

**AQUA AMERICA, INC.**  
**Audit Committee**  
**Committee Charter**

**Committee Purpose:**

To assist the Board of Directors in fulfilling its oversight responsibilities with respect to the integrity of the Corporation's financial reporting process and financial statements and systems of internal controls regarding finance, accounting, regulatory and legal compliance. To monitor the independence, qualifications and performance of the Corporation's independent registered public accountants and internal audit function. To provide an avenue of communication among the independent registered public accountants, management, the internal audit function, and the Board of Directors. To prepare the Securities and Exchange Commission required report to be included in the Corporation's annual proxy statement.

The Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and it has direct access to the independent registered public accountants as well as anyone in the Corporation. The Committee has the ability to retain, at the Corporation's expense, special legal, accounting, or other consultants or experts it deems necessary in the performance of its duties.

Although the Committee has the powers and responsibilities set forth in this Charter, the role of the Committee is oversight. The members of the Committee are not full-time employees of the Corporation and may or may not be accountants or auditors by profession or experts in the fields of accounting or auditing and, in any event, do not serve in such capacity. Consequently, it is not the duty of the Committee to conduct audits, to independently verify management's representations, or to determine that the Corporation's financial statements are complete and accurate, prepared in accordance with generally accepted accounting principles ("GAAP"), or fairly present the financial condition, results of operations, and cash flows of the Corporation in accordance with GAAP. These are the responsibilities of management. The independent registered public accountants are responsible for planning and carrying out proper audits and reviews of the Company's financial statements. The Committee's considerations and discussions with management and the independent registered public accountants do not assure that the Corporation's financial statements are presented in accordance with GAAP, that the audit of the Corporation's financial statements has been carried out in accordance with the standards of the Public Company Accounting Oversight Board, or that the Corporation's independent registered public accountants are in fact "independent."

**Committee Duties and Responsibilities:**

**Independent Registered Public Accountants**

1. Be solely responsible for the selection, evaluation and, when appropriate, replacement of the Corporation's independent registered public accountants. The independent registered public accountants shall report directly to the Committee.

2. Review and pre-approve the proposed scope of the independent registered public accountants' annual audit, including estimated audit fees as presented by the independent auditors. The Corporation shall provide for appropriate funding, as determined by the Committee, for payment of compensation to the independent registered public accountants.
3. Review and pre-approve any lawfully permitted, non-audit work by the independent registered public accountants as presented by management in accordance with appropriate policies and procedures established by the Committee, provided that the actual extent of any such pre-approved non-audit services are reported to the full Committee at its next scheduled meeting.
4. Disclose all pre-approved, non-audit work in the Corporation's periodic reports.
5. Prior to the initiation of the audit, meet with the independent registered public accountants to discuss the planning and staffing of the audit, including the impact of applicable rotation requirements and other independence rules on the staffing.
6. Require the independent registered public accountants to rotate the lead audit partner assigned to the Corporation's audit and the concurring partner responsible for reviewing the audit at least every five years.

### **Financial Management**

1. Review and discuss with management and the independent registered public accounting firm the Corporation's annual audited financial statements and quarterly financial statements prior to the submission of these financial statements to the public, including the auditors' opinions, management letters and the Corporation's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations."
2. Recommend to the Board of Directors whether the audited financial statements should be included in the Corporation's Form 10-K.
3. Review and discuss with management and independent registered public accountants any significant issues regarding critical accounting principles, practices and judgments used.
4. Review and discuss with management the Corporation's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies.
5. Review any alternative treatment of financial information within GAAP that the independent registered public accountants have presented and discussed with management, the ramifications of the use of such alternatives and the treatment preferred by the independent registered public accountants..
6. Quarterly, in consultation with the management, the independent registered public accountants, and the internal auditors, consider the integrity of the Corporation's financial reporting processes and controls.

7. Quarterly, in consultation with the management, the independent registered public accountants, and the internal auditors, discuss the Corporation's policies and guidelines regarding risk assessment and risk management as well as the Company's significant financial risk exposures and the steps management has taken to monitor, control and report such exposures.
8. Obtain from and discuss with management and the independent registered public accountants any significant changes to the Corporation's accounting principles and any items required to be communicated by the independent registered public accountants to the Committee under auditing standards (i.e., Statement on Auditing Standards No. 61 and Independent Standards Board Standard No. 1).
9. Prepare the Securities and Exchange Commission required report to be included in the Corporation's annual proxy statement.
10. Oversee the Corporation's disclosure controls and procedures, including applicable internal control over financial reporting, and internal control over financial reporting relating to the authorization of transactions and the safeguarding of assets, and, where applicable, oversee the changes in internal controls intended to address any significant deficiencies in the design or operation of internal control over financial reporting or material weaknesses therein and any fraud involving management or other employees that are reported to the Committee. In addition, the Committee shall review and discuss the annual internal control report of management and the independent registered public accountants' report on, and attestation of, management's evaluation of internal control over financial reporting, when those reports are required by Securities and Exchange Commission rules.

#### **Audit Committee**

1. Review and evaluate the qualifications, performance and independence of the Corporation's independent registered public accountants on an annual basis and present its conclusions with respect to the independent registered public accountants to the Board of Directors. Such evaluation shall include the review and evaluation of the audit engagement team, including the lead partner. In making its review, the Committee shall take into account the opinions of management.
2. On an annual basis, obtain and review the independent registered public accountants' report on the Corporation's internal quality-control procedures and any material issues raised by the most recent internal quality-control review, peer review, or governmental or professional investigation within the last five years, and steps taken to address any such issues.
3. Review significant findings or any audit problems or difficulties prepared and presented by the independent registered public accountants or the internal auditors together with management's responses.
4. Review the independent registered public accountants' disclosure of all the relationships of the independent registered public accountants with the

Corporation and discuss any such relationships that may impact the objectivity and independence of the independent registered public accountants.

5. Review the Corporation's policies relating to compliance with laws and regulations, ethics, conflicts of interest and the investigation of misconduct or fraud.
6. Arrange for periodic reports from management and the independent registered public accountants assessing the impact of significant regulatory changes, of accounting or reporting developments proposed by the Financial Accounting Standards Board or the Securities and Exchange Commission, or of any other significant financial matters that may affect the Corporation.
7. Obtain from management a notification of issues and responses whenever a second opinion is sought from an independent registered public accountant.
8. Review current and pending litigation or regulatory proceedings in which the Corporation is a party bearing on corporate governance or that may have a material financial impact on the Corporation as presented by the Corporation's General Counsel.
9. Obtain from management and review all cases of material employee conflict of interest, misconduct or fraud.
10. Direct special investigations into significant matters brought to the Committee's attention within the scope of its duties and obtain advice, as needed from outside legal, accounting and other advisors when required.
11. Review and reassess this Committee Charter as necessary, but no less frequently than annually and propose to the Corporate Governance Committee of the Board of Directors any recommended changes.
12. File the Committee Charter every three years in accordance with Securities and Exchange Commission regulations.
13. Be responsible for the resolution of disputes between management and the outside auditors.
14. Establish procedures for the receipt and treatment of complaints regarding accounting, internal accounting controls, or auditing matters and for the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting, auditing or other financial matters.
15. Evaluate the recommendations of the independent registered public accountants and the internal auditors with the Board of Directors.
16. Review the adequacy of internal controls and the accuracy of financial statements with the independent registered public accountants and the internal auditors outside the presence of management.
17. Periodically review the integrity of the financial reporting process with the independent registered public accountants, the internal auditors and management, and consider and implement, if appropriate, any changes to auditing practices and

accounting principles suggested by the independent registered public accountants, management or the internal auditors.

18. Periodically, meet separately with each of the Corporation's management, the internal auditors and the independent registered public accountants to discuss any significant issues or difficulties encountered during the course of the annual audit.
19. Perform an annual performance evaluation of the Committee.
20. Set clear hiring policies for employees or former employees of the independent registered public accountants.
21. Maintain free and open communication with the Board of Directors, management, the internal auditors and the independent registered public accountants.
22. Perform any other activities consistent with this Committee Charter, the Corporation's Articles of Incorporation, the Corporation's Bylaws, and governing law, as the Committee or the Board of Directors may deem necessary or appropriate.

#### **Internal Audit Function**

1. Oversee the activities, organizational structure, and qualifications of the persons performing the internal audit function.
2. Approve the hiring and termination of, and annual performance against the internal audit plan for, the director of the internal audit function.
3. Review and approve internal audit plans, progress reports, completed reports and management's responses to the internal auditors.
4. Discuss with the personnel performing the internal audit function any changes to, and the implementation of, the internal audit plan and discuss the results of the internal audits.

#### **Committee Member Qualification:**

Committee members shall meet the requirements of the New York Stock Exchange and the rules and regulations of the Securities and Exchange Commission. The Committee shall be comprised of three or more directors as determined by the Board of Directors, each of whom shall be independent, non-management directors. A director shall qualify as independent if the Board of Directors has affirmatively determined that the member is independent, consistent with the independence criteria set forth in the Corporation's Corporate Governance Guidelines. In addition, members of the Committee must also satisfy the following additional requirements in order to be independent:

1. No Committee member or immediate family member of such Committee member may be an affiliated person of the Corporation or any of its subsidiaries, as that term is defined by the Securities and Exchange Commission; and

2. No Committee member shall accept, directly or indirectly, any consulting, advisory, or other compensatory fees from the Corporation or any of its subsidiaries, except for fees for services as a director and a member of the Committee and any other Board of Directors' committee.

All members of the Committee must be financially literate or become financially literate within a reasonable time after appointment to the Committee. The Chairperson of the Committee must have accounting or financial management experience. If a member serves on the audit committees of more than three companies, the Board of Directors must determine that this does not impair his or her effectiveness, and disclose such determination in the Corporation's annual proxy statement filed with the Securities and Exchange Commission. At least one member of the Committee shall be an "audit committee financial expert," as that term is defined by the Securities and Exchange Commission.

#### **Committee Member Appointment and Removal:**

Committee members, nominated by the Corporation's Corporate Governance Committee, will be appointed annually by the Board of Directors. Committee members may be removed from membership on the Committee by the Board of Directors at any time, with or without cause.

#### **Committee Structure and Operations:**

Each year the Board of Directors, upon the nomination of the Corporate Governance Committee, will appoint a Committee Chairperson for the Committee. If an Committee Chairperson is not designated or present, the members of the Committee may designate a Chairperson by majority vote of the Committee membership.

The Committee shall meet at least four times annually, or more frequently as circumstances dictate. The Committee Chairperson shall prepare and/or approve and circulate an agenda in advance of each meeting, including meetings with external and/or internal auditors. The Committee should conduct separate private meetings in executive session at least annually with each of management, the director of the internal auditing department, the independent registered public accountants, and as a committee to discuss any matters that the Committee or any one of these groups believes should be discussed.

The Committee may delegate authority to one or more members of the Committee where appropriate, but no such delegation shall be permitted if the authority is required by a law, regulation, or listing standard to be exercised by the Committee as a whole.

The Corporation shall provide appropriate funding, as determined by the Committee, for the Committee to retain any advisors employed by the Committee and to provide for ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out of its duties, in each case without requiring the Committee to seek Board of Director approval.

#### **Committee Reporting to the Board:**

The Committee shall cause minutes and attendance records to be kept of each of its meetings, which will be reviewed and approved by the Chairperson of the Committee. Copies of the

minutes of each meeting of the Committee will be provided to the Board of Directors, and the Chairperson or his or her designee will report on each meeting of the Committee to the Board of Directors at the next meeting of the Board of Directors following the meeting of the Committee. Such reports shall include, among other things, the review of any issues that arise respecting the quality and integrity of the Corporation's public reporting, the Corporation's compliance with legal and regulatory requirements, the performance and independence of the Corporation's independent registered public accountants, the performance of the Corporation's internal audit function, and the effectiveness of the Corporation's disclosure controls and procedures.