

## **PREFERRED APARTMENT COMMUNITIES, INC.**

### **CHARTER OF THE AUDIT COMMITTEE**

As adopted by the Board of Directors as of December 4, 2010

This Charter of the Audit Committee (the “Committee”) has been adopted by the Board of Directors (the “Board”) of Preferred Apartment Communities, Inc. (the “Company”).

#### **A. Purpose**

The purpose of the Committee shall be to assist the Board in its oversight of (i) the integrity of the Company’s financial statements, (ii) the Company’s compliance with legal and regulatory requirements, (iii) the qualifications and independence of any independent registered public accounting firm engaged by the Company (the “independent auditors”) and (iv) the performance of the Company’s internal audit functions and independent auditors. The Committee shall also prepare the report required to be included in the Company’s annual proxy statement or annual report on Form 10-K pursuant to the rules promulgated by the U.S. Securities and Exchange Commission (the “SEC”). In fulfilling its purposes as an audit committee, the Committee shall maintain free and open communication with the Company’s independent auditors, internal auditors and management.

#### **B. Duties and Responsibilities**

In furtherance of its purpose, the Committee shall have the following duties and responsibilities:

##### **Oversight of the Company’s Independent Auditor**

1. To directly appoint, retain, compensate and oversee (subject, if applicable, to stockholder ratification) the work of the independent auditors engaged for the purpose of preparing or issuing an audit report or related work or performing other audit, review or attest services for the Company, and to resolve any disagreements between management and the independent auditors regarding financial reporting. The Committee shall inform the Company’s independent auditors that such firm must report directly to the Committee. The Committee shall have the sole authority to approve all audit engagement fees and terms and all permitted non-audit engagements with the independent auditors. The Committee may terminate the independent auditors in its sole discretion. The Committee may take into account the opinions of management in its dealings with the independent auditors.
2. To annually evaluate the experience, qualifications, performance and independence of the independent auditors, including their lead partners. The Committee should assure the regular rotation of the audit partners, including the lead and concurring audit partners, as required by applicable laws, rules and regulations. The Committee should consider whether there should be regular rotation of the independent auditors. The Committee may take into account the opinions of management and the internal auditors in its evaluation of the independent auditors. The Committee should present its conclusions with respect to the independent auditors to the full Board.

3. To review with the independent auditors the year-end audit and any audit problems or difficulties, together with management's responses, in connection with such audit, including the matters required to be disclosed by, or otherwise described in, Statement of Auditing Standards No. 61, including any difficulties the auditor encountered in the course of the audit work, any restrictions on the scope of the independent auditors' activities or on access to requested information and any significant disagreements with management. The Committee should review and discuss with the independent registered public accounting firm (i) the adoption of, or changes to, the Company's significant auditing and accounting principles and practices as suggested by the independent auditor, internal auditors or management; (ii) the management letter provided by the independent auditor and the Company's response to that letter; and (iii) any accounting adjustments that were noted or proposed by the independent auditor but were 'passed' as immaterial or otherwise, any communications between the audit team and the independent auditors' national office respecting auditing or accounting issues presented by the engagement and any management or internal control letter issued or to be issued by the independent auditors.
4. To obtain and review, on an annual basis, a written report from the independent auditors describing (i) the auditing firm's internal quality control procedures, (ii) any material issues raised by the auditing firm's most recent internal quality-control review or peer reviews, or any inquiry or investigation by governmental or professional authorities within the preceding five years, relating to any independent audit conducted by the auditing firm, and the steps taken to deal with such issues, (iii) in order to assess independence, all relationships between the independent auditors and its related entities and the Company and its related entities and (iv) any steps taken to deal with any such issues. The Committee shall require the independent auditors to confirm that the report in all respects satisfies the requirements of Independence Standards Board Standard No. 1. The Committee shall discuss the report with the independent auditors, and evaluate the qualifications, performance and independence of the independent auditors, including considering whether the auditor's quality controls are adequate and the provision of non-audit services is compatible with maintaining the auditor's independence, and taking into account the opinions of management and the internal auditor (or other personnel responsible for the internal audit function). The Committee shall present its conclusions to the Board and take, or recommend that the Board take, appropriate action to oversee the independence of the auditor.
5. Review the experience and qualifications of the senior management of the Company to ensure that none of them has a relationship with the independent auditor that would compromise the auditor's independence or otherwise cause the Company or the independent auditor to be in violation of Section 10A(l) of the Exchange Act.
6. To discuss with the independent auditors any items required to be communicated by the independent auditors in accordance with applicable professional standards, not otherwise addressed in this Charter. The Committee also shall receive the written disclosure and the letter from the independent auditors required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent auditor's

communications with the Audit Committee concerning independence, and discuss with the independent auditors their independence.

7. Obtain assurance from the independent auditors that each audit of the Company's financial statements has complied with the requirements of Section 10A of the Exchange Act.
8. To review the independent auditors' audit plan, including its scope, staffing, locations, reliance upon management and general audit approach.
9. To pre-approve all auditing services and permissible non-audit services provided by the independent auditors to the extent required by any law, regulation or NYSE Amex rule. The Committee shall not approve any engagements of the Company's outside auditors with respect to those services set forth in Section 10A(g)(1) through (9) of the Exchange Act ("Prohibited Activities"). In the event the Committee approves any non-audit services by the Company's independent auditors, such approval shall be disclosed in periodic reports required by Section 13(a) of the Exchange Act. The pre-approval requirement is not applicable with respect to the provision of non-audit services by the Company's outside auditors where (i) such services were not recognized by the Company at the time of the engagement to be non-audit services, (ii) the aggregate amount of all such non-audit services provided to the Company constitutes not more than 5% of the total amount paid by the Company to the Company's independent auditors during the fiscal year in which the non-audit services are provided and (iii) such services are promptly brought to the attention of the Committee and approved by the Committee prior to the completion of the audit. The Committee also shall establish and periodically review pre-approval policies and procedures for all auditing services and permissible non-audit services provided by the independent auditors.

#### **Oversight of the Company's Internal Audit Function**

10. Review the appointment and replacement of the senior internal auditing executive or selection and retention of the person or entity to which the internal auditing function is out-sourced.
11. Review the significant reports to management prepared by the internal auditing department and management's responses.
12. Discuss with the independent auditor the Company's internal audit department (or contracted outside internal auditor's) responsibilities, budget and staffing and any recommended changes in the planned scope of the internal audit.

#### **Financial Reporting, Process and Policies**

13. To review and discuss with management and the independent auditors the Company's annual audited financial statements and annual report on Form 10-K, including the Company's disclosures under "Management's Discussion and Analysis of Financial Conditions and Results of Operations;" and determine whether to recommend to the

Board that the audited financial statements should be included in the Company's annual report on Form 10-K.

14. Review and discuss with management and the independent auditor the Company's interim unaudited financial statements, including the results of the independent auditor's review of the interim unaudited financial statements, and quarterly reports on Form 10-Q, including the disclosures made under "Management's Discussion and Analysis of Financial Conditions and Results of Operations."
15. Discuss with management and the independent auditor, and resolve any disagreements between management and the independent auditor with respect to, significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements.
16. To review and discuss with management and the independent auditors the Company's earnings press releases, as well as any financial information and earnings guidance provided to analysts and rating agencies. The Committee should pay particular attention to any use of "pro forma" or "adjusted" information not in compliance with generally accepted accounting standards ("GAAP"). The Committee may discuss the types of information to be disclosed and the types of presentations to be made generally and need not discuss in advance each earnings release or each instance in which the Company may provide earnings guidance.
17. To prepare the report of the Committee required to be included in the Company's annual proxy statement or annual report on Form 10-K pursuant to the rules promulgated by the SEC.
18. To review management's annual report on internal control over financial reporting, if required by applicable law, and the independent auditor's attestation of such report, and recommend to the Board whether such report should be included in the Company's annual report on Form 10-K. The Committee also should periodically discuss with the Chief Executive Officer and Chief Financial Officer (i) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting that are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information and (ii) any fraud, whether or not material, involving management or other employees who have a significant role in the Company's internal control over financial reporting.
19. To discuss with management, including the Company's internal auditors, and the Board, the Company's guidelines and policies regarding risk assessment and risk management.
20. To periodically meet separately with management, the internal auditors and the independent auditors to discuss matters pertinent to the Company's financial reporting and any other items of importance to the Committee.
21. To review and discuss with management and the independent auditors major issues regarding accounting principles, policies, practices and judgments and financial statement presentations, including (i) any significant changes to the Company's selection or

application of accounting principles, (ii) the adequacy and effectiveness of the Company's internal controls and (iii) any special audit steps adopted in light of material control deficiencies.

22. To review and discuss with management and the independent auditors analyses prepared by management and/or the independent auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements.
23. To review and discuss with management and the independent auditors the effect of regulatory and accounting initiatives and any off-balance sheet structures on the Company's financial statements.
24. To review and periodically discuss with the Board the adequacy and effectiveness of the Company's internal audit function, internal control structure and procedures for financial reporting.
25. To discuss with management and the independent auditors any report of the independent auditors prior to the filing of the audit report with the SEC regarding (i) all critical accounting policies and practices to be used by the Company, (ii) all alternative accounting treatments of financial information within GAAP that have been discussed with management, including the ramifications of the use of such alternative treatments and the treatment preferred by the independent auditors, and (iii) other material written communications between the independent auditors and management, including any management letter or schedule of unadjusted differences.
26. To discuss with management and the independent auditors the independent auditors' judgments about the quality and appropriateness of the Company's accounting principles and underlying estimates in its financial statements.
27. To discuss with management the responsiveness of the independent auditors to the Company's needs.
28. To review and discuss with the independent auditors the quality of the Company's financial and auditing personnel and the responsibilities, budget and staffing of the Company's internal audit function.
29. To review with the Company's legal counsel on an annual basis, or more frequently as circumstances dictate, any legal matters that could have a significant impact on the Company's financial statements or the Company's compliance with applicable laws, rules and regulations, any breaches of fiduciary duties and inquiries received from regulators or governmental agencies.

#### **Complaints, Legal Compliance and Ethics**

30. To establish and maintain procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters,

including procedures for the confidential and anonymous submission by the Company's employees of concerns regarding questionable accounting or auditing matters. The Committee shall handle all such complaints in accordance with the Company's procedures.

31. To keep abreast of new accounting and reporting standards promulgated by the Public Company Accounting Oversight Board, the Financial Accounting Standards Board, the SEC and other relevant standard-setting bodies.
32. Review, investigate and take appropriate actions on reports forwarded to the Committee pursuant to the Company's Whistleblower Policy.

### **Other Duties**

33. To report regularly to the Board. The Committee should review with the Board any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the Company's independent auditors or the performance of the internal audit function.
34. To establish clear guidelines for the hiring of current or former employees of the Company's independent auditors.
35. The Company shall provide for appropriate funding, as determined by the Committee, in its capacity as a committee of the Board, for payment of: (i) compensation to any independent registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company; (ii) compensation to any legal, accounting or other advisors engaged by the Committee; and (iii) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.
36. To delegate any of its responsibilities to subcommittees as allowed and as the Committee may deem appropriate.
37. To perform any other activities consistent with this Charter, the Company's charter and By-Laws and applicable laws, rules and regulations as the Committee or the Board deems necessary or appropriate.

### **C. Outside Advisors**

The Committee shall have sole authority to retain at the expense of the Company and to terminate independent advisors, including legal counsel, external auditors and financial advisors, if and when it deems necessary to perform its duties. The Committee shall retain these advisors without seeking Board approval and shall have sole authority to approve related fees and retention terms. The Committee will appoint or retain these advisors only after taking into consideration factors that may affect such advisor's independence.

#### **D. Annual Performance Evaluation**

The Committee shall conduct an annual self-performance evaluation, including an evaluation of its compliance with this Charter and report on its annual self-performance evaluation to the Board. The Committee also shall review and reassess the adequacy of the Committee's Charter at least annually and recommend any proposed changes to the Board for approval.

#### **E. Membership**

The Committee shall consist of no fewer than three (3) directors, as determined by the Board. Each Committee member shall be a member of the Board and shall meet the independence requirements of the NYSE Amex, Section 10A(m)(3) of the Exchange Act and all rules and regulations promulgated by the SEC and any other requirements set forth in applicable laws, rules and regulations. All Committee members shall have a basic understanding of finance and accounting and be able to read and understand fundamental financial statements, including a company's balance sheet, income statement and cash flow statement. In addition, at least one member of the Committee must have past employment experience in finance or accounting, requisite professional certification in accounting or any other comparable experience or background that results in the member's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities, and at least one member of the Committee (who may be the same person) shall be a "financial expert" (as defined by the SEC). No member of the Committee may participate in the preparation of the financial statements of the Company or any current subsidiary of the Company, or have so participated in the three years prior to joining the Committee. Notwithstanding the foregoing, the Company may rely on the cure periods specified in NYSE Amex LLC Company Guide Section 803(B)(6) with respect to the size of the Committee and the independence of the Committee members. The Committee members shall be appointed annually by a majority vote of the Board on the recommendation of the Nominating and Corporate Governance Committee and shall serve until their successors are duly elected and qualified or their earlier resignation or removal. Each prospective Committee member shall carefully evaluate existing time demands before accepting Committee membership. Any member of the Committee may be removed and replaced by the Board.

#### **F. Chairman**

The Committee shall include a Committee chairman. The Committee chairman shall be appointed by a majority vote of the Board. The Committee chairman shall be entitled to chair all regular sessions of the Committee and cast a vote to resolve any ties.

#### **G. Meetings**

The Committee shall meet at least one (1) time per quarter or more frequently as circumstances dictate. Special meetings may be convened as the Committee deems necessary or appropriate. All Committee members shall strive to be present at all Committee meetings.

The chairman may call a Committee meeting upon due notice of each other Committee member at least forty-eight (48) hours prior to the meeting. A majority of the Committee members, acting in person or by means of telephone, shall constitute a quorum. The Committee shall act by majority vote. Any action required or permitted to be taken at a meeting of the Committee may

be taken by unanimous written consent of the members of the Committee in lieu of a meeting. The Committee meetings shall follow a set agenda established by the Committee chairman. The Committee may request an officer or employee of the Company or the Company's outside counsel to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee. The Committee shall be responsible for maintaining minutes and other applicable records of each Committee meeting. The Committee shall report its actions and recommendations to the Board after each Committee meeting.