

October 16, 2006

BY U.S. MAIL

Pace Island Owners Association Members

RE: Pace Island Owners Association, Inc.

Dear Pace Island Association Members:

I am writing to you on behalf of the Board to give you a more balanced perspective of occurrences that may have been brought to your attention by Pace Island resident, Mr. John Tarmas.

We are seven (now six) volunteer members of the community who are doing the best job we can in trying to fairly and reasonably run the Owners Association. Currently I am serving the second year of my third term with the Board and have lived in Pace Island for almost eighteen years. In recent years our Board has accomplished much for the Association. In the last three years alone, we have completely renovated many Association common areas, buildings, pools, tennis courts, and one-half of the roadway structure, while preserving in our Reserve Account over \$100,000 more than the balance projected for 2006 by the Reserve Analysis. We have overseen a much needed neighborhood metamorphosis in a fiscally responsible manner, while consistently remaining good stewards of the money generated by your dues.

We are not lawyers and we are certainly not doing this job for the money or the affirmation of the community, but we are trying to do our best; while we make mistakes along the way, we have tried everything in our power to do things correctly and fairly for what is in the best interest of the Association as a whole.

In recent months Mr. Tarmas has become a vocal critic of the Board and we thought some factual background might shed some light on his motives.

In August 2004, Mr. Tarmas moved to Pace Island. In August 2005 Mr. Tarmas submitted to the Architectural Design Board ("ADB") a request for a series of exceptions to the Pace Island Covenants and Architectural Guidelines for his property. The Board followed the ADB's recommendation of giving partial approval for the request but denying other aspects of the request including issues concerning the setbacks and the widening and extending of his driveway. Mr. Tarmas was asked to re-submit a modified scaled drawing for the ADB to consider in that regard. Weeks later, despite the ADB and the Board of Directors' specific denial of Mr. Tarmas' request concerning his driveway (which violated the published setback rules), Mr. Tarmas unilaterally and knowingly poured the concrete in his driveway in direct violation of

our rules and of the decision of the Board and ADB, without further notice to either the Board or the ADB.

Since we became aware of Mr. Tarmas's action, much activity on this issue has occurred. The Board has treated his situation as we have hundreds of other requests, attempting to follow Pace Island's governing documents. Many members of our Board, the General Manager, a representative from PMSI and Pace Island's legal counsel even met Mr. Tarmas and his attorney at his property to review in person the violation, discuss the matter and, in good faith; attempt to understand the full context of the issues. It has now been more than a year since Mr. Tarmas knowingly and intentionally violated our covenants. We have been forced to turn the matter over to the Department of Business and Professional Regulations, which has ordered statutorily mandated mediation.

Rather than working with the Board to find a solution that meets our guidelines, Mr. Tarmas has chosen to disseminate incomplete and misleading information about the Board and its activities, to become a vocal and at times disruptive presence at the Board meetings, and to mount a campaign of rumor, innuendo, and half-truths in an apparent attempt to harass and intimidate the Board into approving his unilateral violations of our covenants.

With that perspective Mr. Tarmas recently sent a letter, dated October 4, 2006, demanding seven questions be answered. The first three questions involve the 2005 audit performed by CPA Mary Ann Magers. Our treasurer, Jerry Jeakle, answers those questions in the attached letter.

Question 4 asks why the Association has exceeded by \$13,000 its 2006 budget for professional expenses of \$3000. As Mr. Jeakle explains in the attached letter, neither the 2004 audit (performed in December 2005 and paid for in 2006) nor the 2005 audit (also paid for in 2006) were budgeted as the need for the audits did not come to our attention until after the 2006 budget was finalized. The audits represented \$8500 of the unbudgeted professional fees. The remaining professional fees incurred to date relate to the legal services that the Board has had to engage solely as a result of Mr. Tarmas and the legal threats he has made against the Board.

Question 5 concerns the closed Board meetings that Mr. Tarmas claims have been illegally held. From time to time, the Board does go into a closed executive meeting in conjunction with our regularly scheduled Board meetings. Our governing documents and the state statutes allow for such meetings to discuss personnel matters and to discuss pending or potential litigation. In most cases the closed meetings concerned personnel matters. Based on our governing documents and Peter Dunbar's "The Law of Florida Homeowners Associations" (which is the Association rules primer to which I frequently refer), the Board's impression was that such meetings were appropriate. On a few occasions the closed meetings have also been used to convey to the Board information from the Association counsel concerning matters that could ultimately result in litigation. Because the information conveyed is attorney/client privileged information, we have considered the closed meetings the proper venue for such Board discussions. Although we did have the Association attorney present by phone in the last closed meeting to discuss potential litigation, an attorney has not been present in other meetings.

To our knowledge the matter of exactly how to hold the executive sessions had not been raised before. As a result of Mr. Tarmas's inquiries we have requested a letter of opinion from our attorney on this matter. His response is attached and from this point forward we will follow the executive session procedures recommended in the attached letter.

Question 6 concerns accusations by Mr. Tarmas about last year's referendum concerning the movement of satellite dishes. His statement that the Board "knew of only two dishes that needed relocation and had no idea of what the relocation cost would be," is absolutely false. The Association, not the Board, voted to enforce preferred placement locations. The Board is now attempting to do everything we can to undertake this project in a neighbor friendly way, including paying for the movement of dishes that were installed prior to the referendum. We have researched the referendum extensively; we know 38 dishes need to be moved, and we know the cost will be between \$99 and \$125 per dish; thus, we know what the ultimate cost of the project will be to the Association: not one penny more than the \$5000.00 that the Association approved.

Finally question 7 concerns what occurred with Mr. Tarmas at the January 16, 2006 meeting. Mr. Tarmas writes, "Why did the Board call the sheriff's office, lie and deny an association resident the right to speak in an effort to prevent discussion of official records and reserve funds?" This statement is just another example of Mr. Tarmas's use of half-truths and dissemination of misleading information for his own purpose.

This Board, unlike any previous Board, opens and closes every meeting with a comment and question period, designed specifically to allow the residents of our community to have their say. While this is not required by statute or by our governing documents, we do it because we feel it is the right thing to do.

At the January 16, 2006 Board meeting to which Mr. Tarmas refers, five minutes before that meeting, Mr. Tarmas sought to improperly add his agenda item to the Board meeting's agenda. When that request was denied, Mr. Tarmas approached the Board table in what many Board members believed was a physically threatening manner. As a result of his refusal to back away, the Sheriff's office was called (which we warned him would be done) and the Sheriff's office responded. While the Sheriff's office offered to remove Mr. Tarmas from the meeting, we declined that offer and did allow him to remain during the Board meeting as long as he did not continue to disrupt the meeting.

As described above, Mr. Tarmas's statements that the Board has engaged in illegal and dishonest activity are absolutely false. While we are attempting to do the best job we can and are certainly not without mistake, the efforts of Mr. Tarmas have made our volunteer efforts far more difficult. His actions and letters, in our opinion, have crossed the threshold of libel and slander and have caused a significant increase in the cost of running the Association this year. Because of Mr. Tarmas's actions and threats, we have had to retain Rogers Towers, P.A. This well respected Jacksonville firm drafted the original Association documents, is litigation specialists and was recommended by Mr. Tomassetti (our legal counsel for most Association matters.) The added stress caused by Mr. Tarmas certainly has made the experience unpleasant

for all resident volunteers involved in this matter. That said, this Board will not succumb to the subversive efforts of Mr. Tarmas, and we continue to stand ready and willing to serve the membership to the best of our collective abilities. I believe strongly that this Association is exceptionally well served, by this current Board.

My hope is that this letter will give the members of our Association a more balanced perspective of what has occurred over the last year. I look forward to seeing you all at the upcoming Annual Meeting of the Association and I am always available to answer your questions and receive your comments about how we may better serve you and your family. Pace Island is truly a unique and special place to live and with your continued input and assistance we... together... will keep it that way.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Michael E. Pinho". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Michael E. Pinho, President
Pace Island Owners Association, Inc.

PACE ISLAND OWNERS ASSOCIATION INC.
1545 Royal Fern LN
Orange Park, FL 32003

October 12, 2006

Mr. John Tarmas
1794 Royal Fern LN
Orange Park, FL 32003

Dear Mr. Tarmas:

The purpose of this letter is to respond to your inquiries concerning the 2005 audit work.

As treasurer for the last 6 years, I had generally followed the model which the Better Business Bureau uses which requires an outside audit every three years. In late 2005, realizing that we had not been audited in several years, the Board thought it was appropriate to audit financial year 2004 and hired Ms. Magers to perform the 2004 audit.

Ms Magers completed the 2004 audit in early 2006. In that time period, we learned that the law had changed and that our Association may be required to have annual audits. In early March 2006, upon confirming that our Association did qualify for the annual audit requirement, we immediately retained Ms. Magers to also perform the 2005 audit. Ms. Magers charged \$4,500 for the 2004 audit and \$4000 for the 2005 audit (a \$500 discount because of the overlap of her work). Both of these unexpected professional expenses were paid in 2006.

Because of the timing of our discovery of the audit requirement, Ms. Magers was not able to complete the 2005 audit within 60 days of the close of the fiscal year as set forth in the statute. (I would note that this 60 day requirement is unrealistic as the final financial statements are usually not ready until the end of January – it is my understanding that there is legislation currently pending seeking to lengthen the 60 day period to a more reasonable period). She completed the fieldwork of her 2005 audit in late March 2006. Because of the timing, Ms. Magers already being under contract for the 2004 audit, and the fact that the 2005 contract was a mere formality (as the price had been worked out in advance), the contract for her 2005 audit was not signed until March 20, 2006.

Even though the field work was substantially complete in late March, there was still some delay in processing the final report. Ms. Magers requested copies of some documents and some other data that I needed to provide. This being the middle of tax season for me, I was very busy at work and some time passed before I was able to provide the necessary information. Also, during this time Ms. Magers had an emergency appendectomy and was unavailable for several weeks.

Ms. Magers delivered the final audit report on June 6, 2006 and both the 2004 and 2005 audit reports found no irregularities. A copy of the audit reports can be obtained through the General Manager's office.

My hope is that this answers your questions concerning the audit issues.

Sincerely yours,



Jerry Jeakle, Treasurer
Pace Island Owners Association, Inc.

Cc: Board of Directors