



May 22, 2020

Board of Directors and Management
of Bald Head Association
Bald Head Island, NC 28461

In planning and performing our audit of the financial statements of Bald Head Association, as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the Bald Head Association's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we have identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in Bald Head Association's internal control to be significant deficiencies:

Segregation of Duties

Management and the Board of Directors should be aware that there is a potential for internal control problems because of the limited size of the Association's staff, which makes it nearly impossible to fully segregate duties in such a manner as to achieve a working set of checks and balances on each employee. The purpose behind the need for checks and balances is the prevention of inadvertent human error. Even procedures whose effectiveness depends on segregation of duties can be circumvented by collusion. It is essential for the Board of Directors to realize the inherent weakness in the internal control system and to exercise such additional watchfulness over its affairs as it deems warranted by the circumstances.

This Communication is intended solely for the information and use of management, Board of Directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

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Wilmington, NC