

# **MIDDLESEX WATER COMPANY**

## **AUDIT COMMITTEE**

### **CHARTER**

#### **PREAMBLE**

There shall be a standing committee of the Board of Directors (the “Board”) of Middlesex Water Company (the “Company”) to be known as the Audit Committee (the “Committee”).

The Committee shall be primarily responsible for oversight of the audit of the Company’s financial statements and internal controls over financial reporting. It is also assigned the responsibilities of (i) oversight of the Company’s internal audit functions; (ii) review of related party transactions with the Company; (iii) determining whether to grant waivers with respect to the Company’s Code of Conduct; and (iv) investigation of “whistleblower” complaints. In all its actions, the Committee shall comply with the requirements, rules and regulations of the Sarbanes-Oxley Act of 2002, Nasdaq Marketplace listing standards and all other applicable federal and state laws, rules and regulations.

The Committee shall provide assistance to the Board in fulfilling its responsibility to the shareholders, potential shareholders and the investment community relating to the corporate accounting and reporting practices of the Company. In doing so, the Committee shall maintain free and open means of communication between the Directors, the independent registered public accounting firm (the “Independent Auditors”), the internal auditors and the financial management of the Company.

#### **COMPOSITION AND APPOINTMENT**

There shall be a minimum of three (3) members of the Committee appointed by the Board. Each shall be an independent Director of the Company as defined by applicable laws, regulations and listing requirements and as summarized herein. In any instance where this summary is inconsistent with applicable laws, regulations or listing requirements, the laws, regulations or listing requirements shall control. To be considered independent, a member of the Committee must not, other than in his or her capacity as a member of the Committee, the Board, or any other Board committee, accept any consulting, advisory fee or other compensation from the Company, nor may a Family Member of a member (as that term is defined by applicable Nasdaq listing standards) accept any such fee or other compensation. Further, a member of the Committee must not, other than in his or her capacity as a member of the Committee, the Board, or any other Board committee, be affiliated with the Company or any of its subsidiaries (except as a Director of the Company and/or its subsidiaries) including, but not limited to, affiliation with any entity controlling, controlled by or under common control with the

Company. Additionally, a member of the Committee may not be a beneficial owner of a controlling interest in the voting stock of the Company or any subsidiary. A member of the Committee shall not have participated in the preparation of the financial statements of the Company or any current Company subsidiary at any time during the three years prior to becoming a member of the Committee.

All Committee members must, as determined within the business judgment of the Board at the time such members are appointed to the Committee, be able to read and understand fundamental financial statements, including the Company's balance sheet, income statement, and cash flow statement. Additionally, at least one (1) member of the Committee must either fall within the definition of "Audit Committee Financial Expert," as that term is defined by the Securities and Exchange Commission ("SEC"), or, be capable of serving the functions expected of such an audit committee expert, as determined by the Board within its business judgment. In determining a member's financial expertise, the Board may consider one's past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background resulting in the member's financial sophistication. The Board may also take into consideration a member's status as, or having been, a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

The Board must determine annually that the Committee members are able to read and understand fundamental financial statements as explained in this Charter. The duties and responsibilities of a member of the Committee are in addition to those duties set out for a member of the Board.

### **COMMITTEE MEETINGS**

- The Committee shall meet at least four times each year.
- Regularly scheduled Committee meetings may be held in conjunction with meetings of the full Board, provided the Committee meetings abide by all the provisions contained herein and all applicable requirements, rules and regulations of the Sarbanes-Oxley Act of 2002, Nasdaq Marketplace listing standards and all other applicable federal and state laws, rules and regulations.
- Special meetings of the Committee may be called by the Chairman of the Committee or at the request of any two (2) Committee members. The Chairman of the Board or the Chief Executive Officer may recommend to the Chairman of the Committee that a special meeting be held.
- The Committee may request that members of management or outside consultants be present to assist the Committee in the performance of its duties.

- Minutes of each meeting will be kept and distributed to the full Board.

### **GENERAL RESPONSIBILITIES**

In carrying out its responsibilities, the Committee believes its policies and procedures should remain flexible in order to best react to changing conditions and ensure the Directors and shareholders that the corporate accounting and reporting practices of the Company are in accordance with all requirements and are of the highest quality.

In carrying out these responsibilities, the Committee shall:

- Review the adequacy of the Audit Committee Charter (the “Charter”) annually and submit Charter revisions to the Board for consideration and approval.
- Review the Company’s Form 10-K Annual Report and such other filings with the Securities and Exchange Commission as the Committee deems necessary or appropriate, and recommend to the Board the inclusion of the audited financial statements in the Company’s Form 10-K Annual Report to the Securities and Exchange Commission.
- Ascertain that the Board and senior officers of the Company have annually submitted a compliance attestation confirming they have complied with the Company’s Code of Conduct. The Committee shall have the sole authority to approve waivers of the Company’s Code of Conduct and shall insure that such waiver be promptly disclosed to shareholders, along with the reasons for granting such waiver. Such disclosure shall be made in the Company’s regular public filings, not later than the next periodic report and may also be posted on the Company’s website.
- Ascertain that the Chief Executive Officer and the Chief Financial Officer are in full compliance with Section 404 of the Sarbanes-Oxley Act of 2002 regarding certain attestations of the financial statements of the Company.
- Issue an annual Audit Committee Report for inclusion in the Company’s Proxy Statement.

- Investigate any matter brought to the Committee's attention, with the power to engage independent counsel, accountants and any other advisors or assistance it determines necessary to carry out its duties. The Committee shall determine the compensation for such services. The Company is obligated to fund, without limit, the compensation and all expenses related to any independent counsel, accountants and any other advisors or assistance the Committee retains. In addition, the Company shall provide sufficient funding to pay for the administrative expenses of the Committee.
- Establish and maintain procedures for (i) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters and (ii) the confidential, anonymous submission by Company employees, officers or directors of concerns regarding questionable accounting or auditing matters. As part of its responsibilities the Committee shall insure that the Company communicates such procedures to all employees, officers and directors.
- Review and approve the audit risk assessment and related methodology, audit plan/budget and organizational structure of the Audit Department at least annually. The Committee also approves any changes made during the year to the risk assessment or audit plan/budget. Any functions normally performed by the Internal Auditor that are outsourced to a third party will include ongoing monitoring of the relationship and a review of the independence and qualifications of such firm/individuals to perform their assignments.
- At least annually review the performance and approve the appointment of the Internal Auditor.
- On at least a quarterly basis, review and approve significant reports prepared by the Internal Auditor together with management's response and the Internal Auditor's follow-up to these reports. The Internal Auditor, on a quarterly basis, will provide the Committee with a status of its audit plan/budget as well as a report on the current status of significant exceptions noted by the Internal Auditor.
- Set the Company's hiring policies for employees and former employees of the Independent Auditors.
- Review the effect of regulations and accounting initiatives, as well as any off-balance sheet structures, on the financial statements of the Company.
- Perform such additional activities and consider such other matters within or beyond the scope of its responsibilities as required by the Company's Charter or By-laws, the Board, or applicable listing standards, rules, regulations or statutes.

## **INDEPENDENT AUDITOR OVERSIGHT RESPONSIBILITIES**

In carrying out these responsibilities, the Committee shall:

- Have sole authority to engage, review (at least annually), dismiss and replace the Company's Independent Auditors. The Committee shall have sole authority to review and set the fees to be paid to the Company's Independent Auditors.
- Have the sole authority to preapprove each permitted non-audit, review or attest service to be performed by the Independent Auditors or other registered public accounting firm, and oversee the work done by them. As part of the exercise of that authority, the Committee shall adopt a written policy governing the preapproval of non-audit services to be performed by the Independent Auditors and review such policy annually. Any approval by the Committee of such services shall be disclosed to investors in periodic reports required by Section 13(a) of the Securities Exchange Act of 1934, as amended. The Committee shall have authority to delegate preapproval authority of Independent Auditor non-audit services to one (1) or more of its members. The decisions of any member(s) to whom authority is delegated shall be presented to the full Committee at each of its scheduled meetings.
- Meet with the Independent Auditors and financial management of the Company to oversee and review the scope of the proposed audit for the current year and the audit procedures to be utilized, and at the conclusion thereof, review such audit, including any comments or recommendations of the Independent Auditors.
- It is understood that the Independent Auditors are accountable to the Committee, and the Committee has the power to appoint or remove the Independent Auditors.
- Review the financial statements contained in the annual shareholders report, as well as major accounting reserves, with management and the Independent Auditors to ascertain that management and the Independent Auditors are satisfied with the disclosure and content of the financial statements to be presented to the shareholders. Any changes in accounting principles will also be reviewed.
- Review with the Independent Auditors and financial and accounting personnel the adequacy and effectiveness of the accounting and financial controls of the Company, and elicit from them any recommendations for the improvement of such internal control procedures or particular areas where new or more detailed controls or procedures are desirable.
- Obtain from the Independent Auditors a formal written statement regarding the Independent Auditors full compliance with all applicable provisions of the Sarbanes-Oxley Act of 2002, including, but not limited to, all "Auditor Independence" provisions. The Audit Committee shall, at least annually, obtain

and review a report by the Independent Auditors describing the audit firm's internal quality-control procedures, any material issues raised by the most recent quality control or peer review, or governmental or professional inquiry within the preceding five years, and steps taken by the Independent Auditors to address any such issues.

- Provide opportunity for the Independent Auditors to meet with members of the Committee without members of management present. Among the items to be discussed in these meetings will be the Independent Auditors' evaluation of the Company's financial and accounting policies and the cooperation that the Independent Auditors received during the course of the audit.
- Issue a report to be included in the Company's Proxy Statement indicating that it has reviewed the audited financial statements with management and the Independent Auditors and discussed with the Independent Auditors matters required to be discussed under applicable auditing standards. The Committee shall state whether it has met privately to discuss the information obtained from management and the Independent Auditors, and, in reliance on that review, whether or not it has recommended to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-K for filing with the Securities and Exchange Commission.

Re-approved: 03/2/17