

**THE UPSTATE NATIONAL BANK**

**REQUIRED COMMUNICATIONS LETTER**

**DECEMBER 31, 2022**



BUSINESS  
ADVISORS  
AND CPAS



BUSINESS  
ADVISORS  
AND CPAS

March 3, 2023

Audit Committee  
The Upstate National Bank

We have audited the financial statements of The Upstate National Bank as of and for the year ended December 31, 2022, and have issued our report thereon dated March 3, 2023. Professional standards require that we advise you of the following matters relating to our audit.

### **Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter dated December 12, 2022, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of The Upstate National Bank solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We did not identify any deficiencies in internal control that we consider to be material weaknesses.

### **Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope and timing we previously communicated to management and Dick Sanford, Audit Committee Chair.

## Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate and our firm have complied with all relevant ethical requirements regarding independence. Safeguards in place to eliminate or reduce threats to independence to an acceptable level include a skilled, knowledgeable and experienced management team who review draft financial statements prior to issuance and accept responsibility for them.

### **Significant Risks Identified**

We have identified the following significant risks:

- Management override of control
- Revenue recognition
- ALLL calculation/provision
- Related party loans and deposits
- Executive bonuses

Professional auditing standards require that we identify and assess risks and design and perform our audit procedures to assess those risks. The identification of a risk does not mean that it has occurred, but rather it has the potential to impact the financial statements.

### **Qualitative Aspects of the Entity's Significant Accounting Practices**

#### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by The Upstate National Bank is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2022. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

#### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimate affecting the financial statements was the allowance for loan losses.

Management's estimate of the allowance for loan losses is based on management's evaluation of the collectability of the loan portfolio, including nature of the loan portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, and economic conditions. We evaluated the key factors and assumptions used to develop the allowance for loan losses and determined that it is reasonable in relation to the basic financial statements taken as a whole.

## *Financial Statement Disclosures*

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting The Upstate National Bank's financial statements relate to loans and the allowance for loan losses and fair value of financial instruments.

### **Significant Difficulties Encountered during the Audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

### **Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. The attached schedule summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. We did not identify any material corrected misstatements during the audit.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to The Upstate National Bank's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

### **Representations Requested from Management**

We have requested certain written representations from management, which are included in the management representation letter.

### **Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

## Other Significant Matters, Findings or Issues

In the normal course of our professional association with The Upstate National Bank, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as The Upstate National Bank's auditors.

Should you desire further information concerning these matters, Mark Kovaleski or Kate VanBramer will be happy to meet with you at your convenience.

This report is intended solely for the information and use of the Audit Committee, Board of Directors, and management of The Upstate National Bank and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Mengel, Metzger, Barr & Co. LLP*

MENGEL, METZGER, BARR & CO. LLP

**The Upstate National Bank**  
**Summary of Uncorrected Misstatements**  
**December 31, 2022**

Description	Effect—Increase (Decrease)				
	Assets	Liabilities	Equity	Revenue	Expense
To adjust for lease activity in accordance with ASC 842.	\$ 617,243	\$ (622,043)	\$ -	\$ -	\$ 4,800
Effect of Uncorrected Misstatements: Current Period	617,243	(622,043)	-	-	4,800
Net Effect of Uncorrected Misstatements	<u>\$ 617,243</u>	<u>\$ (622,043)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,800</u>