operating and maintenance	\$ 41,054	\$ 38,260	\$ 38,453	\$ 37,086	\$ 36,630
Depreciation and amortization	9,555	9,188	8,837	8,673	8,251
State and federal income taxes	7,295	8,331	7,784	6,375	5,588
Property and other taxes	4,731	4,491	4,368	4,285	4,120
Total operating expenses	\$ 62,635	\$ 60,270	\$ 59,442	\$ 56,419	\$ 54,589
Operating income	\$ 19,600	\$ 18,819	\$ 17,582	\$ 16,046	\$ 14,484
Other income, net	560	779	721	853	872
Total income before interest charges	\$ 20,160	\$ 19,598	\$ 18,303	\$ 16,899	\$ 15,356
Interest charges	\$ 6,177	\$ 6,644	\$ 6,998	\$ 7,393	\$ 7,055
Net income	\$ 13,983	\$ 12,954	\$ 11,305	\$ 9,506	\$ 8,301
Dividends on preferred stock (1)					
Net income applicable to common stock	\$ 13,983	\$ 12,954	\$ 11,305	\$ 9,506	\$ 8,301
Net income per share of common stock:					
Basic	\$ 1.52	\$ 1.42	\$ 1.26	\$ 1.07	\$ 0.95
Diluted	\$ 1.51	\$ 1.41	\$ 1.26	\$ 1.07	\$ 0.94
Average shares of common stock outstanding:					
Basic	9,175	9,098	8,960	8,884	8,774
Diluted	9,242	9,161	9,005	8,926	8,836
Cash dividends per share of common stock	\$ 0.93	\$ 0.90	\$ 0.87	\$ 0.85	\$ 0.82
<i>In thousands, except for operating data</i>					
<b>BALANCE SHEET DATA</b>					
Utility plant, at original cost less accumulated depreciation	\$ 460,502	\$ 425,502	\$ 405,606	\$ 393,793	\$ 378,960
Total assets	\$ 494,639	\$ 450,976	\$ 431,626	\$ 422,213	\$ 403,832
Lines of credit	\$ 9,610	\$ 7,130	\$ 10,487	\$ 18,491	\$ 10,332
Long-term obligations and redeemable preferred stock, including current portions	\$ 106,931	\$ 103,647	\$ 104,936	\$ 106,199	\$ 106,642
Stockholders' equity	\$ 146,644	\$ 139,023	\$ 132,331	\$ 125,605	\$ 121,836
Total capitalization	\$ 252,231	\$ 241,354	\$ 235,978	\$ 230,559	\$ 227,346
<b>OPERATING DATA</b>					
Average water sales per customer	\$ 844	\$ 830	\$ 824	\$ 780	\$ 755
Water pumped (millions of gallons)	7,945	7,626	7,646	7,592	7,286
Number of metered customers	86,500	85,000	83,700	82,900	81,900
Miles of water main	1,293	1,260	1,218	1,201	1,182

(1) There are no shares of preferred stock issued and outstanding.

## 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 88.8% of total operating revenues for the year ended December 31, 2017. Our profitability is also attributed to the various contract operations, water, sewer, and internal 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 and other services provide a revenue stream that is not affected by changes in weather patterns.

While water sales 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, sewer, and internal 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. As of December 31, 2017, we had approximately 84,200 metered water customers in Delaware, an increase of approximately 1,500 compared to December 31, 2016. The number of metered water customers in Maryland totaled approximately 2,300 as of December 31, 2017, a slight increase compared to December 31, 2016. The number of metered water customers in Pennsylvania remained consistent compared to December 31, 2016. For the year ended December 31, 2017, approximately 7.8 billion gallons of water were distributed in our Delaware systems and approximately 130 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 residential and commercial wastewater customers are billed a flat monthly fee, which contributes to providing a revenue stream unaffected by weather. There has been consistent customer growth over the years. The number of Delaware wastewater customers totaled approximately 1,800 as of December 31, 2017, an increase of approximately 200, or 12.5%, compared to December 31, 2016. In addition, Artesian Wastewater entered into a wastewater services agreement with Allen Harim Foods, LLC, or Allen Harim, a large industrial customer, under which service is expected to begin in 2018. The wastewater services agreement with Allen Harim is discussed further in the "Strategic Direction" section below.

## 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, Delaware 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 million gallons per day and 250,000 gallons per day, respectively. We also operate a wastewater disposal facility in Middletown in order to support the 2.5 million gallons per day wastewater facility.

In addition to water and wastewater services described above, Artesian Utility also offers three protection plans to customers, the WSLP Plan, the SSLP Plan, and the ISLP Plan. 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 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. The ISLP Plan enhances available coverage to include water and wastewater lines within customers' residences. As of December 31, 2017, approximately 19,500, or 24.6%, of our eligible water customers enrolled in the WSLP Plan, approximately 15,400, or 19.5%, of our eligible customers enrolled in the SSLP Plan, and approximately 4,700 or 5.9%, of our eligible customers enrolled in the ISLP Plan. Approximately 1,600 non-utility customers enrolled in one of our three protection plans.

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 Storm Water, incorporated on January 17, 2017, was formed to provide design, installation, maintenance and repair services related to existing or proposed storm water management systems in Delaware and the surrounding areas. The ability to offer storm water services will complement the primary water and wastewater services that we provide.

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 believe 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.

On February 23, 2017, Artesian Water entered into an agreement with Fort DuPont Redevelopment and Preservation Corporation, or FDRPC, for the purchase of existing water assets and for the provision of potable water and fire suppression services. The Fort DuPont National Historic District, or Fort DuPont, consists of 325-acres and lies between the Delaware River on the east, the Chesapeake and Delaware Canal on the south and the Delaware City Branch Canal to the north and west. The final purchase price for the water assets consisting of a water treatment plant, storage tank, wells, mains, and other equipment used to provide potable water and fire suppression services to portions of Fort DuPont and the surrounding properties was \$852,000. Closing occurred in June 2017. In connection with the planned future development of Fort DuPont, the parties intend to design, build and operate a state of the art, cost effective, safe and reliable water system that will include both new water assets as well as improvements and upgrades to the existing water assets. The water system can be expanded to meet the needs of the planned 600 residential units as well as new commercial customers, in addition to water service currently provided to the Governor Bacon Health Center and National Guard facilities.

## EXHIBIT E

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 currently are 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 governmental agencies 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 because they will be converted from treatment and disposal plants to pump stations to assist with transitioning the flow of wastewater from one regional facility to another.

Artesian Wastewater entered into agreements that will provide growth opportunities and will utilize our larger regional wastewater facilities. In August 2016, Artesian Wastewater and Sussex County, a political subdivision of Delaware, entered into an agreement to provide reciprocal services to address the periodic need of each for additional wastewater treatment and disposal capacity in certain service areas within Sussex County. There are numerous locations in Sussex County where Artesian Wastewater's and Sussex County's facilities are capable of being connected or integrated to allow for the movement and disposal of wastewater generated by one or the other's system in a manner that most efficiently and cost effectively manages wastewater transmission, treatment and disposal.

On September 27, 2016, Artesian Wastewater entered into a wastewater services agreement with Allen Harim for Artesian Wastewater to provide treatment and disposal services for sanitary wastewater discharged from Allen Harim's properties located in Sussex County, Delaware upon completion of a pipeline to transfer the sanitary wastewater. The pipeline was completed in the second quarter of 2017. The transfer of sanitary wastewater is pending receipt of a construction permit and installation of related on-site improvements by Allen Harim. On January 27, 2017, Artesian Wastewater entered into a second wastewater agreement with Allen Harim for Artesian Wastewater to provide disposal services for approximately 1.5 million gallons per day of treated industrial process wastewater upon completion of an approximately eight mile pipeline that will transfer the wastewater from Allen Harim's properties to a 90 million gallon storage lagoon at Artesian's Northern Sussex Regional Water Recycling Facility. We will use the reclaimed wastewater for spray irrigation on agricultural land in the area. The completion of the industrial process wastewater pipeline and storage lagoon should occur during the third quarter of 2018.

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 three years includes projects for water treatment plant improvements and additions in both Delaware and Maryland and wastewater treatment plant improvements and expansion 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. We also anticipate continued growth due to our water, sewer and internal Service Line Protection Plans. 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. Artesian Storm Water was recently formed to expand contract work related to the design, installation, maintenance and repair services associated with existing or proposed storm water management systems in Delaware and the surrounding areas.

### **Inflation**

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

***CRITICAL ACCOUNTING POLICIES AND ESTIMATES***

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

All additions to utility 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 utility 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.

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, 2017.

**Results of Operations**

**2017 Compared to 2016**

**Operating Revenues**

Revenues totaled \$82.2 million for the year ended December 31, 2017, \$3.1 million, or 4.0%, above revenues for the year ended December 31, 2016 of \$79.1 million. Water sales revenues increased \$2.5 million, or 3.5%, for the year ended December 31, 2017 compared to the year ended December 31, 2016. The increase in water sales is primarily due to an increase in DSIC, an increase in overall water consumption and an increase in customer charges from customer growth. We realized 88.8% of our total operating revenue for the year ended December 31, 2017 from the sale of water as compared to 89.3% for the year ended December 31, 2016.

Other utility operating revenue increased approximately \$0.4 million, or 9.5%, for the year ended December 31, 2017 compared to the year ended December 31, 2016. The increase is primarily due to an increase in wastewater revenue from customer growth and an increase in water service charges.

Non-utility operating revenue increased approximately \$0.3 million, or 6.7%, for the year ended December 31, 2017 compared to the year ended December 31, 2016. The increase is primarily due to an increase in Service Line Protection Plans, or SLP Plans, revenue.

**Percentage of Operating Revenues**

	<b>2017</b>	2016	2015
Water Sales			
Residential	<b>52.9%</b>	53.5%	54.7%
Commercial	<b>21.6</b>	21.6	21.1
Industrial	<b>0.1</b>	0.1	0.1
Government and Other	<b>14.2</b>	14.1	13.8
Other utility operating revenues	<b>5.1</b>	4.8	4.7
Non-utility operating revenues	<b>6.1</b>	5.9	5.6
Total	<b>100.0%</b>	100.0%	100.0%

**Residential**

Residential water service revenues in 2017 amounted to \$43.6 million, an increase of \$1.3 million, or 3.1%, above the \$42.3 million recorded in 2016, primarily due to an increase in DSIC revenue and an increase in the number of customers. The volume of water sold to residential customers decreased slightly to 3,731 million gallons in 2017 compared to 3,741 million gallons in 2016, a 0.3% decrease. The number of residential customers served increased by approximately 1,400, or 1.8%, in 2017.

**Commercial**

Water service revenues from commercial customers in 2017 increased by 4.1%, from \$17.1 million in 2016 to \$17.8 million in 2017, primarily due to an increase in DSIC revenue and an increase in overall water consumption. The volume of water sold to commercial customers increased to 2,220 million gallons in 2017 compared to 2,178 million gallons sold in 2016, an increase of 1.9%.

**Industrial**

Water service revenues from industrial customers decreased 2.6% from \$77,000 in 2016 to \$75,000 in 2017. The volume of water sold to industrial customers decreased to 7.5 million gallons in 2017 from 8.2 million gallons in 2016, a decrease of 8.5%.

**Government and Other**

Government and other water service revenues in 2017 increased by 4.5%, from \$11.2 million in 2016 to \$11.7 million in 2017, primarily due to an increase in DSIC revenue. The volume of water sold to government and other customers increased to 935 million gallons in 2017 compared to 810 million gallons in 2016, an increase of 15.4%.

**Other Utility Operating Revenue**

Other utility operating revenue, derived from regulated wastewater services, contract operations, antenna leases on water tanks, finance/service charges and wastewater customer service revenues increased 9.5%, from \$3.8 million in 2016 to \$4.2 million in 2017. The increase is primarily due to an increase in wastewater revenue from customer growth and an increase in water service charges.

***Non-Utility Operating Revenue***

Non-utility operating revenue, derived from non-regulated water and wastewater operations, increased 6.7%, from \$4.7 million in 2016 to \$5.0 million in 2017. The increase is primarily due to an increase in SLP Plan revenue.

**Operating Expenses**

Operating expenses, excluding depreciation and income taxes, increased \$3.0 million, or 7.1%, for the year ended December 31, 2017 compared to the year ended December 31, 2016. The components of the change in operating expenses primarily include an increase in utility operating expenses of \$2.6 million, an increase in non-utility operating expenses of \$0.2 million and an increase in property and other taxes of \$0.2 million.

Utility operating expenses increased \$2.6 million, or 7.3%, for the year ended December 31, 2017 compared to the year ended December 31, 2016. The net increase is primarily related to the following.

- Payroll, employee benefit costs and related expenses increased \$1.5 million due to an increase in overall compensation, including equity compensation awards as well as an increase in discretionary profit sharing of 1% over last year.
- Repair and maintenance expense increased \$1.0 million, primarily due to an increase of expenses related to the maintenance of water treatment equipment, specifically carbon filter replacements, and maintenance of water treatment facilities and storage tanks.
- Purchased water expense increased \$0.3 million, primarily due to increased purchased water during relocation of a major transmission main in our northern New Castle County, Delaware water system due to state highway construction.
- Water treatment expense increased \$0.2 million, primarily due to an increase in the volume of chemicals purchased for water treatment and an increase in sludge removal related to supplementing the Town of Middletown during well repairs.
- Administration expenses decreased \$0.4 million, primarily due to a decrease in amortization of Delaware rate proceedings related to the 2014 rate case that was fully amortized at the end of 2016 and a decrease in legal costs associated with litigation before the DEPSC pertaining to a developer dispute over Contributions In Aid of Construction that was concluded in December 2016. This decrease is partially offset by an increase in wastewater consulting services.

Non-utility expenses increased approximately \$0.2 million, or 6.7%, primarily due to an increase in plumbing services related to the SLP Plans as well as an increase in payroll and benefit costs and consulting fees.

Property and other taxes increased \$0.2 million, or 5.3%, primarily due to 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. In addition, payroll taxes increased, primarily related to increased payroll related expenses.

**Percentage of Operating and Maintenance Expenses**

	<b>2017</b>	2016	2015
Payroll and Associated Expenses	<b>49.1 %</b>	49.7 %	50.4 %
Administrative	<b>14.4</b>	15.6	15.8
Purchased Water	<b>10.7</b>	10.6	10.5
Repair and Maintenance	<b>10.0</b>	8.1	7.9
Purchased Power	<b>5.6</b>	6.0	6.2
Water Treatment	<b>3.4</b>	3.2	3.2
Non-utility Operating	<b>6.8</b>	6.8	6.0
Total	<b>100.0 %</b>	100.0 %	100.0 %

The ratio of operating expense, excluding depreciation and income taxes, to total revenue was 55.7% for the year ended December 31, 2017, compared to 54.1% for the year ended December 31, 2016.

Depreciation and amortization expense increased \$0.4 million, or 4.0%, primarily due to continued investment in utility plant providing supply, treatment, storage and distribution of water to customers and service to our wastewater customers.

Federal and state income tax expense decreased \$1.0 million, or 12.4%, primarily due to the reduction in the Federal corporate income tax rate by the Tax Cut and Jobs Act signed into law on December 22, 2017. Also, the adoption of amended guidance issued by the

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FASB in 2017 that updated how stock compensation activities are recorded, resulting in excess tax benefits now being recorded immediately as a reduction to tax expense, compared to recording within equity previously. Also, we recognized an additional expense, for tax purposes only, related to the federal Domestic Production Activities Deduction, or DPAD, which reduced the effective tax rates.

### **Other Income, Net**

Other income, net decreased \$0.2 million, primarily due to a pledge made in 2017 to a non-profit entity in Delaware to support the State's economic development efforts that partially offset other income.

### **Interest Charges**

Interest expense decreased \$0.5 million, primarily due to the refinancing of the Series O and Series Q First Mortgage Bonds in January 2017, reducing interest rates from 8.17% and 4.75%, respectively, to 4.24%. Additionally, there was an interest rate change from 6.73% to 4.45% effective March 1, 2016 for the Series S First Mortgage Bond.

### **Net Income**

Our net income applicable to common stock increased \$1.0 million. Operating revenues increased \$3.1 million, while operating expenses increased \$2.4 million. Partially offsetting the increase in operating expenses is a decrease in federal and state income tax expense of \$1.0 million, primarily due to the reduction in the Federal corporate income tax rate by the Tax Cut and Jobs Act signed into law on December 22, 2017. In addition, other income, net decreased \$0.2 million and interest expense decreased \$0.5 million.

## **2016 Compared to 2015**

### **Operating Revenues**

Revenues totaled \$79.1 million for the year ended December 31, 2016, \$2.1 million, or 2.7%, above revenues for the year ended December 31, 2015 of \$77.0 million. Water sales revenues increased \$1.7 million, or 2.4%, for the year ended December 31, 2016 compared to the year ended December 31, 2015. The increase in water sales revenue was primarily due to an increase in DSIC revenue of approximately \$0.8 million and an increase in overall water consumption and the number of water customers. We realized 89.3% of our total operating revenue for the year ended December 31, 2016 from the sale of water as compared to 89.5% for the year ended December 31, 2015.

Other utility operating revenue increased approximately \$0.1 million, or 3.3%, for the year ended December 31, 2016 compared to the year ended December 31, 2015. The increase was primarily due to an increase in wastewater revenue related to customer growth and new development inspections, partially offset by a decrease in operating subsidies due to developers satisfying their wastewater connection payments for all lots within certain communities.

Non-utility operating revenue increased approximately \$0.3 million, or 6.5%, for the year ended December 31, 2016 compared to the year ended December 31, 2015. The increase was primarily due to an approximately \$229,000 increase in SLP Plans revenue and contract service revenue.

### ***Residential***

Residential water service revenues in 2016 amounted to \$42.3 million, an increase of \$1.1 million, or 2.6% above the \$41.2 million recorded in 2015, primarily due to an increase in DSIC revenue and an increase in overall water consumption and the number of customers. The volume of water sold to residential customers increased to 3,741 million gallons in 2016 compared to 3,737 million gallons in 2015, a 0.1% increase. The number of residential customers served increased by approximately 1,300, or 1.6%, in 2016.

### ***Commercial***

Water service revenues from commercial customers in 2016 increased by 2.4%, from \$16.7 million in 2015 to \$17.1 million in 2016, primarily due to an increase in DSIC revenue and an increase overall water consumption. The volume of water sold to commercial customers increased to 2,178 million gallons in 2016 compared to 2,150 million gallons sold in 2015, an increase of 1.3%.

***Industrial***

Water service revenues from industrial customers decreased 22.2% from \$99,000 in 2015 to \$77,000 in 2016. The volume of water sold to industrial customers decreased to 8.0 million gallons in 2016 from 11.0 million gallons in 2015, a decrease of 25.7%.

***Government and Other***

Government and other water service revenues in 2016 increased by 2.8%, from \$10.9 million in 2015 to \$11.2 million in 2016, primarily due to an increase in DSIC revenue. The volume of water sold to government and other customers was 810 million gallons in 2016 and 2015, respectively.

***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 3.3%, from \$3.7 million in 2015 to \$3.8 million in 2016. The increase was primarily due to an increase in revenue from wastewater customers compared to 2015 and an increase in inspection fee revenue related to new development, partially offset by a decrease in operating subsidies due to developers satisfying their wastewater connection payments for all lots within certain communities.

***Non-Utility Operating Revenue***

Non-utility operating revenue, derived from non-regulated water and wastewater operations, increased 6.5%, from \$4.4 million in 2015 to \$4.7 million in 2016. The increase was primarily due to an approximately \$0.3 million increase in SLP Plan revenue and contract service revenue.

**Operating Expenses**

Operating expenses, excluding depreciation and income taxes, decreased \$70,000, or 0.2%, for the year ended December 31, 2016 compared to the year ended December 31, 2015. The components of the change in operating expenses primarily include a decrease in utility operating expenses of \$0.5 million, an increase in non-utility operating expenses of \$0.3 million and an increase in property and other taxes of \$0.1 million.

Utility operating expenses decreased \$0.5 million, or 1.4%, for the year ended December 31, 2016 compared to the year ended December 31, 2015. The net decrease was primarily related to the following.

- Payroll and employee benefit costs decreased \$0.4 million, or 1.9%, primarily as a result of a discretionary profit sharing contribution to the employee deferred contribution retirement plan of 1% that was made in 2015 and not in 2016, unfilled employee position vacancies throughout 2016 and greater capitalized pay in 2016 related to a meter replacement project. These decreases were partially offset by 2015 and 2016 merit based pay increases.
- Purchased power expense decreased \$0.1 million, or 5.2%, primarily due to the execution of a lower rate three-year supply contract effective May 2016.
- Administration expenses decreased \$0.1 million, or 1.6%, primarily due to a decrease in consulting fees related to an accounting software update in 2015 and a decrease in rate case costs due to the timing of expenses related to Artesian Water's rate applications. These decreases were partially offset by increased legal costs associated with litigation before the DEPSC pertaining to a developer dispute over Contributions in Aid of Construction. Artesian submitted a petition to the DEPSC on October 20, 2016 requesting deferred accounting treatment related to this litigation, however the request was denied by the DEPSC on December 20, 2016.
- Repair and maintenance costs increased \$0.1 million, or 2.1%, primarily due to increased tank painting expenses due to the painting of more tanks in 2016 compared to 2015, partially offset by a decrease in water treatment expenses related to the installation of a new ultra violet oxidation treatment facility in 2015.

Non-utility expenses increased approximately \$0.3 million, or 12.9%, primarily due to an increase in payroll and benefits costs as well as an increase in plumbing services related to the SLP Plans.

Property and other taxes increased by \$0.1 million, or 2.8%, compared to the same period in 2015, reflecting increases in tax rates charged for public schools in various areas where we hold 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 54.1% for the year ended December 31, 2016, compared to 55.6% for the year ended December 31, 2015.

Depreciation and amortization expense increased \$0.4 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 increased \$0.5 million, primarily due to higher pre-tax income for the year ended December 31, 2016, compared to the year ended December 31, 2015. Our total effective income tax rate for 2016 and 2015 was 39.1% and 40.8%, respectively.

### **Other Income, Net**

Allowance for funds used during construction, or AFUDC, decreased \$27,000 in 2016 due to decreased long-term construction activity subject to AFUDC. Miscellaneous income increased \$85,000, primarily due to the timing of charitable contributions this period compared to the same period in 2015.

### **Interest Charges**

Interest expense decreased \$0.4 million, primarily due to a decrease in the Series S First Mortgage Bond interest rate from 6.73% to 4.45% effective March 1, 2016 and a decrease in short-term debt outstanding.

### **Net Income**

For the year ended December 31, 2016, our net income applicable to common stock increased \$1.6 million compared to 2015. This increase in net income was primarily due to higher operating income margins in our water utility business as a result of increased water sales revenue and decreased utility operating expenses, as well as decreased interest expense.

### ***Liquidity and Capital Resources***

#### **Overview**

The Company's primary sources of liquidity for the year ended December 31, 2017 were \$35.8 million provided by cash flow from operating activities, \$11.4 million in net contributions and advances from developers and \$1.7 million in net proceeds from the issuance of common stock. These funds were used to invest \$41.1 million in capital expenditures and to pay dividends of approximately \$8.5 million.

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 net investments in our utility plant and systems in 2018 will be approximately \$58.8 million. Our total obligations related to interest and principal payments on indebtedness, rental payments and water service interconnection agreements for 2018 are anticipated to be approximately \$10.8 million. We expect to fund our activities for the next year using our available cash balances, bank credit lines, projected cash generated from operations and capital investment. 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, because 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. There is no assurance that we will be able to secure funding on terms acceptable to us, or at all.

#### **Operating Activities**

Our primary source of liquidity for the year ended December 31, 2017 was \$35.8 million provided by cash flow from operating activities. 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. 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.

The primary focus of our investment in 2017 was to continue to provide high quality reliable service to our growing service territory. We invested approximately \$41.1 million in capital expenditures during 2017 compared to \$28.2 million invested during the same period in 2016. During 2017, we invested approximately \$10.1 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 \$5.7 million to enhance or

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improve existing treatment facilities, replace aging wells and pumping equipment to better serve our customers. We invested \$6.0 million for equipment purchases, computer hardware and software upgrades and transportation equipment. Developers financed \$5.9 million for the installation of water mains and hydrants in 2017 compared to \$6.1 million in 2016. We invested \$2.1 million to upgrade and automate our meter reading equipment. We invested approximately \$2.0 million in mandatory utility plant expenditures due to governmental highway projects, which required the relocation of water service mains in addition to facility improvements and upgrades. An additional \$9.2 million was invested in wastewater projects in Delaware, of which \$5.7 million was invested in the ongoing construction of an eight mile pipeline and a 90 million gallon storage lagoon for spray irrigation to dispose of treated wastewater from a new industrial customer.

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

<i>In thousands</i>	<b>2017</b>	2016	2015
Source of supply	\$ <b>2,172</b>	\$ 302	\$ 584
Treatment and pumping	<b>3,606</b>	2,021	3,808
Transmission and distribution	<b>14,265</b>	14,865	8,854
General plant and equipment	<b>6,080</b>	2,083	2,670
Developer financed utility plant	<b>5,909</b>	7,996	3,849
Wastewater facilities	<b>9,290</b>	1,130	1,092
Allowance for Funds Used During Construction, AFUDC	<b>(227)</b>	(146)	(163)
Total	\$ <b>41,095</b>	\$ 28,251	\$ 20,694

Of the \$65.0 million we expect to invest in 2018, approximately \$13.7 million will be invested in extending the transmission and distribution facilities to address service needs in growth areas of our service territory. Approximately \$8.4 will be invested in renewals associated with the rehabilitation of aging infrastructure and approximately \$4.4 million will be invested in the relocations of facilities as a result of government mandates. Approximately \$15.4 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 \$1.0 million to customers, real estate developers and builders related to previous advances for construction they provided to Artesian for distribution facilities on 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, \$17.4 million will be invested in Artesian Wastewater for ongoing construction of wastewater plants and force mains, of which \$9.0 million will be used to construct a 90 million gallon storage lagoon for spray irrigation to dispose of treated wastewater from a new industrial customer. 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 2018 is expected to be offset by developer contributions and advances of \$6.2 million for a net investment of \$58.8 million in 2018.

### The Tax Cuts and Jobs Act

On December 22, 2017, the Tax Cuts and Jobs Act (TCJA) was signed into law. We are in the process of analyzing the TCJA and its overall impact on the Company. The TCJA reduces the federal corporate tax rate to 21 percent from 35 percent, among other things. Notwithstanding the reduction in the corporate income tax rate, the overall impact of the TCJA is uncertain. However, based on its preliminary assessment of the reduction in the federal corporate tax rate, the Company currently expects that its 2018 effective tax rate will be reduced and will result in overall lower tax expense beginning in 2018. Such estimate is based on management's current assumptions with respect to, among other things, the Company's earnings, state income tax levels and tax deductions. The Company's actual effective tax rate in 2018 may differ from management's estimate. The TCJA also includes certain other provisions specifically related to the public utility industry, including the exclusion from utilizing bonus depreciation. The impact with respect to provisions specifically related to the public utility industry or to corporate taxpayers in general may also impact our future financial performance, including our results of operations, cash flows and liquidity, which impacts will largely be determined through future regulatory proceedings.

On January 16, 2018, the DEPSC approved the opening of Docket No. 17-1240 requiring Delaware utilities to determine the impact that the TCJA had on its customers and potential rate relief due to customers. Delaware utilities are required to report their findings back to the DEPSC by March 31, 2018. The Company expects any reduction in corporate income tax expense resulting from the TCJA will be passed through to customers in the form of reduced tariff rates or approved DSIC rate.

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## 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.

### Lines of Credit

At December 31, 2017, 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, 2017, there was \$35.9 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 25, 2018 or any date on which Citizens demands payment. The Company expects to renew this line of credit.

At December 31, 2017, 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, 2017, there was \$14.5 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 Water. The patronage refunds earned by Artesian Water for 2017 and 2016 were \$0.6 million and \$0.7 million respectively. The term of this line of credit expires on July 20, 2018. Artesian Water expects to renew this line of credit.

### Line of Credit Commitments

<i>In thousands</i>	Commitment Due by Period			
	Less than 1 Year	1-3 Years	4-5 Years	Over 5 Years
Lines of Credit	\$ 9,610	\$ ----	\$ ----	\$ ----

### 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 47.8% at December 31, 2017. 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, 2017, we were in compliance with these covenants.

### Contractual Obligations

<i>In thousands</i>	Payments Due by Period				
	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years	Total
First mortgage bonds (principal and interest)	\$ 5,461	\$ 10,734	\$ 10,620	\$ 148,679	\$ 175,494
State revolving fund loans (principal and interest)	1,002	2,005	1,677	4,300	8,984
Unconditional purchase obligations	3,824	7,659	3,824	---	15,307
Operating leases	77	113	118	1,336	1,644
Tank painting contractual obligation	426	426	---	---	852
Total contractual cash obligations	\$ 10,790	\$ 20,937	\$ 16,239	\$ 154,315	\$ 202,281

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Long-term debt obligations reflect the maturities of certain series of our first mortgage bonds, which we intend to refinance when due if not refinanced earlier. 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. 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, which expires December 31, 2021.

On January 18, 2017, Artesian Water and CoBank entered into a Bond Purchase Agreement relating to the issue and sale by the Company to CoBank of a \$40 million principal amount First Mortgage Bond, Series T, or the Series T Bond, due December 20, 2036, or the Series T Maturity Date. The Series T Bond was issued pursuant to the Company's Indenture of Mortgage dated as of July 1, 1961, as amended and supplemented by supplemental indentures, including the Twenty-Second Supplemental Indenture, or the Supplemental Indenture, dated as of January 18, 2017 from the Company to Wilmington Trust Company, as Trustee. The Indenture is a first mortgage lien against substantially all of the Company's utility plant. The proceeds from the sale of the Series T Bond were used to prepay indebtedness of the Company under two existing First Mortgage Bonds: Series O, principal amount \$20 million with interest rate of 8.17% and related prepayment costs of \$4.5 million; and Series Q, principal amount \$15.4 million with interest rate of 4.75%. The DEPSC approved the issuance of the Series T Bond on December 20, 2016. The DEPSC also approved deferral of the prepayment costs associated with the First Mortgage Bond, Series O and the previously deferred debt related costs associated with the First Mortgage Bonds, Series O and Series Q.

The Series T Bond carries an annual interest rate of 4.24% through and including the Series T Maturity Date. Interest is payable on June 30th and December 31st of each year, beginning June 30, 2017, until the Company's obligation with respect to the payment of principal, premium (if any) and interest shall be discharged. Overdue payments shall bear interest as provided in the Supplemental Indenture. The terms of the Series T Bond also include certain limitations on the Company's indebtedness.

On January 31, 2018, Artesian Water and CoBank entered into a Bond Purchase Agreement relating to the issue and sale by the Company to CoBank of a \$25 million principal amount First Mortgage Bond, Series U, or the Series U Bond, due January 31, 2038, or the Series U Maturity Date. The Series U Bond was issued pursuant to the Company's Indenture of Mortgage dated as of July 1, 1961, as amended and supplemented by supplemental indentures, including the Twenty-Third Supplemental Indenture, dated as of January 31, 2018 from the Company to Wilmington Trust Company, as Trustee. The Indenture is a first mortgage lien against substantially all of the Company's utility plant. The proceeds from the sale of the Series U Bond together with other funds of the Company, were used to pay in full at maturity indebtedness of the Company under those certain First Mortgage Bonds, Series P. The DEPSC approved the issuance of the Series U Bond on December 21, 2017.

The Series U Bond carries an annual interest rate of 4.71% through and including the Series U Maturity Date. Interest is payable on January 30<sup>th</sup>, April 30<sup>th</sup>, July 30<sup>th</sup> and October 30<sup>th</sup> in each year and on the Series U Maturity Date, beginning April 30, 2018 until the Company's obligation with respect to the payment of principal, premium (if any) and interest shall be discharged. Overdue payments shall bear interest as provided in the Supplemental Indenture. The term of the Series U Bond also includes certain limitations on the Company's indebtedness.

In January 2018, Artesian Water Maryland signed an interconnection agreement with the Town of North East that has a "take or pay" clause requiring us to purchase a minimum of 35,000 gallons per day that shall commence on the first day of the month following the date on which the interconnection is completed. The interconnection completion date is expected to occur during the third quarter of 2018.

In order to control purchased power costs, in October 2015 Artesian Water entered into an electric supply contract for a term from May 2016 through May 2019 at a fixed rate 11.0% lower than its contract set to expire in May 2016 and a rate less than that charged by the local electric supplier. The previous contract term was in effect from May 2013 through May 2016.

### ***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 2028 to 2038, and interest rates ranging from 4.24% to 5.96%, 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, 2017 were approximately \$9.6 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 multi-year supply contract, at a fixed price.

# EXHIBIT E

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### CONSOLIDATED BALANCE SHEETS

*In thousands*

	December 31, 2017	December 31, 2016
<b><u>ASSETS</u></b>		
Utility plant, at original cost less accumulated depreciation	\$ 460,502	\$ 425,502
Current assets		
Cash and cash equivalents	952	226
Accounts receivable (less allowance for doubtful accounts 2017 - \$288; 2016 - \$263)	8,897	7,796
Income tax receivable	2,353	150
Unbilled operating revenues	1,427	1,403
Materials and supplies	1,519	1,564
Prepaid property taxes	1,795	1,669
Prepaid expenses and other	2,042	1,827
Total current assets	18,985	14,635
Other assets		
Non-utility property (less accumulated depreciation 2017 - \$689; 2016 - \$611)	3,882	3,881
Other deferred assets	3,721	3,584
Total other assets	7,603	7,465
Regulatory assets, net	7,549	3,374
	<u>\$ 494,639</u>	<u>\$ 450,976</u>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
Stockholders' equity		
Common stock	\$ 9,215	\$ 9,127
Preferred stock	—	—
Additional paid-in capital	99,526	97,480
Retained earnings	37,903	32,416
Total stockholders' equity	146,644	139,023
Long-term debt, net of current portion	105,587	102,331
	<u>252,231</u>	<u>241,354</u>
Current liabilities		
Lines of credit	9,610	7,130
Current portion of long-term debt	1,344	1,316
Accounts payable	8,853	5,532
Accrued expenses	2,888	1,309
Overdraft payable	304	32
Accrued interest	1,805	1,000
Customer deposits	969	864
Other	2,688	2,145
Total current liabilities	28,461	19,328
Commitments and contingencies (Note 10)	—	—
Deferred credits and other liabilities		
Net advances for construction	\$ 7,797	\$ 8,169
Regulatory liabilities	23,201	1,022
Deferred investment tax credits	526	544
Deferred income taxes	54,137	68,453
Total deferred credits and other liabilities	85,661	78,188
Net contributions in aid of construction	128,286	112,106
	<u>\$ 494,639</u>	<u>\$ 450,976</u>

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

**EXHIBIT E****CONSOLIDATED STATEMENTS OF OPERATIONS***In thousands, except per share amounts*

	For the Year Ended December 31,		
	2017	2016	2015
Operating revenues			
Water sales	\$ 73,058	\$ 70,587	\$ 68,932
Other utility operating revenue	4,177	3,816	3,694
Non-utility operating revenue	5,000	4,686	4,398
	<u>82,235</u>	<u>79,089</u>	<u>77,024</u>
Operating expenses			
Utility operating expenses	38,277	35,658	36,148
Non-utility operating expenses	2,777	2,602	2,305
Depreciation and amortization	9,555	9,188	8,837
Taxes			
State and federal income tax (benefit) expense			
Current	(929)	2,849	2,667
Deferred	8,224	5,482	5,117
Property and other taxes	4,731	4,491	4,368
	<u>62,635</u>	<u>60,270</u>	<u>59,442</u>
Operating income	<u>19,600</u>	<u>18,819</u>	<u>17,582</u>
Other income, net			
Allowance for funds used during construction (AFUDC)	334	222	249
Miscellaneous	226	557	472
	<u>560</u>	<u>779</u>	<u>721</u>
Income before interest charges	20,160	19,598	18,303
Interest charges	<u>6,177</u>	<u>6,644</u>	<u>6,998</u>
<b>Net income applicable to common stock</b>	<u><u>\$ 13,983</u></u>	<u><u>\$ 12,954</u></u>	<u><u>\$ 11,305</u></u>
Income per common share:			
Basic	\$ 1.52	\$ 1.42	\$ 1.26
Diluted	\$ 1.51	\$ 1.41	\$ 1.26
Weighted average common shares outstanding:			
Basic	9,175	9,098	8,960
Diluted	9,242	9,161	9,005
Cash dividends per share of common stock	\$ 0.9269	\$ 0.8997	\$ 0.8733

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

**EXHIBIT E****CONSOLIDATED STATEMENTS OF CASH FLOWS***In thousands*

	For the Year Ended December 31,		
	2017	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 13,983	\$ 12,954	\$ 11,305
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	9,555	9,188	8,837
Deferred income taxes, net	8,206	5,464	5,097
Stock compensation	423	92	183
AFUDC, equity portion	(227)	(146)	(163)
Changes in assets and liabilities:			
Accounts receivable, net of allowance for doubtful accounts	(187)	(292)	(867)
Income tax receivable	(2,203)	1,278	1,640
Unbilled operating revenues	(24)	132	1,779
Materials and supplies	45	149	177
Prepaid property taxes	(126)	(78)	(190)
Prepaid expenses and other	(215)	(209)	49
Other deferred assets	(172)	(175)	(167)
Regulatory assets	405	734	187
Regulatory liabilities	(37)	(81)	(38)
Accounts payable	3,321	618	1,131
Accrued expenses	1,579	55	(259)
Accrued interest	805	(32)	(396)
Customer deposits and other, net	648	128	102
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>35,779</u>	<u>29,779</u>	<u>28,407</u>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>			
Capital expenditures (net of AFUDC, equity portion)	(41,094)	(28,251)	(20,694)
Proceeds from sale of assets	87	96	48
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(41,007)</u>	<u>(28,155)</u>	<u>(20,646)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net borrowings (repayments) under lines of credit agreements	2,480	(3,357)	(8,004)
Increase (decrease) in overdraft payable	272	(514)	405
Net advances and contributions in aid of construction	11,353	9,907	5,829
Net proceeds from issuance of common stock	1,711	1,826	3,049
Dividends paid	(8,496)	(8,180)	(7,811)
Debt issuance costs	(148)	—	—
Principal repayments of long-term debt	(1,218)	(1,289)	(1,263)
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<u>5,954</u>	<u>(1,607)</u>	<u>(7,795)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	726	17	(34)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>226</u>	<u>209</u>	<u>243</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 952</u>	<u>\$ 226</u>	<u>\$ 209</u>
<b>Supplemental Disclosures of Cash Flow Information:</b>			
Utility plant received as construction advances and contributions in aid of construction	<u>\$ 5,662</u>	<u>\$ 2,499</u>	<u>\$ 1,451</u>
Contractual amounts of contributions in aid of construction due from developers included in accounts receivable	<u>\$ 2,910</u>	<u>\$ 1,542</u>	<u>\$ 796</u>
Contractual amounts of contributions in aid of construction received from developers previously included in accounts receivable	<u>\$ 1,995</u>	<u>\$ 388</u>	<u>\$ 377</u>
<b>Supplemental Disclosures of Cash Flow Information:</b>			
Interest paid	<u>\$ 5,372</u>	<u>\$ 6,676</u>	<u>\$ 7,394</u>
Income taxes paid	<u>\$ 1,281</u>	<u>\$ 1,434</u>	<u>\$ 2,608</u>

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

# EXHIBIT E

## 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, 2014	8,030	882	\$8,030	\$882	\$92,545	\$24,148	\$125,605
Net income	—	—	—	—	—	11,305	11,305
Cash dividends declared							
Common stock	—	—	—	—	—	(7,811)	(7,811)
Issuance of common stock							
Dividend reinvestment plan	18	—	18	—	366	—	384
Employee stock options and awards(4)	111	—	111	—	2,419	—	2,530
Employee Retirement Plan(3)	17	—	17	—	301	—	318
Balance as of December 31, 2015	8,176	882	\$8,176	\$882	\$95,631	\$27,642	\$132,331
Net income	—	—	—	—	—	12,954	12,954
Cash dividends declared							
Common stock	—	—	—	—	—	(8,180)	(8,180)
Issuance of common stock							
Dividend reinvestment plan	13	—	13	—	387	—	400
Employee stock options and awards(4)	38	—	38	—	939	—	977
Employee Retirement Plan(3)	18	—	18	—	523	—	541
Balance as of December 31, 2016	8,245	882	\$8,245	\$882	\$97,480	\$32,416	\$139,023
Net income	—	—	—	—	—	13,983	13,983
Cash dividends declared							
Common stock	—	—	—	—	—	(8,496)	(8,496)
Issuance of common stock							
Dividend reinvestment plan	11	—	11	—	378	—	389
Employee stock options and awards(4)	67	—	67	—	1,313	—	1,380
Employee Retirement Plan(3)	10	—	10	—	355	—	365
Balance as of December 31, 2017	8,333	882	\$8,333	\$882	\$99,526	\$37,903	\$146,644

- (1) *At December 31, 2017, 2016, and 2015, Class A Common Stock had 15,000,000 shares authorized. For the same periods, shares issued, inclusive of treasury shares, were 8,362,431, 8,275,010 and 8,205,190, respectively.*
- (2) *At December 31, 2017, 2016, and 2015, 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 December 9, 2015 Artesian Resources Corporation authorized up to 331,500 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. Includes stock compensation expense for the years ended December 31, 2017, 2016, and 2015, see Note 1-Stock Compensation Plans.*

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

**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.

*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. These regulated subsidiaries account for the majority of our operating revenue. The operating revenues of our non-regulated division are presented in the Consolidated Statements of Operations.

*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, 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 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 2017, 2016, and 2015 was 7.7%, 8.1%, and 8.1% respectively.

## EXHIBIT E

### Utility plant comprises:

*In thousands*

	Estimated Useful Life (In Years)	December 31,	
		2017	2016
Utility plant at original cost			
Utility plant in service-Water			
Intangible plant	—	\$ 140	\$ 140
Source of supply plant	45-85	20,959	19,627
Pumping and water treatment plant	8-62	81,180	78,542
Transmission and distribution plant			
Mains	81	252,569	236,261
Services	39	42,232	38,803
Storage tanks	76	24,729	24,108
Meters	26	25,628	24,710
Hydrants	60	13,760	12,870
General plant	3-31	56,784	53,417
Utility plant in service-Wastewater			
Treatment and disposal plant	35-62	17,421	15,613
Collection mains & lift stations	81	13,692	8,675
General plant	3-31	1,006	931
Property held for future use	—	14,647	14,815
Construction work in progress	—	12,700	6,674
		577,447	535,186
Less – accumulated depreciation		116,945	109,684
		\$ 460,502	\$ 425,502

### *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 2.27%, 2.25% and 2.29% for 2017, 2016 and 2015, 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 20 to 24 years.

### *Regulatory Assets*

The Financial Accounting Standards Board, or 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.

The postretirement benefit obligation is the recognition of an offsetting regulatory liability 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. Artesian Water contributed \$37,000 to its postretirement benefit plan in 2017. These contributions consist of insurance premium payments for medical, dental and life insurance benefits made on behalf of the Company's eligible retired employees.

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.

Debt related costs include debt issuance costs and other debt related expense. The DEPSC has allowed rate recovery on unamortized issuance costs and make-whole premiums associated with the early retirement of Series O and Q First Mortgage bonds as the replacement

## EXHIBIT E

of that debt in January 2017 with Series T First Mortgage bonds was deemed more favorable for the ratepayers. The DEPSC has also allowed rate recovery on issuance costs associated with the Series U First Mortgage bond purchase in January 2018 that paid the full indebtedness of the Series P First Mortgage bond. These amounts are recovered over the term of the new long-term debt issued.

Regulatory expenses amortized on a straight-line basis are noted below:

Expense	Years Amortized
Depreciation and salary studies	5
Delaware rate proceedings	2.5
Maryland rate proceedings	5
Debt related costs	15 to 25 (based on term of related debt)
Goodwill (resulting from acquisition of Mountain Hill Water Company in 2008)	50
Deferred acquisition costs (resulting from purchase of water assets in Cecil County, Maryland in 2011 and Port Deposit, Maryland in 2010)	20
Franchise Costs (resulting from purchase of water assets in Cecil County, Maryland in 2011)	80

### Regulatory assets, net of amortization, comprise:

	(in thousands)	
	December 31, 2017	December 31, 2016
Postretirement benefit obligation	\$ 149	\$ 186
Deferred income taxes	416	431
Expense of rate and regulatory proceedings	70	116
Debt issuance costs	5,965	1,648
Goodwill	303	310
Deferred acquisition and franchise costs	646	683
	\$ 7,549	\$ 3,374

### *Impairment or Disposal of Long-Lived Assets*

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

### *Other Deferred Assets*

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:

<i>In thousands</i>	2017	2016
Investment in CoBank	\$ 3,358	\$ 3,198
Other	363	386
	\$ 3,721	\$ 3,584

*Advances for Construction*

Cash advances to reimburse Artesian Water for its costs to construct water mains, services and hydrants are contributed to Artesian Water by real estate developers and builders in order to extend water service to their properties. The Company only accepts advances related to new phases of existing developments that are grandfathered into the refundable arrangement through pre-existing contracts. 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.

*Regulatory Liabilities*

The Financial Accounting Standards Board, or 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 obligations are deferred and/or amortized as determined by the Delaware Public Service Commission, or DEPSC, the Maryland Public Service Commission, or MDPSC, and the Pennsylvania Public Utility Commission, or PAPUC. Regulatory liabilities represent excess recovery of cost or other items that have been deferred because it is probable such amounts will be returned to customers through future regulated rates.

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. Artesian Water contributed \$37,000 to its postretirement benefit plan in 2017. These contributions consist of insurance premium payments for medical, dental and life insurance benefits made on behalf of the Company's eligible retired employees.

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.

Pursuant to the enactment of the Tax Cuts and Jobs Act, or TCJA, on December 22, 2017, the Company adjusted its existing deferred income tax balances as of December 31, 2017 to reflect the decrease in the corporate income tax rate from 34% to 21% (see Note 3). This resulted in a decrease in the net deferred income tax liability of approximately \$23.5 million of which \$22.5 million was reclassified to a regulatory liability. These amounts are subject to certain Internal Revenue Service normalization rules that require the benefits to customers be spread over the remaining useful life of the underlying assets giving rise to the associated deferred income taxes. The amount and timing of potential settlements of the established net regulatory liabilities will be determined by the utilities' respective rate regulators.

**Regulatory liabilities comprise:**

	(in thousands)	
	December 31, 2017	December 31, 2016
Postretirement benefit obligation	\$ 112	\$ 149
Utility plant retirement cost obligation	549	873
Deferred income taxes (related to TCJA)	22,540	---
	\$ 23,201	\$ 1,022

*Income Taxes*

The TCJA makes many significant changes to the Internal Revenue Code, including, but not limited to (1) reducing the federal corporate tax rate to a flat 21%; (2) creating a 30% limitation on deductible interest expense (not applicable to regulated utilities); (3) the loss of future bonus depreciation deductions on utility plant capital projects that began after September 27, 2017; (4) eliminating the domestic production activities deduction; (5) eliminating the corporate alternative minimum tax and changing how existing alternative minimum tax credits can be realized; (6) changing the rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017 and (7) repealing the exclusion from gross income contributions in aid of construction (CIAC) for water utilities. The most significant change that impacts Artesian Resources is the reduction of the corporate federal income tax rate

from our previous effect rate of 34% to the new flat tax rate of 21% beginning January 1, 2018.

The SEC Staff issued Accounting Bulletin No. 118, Income Tax Accounting of the Tax Cuts and Jobs Act, which provides guidance to address situations where a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for certain income tax effects of the TCJA in the period in which the TCJA was enacted. Under the guidance, registrants can report the effects of the TCJA as provisional amounts based on reasonable estimates in those areas in which the accounting is incomplete. The provisional amounts are subject to adjustment during a measurement period that can extend no longer than one year from the enactment date. The Company made reasonable estimates in measuring and accounting for the effects of the TCJA, which are reflected in the December 31, 2017 financial statements, however, these estimates could change based on further analysis of the TCJA or further regulatory rulings from the Company's various Public Service Commissions.

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. The Company's rate regulated utilities recognize regulatory liabilities, to the extent considered in ratemaking, for deferred taxes provided in excess of the current statutory tax rate and regulatory assets for deferred taxes provided at rates less than the current statutory rate. Such tax-related regulatory assets and liabilities are reported at the revenue requirement level and amortized to income as the related temporary differences reverse, generally over the lives of the related properties.

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. 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 accrued interest (net of related tax benefits) and penalties related to uncertain tax positions as a component of its income tax expense. The Company remains subject to examination by federal authorities for the tax years 2015 through 2017 and state authorities for the tax years 2014 through 2017. The Company was under federal audit by the Internal Revenue Service for tax years 2012 through 2014 during 2016. The audit concluded in 2016 resulting in no change to the tax liability.

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. On December 22, 2017, the TCJA repealed the 1996 exclusion from gross income effective on the enactment date.

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

#### *Stock Compensation Plans*

On December 9, 2015, the Company's stockholders approved the 2015 Equity Compensation Plan, or the 2015 Plan. The 2015 Plan replaced the 2005 Equity Compensation Plan, or the 2005 Plan, which expired on May 24, 2015. The 2015 Plan authorizes an aggregate number of shares of our Class A common stock that may be issued or transferred under the Plan equal to the sum of: 331,500 shares, plus the number of shares of Class A common stock subject to outstanding grants under the 2005 Plan as of December 9, 2015 that terminate, expire or are cancelled, forfeited, exchanged or surrendered without having been exercised, vested or paid under the 2005 Plan. The Company accounts for stock options issued after January 1, 2006 under FASB ASC Topic 718. Compensation costs for restricted stock grants and options were \$423,000, \$92,000 and \$183,000 in 2017, 2016 and 2015, respectively. Cost for options and restricted stock grants were determined based on the fair value at the grant dates and those costs were charged to income over the associated service periods. The \$183,000 in 2015 was the amount amortized for restricted stock awarded in 2015 and stock options awarded in 2014. The \$92,000 in 2016 was the amount amortized for restricted stock awarded in 2016. The \$423,000 was the amount amortized for restricted and unrestricted stock awarded in 2016 and 2017. As of December 31, 2017 there is \$64,000 unrecognized expense related to non-vested awards of restricted shares granted under the 2015 Plan.

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

#### *Stock Options*

No options were granted in 2015, 2016 or 2017.

Shares of Class A Stock have been reserved for future issuance under the 2015 Equity Compensation Plan.

## EXHIBIT E

### *Stock Awards*

On June 28, 2017, 6,568 shares of Class A common stock, or Class A Stock, were issued as fully vested unrestricted stock awards. The fair market value per share was \$38.06, the closing price of the Class A Stock as recorded on the Nasdaq Global Market on June 28, 2017. A total of \$250,000 was recorded as compensation cost for the stock awards granted in June 2017.

On May 3, 2017, 5,000 shares of Class A Stock were granted as restricted stock awards. The fair value per share was \$38.10, the closing price of the Class A Stock as recorded on the Nasdaq Global Market on May 3, 2017. The restricted shares are subject to a one-year vesting period from the date of grant. Prior to their release date, these restricted stock awards may be subject to forfeiture in the event of the recipient's termination of service. \$127,000 has been amortized and recorded as expense in 2017 for the stock awards granted in May 2017.

On May 4, 2016, 5,000 shares of Class A common stock were granted as restricted stock awards. The fair market value per share was \$27.70, the closing price of the Class A common stock as recorded on the Nasdaq Global Market on May 4, 2016. The restricted shares vested one year from the date of grant. A total of \$92,000 and \$47,000 in 2016 and 2017, respectively, was recorded as compensation cost for the awards granted in May 2016.

### *Revenue Recognition and Unbilled Revenues*

Water service revenue for financial statement purposes includes amounts billed to Delaware customers on a monthly basis, amounts billed to Maryland customers on a quarterly or monthly cycle basis, depending on water system, and amounts billed to Pennsylvania customers on a quarterly basis. 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 utility 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 Service Line Protection Plans and 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 at December 31, 2017 and December 31, 2016. The corresponding expense for each of the years ended December 31, 2017 and 2016 was \$0.2 million. The following table summarizes the changes in the Company's accounts receivable balance:

<i>In thousands</i>	December 31,		
	2017	2016	2015
Customer accounts receivable – water	\$ 5,487	\$ 5,437	\$ 5,017
Contractual amounts due from developers and other	3,698	2,622	1,610
	<u>9,185</u>	<u>8,059</u>	<u>6,627</u>
Less allowance for doubtful accounts	288	263	277
Net accounts receivable	<u>\$ 8,897</u>	<u>\$ 7,796</u>	<u>\$ 6,350</u>

## EXHIBIT E

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

<i>In thousands</i>	December 31,		
	2017	2016	2015
Beginning balance	\$ 263	\$ 277	\$ 250
Allowance adjustments	215	195	205
Recoveries	41	64	53
Write off of uncollectible accounts	(231)	(273)	(231)
Ending balance	<u>\$ 288</u>	<u>\$ 263</u>	<u>\$ 277</u>

### *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 Sheet in the Overdraft Payable account.

### *Use of Estimates in the Preparation of Consolidated Financial Statements*

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

## **NOTE 2**

### ***FAIR VALUE OF FINANCIAL INSTRUMENTS***

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

#### *Current Assets and Liabilities*

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

#### *Long-term Financial Liabilities*

All of Artesian Resources' outstanding long-term debt as of December 31, 2017 and December 31, 2016 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. Level 2 is valued using observable inputs other than quoted prices. 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:

<i>In thousands</i>	December 31,	
	2017	2016
Carrying amount	\$ 106,931	\$ 103,647
Estimated fair value	110,524	111,864

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

## NOTE 3

## INCOME TAXES

Deferred income taxes reflect temporary differences between the valuation of assets and liabilities for financial and tax reporting. Pursuant to the enactment of the TCJA, the Company adjusted its existing deferred income tax balances as of December 31, 2017 to reflect the decrease in the corporate income tax rate from 34% to 21%, which resulted in a decrease in the net deferred income tax liability of approximately \$23.5 million. Artesian Resources recorded a net benefit to continuing operations of approximately \$1.0 million, while the regulated utility subsidiaries recorded a regulatory liability related to deferred income taxes to be passed through to customers in the form of reduced tariff rates or approved DSIC rate (see Note 1) in the amount of approximately \$22.5 million. The amount and timing of potential settlements of the established net regulatory liabilities will be determined by the utilities' respective rate regulators, subject to certain Internal Revenue Service normalization rules. The normalization rules require that the benefits to customers be spread over the remaining useful life of the underlying assets giving rise to the associated deferred income taxes.

At December 31, 2017, for federal income tax purposes, there were alternative minimum tax credit carry-forwards aggregating \$1.8 million resulting from the payment of alternative minimum tax in prior years. Effective January 1, 2018, these alternative minimum tax credit carry-forwards are available for refund. The Company has reclassified all of its AMT credits into the current income tax receivable as of December 31, 2017 since they are expected to be utilized in 2018.

As of December 31, 2017, Artesian Resources had fully utilized all of its federal net operating loss carrybacks and carry-forwards. As of December 31, 2017, Artesian Resources has separate company state net operating loss carry-forwards aggregating approximately \$15.4 million. These net operating loss carry-forwards will expire if unused between 2019 and 2038. 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. The valuation allowance increased to approximately \$360,000 in 2017 from approximately \$286,000 in 2016. Management believes that it is more likely than not that the Company will realize the benefits of these net deferred tax assets.

## Components of Income Tax Expense

In thousands

	For the Year Ended December 31,		
	2017	2016	2015
State income taxes			
Current	\$ 489	\$ 1,050	\$ 499
Deferred	1,368	860	1,299
Total state income tax expense	<u>\$ 1,857</u>	<u>\$ 1,910</u>	<u>\$ 1,798</u>
Federal income taxes			
Current	\$ (1,418)	\$ 1,799	\$ 2,168
Deferred	6,856	4,622	3,818
Total federal income tax expense	<u>\$ 5,438</u>	<u>\$ 6,421</u>	<u>\$ 5,986</u>

## Reconciliation of effective tax rate:

In thousands	For the Year Ended December 31,					
	2017 Amount	2017 Percent	2016 Amount	2016 Percent	2015 Amount	2015 Percent
Reconciliation of effective tax rate						
Income before federal and state income taxes	\$ 21,278	100.0%	\$ 21,285	100.0%	\$ 19,088	100.0%
Amount computed at statutory rate	7,234	34.0%	7,237	34.0%	6,490	34.0%
Reconciling items						
State income tax-net of federal tax benefit	1,297	6.1%	1,327	6.2%	1,214	6.4%
Federal rate change	(957)	(4.5%)	---	---	---	---
Other	(279)	(1.3%)	(233)	(1.1%)	80	0.4%
Total income tax expense and effective rate	<u>\$ 7,295</u>	<u>34.3%</u>	<u>\$ 8,331</u>	<u>39.1%</u>	<u>\$ 7,784</u>	<u>40.8%</u>

## EXHIBIT E

Deferred income taxes at December 31, 2017, 2016, and 2015 were comprised of the following:

<i>In thousands</i>	For the Year Ended December 31,		
	2017	2016	2015
<b>Deferred tax assets related to:</b>			
Federal alternative minimum tax credit carry-forwards	\$ ---	\$ 2,474	\$ 3,971
Federal and state operating loss carry-forwards	1,094	752	675
Bad debt allowance	80	104	110
Valuation allowance	(360)	(286)	(182)
Stock options	207	452	415
Other	161	320	291
Total deferred tax assets	\$ 1,182	\$ 3,816	\$ 5,280
 <b>Deferred tax liabilities related to:</b>			
Property plant and equipment basis differences	\$ (52,629)	\$ (70,711)	\$ (66,508)
Bond retirement costs	(1,437)	---	---
Uncertain tax position	(145)	(80)	(247)
Expenses of rate proceedings	(8)	(19)	(213)
Property taxes	(500)	(663)	(527)
Other	(600)	(796)	(756)
Total deferred tax liabilities	\$ (55,319)	\$ (72,269)	\$ (68,251)
Net deferred tax liability	\$ (54,137)	\$ (68,453)	\$ (62,971)

### Schedule of Valuation Allowance

<i>In thousands</i>	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions	Balance at End of Period
<i>Classification</i>				
For the Year Ended December 31, 2017 Valuation allowance for deferred tax assets	\$ 286	\$ 74	—	\$ 360
For the Year Ended December 31, 2016 Valuation allowance for deferred tax assets	\$ 182	\$ 104	—	\$ 286
For the Year Ended December 31, 2015 Valuation allowance for deferred tax assets	\$ 65	\$ 117	—	\$ 182

Under FASB ASC Topic 740, the Company established two reserves for uncertain tax positions based upon management's judgment as to the sustainability of these positions.

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 2017 Federal tax return when filed of \$4.5 million for qualifying capital expenditures made during the year.

In December 2015, the Company was notified by the IRS that its Federal tax filing for 2014 would be reviewed along with the effects of the net operating loss generated in 2014 and carryback to the 2012 and 2013 tax years. This review, which began in the first quarter of 2016 and was completed in the second quarter of 2016, resulted in no change to the tax liability. Since the Company had previously recorded a provision for the possible disallowance of a portion of the repair deduction in prior periods, the completion of the audit resulted in the reversal of the reserve, including interest and penalties, in the amount of approximately \$201,000. While the Company maintains the belief that the deduction taken on its tax return is appropriate, the methodology for determining the deduction has not been

## EXHIBIT E

agreed to by the tax authorities. Therefore, as required by FASB ASC 740, the Company reserved an additional liability related to a portion of the repair deduction for 2017.

Additionally, the Company reserved a liability related to the difference in the tax depreciation utilizing the half-year convention rather than the mid-quarter convention.

**The following table provides the changes in the Company's uncertain tax position:**

<i>In thousands</i>	For the years ended December 31,	
	2017	2016
Balance at beginning of year	\$ 80	\$ 247
Additions based on tax positions related to the current year	118	23
Additions based on tax positions related to prior years	8	11
Reductions for tax positions of prior years	—	(201)
Settlements	—	—
Federal tax rate change	(61)	—
Lapses in statutes of limitations	—	—
Balance at end of year	\$ 145	\$ 80

### NOTE 4

#### PREFERRED STOCK

As of December 31, 2017 and 2016, Artesian Resources had no preferred stock outstanding. Artesian Resources has 100,000 shares of \$1.00 par value Series Preferred stock authorized but unissued.

### NOTE 5

#### COMMON STOCK AND ADDITIONAL PAID-IN CAPITAL

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

Under Artesian Resources' dividend reinvestment plan, which allows for reinvestment of cash dividends and optional cash payments, stockholders were issued approximately 11,000, 13,000 and 18,000 shares at fair market value for the investment of \$389,000, \$400,000, and \$384,000 of their monies in the years 2017, 2016, and 2015, respectively.

### NOTE 6

#### DEBT

At December 31, 2017, 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, 2017, there was \$35.9 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 25, 2018 or any date on which Citizens demands payment. The Company expects to renew this line of credit.

At December 31, 2017, 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, 2017, there was \$14.5 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. The patronage refunds earned by Artesian in 2017 and 2016 were \$0.6 million and \$0.7 million, respectively. The term of this line of credit expires on July 20, 2018. The Company expects to renew this line of credit.

## EXHIBIT E

On January 18, 2017, Artesian Water and CoBank entered into a Bond Purchase Agreement relating to the issue and sale by the Company to CoBank of a \$40 million principal amount First Mortgage Bond, Series T, or the Series T Bond, due December 20, 2036, or the Maturity Date. The Series T Bond was issued pursuant to the Company's Indenture of Mortgage dated as of July 1, 1961, as amended and supplemented by supplemental indentures, including the Twenty-Second Supplemental Indenture, or the Supplemental Indenture, dated as of January 18, 2017 from the Company to Wilmington Trust Company, as Trustee. The Indenture is a first mortgage lien against substantially all of the Company's utility plant. The proceeds from the sale of the Series T Bond were used to prepay indebtedness of the Company under two existing First Mortgage Bonds: Series O, principal amount \$20 million with interest rate of 8.17% and related prepayment costs of \$4.5 million; and Series Q, principal amount \$15.4 million with interest rate of 4.75%. The DEPSC approved the issuance of the Series T Bond on December 20, 2016. The DEPSC also approved deferral of the prepayment costs associated with the First Mortgage Bond, Series O and the previously deferred debt related costs associated with the First Mortgage Bonds, Series O and Series Q.

The Series T Bond carries an annual interest rate of 4.24% through and including the Maturity Date. Interest is payable on June 30th and December 31st of each year, beginning June 30, 2017, until the Company's obligation with respect to the payment of principal, premium (if any) and interest shall be discharged. Overdue payments shall bear interest as provided in the Supplemental Indenture. The terms of the Series T Bond also include certain limitations on the Company's indebtedness.

The weighted average interest rate on the lines of credit above paid by the Company was 2.28% for the year ended December 31, 2017. 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, 2017, we were in compliance with these covenants.

### Long-term debt consists of:

<i>In thousands</i>	December 31,	
	2017	2016
First mortgage bonds		
Series O, 8.17%, due December 29, 2020	\$ -	\$ 20,000
Series P, 6.58%, due January 31, 2018	25,000	25,000
Series Q, 4.75%, due December 1, 2043	-	15,400
Series R, 5.96%, due December 31, 2028	25,000	25,000
Series S, 4.45%, due December 31, 2033	9,600	10,200
Series T, 4.24%, due December 20, 2036	40,000	-
	99,600	95,600
State revolving fund loans		
4.48%, due August 1, 2021	1,190	1,456
3.57%, due September 1, 2023	558	640
3.64%, due May 1, 2025	1,025	1,142
3.41%, due February 1, 2031	2,315	2,448
3.40%, due July 1, 2032	2,243	2,361
	7,331	8,047
Sub-total	106,931	103,647
Less: current maturities (principal amount)	1,344	1,316
Total long-term debt	\$ 105,587	\$ 102,331

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

<i>In thousands</i>	2018	2019	2020	2021	2022	Thereafter
First Mortgage bonds	\$ 600	\$ 600	\$ 600	\$ 600	\$ 600	\$ 96,600
State revolving fund loans	744	771	801	832	533	3,651
Total payments	\$ 1,344	\$ 1,371	\$ 1,401	\$ 1,432	\$ 1,133	\$ 100,251

The table above is reflective of the purchase of the \$25 million principal amount First Mortgage Bond, Series U, or the Bond, due January 31, 2038, which was completed in January 2018. The proceeds from the sale of the Bond were used to pay in full at maturity indebtedness of the Company under First Mortgage Bond, Series P (see Note 18).

**NOTE 7**

**NON-UTILITY OPERATING REVENUE AND EXPENSES**

Non-utility operating revenue consisted of \$5.0 million, \$4.7 million, and \$4.4 million recognized by Artesian Utility in 2017, 2016 and 2015, respectively. Non-utility operating expenses consisted of \$2.8 million, \$2.6 million and \$2.3 million primarily recognized by Artesian Utility in 2017, 2016 and 2015, respectively. Artesian Utility operates the water, wastewater and internal Service Line Protection Plans, or SLP Plans, and provides contract water and wastewater services. The SLP Plans provide coverage for all material and labor required to repair or replace participants' leaking water service, clogged sewer lines or water and wastewater lines within the residence up to an annual limit.

**NOTE 8**

**STOCK COMPENSATION PLANS**

On December 9, 2015, the Company's stockholders approved the 2015 Equity Compensation Plan, or the 2015 Plan, that replaced the 2005 Equity Compensation Plan, or the 2005 Plan, which expired on May 24, 2015. The 2015 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 2015 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 2015 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 2015 Plan) and deal with any other matters arising under the 2015 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 2015 Plan. Non-employee directors of the Company are also eligible to receive grants under the 2015 Plan.

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

	2017 Shares	2017 Weighted Average Exercise Price	2016 Shares	2016 Weighted Average Exercise Price	2015 Shares	2015 Weighted Average Exercise Price
Plan options						
Outstanding at beginning of year	231,755	\$ 19.32	270,000	\$ 19.34	376,250	\$ 19.52
Granted	—	—	—	—	—	—
Exercised	(54,953)	17.42	(38,245)	19.50	(106,250)	19.97
Expired	—	—	—	—	—	—
Outstanding at end of year	176,802	\$ 19.91	231,755	\$ 19.32	270,000	\$ 19.34
Options exercisable at year end	176,802	\$ 19.91	231,755	\$ 19.32	270,000	\$ 19.34

The total intrinsic value of options exercised during 2017, 2016 and 2015 were \$1,198,000, \$351,000 and \$379,000, respectively. During 2017, we received \$957,000 in cash from the exercise of options, with a \$1,400,000 tax benefit realized for those options.

**The following tables summarize information about employee and director stock options outstanding at December 31, 2017:**

**Options Outstanding**

Range of Exercise Price	Shares Outstanding at December 31, 2017	Weighted Average Remaining Life	Weighted Average Exercise Price	Aggregate Intrinsic Value
\$ 15.26 - \$18.61	41,802	1.99 Years	\$ 17.52	\$ 879,409
\$ 18.62 - \$22.66	135,000	4.86 Years	\$ 20.64	\$ 2,418,187

**Options Exercisable**

Range of Exercise Price	Shares Exercisable at December 31, 2017	Weighted Average Remaining Life	Weighted Average Exercise Price	Aggregate Intrinsic Value
\$ 15.26 - \$18.61	41,802	1.99 Years	\$ 17.52	\$ 879,409
\$ 18.62 - \$22.66	135,000	4.86 Years	\$ 20.64	\$ 2,418,187

## EXHIBIT E

As of December 31, 2017, there was no unrecognized expense related to non-vested option shares granted under the Plan.

The following summary reflects changes in the shares of Class A Stock Restricted Stock Awards (RSA):

	2017 Weighted Average Grant Date Fair Value	2016 Weighted Average Grant Date Fair Value	2015 Weighted Average Grant Date Fair Value	2017 Shares	2016 Shares	2015 Shares	2015 Weighted Average Exercise Price
Plan RSA's							
Outstanding at beginning of year	5,000	\$ 27.70	—	\$ —	—	\$ —	—
Granted	11,568	38.08	5,000	27.70	5,000	27.38	27.38
Vested/Released	(11,568)	33.58	—	—	(5,000)	27.38	27.38
Cancelled	—	—	—	—	—	—	—
Unvested Outstanding at end of year	<u>5,000</u>	<u>\$ 38.10</u>	<u>5,000</u>	<u>\$ 27.70</u>	<u>—</u>	<u>\$ —</u>	<u>—</u>

On June 28, 2017, 6,568 shares of Class A common stock were issued as fully vested restricted stock awards. The fair market value per share was \$38.06, the closing price of the Class A common stock as recorded on the Nasdaq Global Market on June 28, 2017.

On May 3, 2017, 5,000 shares of Class A common stock, or Class A Stock, were granted as restricted stock awards. The fair value per share was \$38.10, the closing price of the Class A Stock as recorded on the Nasdaq Global Market on May 3, 2017. The restricted shares are subject to a one year vesting period from the date of grant. Prior to their release date, these restricted stock awards may be subject to forfeiture in the event of the recipient's termination of service.

On May 4, 2016, 5,000 shares of Class A common stock were granted as restricted stock awards. The fair market value per share was \$27.70, the closing price of the Class A common stock as recorded on the Nasdaq Global Market on May 4, 2016. The restricted shares vest one year from the date of grant.

On December 18, 2015, 5,000 shares of Class A common stock were issued as fully vested unrestricted stock awards. The fair market value per share was \$27.38, the closing price of the Class A common stock as recorded on the Nasdaq Global Market on December 18, 2015.

As of December 31, 2017, there was \$63,700 total unrecognized expense related to non-vested awards of restricted shares awarded under the 2015 Plan. The cost will be recognized over 0.33 years, the remaining vesting period for the restricted stock awards.

The total intrinsic value of awards released during 2017 was approximately \$441,000.

### 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. In 2017 and 2015, an additional 1% of eligible salaries and wages was contributed under 401(k) Plan. No such additional contributions were made in 2016. The 401(k) Plan expenses, which include Company contributions and administrative fees, for the years 2017, 2016 and 2015, were approximately \$1.0 million, \$0.9 million, and \$1.0 million, 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. Plan expenses, which include Company contributions and administrative fees, for the years 2017, 2016 and 2015, were approximately \$190,000, \$227,000, and \$243,000, respectively.

# EXHIBIT E

## *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 \$37,000, \$80,000, and \$113,000 for 2017, 2016 and 2015, respectively.

The Company uses December 31 as the measurement date to determine the postretirement benefit obligation. There were three remaining eligible retirees as of December 31, 2017. The estimated post retirement liability recorded at December 31, 2017 and December 31, 2016 was \$149,000 and \$186,000 respectively. The Company anticipates contributing \$37,000 towards postretirement benefits in 2018. There was no other comprehensive income impact because a regulatory asset is recorded as provided by FASB ASC Topic 980.

## **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 2017, 2016 and 2015 were \$16,300, \$16,100, and \$16,000, respectively. The future minimum rental payment as disclosed in the following table is calculated using CPI-U as of October 31, 2017 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 2017, 2016 and 2015 were \$37,000, \$36,000 and \$35,000, 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. In November 2016, this agreement was amended to remove the 2% increase. Once disposal operations begin, the monthly fee will be based on the volume of wastewater disposed on the properties charged at rate per one thousand gallons of wastewater, providing for a minimum monthly payment. Payments for 2017, 2016 and 2015 were \$44,000, \$44,000 and \$43,000, respectively. The agreement can be terminated by giving 180 day notice prior to the termination date.

Future minimum annual rental payments related to non-cancellable operating leases for the years subsequent to 2017 are as follows:

<i>In thousands</i>		
2018	\$	78
2019		56
2020		57
2021		58
2022		60
2023 through 2043		1,336
	\$	<u>1,645</u>

## EXHIBIT E

### *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. The minimum purchase requirement is 1,095 million gallons annually, calculated as 3 million gallons per day times the number of calendar days in a year. The agreement extends through the year 2021.

In January 2018, Artesian Water Maryland signed an interconnection agreement with the Town of North East that has a “take or pay” clause requiring us to purchase a minimum of 35,000 gallons per day that shall commence on the first day of the month following the date on which the interconnection is completed. The interconnection completion date is expected to occur during the third quarter of 2018.

The minimum annual purchase commitments for all interconnection agreements for 2018 through 2021, calculated at the noticed rates, are as follows:

<i>In thousands</i>		
2018	\$	3,824
2019		3,824
2020		3,835
2021		3,824
		<u>3,824</u>
	\$	<u>15,307</u>

Expenses for purchased water were \$4.4 million, \$4.0 million and \$4.0 million for 2017, 2016 and 2015, 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 was \$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. In March 2017, Artesian Water entered into a 3-year agreement with Worldwide Industries Corporation to clean and paint tanks in 2017, 2018 and 2019. Pursuant to the 3-year agreement, the expenditure committed in total for the years 2017 through 2019 is \$1.3 million. Tank painting expense for 2017, 2016 and 2015 was \$695,000, \$528,000, and \$329,000, respectively.

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 2018 through 2020 are as follows:

<i>In thousands</i>		
2018	\$	3,851
2019		1,535
2020		550
		<u>5,936</u>
	\$	<u>5,936</u>

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.

**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, 2017, Artesian Water was serving approximately 84,200 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 its established service territory in Sussex County, Delaware pursuant to rates filed with and approved by the DEPSC. As of December 31, 2017, Artesian Wastewater was serving approximately 1,800 customers, all of which are located in Sussex County, Delaware.

**NOTE 12****REGULATORY PROCEEDINGS**

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

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

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

**Rate Proceedings**

Our regulated utilities periodically seek rate increases to cover the cost of increased operating expenses, increased financing expenses due to additional investments in utility plant and other costs of doing business. In Delaware, utilities are permitted by law to place rates into effect, under bond, on a temporary basis pending completion of a rate increase proceeding. The first temporary increase may be up to the lesser of \$2.5 million on an annual basis or 15% of gross water sales. Should the rate case not be completed within seven months, by law, the utility may put the entire requested rate relief, up to 15% of gross water sales, in effect under bond until a final resolution is ordered and placed into effect. If any such rates are found to be in excess of rates the DEPSC finds to be appropriate, the utility must refund customers the portion found to be in excess with interest. The timing of our rate increase requests is 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 August 18, 2015, the DEPSC made a preliminary ruling in response to Artesian Water's April 2014 application to implement new rates to meet a requested increase in revenue of 15.90%, or approximately \$10.0 million, on an annualized basis. The preliminary ruling recommended a permanent rate increase in revenue of approximately \$6.0 million, or 9.50%, on an annualized basis, which was an incremental increase for customers of approximately 6.20% above the Distribution System Improvement Charge, or DSIC, rate previously in effect. On October 6, 2015, a DEPSC order was issued concurring with the preliminary ruling issued on August 18, 2015. On January 19, 2016, a final DEPSC order was issued related to the permanent rate increase and concurred with the October 6, 2015 order. Because the permanent rate increase was less than amounts collected under previously approved temporary increases in rates, Artesian Water was required to refund a portion of the temporary rate increases to its customers. The refund, plus interest, at the average prime rate, for the overpayment from customers was applied to current and future customer bills in October 2015. Because the final rate award was at a level not less than the amount previously reported as income, there was no material impact upon previously reported water sales revenue. The new rates were designed to allow recovery of capital investments made by Artesian Water and to cover increased costs of operations, including water quality testing, chemicals and electricity for water treatment, taxes, labor and benefits.

On January 16, 2018, the DEPSC approved the opening of Docket No. 17-1240 requiring Delaware utilities to determine the impact that the Tax Cuts and Jobs Act of 2017 (TCJA) had on its customers and potential rate relief due to customers. Delaware utilities are

## EXHIBIT E

required to report their findings back to the DEPSC by March 31, 2018. The Company expects any reduction in corporate income tax expense resulting from the TCJA will be passed through to customers in the form of reduced tariff rates or approved DSIC rate.

### 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 7.50% of the amount billed to customers under otherwise applicable rates and charges, and the DSIC rate increase applied cannot exceed 5.0% within any 12-month period.

The following table summarizes (1) Artesian Water's applications with the DEPSC to collect DSIC rates and (2) the rates upon which eligible plant improvements are based:

Application Date	11/26/2014	05/28/2015	11/24/2015	05/31/2016	11/29/2016
DEPSC Approval Date	12/16/2014	06/16/2015	12/15/2015	06/28/2016	12/20/2016
Effective Date	01/01/2015	07/01/2015	01/01/2016	07/01/2016	01/01/2017
Cumulative DSIC Rate	0.34%	1.15%	1.57%	2.30%	4.71%
Net Eligible Plant Improvements – Cumulative Dollars (in millions)	\$1.3	\$4.6	\$7.0	\$10.3	\$16.6
Eligible Plant Improvements – Installed Beginning Date	10/01/2014	10/01/2014	10/01/2014	10/01/2014	10/01/2014
Eligible Plant Improvements – Installed Ending Date	10/31/2014	04/30/2015	10/31/2015	4/30/2016	10/31/2016

DEPSC has completed audits for all filings for rates effective through 2016 noted in the table above. The rate effective in 2017 noted in the table above is subject to audit at a later date. For the years ended December 31, 2017, December 31, 2016 and December 31, 2015, we earned approximately \$3,160,000, \$1,306,000 and \$520,000 in DSIC revenue, respectively.

### **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, the potentially dilutive effect of employee stock options and restricted stock awards. The following table summarizes the shares used in computing basic and diluted net income per share:

	For the Year Ended December 31,		
	2017	2016	2015
	<i>(in thousands)</i>		
Weighted average common shares outstanding during the period for Basic computation	9,175	9,098	8,960
Dilutive effect of employee stock options	67	63	45
Weighted average common shares outstanding during the period for Diluted computation	<u>9,242</u>	<u>9,161</u>	<u>9,005</u>

For the year ended 2017, 3,460 shares of restricted stock awards were excluded from the calculations of diluted net income per share. For the year ended 2016, no shares of restricted stock awards were excluded from the calculations of diluted net income per share. Due to unrecognized compensation costs, the hypothetical repurchase of shares exceeded the number of restricted shares expected to vest during the period, creating an anti-dilutive effect. For the years ended 2017 and 2016, no shares of stock options were excluded from the calculations of diluted net income per share.

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, 2017, 8,333,454 shares of Class A Stock and 881,452 shares of Class B Stock were issued and outstanding. As of December 31, 2016, 8,246,033 shares of Class A Stock and 881,452 shares of Class B Stock were issued and outstanding. As of December 31, 2015, 8,176,213 shares of Class A Stock and 881,452 shares of Class B Stock were issued and outstanding. The par value for both classes is

## EXHIBIT E

\$1.00 per share. For the years ended December 31, 2017, December 31, 2016, and December 31, 2015, the Company issued 87,421, 69,820, and 145,536 shares of Class A Stock, respectively.

Equity per common share was \$15.98, \$15.28, and \$14.77 at December 31, 2017, December 31, 2016, and December 31, 2015, respectively. These amounts were computed by dividing common stockholders' equity by the number of weighted average shares of common stock outstanding on December 31, 2017, December 31, 2016, and December 31, 2015, respectively.

### NOTE 14

#### **SELECTED CONSOLIDATED QUARTERLY FINANCIAL DATA (UNAUDITED)**

The following table is derived from quarterly unaudited consolidated statements of operations for the years ended December 31, 2017 and 2016. Quarterly basic and diluted per share amounts may not add to the full year total due to rounding.

<i>In thousands (except per share data)</i>	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2017	2016	2017	2016	2017	2016	2017	2016
Operating revenues	\$ 19,190	\$ 18,449	\$ 20,502	\$ 19,395	\$ 22,356	\$ 21,828	\$ 20,187	\$ 19,417
Operating income	\$ 3,991	\$ 3,853	\$ 4,990	\$ 4,669	\$ 5,454	\$ 5,945	\$ 5,165	\$ 4,352
Net income applicable to common stock	\$ 3,086	\$ 2,830	\$ 3,251	\$ 3,041	\$ 3,942	\$ 4,360	\$ 3,704	\$ 2,723
Income per common share								
Basic	\$ 0.34	\$ 0.31	\$ 0.35	\$ 0.33	\$ 0.43	\$ 0.48	\$ 0.40	\$ 0.30
Diluted	\$ 0.34	\$ 0.31	\$ 0.35	\$ 0.33	\$ 0.42	\$ 0.48	\$ 0.40	\$ 0.30

### NOTE 15

#### **RELATED PARTY TRANSACTIONS**

In October 2017, September 2017, February 2017 and July 2016, Artesian Water entered into agreements in the normal course of business with W.F. Construction, Inc. for work associated with building modifications to water treatment plants. The amounts of these agreements were approximately \$60,000, \$36,000, \$100,000 and \$131,000, respectively. The owner of W.F. Construction, Inc. is the husband of Mrs. Jennifer Finch, Vice President and Assistant Treasurer of Artesian Resources. Approximately \$183,000 was paid to W.F. Construction, Inc. in 2017. Approximately \$137,000 was paid to W.F. Construction, Inc. in 2016. As of December 31, 2017 and December 31, 2016, the Company had no liability to W.F. Construction, Inc.

As set forth in the Charter of the Audit Committee of the Board of Directors of Artesian Resources, 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 2017 and 2016 related party transactions with W.F. Construction, Inc., 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 consistent with, the best interests of the Company and its stockholders.

### NOTE 16

#### **LEGAL PROCEEDINGS**

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.

**NOTE 17****IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS**

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. The new standard also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and the related cash flows arising from contracts with customers. For a public entity, the amendments in this guidance are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company has identified its sources of revenue streams that fall within the scope of ASC Topic 606. The Company has also applied the five-step model to all qualifying revenue streams to determine when to recognize revenue. The Company has substantially completed its evaluation and concluded there is not a material change to how revenue is currently being recognized compared to how revenue will be recognized under this amended guidance. The Company will adopt this new standard and include the enhanced disclosure requirements in its 2018 first quarter filing using the modified retrospective method.

In February 2016, the FASB issued new guidance on Leases to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Management is currently evaluating the impact of our pending adoption of the new standard, which includes compiling a list of all contracts that meet the definitions of a lease under the new standard and determining the proper classification and accounting treatment of such contracts in order to determine the ultimate impact the new standard will have on our consolidated financial statements.

In January 2017, the FASB issued new guidance on Business Combinations. The amendments in this update clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. The Company applied this amended guidance in 2017 to the purchase of the water assets from Fort DuPont Redevelopment and Preservation Corporation.

In February 2017, the FASB issued new guidance on Other Income – Gains and Losses from derecognition of Nonfinancial Assets to clarify the scope and application of the sale or transfer of nonfinancial assets to noncustomers, including partial sales and also define what constitutes an “in substance nonfinancial asset” which can include financial assets. The new guidance eliminates several accounting differences between transactions involving assets and transactions involving businesses. Further, the guidance aligns the accounting for derecognition of a nonfinancial asset with that of a business. This standard is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. Management concluded there is no material impact on the Company’s financial statements due to the adoption of this guidance.

**NOTE 18****SUBSEQUENT EVENTS**

On January 31, 2018, Artesian Water and CoBank entered into a Bond Purchase Agreement relating to the issue and sale by the Company to CoBank of a \$25 million principal amount First Mortgage Bond, Series U, or the Series U Bond, due January 31, 2038, or (the Series U “Maturity Date”). The Series U Bond was issued pursuant to the Company’s Indenture of Mortgage dated as of July 1, 1961, as amended and supplemented by supplemental indentures, including the Twenty-Third Supplemental Indenture, dated as of January 31, 2018 from the Company to Wilmington Trust Company, as Trustee. The Indenture is a first mortgage lien against substantially all of the Company’s utility plant. The proceeds from the sale of the Series U Bond together with other funds of the Company, were used to pay in full at maturity indebtedness of the Company under those certain First Mortgage Bonds, Series P. The DEPSC approved the issuance of the Series U Bond on December 21, 2017.

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The Series U Bond carries an annual interest rate of 4.71% through and including the Series U Maturity Date. Interest is payable on January 30th, April 30th, July 30th and October 30th in each year and on the Series U Maturity Date, beginning April 30, 2018 until the Company's obligation with respect to the payment of principal, premium (if any) and interest shall be discharged. Overdue payments shall bear interest as provided in the Twenty-Third Supplemental Indenture. The term of the Series U Bond also includes certain limitations on the Company's indebtedness.

On January 16, 2018, the DEPSC approved the opening of Docket No. 17-1240 requiring Delaware utilities to determine the impact that the Tax Cuts and Jobs Act of 2017, or TCJA, had on its customers and potential rate relief due to customers. Delaware utilities are required to report their findings back to the DEPSC by March 31, 2018. The Company expects any reduction in corporate income tax expense resulting from the TCJA will be passed through to customers in the form of reduced tariff rates or approved DSIC rate.

**Report of Independent Registered Public Accounting Firm**

Board of Directors and Stockholders  
Artesian Resources Corporation  
Newark, Delaware

**Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated balance sheets of Artesian Resources Corporation (the “Company”) as of December 31, 2017 and 2016, the related consolidated statements of operations, changes in stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017, 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) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2017, 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 15, 2018 expressed an unqualified opinion thereon.

**Basis for Opinion**

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company’s auditor since 2005.

Wilmington, Delaware  
March 15, 2018

**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, 2017 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, 2017, 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, 2017 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, 2017 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Date: March 15, 2018

CHIEF EXECUTIVE OFFICER:

/s/ DIAN C. TAYLOR

Dian C. Taylor

CHIEF FINANCIAL OFFICER:

/s/ DAVID B. SPACHT

David B. Spacht

**ITEM 9B. OTHER INFORMATION**

None.

## Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders  
Artesian Resources Corporation  
Newark, Delaware

### Opinion on Internal Control over Financial Reporting

We have audited Artesian Resources Corporation's (the "Company's") internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2017 and 2016, the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and our report dated March 15, 2018 expressed an unqualified opinion thereon.

### Basis for Opinion

The Company'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 Annual 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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. 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.

### Definition and Limitations of Internal Control over Financial Reporting

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.

/s/ BDO USA, LLP

Wilmington, Delaware  
March 15, 2018

**PART III – (Needs to be updated)**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Name	Age	Position
Dian C. Taylor	72	<p><b>Biography:</b> Director since 1991 - Chair of the Board since July 1993, and Chief Executive Officer 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.</p> <p><b>Qualifications:</b> Ms. Dian Taylor has over 25 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. Ms. Taylor currently serves on the Executive Committee of the Delaware Business Round Table. The Board views Ms. Taylor’s experience with various aspects of the utility industry and her demonstrated leadership roles in business and community activities as important qualifications, skills and experiences for the Board of Directors’ conclusion that Ms. Taylor should serve as a director of the Company.</p>
Kenneth R. Biederman	74	<p><b>Biography:</b> 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.</p> <p><b>Qualifications:</b> 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.</p>

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John R. Eisenbrey, Jr.

- 62 **Biography:** Director since 1993 – Small Business Executive. For more than 30 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 30 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.

Nicholle R. Taylor

- 50 **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-five 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

- 71 **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.

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- Pierre Anderson 39 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.
- Joseph A. DiNunzio, CPA, CGMA 55 Executive Vice President and Corporate Secretary of Artesian Resources Corporation and its subsidiaries since May 2007. Mr. DiNunzio currently serves as President of Artesian Water Maryland, Inc. since May, 2017. 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.
- Jennifer L. Finch, CPA 49 Vice President and Assistant Treasurer of Artesian Resources Corporation and its subsidiaries since February 2010. Ms. Finch previously served as Chief Accounting Director of Artesian Resources Corporation and its subsidiaries since August 2008. Prior to joining the Company, Ms. Finch held various accounting positions for Handler Corporation, a home builder and developer located in Wilmington, Delaware. Ms. Finch was employed by the Handler Corporation from 1994 through 2008.
- Karl G. Randall 49 Assistant Secretary of Artesian Resources Corporation and Subsidiaries since May 2017 and General Counsel since August 2016. Prior to joining Artesian in 2016, Mr. Randall served as Special Counsel at the Wilmington, Delaware law firm Morris, Nichols, Arsht & Tunnell LLP. He received his undergraduate degree from Rutgers University and his law degree from American University's Washington College of Law. He was admitted to the Delaware Bar in 2007.
- David B. Spacht 58 Chief Financial Officer and Treasurer of Artesian Resources Corporation and its subsidiaries since January 1995. The Company has employed Mr. Spacht since 1980 and he has held various executive and management level positions within the Company.
- John M. Thaeber 60 Senior Vice President of Operations since May 2007. Mr. Thaeber 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. Thaeber 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. Thaeber 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.

**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 3, 2018.

The Board, which met ten times in 2017, 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](http://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 risks 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. Frequent meetings help to promote and ensure open communication with the management team. All Board members are engaged and remain actively involved in their oversight roles. The Board is responsible for oversight of the Company's risk management process. The senior management team is responsible for identifying risks, managing risks and reporting and communicating risks back to the Board.

**Director Compensation**

In May 2017, each independent director received an annual retainer fee of \$28,000 paid in advance. Dian C. Taylor and Nicholle R. Taylor received annual retainer fees of \$27,000. The chair of the Audit Committee received an additional annual retainer of \$9,000. The chair of the Corporate Governance and Nominating Committee received an additional annual retainer of \$9,000. The chair of the Compensation Committee received an additional annual retainer of \$7,000. The members of the Strategic Planning, Budget and Finance Committee each received additional annual retainers of \$3,000. The members of the Executive Committee each received additional annual retainers of \$1,000. Each director received \$2,000 for each Board meeting attended, \$1,500 for each committee meeting attended on the day of a regular board meeting and \$2,000 for each committee meeting attended on any other day. Each director received \$500 per diem for workshops.

In 2017, our directors, other than Dian C. Taylor and Nicholle R. Taylor, whose fees as director are included in the Summary Compensation Table, received the following compensation:

**Director Compensation Table**

Name	Fees Earned or			Total (\$)
	Paid in Cash (\$)	Stock Awards (\$)(1)	All other Compensation (\$)(2)	
Kenneth R. Biederman	83,000	38,100	---	121,100
John R. Eisenbrey, Jr.	82,000	38,100	---	120,100
William C. Wyer	81,000	38,100	24,005	143,105

(1) On May 3, 2017, each Director received a restricted Stock Award of 1,000 shares of Class A Stock. The fair market value per share was \$38.10, the closing price of the Class A common stock as recorded on the Nasdaq Global Market on May 3, 2017. The restricted shares vest one year from the date of grant. The aggregate number of stock options and restricted shares outstanding at December 31, 2017 for each Director is:

	Option Shares Outstanding at December 31, 2017	Restricted Shares Outstanding at December 31, 2017
Kenneth R. Biederman	40,500	1,000
John R. Eisenbrey, Jr.	27,000	1,000
William C. Wyer	33,750	1,000

(2) \$21,284 was for medical insurance premiums for Mr. Wyer and his spouse, \$2,700 was for a physical for Mr. Wyer and \$21 was for life insurance premiums for Mr. Wyer.

Compensation Committee Interlocks and Insider Participation

During the year ended December 31, 2017, the members of our Compensation Committee were Kenneth R. Biederman, John R. Eisenbrey, Jr. and William C. Wyer. None of our executive officers serves as a director or as a member of the compensation committee, or any other committee serving an equivalent function, of any entity that has one or more of its executive officers serving as members of our Compensation Committee or as a director of our Board. No member of our Compensation Committee has ever been our employee. Our independent directors are Kenneth R. Biederman, John R. Eisenbrey, Jr. and William C. Wyer.

Independence

In 2017, the Board of Directors determined that Messrs. Biederman, Eisenbrey and Wyer, a majority of the Board of Directors, met the independence requirements prescribed by the listing standards of the NASDAQ Global Select Market.

Audit Committee

The Audit Committee reviews the procedures and policies relating to the internal accounting procedures and controls of the Company, and provides general oversight with respect to the accounting principles employed in the Company's financial reporting. As part of its activities, the Audit Committee meets with representatives of the Company's management and independent accountants. The Audit Committee has considered the extent and scope of non-audit services provided to the Company by its outside accountants and has determined that such services are compatible with maintaining the independence of the outside accountants. The Audit Committee appoints and retains the Company's independent accountants. The Audit Committee consists of Kenneth R. Biederman, John R. Eisenbrey, Jr. and William C. Wyer. The Board of Directors has also determined that each member of the Audit Committee meets the independence requirements prescribed by the listing standards of the NASDAQ Global Select Market and the rules and regulations of the Securities and Exchange Commission. The Board of Directors has further determined that Mr. Biederman, a member of the Audit Committee, is an "audit committee financial expert" as such term is defined in Item 407(d)(5)(ii) of Regulation S-K promulgated by the SEC. During 2017, the Audit Committee met seven times.

Compensation Committee

The Compensation Committee reviews the compensation and benefits provided to key management employees, officers and directors and makes recommendations as appropriate to the Board. The Committee also determines whether and what amounts should be granted under the 2015 Equity Compensation Plan, or the Plan, and may make recommendations for amendments to the Plan. The Compensation Committee is comprised of Kenneth R. Biederman, John R. Eisenbrey, Jr. and William C. Wyer, three independent directors. The Board of Directors has also determined that each member of the Compensation Committee meets the independence requirements prescribed by the listing standards of the NASDAQ Global Select Market and the rules and regulations of the Securities and Exchange Commission. During 2017, the Compensation Committee met four times.

Consideration of Director Candidates

The Governance and Nominating Committee is comprised of three independent directors, Kenneth R. Biederman, John R. Eisenbrey, Jr. and William C. Wyer. As part of the formalized nominating procedures, the committee makes recommendations for Director nominations to the full Board. Director candidates nominated by stockholders are considered in the same manner, provided the nominations are submitted to the Secretary and copied to the Chairman of the committee on a timely basis and in accordance with the Company's By-laws. Nominations for the election of directors for the 2018 Annual Stockholders' Meeting were approved by the Governance and Nominating Committee on January 17, 2018.

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

Code of Ethics

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

## SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Under Section 16(a) of the Securities Exchange Act of 1934, as amended, directors, officers and certain beneficial owners of the Company's equity securities are required to file reports of their transactions in the Company's equity securities with the Securities and Exchange Commission on specified due dates. With respect to the fiscal year 2017, reports of transactions by all directors, officers and such beneficial holders were timely filed. In making this statement, the Company has relied on the written representations of its directors, officers and holders of more than ten percent (10%) of either class of our outstanding common stock and copies of the reports that they filed with the Securities and Exchange Commission.

## ITEM 11. EXECUTIVE COMPENSATION

### COMPENSATION DISCUSSION AND ANALYSIS

This discussion describes the Company's compensation program for its named executive officers listed in the Summary Compensation Table that immediately follows this discussion. The named executive officers are: Dian C. Taylor, Chair, President & Chief Executive Officer; David B. Spacht, Chief Financial Officer & Treasurer; Joseph A. DiNunzio, Executive Vice President & Secretary; Nicholle R. Taylor, Senior Vice President, and John M. Thader, Senior Vice President. For details regarding the Company's compensation of its directors, please see the Directors' Compensation Table in Item 10 – Directors, Executive Officers and Corporate Governance.

#### Objectives of the Company's Compensation Program

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

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

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

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

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

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

## Elements of the Company's Compensation Program

The elements of the Company's compensation program include:

- Base Salary
- Cash Bonus Award
- Equity Compensation as may be awarded under the 2015 Equity Compensation Plan
- Employee Benefits

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

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

### *Compensation Process*

The Compensation Committee relies on various factors in determining executive compensation, including overall financial performance of the Company, combined with an executive officer's individual performance, progress in meeting strategic corporate objectives, and changes in responsibilities, as well as the consideration of elements of compensation not provided for by the Company in comparison to its peers. The Compensation Committee generally exercises broad discretion in setting the compensation of the Chief Executive Officer and other executives and primarily considers the performance of the management team as a group, the Chief Executive Officer's assessment of other executive's performance and compensation recommendations with respect to the other executive officers as part of its process.

The Compensation Committee engaged Pearl Meyer & Partners as a compensation consultant in 2013 to provide it with independent advice on executive compensation matters. They did not develop a public company peer group as part of their compensation benchmarking exercise, as they found few similarly sized, publicly traded water utilities. They used data available from the peer group of water utility companies identified in Part II, Item 5 of the Company's 2012 Form 10-K to review incentive plan market practices and to establish industry practices, but did not use the pay data from these organizations given that the size of many are substantially larger than the Company. This peer group was used in 2013, and continues to be used, to compare the percentage change in cumulative shareholder returns. The peer group includes: American States Water Company; American Water Works Company, Inc.; Aqua America, Inc.; California Water Service Group; Connecticut Water Service, Inc.; Middlesex Water Company; SJW Corporation and The York Water Company. The Company continues to use these companies as peers for consideration of elements of compensation not provided for by the Company.

### *Base Salary*

Base salaries for Company executives are set at levels considered appropriate to attract and retain seasoned and talented personnel. In 2017, the Compensation Committee increased the base salary of each of the named executive officers by the following: Dian C. Taylor – 10%; Joseph A. DiNunzio – 18.75%, David B. Spacht – 13.78%, John M. Thaeber – 3%, and Nicholle R. Taylor – 6.80%. The increase for Mr. DiNunzio included recognition for his additional responsibilities upon his appointment as President of Artesian Water Maryland, Inc. The increase for Mr. Spacht acknowledged his additional responsibilities with respect to oversight of our Delaware wastewater operations and our business development efforts. The Compensation Committee determines actual base salaries for each executive other than the Chief Executive Officer based upon:

- recommendations provided by the Chief Executive Officer;
- internal equity with other executives and Company personnel;
- individual executive performance; and
- individual contributions to the Company's strategic objectives.

The Compensation Committee considers the same factors in determining the base salary of the Chief Executive Officer, without any recommendation by the Chief Executive Officer. The Chief Executive Officer was not present during deliberations on her compensation.

*Cash Bonus and Equity Compensation Awards*

Annually, the Compensation Committee determines whether any Cash Bonus and/or Equity Compensation Award should be granted to any of the executives. The Cash Bonus and Equity Compensation Awards are intended to reward executives for their contributions towards meeting the Company's strategic objectives. Cash Bonus and Equity Compensation Awards are entirely discretionary and are based upon a qualitative assessment conducted by the Compensation Committee in the case of the Chief Executive Officer and by the Compensation Committee and the Chief Executive Officer in the case of other executives. Recognizing both the executive team's and each individual named executive officer's contributions toward meeting the Company's strategic objectives, cash bonuses were awarded to the Chief Executive Officer and named executive officers in 2017, 2016 and 2015.

Equity compensation may be awarded by the Board under the Company's 2015 Equity Compensation Plan, or the Plan, which provides for the grants of stock options, stock units, stock awards, dividend equivalents and other stock-based awards. The Plan is meant to encourage recipients of such grants to contribute materially to the growth of the Company, for the benefit of the Company's shareholders, and to align the economic interests of the recipients with those of shareholders. In 2017 the Chief Executive Officer and the named executive offices each received 861 shares of Class A Common Stock in fully vested stock awards.

**Other Compensation**

Both Dian C. Taylor and Nicholle R. Taylor received compensation for their services as Directors, which compensation was equivalent to that provided to all other directors for Board and Committee meeting fees and less for retainers. See "Director Compensation."

The Company's named executive officers are eligible to participate in the same employee benefit plans and on the same basis as other Company employees, with the exception that executive officers are reimbursed for eligible medical expenses not otherwise covered by the Company's medical insurance plan under the Officer's Medical Reimbursement Plan. Amounts reimbursed are included in the "All Other Compensation" column in the Summary Compensation Table that follows this discussion.

**The Role of Management in the Executive Compensation Process**

Our Director of Human Resources typically assists the Compensation Committee by preparing and providing information showing:

- current executive compensation levels;
- executive compensation recommendations made by the Chief Executive Officer;
- salary grade minimum, midpoint and maximums for each executive as provided by the Company's compensation consultant retained in 2013; and
- actual base salary, cash bonus and equity compensation for each of the prior three years for each executive.

Our Chief Executive Officer meets with the Compensation Committee and provides input regarding the contributions of each executive towards the Company's strategic objectives and each executive's overall performance that formed the basis for her recommendations to the Compensation Committee. The final decisions regarding compensation for each executive are made by the Compensation Committee. Please refer to Compensation Committee Interlocks and Insider Participation in Item 10 – Directors, Executive Officers and Corporate Governance for more information.

## Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management and, based on the review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in the Company's Annual Report on Form 10-K.

The Compensation Committee,

William C. Wyer, Chairman  
Kenneth R. Biederman  
John R. Eisenbrey, Jr.

## EXHIBIT E

The following table sets forth a summary of the compensation earned by our named executive officers, the Chief Executive Officer, Chief Financial Officer and the next three highest paid executive officers for the fiscal year 2017.

### Summary Compensation Table:

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)(1)(2)	Option Awards (\$)(1)	All Other Compensation (\$)(3),(4),(5)	Total (\$)
Dian C. Taylor, Chair, Chief Executive Officer & President	2017	502,429	281,253	69,347	N/A	163,126	1,016,155
	2016	479,394	152,500	27,700	N/A	142,229	801,823
	2015	460,736	175,000	27,380	N/A	178,353	841,469
David B. Spacht, Chief Financial Officer & Treasurer	2017	314,610	131,253	31,247	N/A	26,888	503,998
	2016	292,675	70,850	N/A	N/A	24,774	388,299
	2015	276,037	83,650	N/A	N/A	32,747	392,434
Joseph A. DiNunzio, Executive Vice President & Secretary	2017	360,972	181,253	31,247	N/A	34,749	608,221
	2016	322,958	70,000	N/A	N/A	29,922	422,880
	2015	316,356	100,000	N/A	N/A	34,556	450,912
Nicholle R. Taylor, Senior Vice President	2017	262,198	131,253	69,347	N/A	85,575	548,373
	2016	252,299	72,500	27,700	N/A	80,859	433,358
	2015	235,321	65,000	27,380	N/A	73,119	400,820
John M. Thaeher, Senior Vice President of Operations	2017	294,410	131,253	31,247	N/A	21,283	478,193
	2016	286,163	70,000	N/A	N/A	18,495	374,658
	2015	288,417	65,450	N/A	N/A	19,776	373,643

- (1) On May 3, 2017, Dian Taylor and Nicholle Taylor each received a restricted stock award of 1,000 shares of Class A Stock in their capacities as directors of the Company. The award was valued at the fair market value on the date of the award (last reported sale price on the date of award) or \$38.10 per share. The restricted shares vest one year from the date of grant. On May 4, 2016, Dian Taylor and Nicholle Taylor each received a restricted stock award of 1,000 shares of Class A common stock. The award was valued at the fair market value on the date of the award (last reported sale price on the date of award) or \$27.70 per share. The restricted shares vest one year from the date of grant. On December 18, 2015, each received a fully vested Stock Award of 1,000 shares of Class A Stock. The award was valued at the fair market value on the date of the award or \$27.38 per share.
- (2) On June 28, 2017 each officer received a fully vested Stock Award of 861 shares of Class A Stock. The award was valued at the fair market value on the date of the award or \$38.06 per share.
- (3) Under the Company's defined contribution 401(k) Plan, the Company contributes two percent of an eligible employee's gross earnings. The Company also matches fifty percent of the first six percent of the employee's gross earnings that the employee contributes to the 401(k) Plan. In addition, all employees hired before April 26, 1994 and under the age of sixty at that date are eligible for additional contributions to the 401(k) Plan. Employees over the age of sixty at that date receive Company paid medical, dental and life insurance benefits upon retirement. The Company will not provide the additional 401(k) or medical, dental and life insurance benefits to any other current or future employees. In 2016, Company contributions to the 401(k) Plan under terms available to all other employees based upon their years of service and plan eligibility were made in the amounts of:

Dian C. Taylor	\$ 34,216
David B. Spacht	\$ 26,318
Joseph A. DiNunzio	\$ 32,742
Nicholle R. Taylor	\$ 31,219
John M. Thaeher	\$ 16,196

- (4) Executive officers are reimbursed for eligible medical expenses not otherwise covered by the Company's medical insurance plan under the Officer's Medical Reimbursement Plan. Amounts reimbursed are included in the "All Other Compensation" column in the table above. Dian C. Taylor received reimbursements of \$48,730 in 2017.

## EXHIBIT E

- (5) Also included in the "All Other Compensation" column in the table above are amounts received by Dian C. Taylor as compensation for attendance at meetings of the Board and its committees in 2017 totaling \$53,500, \$10,147 for security provided at her personal residence, \$13,144 for country club dues and personal use of a company-owned vehicle. Also included in the "All Other Compensation" column in the table above are amounts received by Nicholle R. Taylor as compensation for attendance at meetings of the Board and its committees in 2017 totaling \$52,500.

### CEO Pay Ratio

The 2017 compensation disclosure ratio of the median annual total compensation of all Company employees to the annual total compensation of the Company's CEO is as follows:

	2017 Total Compensation
Median Employee total annual compensation	\$91,875
Annual total compensation of Dian C. Taylor, CEO	\$1,016,155
Ratio of CEO to median employee compensation	11:1

For simplicity, we identified the median employee by examining the base annual salary for all individuals, excluding our CEO, who were employed by us on October 6, 2017. We included all employees, whether employed on a full-time, part-time, or seasonal basis. We believe that the use of base annual salary compensation, excluding overtime, is a consistently applied compensation measure because we do not widely distribute annual equity awards to employees and believe that it provides a reasonable estimate of the pay ratio calculated in a manner consistent with Item 402(u) of Regulation S-K. After identifying the median employee by examining base annual salary excluding overtime, we calculated annual total compensation, including overtime, for such employee using the same methodology we use for our named executive officers set forth in the 2017 Summary Compensation Table.

### Grants of Plan-Based Awards Table

			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/share)	Grant Date Fair Value of Stock & Option Awards (\$)
Name	Grant Date	Vest Date				
Dian C. Taylor	5/03/2017	5/03/2018	1,000	-	-	38,100
Nicholle R. Taylor	5/03/2017	5/03/2018	1,000	-	-	38,100

On May 3, 2017, Dian Taylor and Nicholle Taylor each received a Restricted Stock Award of 1,000 shares of Class A Stock, as noted in the table above. The awards were valued at the fair market value on the date of the award (last reported sale price on the date of award) or \$38.10 per share. The restricted shares vest one year from the date of grant.

Outstanding Equity Awards at Fiscal Year-End Table

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Option Awards		Option Exercise Price(\$)	Option Expiration Date
		Number of Securities Underlying Unexercised Options (#) Unexercisable	Number of Securities Underlying Unexercised Options (#) Exercisable		
Dian C. Taylor	6,750	0		18.61	5/18/2020
	6,750	0		19.06	5/17/2021
	6,750	0		19.01	5/09/2022
	6,750	0		22.66	5/08/2023
	6,750	0		21.86	5/07/2024
Nicholle R. Taylor	1,302	0		18.43	5/14/2018
	6,750	0		15.26	5/19/2019
	6,750	0		18.61	5/18/2020
	6,750	0		19.06	5/17/2021
	6,750	0		19.01	5/09/2022
	6,750	0		22.66	5/08/2023
	6,750	0		21.86	5/07/2024

Option Exercises and Stock Vested Table

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Dian C. Taylor	20,250	424,316	1,821	69,547
Nicholle R. Taylor	5,448	117,794	1,821	69,547

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

**Security Ownership of Certain Beneficial Owners and Management**

The following table sets forth the beneficial ownership of the equity securities of the Company, as of March 12, 2018 for each director, each named executive officer, each beneficial owner of more than five percent (5%) of the outstanding shares of any class of the Company's voting securities and all directors and executive officers as a group, based in each case on information furnished to the Company. Addresses are provided for each beneficial owner of more than five percent (5%) of the Company's voting securities.

	Class A Non-Voting Common Stock <sup>(1)</sup>		Class B Common Stock <sup>(1)</sup>	
	Shares	Percent <sup>(2)</sup>	Shares	Percent <sup>(2)</sup>
Dian C. Taylor <sup>(3)</sup> 664 Churchmans Road Newark, Delaware 19702	155,509	1.9	159,509	18.1
Kenneth R. Biederman <sup>(3)</sup>	61,375	*	---	---
John R. Eisenbrey, Jr. <sup>(3)(4)(5)</sup> 15 Albe Drive Newark, Delaware 19702	75,751	0.9	45,707	5.2

**EXHIBIT E**

Nicholle R. Taylor <sup>(3)(6)</sup> 20 Brendle Lane Wilmington, Delaware 19807	48,222	*	279,963	31.8
William C. Wyer <sup>(3)</sup>	50,250	*	---	---
Joseph A. DiNunzio	17,467	*	203	*
David B. Spacht	1,359	*	189	*
John M. Thaefer	32,482	*	1,350	*
Louisa Taylor Welcher 219 Laurel Avenue Newark, DE 19711	77,065	*	135,862	15.4
Directors and Executive Officers as a Group (11 Individuals) <sup>(3)</sup>	448,575	5.3	486,921	55.2

\* less than 1%

- (1) The nature of ownership consists of sole voting and investment power unless otherwise indicated. The amount also includes all shares issuable to such person or group upon the exercise of options or vesting of restricted shares held by such person or group to the extent such options are exercisable or restricted shares vest within 60 days after March 12, 2018.
- (2) The percentage of the total number of shares of the class outstanding is shown where that percentage is one percent or greater. Percentages for each person are based on the aggregate number of shares of the applicable class outstanding as of March 12, 2018, and all shares issuable to such person upon the exercise of options or vesting of restricted shares held by such person to the extent such options are exercisable or restricted shares vest within 60 days of that date.
- (3) Includes vesting of restricted shares and options to purchase shares of the Company's Class A Stock, as follows: Ms. D. Taylor (34,750 shares); Mr. Biederman (41,500 shares); Mr. Eisenbrey, Jr. (28,000 shares); Ms. N. Taylor (42,802 shares); Mr. Wyer (34,750 shares).
- (4) 89,123 shares were pledged by Mr. Eisenbrey, Jr. as collateral for a loan.
- (5) Includes 780 shares of the Class B Stock owned by a trust, of which Mr. Eisenbrey, Jr. is a trustee and has a beneficial ownership interest, and 1,555 shares of the Class B Stock held in custodial accounts for Mr. Eisenbrey, Jr.'s daughters.
- (6) Includes 25 shares of the Class A Stock and 45 shares of the Class B stock held in custodial accounts for Ms. N. Taylor's daughter and 249 shares of Class A stock held by spouse.

#### Securities Authorized for Issuance under Equity Compensation Plans

Information relating to securities authorized for issuance under equity compensation plans is included under the caption "Equity Compensation Plan Information" in Item 5 of this Form 10-K.

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 and vesting of awards as of December 31, 2017 under the Company’s stockholder approved stock plans.

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon award vesting of 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	181,802	\$ 19.36	309,932
<b>Total</b>	<b>181,802</b>	<b>\$19.36</b>	<b>309,932</b>

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

We have three directors who are considered independent under the NASDAQ listing standards: Kenneth R. Biederman, William C. Wyer, and John R. Eisenbrey, Jr.

**Review and Approval of Transactions with Related Persons**

As set forth in the Company’s Audit Committee Charter, 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. We expect that any transactions in which related persons have a direct or indirect interest will be presented to the Audit Committee for review and approval. While neither the Audit Committee nor the Board have adopted a written policy regarding related-party transactions, the Audit Committee considers such information as it deems important to determine whether the transaction is on reasonable and competitive terms and is fair to the Company. In addition, the Audit Committee makes inquiries to our management and our auditors when reviewing such transactions.

Related person transactions include any transaction in which (1) the Company is a participant, (2) any related person has a direct or indirect material interest and (3) the amount involved exceeds \$120,000, but excludes certain type of transactions where the related person is deemed not to have a material interest. A related person means: (a) any person who is, or at any time since the beginning of the Company’s last fiscal year was, a director, an executive officer or a director nominee; (b) any person known to be the beneficial owner of more than 5% of any class of the Company’s voting securities; (c) any immediate family member of a person identified in items (a) or (b) above, meaning such person’s spouse, parent, stepparent, child, stepchild, sibling, mother- or father-in-law, son- or daughter-in-law, brother- or sister-in-law or any other individual (other than a tenant or employee) who shares the person’s household; or (d) any entity that employs any person identified in (a), (b) or (c) or in which any person identified in (a), (b) or (c) directly or indirectly owns or otherwise has a material interest.

In its review and approval or ratification of related person transactions (including its determination as to whether the related person has a material interest in a transaction), the Audit Committee will consider, among other factors:

- the nature of the related person’s interest in the transaction;
- 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;
- whether the transaction would impair the judgment of a director or executive officer to act in the best interest of the Company; and

➤ any other matters the Audit Committee deems important or appropriate.

The Audit Committee intends to approve only those related person transactions that are in, or are not inconsistent with, the best interests of the Company and its stockholders.

**Related Party Transactions**

In October 2017, September 2017, February 2017 and July 2016, Artesian Water entered into agreements in the normal course of business with W.F. Construction, Inc. for work associated with building modifications to water treatment plants. The amounts of these agreements were approximately \$60,000, \$36,000, \$100,000 and \$131,000, respectively. The owner of W.F. Construction, Inc. is the husband of Mrs. Jennifer Finch, Vice President and Assistant Treasurer of Artesian Resources. Approximately \$183,000 was paid to W.F. Construction, Inc. in 2017. Approximately \$137,000 was paid to W.F. Construction, Inc. in 2016. As of December 31, 2017 and December 31, 2016, the Company had no liability to W.F. Construction, Inc.

As set forth in the Charter of the Audit Committee of the Board of Directors of Artesian Resources, 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 2017 and 2016 related party transactions with W.F. Construction, Inc., 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 consistent with, the best interests of the Company and its stockholders.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

**Fees Billed by Independent Registered Public Accounting Firm**

The following table sets forth the aggregate fees billed to the Company for the fiscal year 2017 and 2016 by the independent registered public accounting firm, BDO USA, LLP. Certain amounts for current year fees are estimated and adjusted to reflect actuals once received, prior year fees have been updated to reflect actuals.

<i>(In thousands)</i>	<u>2017</u>	<u>2016</u>
Audit Fees	\$ <b>403</b>	\$ 400
Audit-Related Fees	<b>14</b>	12
Tax Fees	---	---
All Other Fees	<u>--</u>	<u>---</u>
 Total Fees	 <u><b>\$ 417</b></u>	 <u><b>\$ 412</b></u>

*Audit Fees:* consist primarily of fees for the audits of our financial statements included in our Annual Report on Form 10-K; the reviews of the financial statements included in our Quarterly Reports on Form 10-Q; and the audits of internal control over financial reporting, including compliance with Section 404 of the Sarbanes-Oxley Act of 2002 and fees billed for assurance, services related to registration statements and other documents issued in connection with securities and related services that are reasonably related to the performance of the audit or review of the registrant's consolidated financial statements.

*Audit-Related Fees:* consist of fees for services related to the audit of the Company's 401(k) Plan. The fees billed to the Company for the 401(k) Plan's audit were \$14,000 and \$12,000 for 2017 and 2016 respectively.

*Tax Fees:* consist of fees for professional services for tax compliance, tax advice and tax planning. These services include assistance regarding federal and state tax compliance, return preparation and tax audits. The independent registered public accounting firm did not provide any tax services to the Company in 2017 and 2016.

*All Other Fees:* consist of fees for services other than described above. The independent registered public accounting firm did not provide any other services to the Company in 2017 and 2016.

Pursuant to our policy, the Audit Committee pre-approves audit and tax services for the year as well as non-audit services to be provided by the independent registered public accounting firm. Any changes in the amounts quoted are also subject to pre-approval by the committee. Any audit related fees and tax fees paid are pre-approved by the committee.

## **EXHIBIT E**

The Audit Committee of the Company's Board of Directors has considered whether BDO's provision of the services described above for the fiscal year ended December 31, 2017, is compatible with maintaining its independence.

**PART IV****ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

	Page(s)*
(1) The following documents are filed as part of this report:	
Financial Statements:	
Reports of Independent Registered Public Accountants	57
Consolidated Balance Sheets at December 31, 2017 and 2016	33
Consolidated Statements of Operations for the three years ended December 31, 2017	34
Consolidated Statements of Cash Flows for the three years ended December 31, 2017	35
Consolidated Statements of Changes in Stockholders' Equity for the three years ended December 31, 2017	36
Notes to Consolidated Financial Statements	37 - 56
(2) Exhibits: see the exhibit list below	78 - 80

\* Page number shown refers to page number in this Report on Form 10-K

# EXHIBIT E

ARTESIAN RESOURCES CORPORATION  
FORM 10-K ANNUAL REPORT  
YEAR ENDED DECEMBER 31, 2017

## EXHIBIT LIST

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of the Company effective April 28, 2004 incorporated by reference to Exhibit 3.1 filed with the Company's Form 10-Q for the quarterly period ended March 31, 2004.
3.2	By-laws of the Company effective March 26, 2004 incorporated by reference to Exhibit 3.3 filed with the Company's Form 10-Q for the quarterly period ended March 31, 2004.
4.1	Twenty-Third Supplemental Indenture dated as of January 31, 2018, between Artesian Water Company, Inc., subsidiary of the Company, and Wilmington Trust Company, as Trustee. Incorporated by reference to Exhibit 4.1 filed with the Company's Form 8-K filed on February 2, 2018.
4.2	Twenty-Second Supplemental Indenture dated as of January 18, 2017, between Artesian Water Company, Inc., subsidiary of the Company, and Wilmington Trust Company, as Trustee. Incorporated by reference to Exhibit 4.1 filed with the Company's Form 8-K filed on January 20, 2017.
4.3	First Amendment to Indenture of Mortgage and to the Sixteenth, Eighteenth and Twentieth Supplemental Indentures dated as of January 18, 2017, between Artesian Water Company, Inc., subsidiary of the Company, and Wilmington Trust Company, as Trustee.*
4.4	Twenty-First Supplemental Indenture dated as of November 20, 2009, between Artesian Water Company, Inc., subsidiary of the Company, and Wilmington Trust Company, as Trustee.*
4.5	Twentieth Supplemental Indenture dated as of December 1, 2008, between Artesian Water Company, Inc., subsidiary of the Company, and Wilmington Trust Company, as Trustee. Incorporated by reference to Exhibit 4.1 filed with the Company's Form 8-K filed on December 4, 2008.
4.6	Eighteenth Supplemental Indenture dated as of August 1, 2005, between Artesian Water Company, Inc., subsidiary of the Company, and Wilmington Trust Company, as Trustee. Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.
4.7	Seventeenth supplemental Indenture dated as of December 1, 2003 between Artesian Water Company, Inc., subsidiary of the Company, and the Wilmington Trust Company, as Trustee. Incorporated by reference to Exhibit 4.1 filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2003.
4.8	Sixteenth supplemental Indenture dated as of January 31, 2003 between Artesian Water Company, Inc., subsidiary of the Company, and the Wilmington Trust Company, as Trustee. Incorporated by reference to Exhibit 4.2 filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2003.
4.9	Fifteenth supplemental Indenture dated as of December 1, 2000 between Artesian Water Company, Inc., subsidiary of the Company, and the Wilmington Trust Company, as Trustee. Incorporated by reference to Exhibit 4.1 filed with the Company's Form 10-Q for the quarterly period ended March 31, 2002.
4.10	Indenture of Mortgage dated July 1, 1961, between Artesian Water Company, Inc., subsidiary of the Company, and the Wilmington Trust Company, as Trustee.*
4.11	Bond Purchase Agreement, dated January 31, 2018 by and between Artesian Water Company, Inc., subsidiary of the Company, and CoBank, ACB. Incorporated by reference to Exhibit 4.2 filed with the Company's Form 8-K filed on February 2, 2018.
4.12	Bond Purchase Agreement, dated January 18, 2017 by and between Artesian Water Company, Inc., subsidiary of the Company, and CoBank, ACB. Incorporated by reference to Exhibit 4.2 filed with the Company's Form 8-K filed on January 20, 2017.

## EXHIBIT E

- 4.13 First Amendment to Bond Purchase Agreement, dated as of January 18, 2017 by and between Artesian Water Company, Inc., subsidiary of the Company, and CoBank, ACB.\*
- 4.14 Bond Purchase Agreement, dated December 1, 2008 by and between Artesian Water Company, Inc., subsidiary of the Company, and CoBank, ACB. Incorporated by reference to Exhibit 4.2 filed with the Company's Form 8-K filed on December 4, 2008.
- 4.15 Letter Agreement, dated as of September 15, 2015, by and between Artesian Water Company, Inc. and CoBank ACB. Incorporated by reference to Exhibit 4.1 filed with the Company's Form 8-K filed on September 18, 2015.
- 4.16 Artesian Resources Corporation 2015 Equity Compensation Plan. Incorporated by reference to Exhibit 4.1 filed with the Company's Registration Statement on Form S-8 filed December 16, 2015.
- 10.1 General Obligation Note (New Castle County Water Main Transmission Replacements Projects), Series 2011-SRF, dated as of July 15, 2011, issued by Artesian Water Company, Inc. in favor of Delaware Drinking Water State Revolving Fund, acting by and through the Delaware Department of Health & Social Services, Division of Public Health. Incorporated by reference to Exhibit 10.2 filed with the Company's Form 8-K filed on July 19, 2011.
- 10.2 Financing Agreement, dated as of July 15, 2011, between Artesian Water Company, Inc. and Delaware Drinking Water State Revolving Fund, acting by and through the Delaware Department of Health & Social Services, Division of Public Health. Incorporated by reference to Exhibit 10.1 filed with the Company's Form 8-K filed on July 19, 2011.
- 10.3 Amendment to Agreement for Purchase of Water Assets of the Town of Port Deposit and for the provision of Potable Water Services, dated November 1, 2010 by and among Artesian Water Maryland, Inc., a Delaware Corporation, Artesian Resources Corporation, a Delaware Corporation and the Mayor and Town Council of Port Deposit, Maryland, a body corporate and politic organized under the laws of the State of Maryland. Incorporated by reference to Exhibit 10.2 filed with the Company's Form 8-K filed on November 4, 2010.
- 10.4 Financing Agreement and General Obligation Note dated February 12, 2010 between Artesian Water Company, Inc. and Delaware Drinking Water State Revolving Fund Delaware Department of Health and Social Services, Division of Public Health. Incorporated by reference to Exhibit 10.1 filed with the Company's Form 8-K filed on February 17, 2010.
- 10.5 Amended and Restated Revolving Credit Agreement between Artesian Water Company, Inc. and CoBank, ACB dated September 28, 2017.\*
- 10.6 Demand Line of Credit Agreement dated January 19, 2010 between Artesian Resources Corporation and each of its subsidiaries and Citizens Bank of Pennsylvania, as amended or modified from time to time. Incorporated by reference to Exhibit 10.2 filed with the Company's Form 8-K filed on January 25, 2010.
- 10.7 Water Asset Purchase Agreement, dated December 1, 2009 by and among Artesian Water Maryland, Inc., a Delaware Corporation, Artesian Resources Corporation, a Delaware Corporation and the Mayor and Town Council of Port Deposit, Maryland, a body corporate and politic organized under the laws of the State of Maryland. Incorporated by reference to Exhibit 10.1 filed with the Company's Form 8-K filed on December 2, 2009.
- 10.8 Asset Purchase Agreement between Artesian Wastewater Maryland, Inc., subsidiary of the Company, and Cecil County, Maryland, dated October 7, 2008. Incorporated by reference to Exhibit 10.2 filed with the Company's Form 8-K filed on October 10, 2008.
- 10.9 Asset Purchase Agreement between Artesian Wastewater Maryland, Inc., subsidiary of the Company, and Cecil County, Maryland, dated October 7, 2008. Incorporated by reference to Exhibit 10.3 filed with the Company's Form 8-K filed on October 10, 2008.
- 10.10 Limited Liability Interest Purchase Agreement between Artesian Water Maryland, Inc., subsidiary of the Company, and Mountain Hill Water Company, LLC, dated May 5, 2008. Incorporated by reference to Exhibit 10.1 filed with the Company's Form 8-K filed on May 9, 2008.
- 10.11 Wastewater Services Agreement between Artesian Utility Development, Inc., subsidiary of the Company, and Northern Sussex Regional Water Recharge Complex, LLC, dated June 30, 2008. This exhibit is subject to an order granting confidential treatment issued by the SEC and therefore certain confidential portions have been omitted as indicated by the bracketed language [CONFIDENTIAL PORTION DELETED]. Incorporated by reference to Exhibit 10.1 filed with the Company's Form 10-Q for the quarter ended June 30, 2008.

## EXHIBIT E

- 10.12 Artesian Resources Corporation 2005 Equity Compensation Plan. Incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005. \*\*\*
- 10.13 Amended and Restated Artesian Resources Corporation 1992 Non-Qualified Stock Option Plan, as amended. Incorporated by reference to Exhibit 10.4 filed with the Company's Form 10-Q for the quarterly period ended June 30, 2003.\*\*\*
- 10.14 Artesian Resources Corporation Incentive Stock Option Plan. Incorporated by reference to Exhibit 10(e) filed with the Company's Annual Report on Form 10-K for the year ended December 31, 1995.\*\*\*
- 10.15 Officer's Medical Reimbursement Plan dated May 27, 1992. Incorporated by reference to Exhibit 10.6 filed with the Company's Annual Report on Form 10-K/A for the year ended December 31, 2001.\*\*\*
- 21 Subsidiaries of the Company as of December 31, 2017. \*
- 23.1 Consent of BDO USA, LLP \*
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. \*
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. \*
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. \*\*
- 101 The following financial statements from Artesian Resources Corporation's Annual Report on Form 10-K for the year ended December 31, 2017 formatted in eXtensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Cash Flows; (iv) the Consolidated Statements of Changes in Stockholders' Equity and (v) the Notes to the Consolidated Financial Statements.\*

\* Filed herewith.

\*\* Furnished herewith.

\*\*\* Compensation plan or arrangement required to be filed or incorporated as an exhibit.

# EXHIBIT E

## SIGNATURES ARTESIAN RESOURCES CORPORATION

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date March 15, 2018

By: /s/ DAVID B. SPACHT  
David B. Spacht  
Chief Financial Officer and Treasurer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
Principal Executive Officer: /s/ DIAN C. TAYLOR Dian C. Taylor	President and Chief Executive Officer	March 15, 2018
Principal Financial and Accounting Officer: /s/ DAVID B. SPACHT David B. Spacht	Chief Financial Officer and Treasurer	March 15, 2018
Directors: /s/ DIAN C. TAYLOR Dian C. Taylor	Director	March 15, 2018
/s/ KENNETH R. BIEDERMAN Kenneth R. Biederman	Director	March 15, 2018
/s/ WILLIAM C. WYER William C. Wyer	Director	March 15, 2018
/s/ JOHN R. EISENBREY, JR. John R. Eisenbrey, Jr.	Director	March 15, 2018
/s/ NICHOLLE R. TAYLOR Nicholle R. Taylor	Director	March 15, 2018

**EXHIBIT 21****ARTESIAN RESOURCES CORPORATION AND SUBSIDIARY COMPANIES****Subsidiaries of Registrant**

The following list includes the Registrant and all of its subsidiaries as of December 31, 2017. The voting equity interests of each company shown is owned, to the extent indicated by the percentage, by the company immediately above, which is not indented to the same degree. All subsidiaries of the Registrant appearing in the following table are included in the consolidated financial statements of the Registrant and its subsidiaries.

Name of Company	State of Incorporation	Percentage of Voting Equity Interests Owned
Artesian Resources Corporation	Delaware	
Artesian Water Company, Inc.	Delaware	100
Artesian Water Pennsylvania, Inc.	Pennsylvania	100
Artesian Water Maryland, Inc.	Delaware	100
Artesian Development Corporation	Delaware	100
Artesian Wastewater Management, Inc.	Delaware	100
Artesian Wastewater Maryland, Inc.	Delaware	100
Artesian Utility Development, Inc.	Delaware	100
Artesian Storm Water, Inc.	Delaware	100
Artesian Consulting Engineers, Inc.	Delaware	100

**EXHIBIT 23.1**

**Consent of Independent Registered Public Accounting Firm**

Artesian Resources Corporation  
Newark, Delaware

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-88531) and Form S-8 (No. 333-05255, 333-31209, 333-78043, 333-126910 and 333-208582) of Artesian Resources Corporation of our reports dated March 15, 2018, relating to the consolidated financial statements, and the effectiveness of Artesian Resources Corporation's internal control over financial reporting, which appear in this Form 10-K.

/s/BDO USA, LLP

Wilmington, Delaware  
March 15, 2018

**EXHIBIT 31.1****Certification of Chief Executive Officer of Artesian Resources Corporation, required  
by Rule 13a – 14(a) as adopted under the Securities and Exchange Act of 1934**

I, Dian C. Taylor, certify that:

1. I have reviewed this annual report on Form 10-K for the period ended December 31, 2017 of Artesian Resources Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2018

/s/ Dian C. Taylor

Dian C. Taylor  
Chief Executive Officer (Principal Executive Officer)

**EXHIBIT 31.2****Certification of Chief Financial Officer of Artesian Resources Corporation, required  
by Rule 13a – 14(a) as adopted under the Securities and Exchange Act of 1934**

I, David B. Spacht, certify that:

1. I have reviewed this annual report on Form 10-K for the period ended December 31, 2017 of Artesian Resources Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2018

/s/ David B. Spacht

David B. Spacht

Chief Financial Officer (Principal Financial and Accounting Officer)

**EXHIBIT 32**

**Certification of Chief Executive Officer and Chief Financial Officer  
pursuant to 18 U.S.C. Section 1350**

I, Dian C. Taylor, Chief Executive Officer, and David B. Spacht, Chief Financial Officer, of Artesian Resources Corporation, a Delaware corporation (the "Company"), hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on our knowledge:

1. The Company's Annual Report on Form 10-K for the period ended December 31, 2017 (the " Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 USC Section 78m(a) or Section 78o(d)), as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition of the Company at the end of the period covered by the Report and results of operations of the Company for the period covered by the Report.

Date: March 15, 2018

Chief Executive Officer:

Chief Financial Officer:

/s/ Dian C. Taylor

Dian C. Taylor

/s/ David B. Spacht

David B. Spacht

These certifications accompany the Report to which they relate, are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Report), irrespective of any general incorporation language contained in such filing.

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

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

For the quarterly period ended March 31, 2018

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.   
Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2).

Yes       No

As of May 1, 2018, 8,348,902 shares of Class A Non-Voting Common Stock and 881,452 shares of Class B Common Stock were outstanding.

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FORM 10-Q

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**ARTESIAN RESOURCES CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

Unaudited  
(In thousands)

<b>ASSETS</b>	<b>March 31, 2018</b>	December 31, 2017
Utility plant, at original cost (less accumulated depreciation - 2018 - \$119,766; - 2017 - \$116,945)	\$ <b>467,393</b>	\$ 460,502
Current assets		
Cash and cash equivalents	<b>293</b>	952
Accounts receivable (less allowance for doubtful accounts - 2018 - \$294; 2017 - \$288)	<b>8,073</b>	8,897
Income tax receivable	<b>651</b>	2,353
Unbilled operating revenues	<b>1,296</b>	1,427
Materials and supplies	<b>1,417</b>	1,519
Prepaid property taxes	<b>892</b>	1,795
Prepaid expenses and other	<b>1,751</b>	2,042
Total current assets	<b>14,373</b>	18,985
Other assets		
Non-utility property (less accumulated depreciation - 2018- \$708; 2017 - \$689)	<b>3,877</b>	3,882
Other deferred assets	<b>3,967</b>	3,721
Total other assets	<b>7,844</b>	7,603
Regulatory assets, net	<b>7,515</b>	7,549
Total Assets	<b>\$ 497,125</b>	\$ 494,639
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Stockholders' equity		
Common stock	\$ <b>9,230</b>	\$ 9,215
Preferred stock	—	—
Additional paid-in capital	<b>99,951</b>	99,526
Retained earnings	<b>39,213</b>	37,903
Total stockholders' equity	<b>148,394</b>	146,644
Long-term debt, net of current portion	<b>105,179</b>	105,587
	<b>253,573</b>	252,231
Current liabilities		
Lines of credit	<b>14,447</b>	9,610
Current portion of long-term debt	<b>1,354</b>	1,344
Accounts payable	<b>4,676</b>	8,853
Accrued expenses	<b>2,982</b>	2,888
Overdraft payable	<b>660</b>	304
Accrued interest	<b>1,132</b>	1,805
Customer deposits	<b>992</b>	969
Other	<b>4,054</b>	2,688
Total current liabilities	<b>30,297</b>	28,461
Commitments and contingencies		
Deferred credits and other liabilities		
Net advances for construction	<b>7,685</b>	7,797
Regulatory liabilities	<b>23,202</b>	23,201
Deferred investment tax credits	<b>522</b>	526
Deferred income taxes	<b>53,549</b>	54,137
Total deferred credits and other liabilities	<b>84,958</b>	85,661
Net contributions in aid of construction	<b>128,297</b>	128,286
	<b>\$ 497,125</b>	\$ 494,639

*See notes to the condensed consolidated financial statements.*

**ARTESIAN RESOURCES CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**EXHIBIT F**

Unaudited

(In thousands, except per share amounts)

	For the Three Months Ended March 31,	
	2018	2017
Operating revenues		
Water sales	\$ 16,645	\$ 16,935
Other utility operating revenue	999	1,020
Non-utility operating revenue	1,262	1,235
Total Operating Revenues	18,906	19,190
Operating expenses		
Utility operating expenses	9,083	8,905
Non-utility operating expenses	663	686
Depreciation and amortization	2,568	2,319
State and federal income taxes	1,339	2,095
Property and other taxes	1,282	1,194
Total Operating Expenses	14,935	15,199
Operating income	3,971	3,991
Other income, net		
Allowance for funds used during construction (AFUDC)	88	70
Miscellaneous income	918	582
	4,977	4,643
Income before interest charges	4,977	4,643
Interest charges	1,499	1,557
Net income applicable to common stock	\$ 3,478	\$ 3,086
Income per common share:		
Basic	\$ 0.38	\$ 0.34
Diluted	\$ 0.37	\$ 0.34
Weighted average common shares outstanding:		
Basic	9,223	9,135
Diluted	9,281	9,204
Cash dividends per share of common stock	\$ 0.2352	\$ 0.2283

*See notes to the condensed consolidated financial statements.*

**ARTESIAN RESOURCES CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**EXHIBIT F**

Unaudited  
(In thousands)

	For the Three Months Ended March 31,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 3,478	\$ 3,086
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,568	2,319
Deferred income taxes, net	(592)	1,237
Stock compensation	47	34
AFUDC, equity portion	(56)	(47)
Changes in assets and liabilities:		
Accounts receivable, net of allowance for doubtful accounts	824	1,615
Income tax receivable	1,702	(73)
Unbilled operating revenues	131	(96)
Materials and supplies	102	(48)
Prepaid property taxes	903	841
Prepaid expenses and other	291	198
Other deferred assets	(255)	(160)
Regulatory assets	91	84
Accounts payable	(4,177)	(1,191)
Accrued expenses	94	1,197
Accrued interest	(673)	250
Customer deposits and other, net	1,389	868
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>5,867</b>	<b>10,114</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures (net of AFUDC, equity portion)	(9,879)	(7,664)
Proceeds from sale of assets	10	9
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(9,869)</b>	<b>(7,655)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net borrowings (repayments) under lines of credit agreements	4,837	(3,238)
Increase in overdraft payable	356	742
Net advances and contributions in aid of construction	398	2,128
Net proceeds from issuance of common stock	393	414
Dividends paid	(2,168)	(2,084)
Debt issuance costs	(75)	(148)
Principal repayments of long-term debt	(398)	(290)
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>3,343</b>	<b>(2,476)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(659)</b>	<b>(17)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>952</b>	<b>226</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 293</b>	<b>\$ 209</b>
Supplemental Disclosures of Cash Flow Information:		
Utility plant received as construction advances and contributions	\$ 48	\$ 443
Interest paid	\$ 2,172	\$ 1,307
Income taxes paid	\$ -	\$ 515

*See notes to the condensed consolidated financial statements.*

**NOTE 1 – GENERAL**

Artesian Resources Corporation, or Artesian Resources, includes income from the earnings of our nine wholly owned subsidiaries. The terms "we", "our", "Artesian" and the "Company" as used herein refer to Artesian Resources and its subsidiaries.

*DELAWARE REGULATED SUBSIDIARIES*

Artesian Water Company, Inc., or 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 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 Wastewater Management, Inc., or 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 March 31, 2018, Artesian Wastewater owned and operated four wastewater treatment facilities, which are permitted to treat approximately 500,000 gallons per day. In August 2016, Artesian Wastewater and Sussex County, a political subdivision of Delaware, entered into an agreement to provide reciprocal services to address the periodic need of each for additional wastewater treatment and disposal capacity in certain service areas within Sussex County. There are numerous locations in Sussex County where Artesian Wastewater's and Sussex County's facilities are capable of being connected or integrated to allow for the movement and disposal of wastewater generated by one or the other's system in a manner that most efficiently and cost effectively manages wastewater transmission, treatment and disposal.

On September 27, 2016, Artesian Wastewater entered into a wastewater services agreement with Allen Harim Foods, LLC, or Allen Harim, for Artesian Wastewater to provide treatment and disposal services for sanitary wastewater discharged from Allen Harim's properties located in Sussex County, Delaware upon completion of a pipeline to transfer the sanitary wastewater. The pipeline was completed in the second quarter of 2017. The transfer of sanitary wastewater is pending receipt of a construction permit and installation of related on-site improvements by Allen Harim at its facility. On January 27, 2017, Artesian Wastewater entered into a second wastewater agreement with Allen Harim for Artesian Wastewater to provide disposal services for approximately 1.5 mgd of treated industrial process wastewater upon completion of an approximately eight mile pipeline that will transfer the wastewater from Allen Harim's properties to a 90 million gallon storage lagoon at Artesian's Northern Sussex Regional Water Recycling Facility. We will use the reclaimed wastewater for spray irrigation on agricultural land in the area. The completion of the industrial process wastewater pipeline and storage lagoon should occur during the third quarter of 2018.

*MARYLAND REGULATED SUBSIDIARIES*

Artesian Water Maryland, Inc., or 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 Maryland owns and operates 8 public water systems including one in Port Deposit that has the ability to supply up to 1 mgd of water through an intake in the Susquehanna River.

Artesian Wastewater Maryland, Inc., or 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.

*PENNSYLVANIA REGULATED SUBSIDIARY*

Artesian Water Pennsylvania, Inc., or 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.

Our four other subsidiaries, none of which are regulated, are Artesian Utility Development, Inc., or Artesian Utility, Artesian Development Corporation, or Artesian Development, Artesian Storm Water Services, Inc., or Artesian Storm Water, and Artesian Consulting Engineers, Inc., or Artesian Consulting Engineers.

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, Artesian Utility operates the Water Service Line Protection Plan, or WSLP Plan, the Sewer Service Line Protection Plan, or SSLP Plan, and the Internal Service Line Protection Plan, or ISLP Plan.

Artesian Utility currently operates wastewater treatment facilities for the town of Middletown, in southern New Castle County, Delaware, 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.

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 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. The ISLP Plan enhances available coverage to include water and wastewater lines within customers' residences. As of March 31, 2018, approximately 19,500, or 24.5%, of our eligible water customers enrolled in the WSLP Plan, approximately 15,400, or 19.4%, of our eligible customers enrolled in the SSLP Plan, and approximately 4,900 or 6.1%, of our eligible customers enrolled in the ISLP Plan. Approximately 1,600 non-utility customers enrolled in one of our three protection plans.

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 Storm Water, incorporated on January 17, 2017, was formed to provide design, installation, maintenance and repair services related to existing or proposed storm water management systems in Delaware and the surrounding areas. The ability to offer storm water services will complement the primary water and wastewater services that we provide.

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

## **NOTE 2 – BASIS OF PRESENTATION**

### *Basis of Presentation*

The unaudited condensed consolidated financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all the disclosures required in the financial statements included in the Company's annual report on Form 10-K. Accordingly, these financial statements and related notes should be read in conjunction with the financial statements and related notes in the Company's annual report on Form 10-K for fiscal year 2017 as filed with the Securities and Exchange Commission on March 15, 2018.

The condensed consolidated financial statements include the accounts of Artesian Resources Corporation and its wholly owned subsidiaries, including its principal operating company, Artesian Water. In the opinion of the Company, the accompanying unaudited condensed consolidated financial statements reflect all normal recurring adjustments (unless otherwise noted) necessary to present fairly the Company's balance sheet position as of March 31, 2018, the

results of operations for the three month periods ended March 31, 2018 and March 31, 2017 and the cash flows for the three month periods ended March 31, 2018 and March 31, 2017.

The results of operations for the interim periods presented are not necessarily indicative of the results for the full year or for future periods.

### NOTE 3 – REVENUE RECOGNITION

#### *Background*

On January 1, 2018 the Company adopted Accounting Standards Codification 606, or ASC 606, Revenue from Contracts with Customers, using the modified retrospective approach. The Company identified its sources of revenue streams that fall within the scope of this guidance and applied the five-step model to all qualifying revenue streams to determine when to recognize revenue. The Company concluded there is not a material change to how revenue was recognized before and after the adoption of ASC 606, therefore, no cumulative retained earnings adjustment was required. However, adoption of this new accounting standard resulted in increased disclosure, including qualitative and quantitative disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. See below for further details.

Artesian's operating revenues are primarily attributable to regulated contract services based upon tariff rates approved by the Delaware Public Service Commission, or DEPSC, the Maryland Public Service Commission, or MDPSC and the PAPUC. Regulated contract service revenues consist of water consumption, fixed fees for water and wastewater services including customer and fire protection fees, services charges and a Distribution System Improvement Charge, or DSIC, billed to customers at rates outlined in our tariffs that represent stand-alone selling prices. Our non-regulated contract revenues consist of Service Line Protection Plan, or SLP Plan, fees, water and wastewater contract operations, and wastewater inspection fees.

#### *Regulated Contract Revenues*

Artesian generates revenue from the sale of water to customers in Delaware, Cecil County, Maryland, and Southern Chester County, Pennsylvania once a customer requests service in our territory. We recognize water consumption revenue at tariff rates on a cycle basis for the volume of water transferred to customers based upon meter readings for actual gallons of water consumed as well as unbilled amounts for estimated usage from the date of the last meter reading to the end of the accounting period. As actual usage amounts are known based on recurring meter readings, 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 based on management judgements described above, we believe the overall total estimate of consumption and revenue for the fiscal period will not differ materially from actual billed consumption. The majority of our water customers are billed for water consumed on a monthly basis, while the remaining customers are billed on a quarterly basis. As a result, we record unbilled operating revenue (contract asset) for any estimated usage through the end of the accounting period that will be billed in the next monthly or quarterly billing cycle.

Artesian generates fixed fee revenue for water and wastewater services provided to customers once a customer requests service in our territory. Our wastewater territory is located in Sussex County, Delaware. We recognize revenue from these services on a ratable basis over time as the customer simultaneously receives and consumes all the benefits of the Company remaining ready to provide them water and wastewater service. These contract services are billed in advance at tariff rates on a monthly, quarterly or semi-annual basis. As a result, we record deferred revenue (contract liability) and accounts receivable for any amounts for which we have a right to invoice but for which services have not been provided. This deferred revenue is netted with unbilled operating revenue on the Consolidated Balance Sheet.

Artesian generates service charges primarily from non-payment fees, such as water shut off and reconnection fees and finance charges. These fees are billed and recognized as revenue at the point in time when our tariffs indicate the Company has the right to payment such as days past due have been reached or shut-offs and reconnections have been performed. There is no contract asset or liability associated with these fees.

Artesian generates revenue from a DSIC, which is a surcharge applied to water customer tariff rates in Delaware related to specific types of water distribution system improvements. This rate is calculated on a semi-annual basis

based on an approved projected revenue requirement over the following six-month period. This rate is adjusted up or down at the next DSIC filing to account for any differences between actual earned revenue and the projected revenue requirement. Since DSIC revenue is a surcharge applied to tariff rates, we recognize DSIC revenue based on the same guidelines as noted above depending on whether the surcharge was applied to consumption revenue or fixed fee revenue.

The DEPSC required Delaware utilities to determine the impact that the Tax Cuts and Jobs Act of 2017, or TCJA, had on its customers and potential rate relief due to customers. The Company expects any reduction in corporate income tax expense resulting from the TCJA will be passed through to customers in the form of reduced tariff rates or approved DSIC rate. Until a final decision is determined by the DEPSC, recognized DSIC revenue for the first quarter of 2018 is being held in reserve (refund liability) and is not reflected in income. This reserved amount approximates the TCJA impact to Artesian Water's customers.

Accounts receivable from our regulated contract customers are typically due within 25 days of invoicing. An allowance for doubtful accounts is calculated as a percentage of total associated revenues. We mitigate our exposure to credit losses by discontinuing services in the event of non-payment; accordingly, the related allowance for doubtful accounts and associated bad debt expense has not been significant.

#### *Non-regulated Contract Revenues*

Artesian generates SLP Plan revenue once a customer requests service to cover all parts, materials and labor required to repair or replace leaking water service lines, leaking or clogged sewer lines, or water and wastewater lines within the customers' residences, up to an annual limit. We recognize revenue from these services on a ratable basis over time as the customer simultaneously receives and consumes all the benefits of having service line protection services. These contract services are billed in advance on a monthly or quarterly basis. As a result, we record deferred revenue (contract liability) and accounts receivable for any amounts for which we have a right to invoice but for which services have not been provided. Accounts receivable from SLP Plan customers are typically due within 25 days of invoicing. An allowance for doubtful accounts is calculated as a percentage of total SLP contract revenue. We mitigate our exposure to credit losses by discontinuing services in the event of non-payment; accordingly, the related allowance for doubtful accounts and associated bad debt expense has not been significant.

Artesian generates contract operation revenue from water and wastewater operation services provided to customers. We recognize revenue from these operation contracts, which consist primarily of monthly operation and maintenance services over time as customers receive and consume the benefits of such services performed. These services are invoiced in advance at the beginning of every month, typically due within 30 days, and therefore there is no contract asset or liability associated with these revenues. An allowance for doubtful accounts is provided based on a periodic analysis of individual account balances, including an evaluation of days outstanding, payment history, recent payment trends, and our assessment of our customers' creditworthiness. The related allowance for doubtful accounts and associated bad debt expense has not been significant.

Artesian generates inspection fee revenue for inspection services related to onsite wastewater collection systems installed by developers of new communities. These fees are paid by developers in advance when a service is requested for a new phase of a development. Inspection fee revenue is recognized on a per lot basis once the inspection of the infrastructure is completed that serves each lot. As a result, we record deferred revenue (contract liability) for any amounts related to infrastructure not yet inspected. There are no accounts receivable, allowance for doubtful accounts or bad debt expense associated with inspection fee contracts.

#### *Sales Tax*

The majority of Artesian's revenues are earned within the State of Delaware, where there is no sales tax. Revenue earned in the State of Maryland and the State of Pennsylvania are related solely to the sale of water by a public water utility and are exempt from sales tax. Therefore, no sales tax is collected on revenues.

#### *Disaggregated Revenues*

The following table shows the Company's revenues disaggregated by service type; all revenues are generated within a similar geographical location:

## EXHIBIT F

<i>(in thousands)</i>	Three months ended March 31, 2018	Three months ended March 31, 2017
<b>Regulated Revenue</b>		
Consumption charges	\$ 10,719	\$ 10,405
Fixed fees	6,406	6,200
Service charges	157	272
DSIC	748	756
Revenue reserved for refund – TCJA impact	(748)	-
<b>Total Regulated Revenue</b>	<u>\$ 17,282</u>	<u>\$ 17,633</u>
<b>Non-Regulated Revenue</b>		
Service line protection plans	\$ 982	\$ 953
Contract operations	359	328
Inspection fees	9	51
<b>Total Non-Regulated Revenue</b>	<u>\$ 1,350</u>	<u>\$ 1,332</u>
<b>Other Operating Revenue not in scope of ASC 606</b>	<u>\$ 274</u>	<u>\$ 225</u>
<b>Total Operating Revenue</b>	<u><u>\$ 18,906</u></u>	<u><u>\$ 19,190</u></u>

### *Remaining Performance Obligations*

As of March 31, 2018 and December 31, 2017, Deferred Revenue – Regulated is recorded net of contract assets within Unbilled operating revenues and represents our remaining performance obligations for our fixed fee water and wastewater services, all of which are expected to be satisfied and associated revenue recognized in the next three months.

As of March 31, 2018 and December 31, 2017, Deferred Revenue – Non-Regulated is recorded within Other current liabilities and represents our remaining performance obligations for our SLP Plan services and wastewater inspections, which are expected to be satisfied and associated revenue recognized within the next three months and one year for the SLP Plan revenue and inspection fee revenue, respectively.

### *Contract Assets and Contract Liabilities*

Our contract assets and liabilities consist of the following:

<i>(in thousands)</i>	March 31, 2018	December 31, 2017
<b>Accounts Receivable</b>		
Accounts Receivable-Regulated	\$ 5,174	\$ 5,631
Accounts Receivable-Non-Regulated	420	403
<b>Total Accounts Receivable</b>	<u>\$ 5,594</u>	<u>\$ 6,034</u>
<b>Contract Assets – Regulated</b>	\$ 2,211	\$ 2,397
<b>Deferred Revenue</b>		
Deferred Revenue – Regulated	\$ 1,001	\$ 1,053
Deferred Revenue – Non-Regulated	199	203
<b>Total Deferred Revenue</b>	<u>\$ 1,200</u>	<u>\$ 1,256</u>
<b>Refund Liability - Regulated</b>	\$ 748	\$ ---

For the three months ended, March 31, 2018, the Company recognized revenue of \$1.1 million from amounts that were included in Deferred Revenue – Regulated at the beginning of the year and revenue of \$160,000 from amounts

that were included in Deferred Revenue – Non- Regulated at the beginning of the year.

The increases (decreases) of Accounts Receivable, Contract Assets and Deferred Revenue were primarily due to normal timing differences between our performance and customer payments. The increase in the Refund Liability is due to managements best estimate of the most probable ultimate amount of a pending regulatory adjustment related to the TCJA.

**NOTE 4 – STOCK COMPENSATION PLANS**

On December 9, 2015, the Company's stockholders approved the 2015 Equity Compensation Plan, or the 2015 Plan, which replaced the 2005 Equity Compensation Plan which expired on May 24, 2015. The 2015 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 2015 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 2015 Plan, the type, size and terms of the grants, the time when grants will be made and the duration of any applicable exercise or restriction period (subject to the limitations of the 2015 Plan), and deal with any other matters arising under the 2015 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 and non-employee directors of the Company are eligible for grants under the 2015 Plan.

Compensation expense of \$47,000, related to the May 2017 issue of restricted stock awards, was recorded for the three months ended March 31, 2018. Compensation expense of \$34,000 was recorded for the three months ended March 2017 for restricted stock awards issued in May 2016. Costs were determined based on the fair value on the dates of the awards and those costs were charged to income over the service periods associated with the awards.

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

On May 3, 2017, 5,000 shares of Class A Non-Voting Common Stock, or Class A Stock, were granted as restricted stock awards. The fair value per share was \$38.10, the closing price of the Class A Stock as recorded on the Nasdaq Global Market on May 3, 2017. On May 4, 2016, 5,000 shares of Class A Stock were granted as restricted stock awards. The fair value per share was \$27.70, the closing price of the Class A Stock as recorded on the Nasdaq Global Market on May 4, 2016. The restricted shares are subject to a one year vesting period from the date of each grant. Prior to their release date, these restricted stock awards may be subject to forfeiture in the event of the recipient's termination of employment.

The following summary reflects changes in the shares of Class A Stock underlying options and restricted stock awards for the three months ended March 31, 2018:

	Options			Restricted Awards		
	Option Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (Yrs.)	Aggregate Intrinsic Value (in thousands)	Outstanding Restricted Stock Awards	Weighted Average Grant Date Fair Value
Plan options/restricted stock awards						
Outstanding at January 1, 2018	176,802	\$19.91		\$3,298	5,000	\$38.10
Granted	--	--		--	--	--
Exercised/vested and released	(6,750)	15.26		149	--	--
Expired/cancelled	--	--		--	--	--
Outstanding at March 31, 2018	170,052	\$20.09	4.05	\$2,787	5,000	\$38.10
Exercisable/vested at March 31, 2018	170,052	\$20.09	4.05	\$2,787	--	--

The total intrinsic value of options exercised during the three months ended March 31, 2018 was approximately \$149,000.

There were no unvested option shares outstanding under the 2015 Plan during the three months ended March 31, 2018.

As of March 31, 2018, there was no unrecognized expense related to non-vested option shares granted under the 2015 Plan.

As of March 31, 2018, there was \$16,700 total unrecognized expense related to non-vested awards of restricted shares awarded under the 2015 Plan. The cost will be recognized over 0.09 years, the remaining vesting period for the restricted stock awards.

#### NOTE 5 - REGULATORY ASSETS

The Financial Accounting Standards Board, or 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 DEPSC, MDPSC, and PAPUC.

The postretirement benefit obligation is the recognition of an offsetting regulatory liability 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. Artesian Water contributed \$9,300 to its postretirement benefit plan in the first three months of 2018. These contributions consist of insurance premium payments for medical, dental and life insurance benefits made on behalf of the Company's eligible retired employees.

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.

Debt related costs include debt issuance costs and other debt related expense. The DEPSC has allowed rate recovery on unamortized issuance costs and make-whole premiums associated with the early retirement of Series O and Q First Mortgage bonds as the replacement of that debt in January 2017 with Series T First Mortgage bonds was deemed more favorable for the ratepayers. The DEPSC has also allowed rate recovery on issuance costs associated with the Series U First Mortgage bond purchase in January 2018 that paid the full indebtedness of the Series P First Mortgage bond. These amounts are recovered over the term of the new long-term debt issued. For both the Series T First Mortgage bond purchase and the Series U First Mortgage bond purchase, no cash, other than the issue costs, was paid or received as the trustee facilitated direct exchanges of the bonds issued.

Regulatory expenses amortized on a straight-line basis are noted below:

<b>Expense</b>	<b>Years Amortized</b>
Depreciation and salary studies	5
Delaware rate proceedings	2.5
Maryland rate proceedings	5
Debt related costs	15 to 25 (based on term of related debt)
Goodwill (resulting from acquisition of Mountain Hill Water Company in 2008)	50
Deferred acquisition costs (resulting from purchase of water assets in Cecil County, Maryland in 2011 and Port Deposit, Maryland in 2010)	20
Franchise Costs (resulting from purchase of water assets in Cecil County, Maryland in 2011)	80

#### Regulatory assets, net of amortization, comprise:

	(in thousands)	
	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Postretirement benefit obligation	\$ 149	\$ 149
Deferred income taxes	412	416
Expense of rate and regulatory proceedings	68	70
Debt issuance costs	5,948	5,965
Goodwill	301	303
Deferred acquisition and franchise costs	637	646
	<u>\$ 7,515</u>	<u>\$ 7,549</u>

**NOTE 6 – REGULATORY LIABILITIES****EXHIBIT F**

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 obligations are deferred and/or amortized as determined by the DEPSC, MDPSC, and PAPUC. Regulatory liabilities represent excess recovery of cost or other items that have been deferred because it is probable such amounts will be returned to customers through future regulated rates.

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. Artesian Water contributed \$9,300 to its postretirement benefit plan in the first three months of 2018. These contributions consist of insurance premium payments for medical, dental and life insurance benefits made on behalf of the Company's eligible retired employees.

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.

Pursuant to the enactment of the TCJA on December 22, 2017, the Company adjusted its existing deferred income tax balances as of December 31, 2017 to reflect the decrease in the corporate income tax rate from 34% to 21% (see Note 9). This resulted in a decrease in the net deferred income tax liability of approximately \$23.5 million of which \$22.5 million was reclassified as a regulatory liability. These amounts are subject to certain Internal Revenue Service normalization rules that require the benefits to customers be spread over the remaining useful life of the underlying assets giving rise to the associated deferred income taxes. The amount and timing of potential settlements of the established net regulatory liabilities will be determined by the utilities' respective rate regulators.

**Regulatory liabilities comprise:**

	(in thousands)	
	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Postretirement benefit obligation	\$ 112	\$ 112
Utility plant retirement cost obligation	550	549
Deferred income taxes (related to TCJA)	22,540	22,540
	<u>\$ 23,202</u>	<u>\$ 23,201</u>

**NOTE 7 - 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, the potentially dilutive effect of employee stock options and restricted stock awards.

The following table summarizes the shares used in computing basic and diluted net income per share:

	For the Three Months Ended March 31,	
	<u>2018</u>	<u>2017</u>
	(in thousands)	
Weighted average common shares outstanding during the period for		
Basic computation	9,223	9,135
Dilutive effect of employee stock options and awards	<u>58</u>	<u>69</u>
Weighted average common shares outstanding during the period for		
Diluted computation	<u>9,281</u>	<u>9,204</u>

For the three months ended March 31, 2018 and March 31, 2017, no shares of restricted stock awards were excluded from the calculations of diluted net income per share, respectively. For the three months ended March 31, 2018 and March 31, 2017, no shares of stock options were excluded from the calculations of diluted net income per share, as the calculated proceeds from the options' exercise were lower than the average market price of the Company's common stock during the period.

The Company has 15,000,000 authorized shares of Class A Stock and 1,040,000 authorized shares of Class B Common Stock, or Class B Stock. As of March 31, 2018, 8,348,243 shares of Class A Stock and 881,452 shares of Class B Stock were issued and outstanding. As of March 31, 2017, 8,263,579 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. During the three months ended March 31, 2018 and March 31, 2017, the Company issued 14,789 and 17,565 shares of Class A Stock, respectively.

Equity per common share was \$16.09 and \$15.98 at March 31, 2018 and December 31, 2017, respectively. These amounts were computed by dividing common stockholders' equity by the number of shares of common stock outstanding on March 31, 2018 and December 31, 2017, respectively.

## **NOTE 8 - 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 DEPSC regulates both Artesian Water and Artesian Wastewater
- The MDPSC regulates both Artesian Water Maryland and Artesian Wastewater Maryland
- The 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 customers the portion found to be in excess with interest. The timing of our rate increase requests is 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 January 16, 2018, the DEPSC approved the opening of Docket No. 17-1240 requiring Delaware utilities to determine the impact that the TCJA had on their customers and potential rate relief due to customers. We submitted the required reports to the DEPSC by the March 31, 2018 deadline. The Company expects any reduction in corporate income tax expense resulting from the TCJA will be passed through to customers in the form of reduced tariff rates or approved DSIC rates. Until a final decision is determined by the DEPSC, DSIC revenue for the first quarter of 2018 is being held in reserve and is not reflected in income. This reserved amount approximates the TCJA impact to Artesian Water's customers.

### 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 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 7.50% of the amount billed to customers under otherwise applicable rates and charges, and the DSIC rate increase applied cannot exceed 5.0% within any 12-month period.

The following table summarizes (1) Artesian Water's applications with the DEPSC to collect DSIC rates and (2) the rates upon which eligible plant improvements are based:

Application Date	11/29/2016
DEPSC Approval Date	12/20/2016
Effective Date	01/01/2017
Cumulative DSIC Rate	4.71%
Net Eligible Plant Improvements – Cumulative Dollars (in millions)	\$16.6
Eligible Plant Improvements – Installed Beginning Date	10/01/2014
Eligible Plant Improvements – Installed Ending Date	10/31/2016

The January 1, 2017 effective cumulative DSIC rate noted above is currently under audit with the DEPSC. For the three months ended March 31, 2018 we did not report any earnings in DSIC revenue since the full amount of \$748,000 is being held in reserve pending the outcome of the DEPSC's decision regarding the TCJA impact to customers. For the three months ended March 31, 2017, we earned approximately \$756,000 in DSIC revenue.

## NOTE 9 – INCOME TAXES

The TCJA makes many significant changes to the Internal Revenue Code, including, but not limited to (1) reducing the federal corporate tax rate to a flat 21%; (2) creating a 30% limitation on deductible interest expense (not applicable to regulated utilities); (3) eliminating future bonus depreciation deductions on utility plant capital projects that began after September 27, 2017; (4) eliminating the domestic production activities deduction; (5) eliminating the corporate alternative minimum tax and changing how existing alternative minimum tax credits can be realized; (6) changing the rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017 and (7) repealing the exclusion from gross income contributions in aid of construction, or CIAC, for water utilities. The most significant change that impacts Artesian Resources is the reduction of the corporate federal income tax rate from our previous effect rate of 34% to the new flat tax rate of 21% beginning January 1, 2018.

The SEC Staff issued Accounting Bulletin No. 118, Income Tax Accounting of the TCJA, which provides guidance to address situations where a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for certain income tax effects of the TCJA in the period in which the TCJA was enacted. Under the guidance, registrants can report the effects of the TCJA as provisional amounts based on reasonable estimates in those areas in which the accounting is incomplete. The provisional amounts are subject to adjustment during a measurement period that can extend no longer than one year from the enactment date. The Company made reasonable estimates in measuring and accounting for the effects of the TCJA, which are reflected in the March 31, 2018 financial statements, however, these estimates could change based on further analysis of the TCJA or further regulatory rulings from the Company's various Public Service Commissions.

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. The Company's rate regulated utilities recognize regulatory liabilities, to the extent considered in ratemaking, for deferred taxes provided in excess of the current statutory tax rate and regulatory assets for deferred taxes provided at rates less than the current statutory rate. Such tax-related regulatory assets and liabilities are reported at the revenue requirement level and amortized to income as the related temporary differences reverse, generally over the lives of the related properties.

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.

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 accrued interest (net of related tax benefits) and penalties related to uncertain tax positions as a component of its income tax expense.

The Company established two reserves for uncertain tax positions based upon management's judgment as to the sustainability of these positions related to the methodology for determining the deduction for utility system repairs and the difference in the tax depreciation expense utilizing the half-year convention rather than the mid-quarter convention.

The Company has accrued approximately \$2,200 in penalties and interest for the three months ended March 31, 2018. The Company remains subject to examination by federal authorities for the tax years 2015 through 2017 and state authorities for the tax years 2014 through 2017.

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. On December 22, 2017, the TCJA repealed the 1996 exclusion from gross income effective on the enactment date.

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.

#### NOTE 10 – 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 March 31, 2018 and December 31, 2017 was fixed-rate. The fair value of the Company's long-term debt is determined by discounting its 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. Level 2 is valued using observable inputs other than quoted prices. 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*

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Carrying amount	\$ 106,533	\$ 106,931
Estimated fair value	\$ 107,470	\$ 110,524

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

#### NOTE 11 – RELATED PARTY TRANSACTIONS

In October 2017, September 2017, and February 2017, Artesian Water entered into agreements in the normal course of business with W.F. Construction, Inc. for work associated with building modifications to water treatment plants. The amounts of these agreements were approximately \$60,000, \$36,000 and \$100,000, respectively. The owner of W.F. Construction, Inc. is the husband of Mrs. Jennifer Finch, Vice President and Assistant Treasurer of Artesian Resources. No amounts were paid to W.F. Construction, Inc. for the three months ended March 31, 2018.

Approximately \$44,000 was paid to W.F. Construction, Inc. during the three months ended March 31, 2017. As of March 31, 2018, the Company had no liability to W.F. Construction, Inc.

As set forth in the Charter of the Audit Committee of the Board of Directors of Artesian Resources, the Audit Committee is responsible for reviewing and, if appropriate, approving all related party transactions between us and any officer, any 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 2017 and 2016 related party transactions with W.F. Construction, Inc., 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 consistent with, the best interests of the Company and its stockholders.

#### **NOTE 12 – BUSINESS COMBINATIONS**

On March 29, 2018, Artesian Water purchased the utility assets of Slaughter Beach Water Company, which serves the community of Slaughter Beach located in Sussex County, Delaware along the Delaware Bay consisting of 265 customers. The total purchase price was \$450,000 in cash, which approximates the fair value of the net identifiable assets received. The acquisition was accounted for as a business combination under ASC Topic 805, “Business Combinations”. The purchase price was allocated to the acquired utility assets, including land, based on the utility assets’ estimated fair values as of the acquisition date. This acquisition was approved by the DEPSC on March 27, 2018 subject to the DEPSC determining the appropriate ratemaking treatment of the acquisition price and the assets acquired in Artesian Water’s next base rate case. The pro forma effect of the business acquired is not material to the Company’s financial position or results of operations.

#### **NOTE 13 - IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS**

In February 2016, the FASB issued new guidance on leases to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The new standard establishes a right-of-use, or ROU, model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Management is currently evaluating the impact of our pending adoption of the new standard, which includes compiling a list of all contracts that meet the definition of a lease under the new standard and determining the proper classification and accounting treatment of such contracts in order to determine the ultimate impact the new standard will have on our consolidated financial statements.

#### **NOTE 14 - SUBSEQUENT EVENT**

On April 3, 2018 Wetherby, LLC filed a complaint against Artesian Resources Corporation and Artesian Wastewater Management, Inc., or the Defendants, in United States District Court for the District of Delaware. The complaint alleges that the Defendants have engaged in monopolization and/or attempted monopolization in violation of Section 2 of the Sherman Antitrust Act in connection with negotiating the terms upon which Artesian Wastewater Management, Inc. might provide wastewater services to a proposed development in Sussex County, Delaware. The complaint seeks the following relief: a permanent injunction requiring Defendants to provide wastewater services; a declaration that the Defendants are a monopoly; a declaration that the Defendants’ actions violate Section 2 of the Sherman Act; actual damages in an amount to be proved at trial, but not less than \$10 million; treble damages under the Clayton Act, and the cost of suit, including reasonable attorneys’ fees; and such other relief as the Court deems just and proper. We believe the claims are without merit and intend to defend the suit vigorously.

**ITEM 2****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*****CAUTION REGARDING FORWARD-LOOKING STATEMENTS***

Statements in this Quarterly Report on Form 10-Q 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 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, our ability to adjust our debt level, interest rate, maturity schedule and structure, 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, 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, the 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, in our Annual Report on Form 10-K for the year ended December 31, 2017, such as changes in weather, changes in our contractual obligations, changes in government policies, the timing and results of our rate requests, failure to receive regulatory approval, 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 a representation of the Company's views as of any date subsequent to the date of the filing of this Quarterly Report on Form 10-Q.

**RESULTS OF OPERATIONS FOR THE PERIOD ENDED MARCH 31, 2018*****OVERVIEW***

Our profitability is primarily attributable to the sale of water. Gross water sales comprise 88.0% of total operating revenues for the three months ended March 31, 2018. Our profitability is also attributed to the various contract operations, water, sewer and internal 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 and other services provide a revenue stream that is not affected by changes in weather patterns.

While water sales are our primary source of revenues, we continue to seek growth opportunities to provide wastewater services 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, and 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, sewer, and internal Service Line Protection Plans.

Water Division

Artesian Water, Artesian Water Maryland and Artesian Water Pennsylvania provide water services 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. As of March 31, 2018 we had approximately 84,800 metered water customers in Delaware, an increase of approximately 1,800 compared to March 31, 2017. The number of metered water customers in Maryland totaled approximately 2,300 as of March 31, 2018, a slight increase compared to March 31, 2017. The number of metered water customers in Pennsylvania remained consistent compared to March 31, 2017. For the three months ended March 31, 2018, approximately 1.9 billion gallons of water were distributed in our Delaware systems and approximately 34.3 million gallons of water were distributed in our Maryland systems.

Wastewater Division

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 residential and commercial wastewater customers are billed a flat monthly fee, which contributes to providing a revenue stream unaffected by weather. There has been consistent customer growth over the years. The number of Delaware wastewater customers totaled approximately 1,900 as of March 31, 2018, an increase of approximately 200, or 13.2% compared to March 31, 2017. In addition, Artesian Wastewater entered into a wastewater services agreement with Allen Harim Foods, LLC, or Allen Harim, a large industrial customer, under which service is expected to begin in 2018. The wastewater services agreement with Allen Harim is discussed further in the "Strategic Direction" section below.

Non-Regulated Division

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, Delaware 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 million gallons per day and 250,000 gallons per day, respectively. We also operate a wastewater disposal facility in Middletown in order to support the 2.5 million gallons per day wastewater facility.

In addition to the water and wastewater services described above, Artesian Utility also offers three protection plans to customers, the WSLP Plan, the SSLP Plan, and the ISLP Plan. The WSLP Plan covers all parts, materials and labor required to repair or replace participating customers' leaking water service lines up to an annual limit. The SSLP Plan covers all parts, materials and labor required to repair or replace participating customers' leaking or clogged sewer lines up to an annual limit. The ISLP Plan enhances available coverage to include water and wastewater lines within customers' residences. As of March 31, 2018, approximately 19,500, or 24.5%, of our eligible water customers enrolled in the WSLP Plan, approximately 15,400, or 19.4%, of our eligible customers enrolled in the SSLP Plan, and approximately 4,900, or 6.1%, of our eligible customers enrolled in the ISLP Plan. Approximately 1,600 non-utility customers enrolled in one of our three protection plans.

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 Storm Water, incorporated on January 17, 2017, was formed to provide design, installation, maintenance and repair services related to existing or proposed storm water management systems in Delaware and the surrounding areas. The ability to offer storm water services will complement the primary water and wastewater services that we provide.

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 believe 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.

On February 23, 2017, Artesian Water entered into an agreement with Fort DuPont Redevelopment and Preservation Corporation for the purchase of existing water assets and for the provision of potable water and fire suppression services. The Fort DuPont National Historic District, or Fort DuPont, consists of 325-acres and lies between the Delaware River on the east, the Chesapeake and Delaware Canal on the south and the Delaware City Branch Canal to the north and west. The final purchase price for the water assets consisting of a water treatment plant, storage tank, wells, mains, and other equipment used to provide potable water and fire suppression services to portions of Fort DuPont and the surrounding properties was \$852,000. Closing occurred in June 2017. In connection with the planned future development of Fort DuPont, the parties intend to design, build and operate a state of the art, cost effective, safe and reliable water system that will include both new water assets as well as improvements and upgrades to the existing water assets. The water system can be expanded to meet the needs of the planned 600 residential units as well as new commercial customers, in addition to water service currently provided to the Governor Bacon Health Center and National Guard facilities.

On March 29, 2018, Artesian Water purchased the utility assets of Slaughter Beach Water Company, or SBWC, for \$450,000. The public water system currently serves the community of Slaughter Beach located in Sussex County, Delaware along the Delaware Bay consisting of 265 customers. The SBWC was founded in 1951 as a public water system in Delaware.

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 currently are 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 governmental agencies 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 because they will be converted from treatment and disposal plants to pump stations to assist with transitioning the flow of wastewater from one regional facility to another.

Artesian Wastewater entered into agreements that will provide growth opportunities and will utilize our larger regional wastewater facilities. In August 2016, Artesian Wastewater and Sussex County, a political subdivision of Delaware, entered into an agreement to provide reciprocal services to address the periodic need of each for additional wastewater treatment and disposal capacity in certain service areas within Sussex County. There are numerous locations in Sussex County where Artesian Wastewater's and Sussex County's facilities are capable of being connected or integrated to

allow for the movement and disposal of wastewater generated by one or the other's system in a manner that most efficiently and cost effectively manages wastewater transmission, treatment and disposal.

On September 27, 2016, Artesian Wastewater entered into a wastewater services agreement with Allen Harim for Artesian Wastewater to provide treatment and disposal services for sanitary wastewater discharged from Allen Harim's properties located in Sussex County, Delaware upon completion of a pipeline to transfer the sanitary wastewater. The pipeline was completed in the second quarter of 2017. The transfer of sanitary wastewater is pending receipt of a construction permit and installation of related on-site improvements by Allen Harim. On January 27, 2017, Artesian Wastewater entered into a second wastewater agreement with Allen Harim for Artesian Wastewater to provide disposal services for approximately 1.5 million gallons per day of treated industrial process wastewater upon completion of an approximately eight mile pipeline that will transfer the wastewater from Allen Harim's properties to a 90 million gallon storage lagoon at Artesian's Northern Sussex Regional Water Recycling Facility. We will use the reclaimed wastewater for spray irrigation on agricultural land in the area. The completion of the industrial process wastewater pipeline and storage lagoon should occur during the third quarter of 2018.

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 three years includes projects for water treatment plant improvements and additions in both Delaware and Maryland and wastewater treatment plant improvements and expansion in Delaware. Capital improvements are planned and budgeted to meet anticipated changes in regulations and needs for increased capacity related to projected growth. The DEPSC and MDPSC 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. We also anticipate continued growth due to our water, sewer and internal Service Line Protection Plans. 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. Artesian Storm Water was recently formed to expand contract work related to the design, installation, maintenance and repair services associated with existing or proposed storm water management systems in Delaware and the surrounding areas.

#### *Regulatory Matters*

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 oversee other matters. The profitability of our utility operations is influenced, to a great extent, by the timeliness and adequacy of rate allowances we are granted by the respective regulatory commissions or authorities in the states in which we operate.

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 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 7.50% of the amount billed to customers under otherwise applicable rates and charges, and the DSIC rate increase applied cannot exceed 5.0% within any 12-month period.

The following table summarizes (1) Artesian Water's applications with the DEPSC to collect DSIC rates and (2) the rates upon which eligible plant improvements are based:

Application Date	11/29/2016
DEPSC Approval Date	12/20/2016
Effective Date	01/01/2017
Cumulative DSIC Rate	4.71%
Net Eligible Plant Improvements – Cumulative Dollars (in millions)	\$16.6
Eligible Plant Improvements – Installed Beginning Date	10/01/2014
Eligible Plant Improvements – Installed Ending Date	10/31/2016

## EXHIBIT F

The January 1, 2017 effective cumulative DSIC rate noted above is currently under audit with the DEPSC. For the three months ended March 31, 2018, we did not report any earnings in DSIC revenue since it is being held in reserve pending the outcome of the DEPSC's decision regarding the TCJA impact to customers. For the three months ended March 31, 2017, we earned approximately \$756,000 in DSIC revenue.

### *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.

### Results of Operations – Analysis of the Three Months Ended March 31, 2018 Compared to the Three Months Ended March 31, 2017.

#### Operating Revenues

Revenues totaled \$18.9 million for the three months ended March 31, 2018, \$0.3 million, or 1.5%, less than revenues for the three months ended March 31, 2017. Water sales revenue decreased \$0.3 million, or 1.7%, for the three months ended March 31, 2018 from the corresponding period in 2017, primarily due to a decrease in DSIC related to earnings being held in reserve pending the final determination of the potential rate relief due to customers as a result of the TCJA. This decrease is partially offset by an increase in overall water consumption and an increase in customer charges from customer growth. We realized 88.0% and 88.2% of our total operating revenue for the three months ended March 31, 2018 and March 31, 2017, respectively, from the sale of water.

#### Operating Expenses

Operating expenses, excluding depreciation and income taxes, increased \$0.2 million, or 2.3%, for the three months ended March 31, 2018, compared to the same period in 2017.

Utility operating expenses increased \$0.2 million, or 2.0%, for the three months ended March 31, 2018 over the same period in 2017. The increase is primarily related to an increase in payroll and employee compensation costs.

Property and other taxes increased \$0.1 million, or 7.4%, primarily due to an increase in payroll taxes related to increased payroll related expenses. In addition, utility plant subject to taxation increased. Property taxes are assessed on land, buildings and certain utility plant, which include the footage and size of pipe, hydrants and wells.

The ratio of operating expense, excluding depreciation and income taxes, to total revenue was 58.3% for the three months ended March 31, 2018, compared to 56.2% for the three months ended March 31, 2017.

Depreciation and amortization expense increased \$0.2 million, or 10.7%, primarily due to continued investment in utility plant providing supply, treatment, storage and distribution of water to customers and service to our wastewater customers.

Federal and state income tax expense decreased \$0.8 million, or 36.1%, primarily due to the reduction in the Federal corporate income tax rate by the TCJA signed into law on December 22, 2017.

#### Other Income, Net

Other income, net increased \$0.3 million, primarily due to an increase in the amount of the annual patronage refund from CoBank, ACB, related to the refinancing of the Series O and Series Q First Mortgage bonds in January 2017. The annual patronage has been equal to 1.00% of the average line of credit and loan volume outstanding.

#### Interest Charges

Interest expense decreased \$0.1 million, primarily due to the refinancing of the Series O and Series Q First Mortgage bonds in January 2017, reducing interest rates from 8.17% and 4.75%, respectively, to 4.24% as well as the refinancing of the Series P First Mortgage bond in January 2018, reducing the interest rate from 6.58% to 4.71%. This decrease is partially offset by an increase in interest charges due to an increase in borrowing under lines of credit.

Our net income applicable to common stock increased \$0.4 million, primarily due to an increase in the amount of the annual patronage refund from CoBank, ACB and reduced interest expense.

## **LIQUIDITY AND CAPITAL RESOURCES**

### Overview

Our primary sources of liquidity for the three months ended March 31, 2018 were \$5.9 million of cash provided by operating activities, \$4.8 million from lines of credit borrowings, \$0.4 million in net contributions and advances from developers and \$0.4 million in net proceeds from the issuance of common stock. 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.

### Investment in Plant and Systems

The primary focus of Artesian Water's investment is to continue to provide high quality reliable service to our growing service territory. We invested approximately \$9.9 million in capital expenditures during the first three months of 2018 compared to \$7.7 million invested during the same period in 2017. During the first three months of 2018, we invested approximately \$1.8 million for our rehabilitation program for transmission and distribution facilities by replacing aging or deteriorating mains and for new transmission and distribution facilities. We invested \$2.8 million to enhance or improve existing treatment facilities and replace aging wells and pumping equipment to better serve our customers. We invested \$0.4 million for equipment purchases, computer hardware and software upgrades and transportation equipment. Developers financed \$1.1 million for the installation of water mains and hydrants for the first three months in 2018 compared to \$0.8 million for the first three months of 2017. We invested \$0.7 million to upgrade and automate our meter reading equipment. We invested approximately \$0.1 million in mandatory utility plant expenditures due to governmental highway projects, which required the relocation of water service mains in addition to facility improvements and upgrades. An additional \$3.0 million was invested in wastewater projects in Delaware, of which \$2.8 million was invested in the ongoing construction of an eight mile pipeline and a 90 million gallon storage lagoon for spray irrigation to dispose of treated wastewater from a new industrial customer.

We depend on the availability of capital for expansion, construction and maintenance. We have several sources of liquidity to finance our investment in utility plant and other fixed assets. We estimate that future investments will be financed by our operations and external sources, including a combination of capital investment and short-term borrowings. 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 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. 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.

### **The Tax Cuts and Jobs Act**

On December 22, 2017, the TCJA was signed into law. We are in the process of analyzing the TCJA and its overall impact on the Company. The TCJA reduces the federal corporate tax rate to 21 percent from 35 percent, among other things. Notwithstanding the reduction in the corporate income tax rate, the overall impact of the TCJA is uncertain. However, based on its preliminary assessment of the reduction in the federal corporate tax rate, the Company currently expects that its 2018 effective tax rate will be reduced and will result in overall lower tax expense beginning in 2018. Such estimate is based on management's current assumptions with respect to, among other things, the Company's earnings, state income tax levels and tax deductions. The Company's actual effective tax rate in 2018 may differ from management's estimate. The TCJA also includes certain other provisions specifically related to the public utility industry, including the exclusion from utilizing bonus depreciation. The impact with respect to provisions specifically related to the public utility industry or to corporate taxpayers in general may also impact our future financial performance, including our results of operations, cash flows and liquidity, which impacts will largely be determined through future regulatory proceedings.

On January 16, 2018, the DEPSC approved the opening of Docket No. 17-1240 requiring Delaware utilities to determine the impact that the TCJA had on their customers and potential rate relief due to customers. We submitted the required reports to the DEPSC by the March 31, 2018 deadline. The Company expects any reduction in corporate income tax expense resulting from the TCJA will be passed through to customers in the form of reduced tariff rates or approved DSIC rates. Until a final decision is determined by the DEPSC, DSIC revenue for the first quarter of 2018 is being held in reserve and is not reflected in income. This reserved amount approximates the TCJA impact to Artesian Water's customers.

#### Lines of Credit

At March 31, 2018, 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 March 31, 2018, there was \$35.6 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 25, 2018 or any date on which Citizens demands payment. The Company expects to renew this line of credit.

At March 31, 2018, 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 March 31, 2018, 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%. The term of this line of credit expires on July 20, 2018. We expect to renew this line of credit.

<b>Line of Credit Commitments</b>	<b>Commitment Due by Period</b>			
	Less than 1 Year	1-3 Years	4-5 Years	Over 5 Years
<i>In thousands</i>				
Lines of Credit	\$ 14,447	\$ --	\$ --	\$ --

#### 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 66⅔% of total capitalization. Our debt to total capitalization, including the short-term portion thereof, was 47.5% at March 31, 2018. 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 March 31, 2018, we were in compliance with these covenants.

We expect to fund our activities for the next 12 months using our available cash balances and bank credit lines, plus projected cash generated from operations.

<b>Contractual Obligations</b>	<b>Payments Due by Period</b>				<b>Total</b>
	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years	
<i>In thousands</i>					
First mortgage bonds (principal and interest)	\$ 5,378	\$ 10,680	\$ 10,566	\$ 143,409	\$ 170,033
State revolving fund loans (principal and interest)	1,002	2,005	1,512	4,042	8,561
Operating leases	77	113	118	1,309	1,617
Unconditional purchase obligations	3,824	7,659	2,881	--	14,364
Tank painting contractual obligation	426	426	--	--	852
Total contractual cash obligations	\$ 10,707	\$ 20,883	\$ 15,077	\$ 148,760	\$ 195,427

Long-term debt obligations reflect the maturities of certain series of our first mortgage bonds, which we intend to refinance when due if not refinanced earlier. 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.

On January 18, 2017, Artesian Water and CoBank entered into a Bond Purchase Agreement relating to the issue and sale by the Company to CoBank of a \$40 million principal amount First Mortgage Bond, Series T, or the Series T Bond, due December 20, 2036, or the Series T Maturity Date. The Series T Bond was issued pursuant to the Company's Indenture of Mortgage dated as of July 1, 1961, as amended and supplemented by supplemental indentures, including the Twenty-Second Supplemental Indenture dated as of January 18, 2017 from the Company to Wilmington Trust Company, as Trustee. The Indenture is a first mortgage lien against substantially all of the Company's utility plant. The proceeds from the sale of the Series T Bond were used to prepay indebtedness of the Company under two existing First Mortgage Bonds: Series O, principal amount \$20 million with interest rate of 8.17% and related prepayment costs of \$4.5 million; and Series Q, principal amount \$15.4 million with interest rate of 4.75%. The DEPSC approved the issuance of the Series T Bond on December 20, 2016. The DEPSC also approved deferral of the prepayment costs associated with the First Mortgage Bond, Series O and the previously deferred debt related costs associated with the First Mortgage Bonds, Series O and Series Q.

The Series T Bond carries an annual interest rate of 4.24% through and including the Series T Maturity Date. Interest is payable on June 30th and December 31st of each year, beginning June 30, 2017, until the Company's obligation with respect to the payment of principal, premium (if any) and interest shall be discharged. Overdue payments shall bear interest as provided in the Twenty-Second Supplemental Indenture. The terms of the Series T Bond also include certain limitations on the Company's indebtedness.

On January 31, 2018, Artesian Water and CoBank entered into a Bond Purchase Agreement relating to the issue and sale by the Company to CoBank of a \$25 million principal amount First Mortgage Bond, Series U, or the Series U Bond, due January 31, 2038, or the Series U Maturity Date. The Series U Bond was issued pursuant to the Company's Indenture of Mortgage dated as of July 1, 1961, as amended and supplemented by supplemental indentures, including the Twenty-Third Supplemental Indenture, dated as of January 31, 2018 from the Company to Wilmington Trust Company, as Trustee. The Indenture is a first mortgage lien against substantially all of the Company's utility plant. The proceeds from the sale of the Series U Bond together with other funds of the Company, were used to pay in full at maturity indebtedness of the Company under those certain First Mortgage Bonds, Series P. The DEPSC approved the issuance of the Series U Bond on December 21, 2017.

The Series U Bond carries an annual interest rate of 4.71% through and including the Series U Maturity Date. Interest is payable on January 30th, April 30th, July 30th and October 30th in each year and on the Series U Maturity Date, beginning April 30, 2018 until the Company's obligation with respect to the payment of principal, premium (if any) and interest shall be discharged. Overdue payments shall bear interest as provided in the Twenty-Third Supplemental Indenture. The term of the Series U Bond also includes certain limitations on the Company's indebtedness.

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, which expires December 31, 2021.

In January 2018, Artesian Water Maryland signed an interconnection agreement with the Town of North East that has a "take or pay" clause requiring us to purchase a minimum of 35,000 gallons per day that shall commence on the first day of the month following the date on which the interconnection is completed. The interconnection completion date is expected to occur during the third quarter of 2018.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements, including any arrangements with any structured finance, special purpose or variable interest entities.

### **Critical Accounting Assumptions, Estimates and Policies; Recent Accounting Standards**

This discussion and analysis of our financial condition and results of operations is based on the accounting policies used and disclosed in our 2017 consolidated financial statements and accompanying notes that were prepared in accordance with accounting principles generally accepted in the United States of America and included as part of our annual report on Form 10-K for the year ended December 31, 2017. The preparation of those financial statements required management to make assumptions and estimates that affected the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements as well as the reported amounts

of revenues and expenses during the reporting periods. Actual amounts or results could differ from those based on such assumptions and estimates.

Our critical accounting policies are described in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our annual report on Form 10-K for the year ended December 31, 2017. There have been no changes in our critical accounting policies. Our significant accounting policies are described in our notes to the 2017 consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2017.

Information concerning our implementation and the impact of recent accounting standards issued by the Financial Accounting Standards Board is included in the notes to our 2017 consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2017 and also in the notes to our unaudited condensed consolidated financial statements contained in this quarterly report on Form 10-Q. We did not adopt any accounting policy in the first three months of 2018 that had a material impact on our financial condition, liquidity or results of operations.

### **ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES 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 2028 to 2038, and interest rates ranging from 4.24% to 5.96%, 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 March 31, 2018 were approximately \$14.4 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 multi-year supply contract, at a fixed price.

### **ITEM 4 – CONTROLS AND PROCEDURES**

#### **(a) Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were designed to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (1) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (2) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. In addition, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective to achieve the foregoing objectives.

#### **(b) Change in Internal Control over Financial Reporting**

No change in our internal control over financial reporting occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 1 – LEGAL PROCEEDINGS**

On April 3, 2018 Wetherby, LLC filed a complaint against Artesian Resources Corporation and Artesian Wastewater Management, Inc., or the Defendants, in United States District Court for the District of Delaware. The complaint alleges that the Defendants have engaged in monopolization and/or attempted monopolization in violation of Section 2 of the Sherman Antitrust Act in connection with negotiating the terms upon which Artesian Wastewater Management, Inc. might provide wastewater services to a proposed development in Sussex County, Delaware. The complaint seeks the following relief: a permanent injunction requiring Defendants to provide wastewater services; a declaration that the Defendants are a monopoly; a declaration that the Defendants' actions violate Section 2 of the Sherman Act; actual damages in an amount to be proved at trial, but not less than \$10 million; treble damages under the Clayton Act, and the cost of suit, including reasonable attorneys' fees; and such other relief as the Court deems just and proper. We believe the claims are without merit and intend to defend the suit vigorously.

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 1A – RISK FACTORS**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017, which could materially affect our business, financial condition or future results. There have been no material changes to the risk factors described in such Annual Report on Form 10-K.

**ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Not applicable.

**ITEM 3 – DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4 – MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5 – OTHER INFORMATION**

Not applicable.

**ITEM 6 - EXHIBITS****Exhibit No. Description**

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- 4.1 Twenty-Third Supplemental Indenture dated as of January 31, 2018, between Artesian Water Company, Inc., subsidiary of the Company, and Wilmington Trust Company, as Trustee. Incorporated by reference to Exhibit 4.1 filed with the Company's Form 8-K filed on February 2, 2018.
- 4.2 Bond Purchase Agreement, dated January 31, 2018, by and between Artesian Water Company, Inc., subsidiary of the Company, and CoBank, ACB. Incorporated by reference to Exhibit 4.2 filed with the Company's Form 8-K filed on February 2, 2018.
- 31.1 Certification of Chief Executive Officer of the Registrant required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.\*
- 31.2 Certification of Chief Financial Officer of the Registrant required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.\*
- 32 Certification of Chief Executive Officer and Chief Financial Officer required by Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. Section 1350).\*\*
- 101 The following financial statements from Artesian Resources Corporation's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018 formatted in eXtensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets; (ii) the Condensed Consolidated Statements of Operations; (iii) the Condensed Consolidated Statements of Cash Flows; and (iv) the Notes to the Condensed Consolidated Financial Statements.\*

\* Filed herewith

\*\* Furnished herewith

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ARTESIAN RESOURCES CORPORATION

Date: May 3, 2018      By: /s/ DIAN C. TAYLOR  
Dian C. Taylor (Principal Executive Officer)

Date: May 3, 2018      By: /s/ DAVID B. SPACHT  
David B. Spacht (Principal Financial and Accounting Officer)

**Certification of Chief Executive Officer of Artesian Resources Corporation  
required by Rule 13a – 14 (a) under the Securities Act of 1934, as amended**

I, Dian C. Taylor, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended March 31, 2018 of Artesian Resources Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2018

/s/ DIAN C. TAYLOR

Dian C. Taylor

Chief Executive Officer (Principal Executive Officer)

**Certification of Chief Financial Officer of Artesian Resources Corporation  
required by Rule 13a – 14 (a) under the Securities Act of 1934, as amended**

I, David B. Spacht, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended March 31, 2018 of Artesian Resources Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2018

/s/ DAVID B. SPACHT

David B. Spacht

Chief Financial Officer (Principal Financial and Accounting Officer)

**Certification of Chief Executive Officer and Chief Financial Officer  
pursuant to 18 U.S.C. Section 1350**

I, Dian C. Taylor, Chief Executive Officer, and David B. Spacht, Chief Financial Officer, of Artesian Resources Corporation, a Delaware corporation (the "Company"), hereby certify, pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on our knowledge:

- (1) The Company's Quarterly Report on Form 10-Q for the period ended March 31, 2018 (the " Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 USC Section 78m(a) or Section 78o(d)), as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition of the Company at the end of the period covered by the Report and results of operations of the Company for the period covered by the Report.

Date: May 3, 2018

CHIEF EXECUTIVE OFFICER:

/s/ DIAN C. TAYLOR  
Dian C. Taylor

CHIEF FINANCIAL OFFICER:

/s/ DAVID B. SPACHT  
David B. Spacht

These certifications accompany the Report to which they relate, are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Report), irrespective of any general incorporation language contained in such filing.

**EXHIBIT G**

**SCHEDULE NO. 1**  
**ARTESIAN WASTEWATER MANAGEMENT, INC.**  
**CAPITALIZATION RATIOS ACTUAL AND PRO FORMA**  
**AS OF DECEMBER 31, 2017**

Line #	Type of Capital	Before Issuance		Pro Forma Adjustment \$	After Issuance	
		Amount Outstanding	% of Total		Amount Outstanding	% of Total
1	<u>Common Equity</u>					
2	Common Stock	\$ 1,000		\$ -	\$ 1,000	
3	Paid-in Capital	4,552,336		6,000,000	10,552,336	
4	Retained Earnings	<u>(486,742)</u>		<u>257,733</u>	<u>(229,009)</u>	
5	Total Common Equity	<u>4,066,594</u>	<u>20.2%</u>	<u>6,257,733</u>	<u>10,324,327</u>	<u>41.4%</u>
6	<u>Preferred Stock</u>	<u>-</u>	<u>0.0%</u>	<u>-</u>	<u>-</u>	<u>0.0%</u>
7	<u>Long-Term Debt</u>					
8	First mortgage bonds (including current portion)	\$ -		\$ -	\$ -	
9	Long-term notes	-		12,000,000	\$ 12,000,000	
10	Other long-term debt (including current portion)	<u>-</u>		<u>-</u>	<u>-</u>	
11	Total Long-Term Debt	<u>-</u>	<u>0.0%</u>	<u>12,000,000</u>	<u>12,000,000</u>	<u>48.2%</u>
12	Total Permanent Capital	<u>4,066,594</u>	<u>20.2%</u>	<u>18,257,733</u>	<u>22,324,327</u>	<u>89.6%</u>
13	<u>Short-Term Debt</u>	<u>16,086,456</u>	<u>79.8%</u>	<u>(13,500,000)</u>	<u>2,586,456</u>	
14	Total Capitalization	<u>\$ 20,153,051</u>	<u>100.0%</u>	<u>\$ 4,757,733</u>	<u>\$ 24,910,784</u>	<u>100.0%</u>

NOTE 1: The Capitalization figures presented as "before issuance" are actual balances as of December 31, 2017. Projected revenues and expenses included as part of retained earnings has been adjusted to include a full year of activity resulting from the addition of Allen Harim Foods as an industrial customer.

NOTE 2: The Company expects to paydown \$13,500,000 of its short term debt through a capital contribution as well as using a portion of the loan proceeds.

# EXHIBIT G

**SCHEDULE NO. 2**  
**ARTESIAN WASTEWATER MANAGEMENT, INC.**  
**CALCULATION OF RETURN ON AVERAGE COMMON EQUITY**  
**FOR THE TWELVE-MONTH PERIOD ENDED DECEMBER 31, 2017**

		<u>HISTORICAL TWELVE MONTHS</u>			1
LINE NO.	<u>STATEMENT OF INCOME</u>	<u>BEFORE ISSUANCE</u>	PRO FORMA ADJSTMNT	2	<u>AFTER ISSUANCE</u>
1	Operating revenues	2,389,989	\$ 1,825,000		4,214,989
2	Operating expenses before income taxes	2,577,751	901,099		3,478,850
3	Income taxes (including deferrals)	(208,544)	99,584		(108,960)
4	Operating income (1-(2+3))	20,782	824,317		845,098
5	AFUDC (Equity only)	34,622	-		34,622
6	Other income, net	10,241	48,000		58,241
7	Income before interest charges (4+5+6)	65,645	872,317		937,962
8	Interest charges (including debt portion of AFUDC)	243,097	614,583		857,681
9	Net income (7-8)	(177,452)	257,733		80,281
10	Preferred stock dividends	-			-
11	Earnings available to common equity (9-10)	(177,452)	257,733		80,281
12	Average capitalization	17,673,439	4,757,733		22,431,172
13	Average common equity	4,155,320	6,257,733		10,413,053
14	Return on average capitalization (7/12)	0.37%			4.18%
15	Return on average common equity (11/13)	-4.27%			0.77%

Note 1: Historical twelve months equivalent to annualized twelve months.

Note 2: The pro-forma adjustments reflect a full year of activity resulting from the addition of Allen Harim Foods as an industrial customer.

**SCHEDULE NO. 3**  
**ARTESIAN WASTEWATER MANAGEMENT, INC.**  
**FIXED CHARGE COVERAGE RATIOS**  
**FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2017**

**HISTORICAL**  
**TWELVE MONTHS**

	<b><u>Before</u></b> <b><u>Issuance</u></b>	<b><u>After</u></b> <b><u>Issuance</u></b>
<u>Per Financial Statements</u>		
Before Income Taxes, all interest (Lines (1-2+6)/Line 8)	(0.73)	0.93
After Income Taxes, all interest (Line 7/Line 8)	0.27	1.09
Overall Coverage, after income taxes (Line 7/Line 8+10)	0.27	1.09

Note: Descriptions in parentheses refer to line number on Schedule 2, attached which were used to calculate the ratios.