

# Independent Auditor's Report

To the International Executive Board  
and International Executive Council  
Transport Workers Union of America  
501 3rd Street, NW  
Washington, D.C. 20001

We have audited the accompanying schedule of Calculation of Chargeable Expenses (modified cash basis) of Transport Workers Union of America (a nonprofit organization) for the year ended August 31, 2016, and the related notes to the schedule.

## Management's Responsibility for the schedule of Calculation of Chargeable Expenses

Management is responsible for the preparation and fair presentation of the schedule of Calculation of Chargeable Expenses in accordance with the modified cash basis of accounting; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedule of Calculation of Chargeable Expenses (modified cash basis) that is free from material misstatement, whether due to fraud or error.

## Auditors' Responsibility

Our responsibility is to express an opinion on the schedule of Calculation of Chargeable Expenses (modified cash basis) based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of Calculation of Chargeable Expenses (modified cash basis) is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of Calculation of Chargeable Expenses (modified cash basis). The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the schedule of Calculation of Chargeable Expenses (modified cash basis), whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedule of Calculation of Chargeable Expenses (modified cash basis) in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedule of Calculation of Chargeable Expenses (modified cash basis).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the schedule of Calculation of Chargeable Expenses (modified cash basis), referred to above presents fairly, in all material respects, the chargeable expenses of Transport Workers Union of America as of August 31, 2016, in conformity with the Transport Workers Union of America Agency Fee Policy.

## Basis of Accounting

We draw attention to Note 4, which describes the basis of accounting. The schedule was prepared by Transport Workers Union of America (a nonprofit organization) utilizing the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

## Other Matter

Our audit was conducted for the purpose of forming an opinion on the schedule of Calculation of Chargeable Expenses (modified cash basis) of the Transport Workers Union of America. The supplementary information; schedule of main office expenses, schedule of servicing, negotiations and grievance expenses and schedule of salaries and related expenses on pages 8, 9 and 10 is presented for purposes of additional analysis. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the schedule of Calculation of Chargeable Expenses (modified cash basis). The information has been subjected to the auditing procedures applied in the audit of the financial statements (modified cash basis) and schedule of Calculation of Chargeable Expenses (modified cash basis) and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures in accordance

with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Woodbury, New York  
November 30, 2016

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## TRANSPORT WORKERS UNION OF AMERICA AGENCY FEE POLICY SCHEDULE OF CALCULATION OF CHARGEABLE EXPENSES (MODIFIED CASH BASIS) YEAR ENDED AUGUST 31, 2016

	TOTAL	CHARGEABLE	NON CHARGEABLE
Main office expenses	\$ 3,659,404	\$ 3,358,923	\$ 300,481
Servicing, negotiations and grievance expenses	2,341,834	2,341,834	—
Political expenses	1,272,175	—	1,272,175
Organizing expenses	272,336	—	272,336
TWU Express:			
Non-political information	121,686	121,686	—
Political information	9,032	—	9,032
Donations, tickets and advertisements	68,100	—	68,100
Salaries and related expenses	10,521,670	9,034,409	1,487,261
Social events, non-political	49,610	49,610	—
Quill scholarship	118,911	—	118,911
Insurance	131,714	131,714	—
Convention	108,109	108,109	—
Investment expenses	106,209	106,209	—
Totals	<u>\$ 18,780,790</u>	<u>\$ 15,252,494</u>	<u>\$ 3,528,296</u>
Percentage to total	<u>100.00</u>	<u>81.21</u>	<u>18.79</u>

See notes to schedule of calculation of chargeable expenses.

## TRANSPORT WORKERS UNION OF AMERICA AGENCY FEE POLICY SUPPLEMENTARY SCHEDULE OF SERVICING, NEGOTIATIONS AND GRIEVANCE EXPENSES (MODIFIED CASH BASIS) YEAR ENDED AUGUST 31, 2016

	EXPENSES		
	TOTAL	CHARGEABLE	NON CHARGEABLE
Negotiation expenses	\$ 657,780	\$ 657,780	\$ —
Legal fees	680,361	680,361	—
Transportation and facility costs	965,262	965,262	—
Reimbursement of Locals negotiating expenses	38,431	38,431	—
Totals	<u>\$ 2,341,834</u>	<u>\$ 2,341,834</u>	<u>\$ —</u>

See notes to schedule of calculation of chargeable expenses.

TRANSPORT WORKERS UNION OF AMERICA  
AGENCY FEE POLICY  
SUPPLEMENTARY SCHEDULE OF MAIN OFFICE EXPENSES  
(MODIFIED CASH BASIS)  
YEAR ENDED AUGUST 31, 2016

	EXPENSES		
	TOTAL	CHARGEABLE	NON CHARGEABLE
Rent and related expenses	\$ 2,061,020	\$ 1,876,884	\$ 184,136
Stationery and printing	62,038	48,245	13,793
Outside consultants	531,304	507,192	24,112
Telephone	196,997	176,031	20,966
Postage	41,263	37,970	3,293
Data processing expense	219,405	213,997	5,408
Equipment rental and maintenance	113,533	105,056	8,477
Newspapers and subscriptions	39,950	25,713	14,237
Accounting	140,575	132,723	7,852
Depreciation	88,911	79,701	9,210
Sundry expenses	164,408	155,411	8,997
Totals	<u>\$ 3,659,404</u>	<u>\$ 3,358,923</u>	<u>\$ 300,481</u>

See notes to schedule of calculation of chargeable expenses.

TRANSPORT WORKERS UNION OF AMERICA  
AGENCY FEE POLICY  
SUPPLEMENTARY SCHEDULE OF SALARIES & RELATED EXPENSES  
(MODIFIED CASH BASIS)  
YEAR ENDED AUGUST 31, 2016

	EXPENSES		
	TOTAL	CHARGEABLE	NON CHARGEABLE
Salaries	\$ 5,795,333	\$ 4,978,552	\$ 816,781
Pension and welfare expenses	3,991,771	3,390,228	601,543
Payroll taxes	416,067	365,666	50,401
Auto expenses	330,193	310,010	20,183
Insurance, workers compensation	(11,694)	(10,047)	(1,647)
Totals	<u>\$ 10,521,670</u>	<u>\$ 9,034,409</u>	<u>\$ 1,487,261</u>

See notes to schedule of calculation of chargeable expenses.

TRANSPORT WORKERS UNION OF AMERICA  
POLICY ON AGENCY FEE OBJECTIONS

TWU's Policy on Agency Fee Objections, as amended, is based upon decisions of the United States Supreme Court.

- Employees who are members of TWU are eligible to engage in a broad range of activities by virtue of their membership. This includes, for example, the right to run for and vote in Union elections, to vote on ratification of collective bargaining agreements, and to attend and participate in Union meetings and activities that are pertinent to their employment. Employees represented by TWU can elect to be non-members, but if they do, they lose these and other rights and benefits that go along with membership in good standing in TWU.
- A TWU-represented nonmember employee who is subject to a union security clause conditioning continued employment on the payment of dues or fees—referred to as “agency fees” for nonmembers—has the right to object to expenditures by TWU or the employee's Local Union that are not related to collective bargaining, contract administration, grievance adjustment or other expenditures that are considered “chargeable” to nonmember objectors. A nonmember objector's agency fees shall be calculated in accordance with this Policy.
- To become an objector, a TWU-represented nonmember employee shall notify the International Secretary-Treasurer in writing of her/his objection by mail postmarked during the month of January in the first year for which the employee elects to be an objector.

The written notification shall be signed by the employees and include the objector's current home address and TWU Local Union number, if known. The nonmember objector shall also mail a copy of this notice to her/his Local Union. A nonmember employee who first becomes subject to a TWU union security clause after January in a particular year and who desires to be an objector must submit written signed notification to the International Secretary Treasurer, with copy to the employee's Local Union, including the objector's current home address and TWU Local Union number, if known, within thirty (30) days after the employee has become subject to union security obligations and been provided notice of these procedures.

- A current TWU member who chooses to become an objector, must first resign from TWU membership before she/he can file an objection through these procedures. A member who resigns from membership during the course of the year shall have 30 days following resignation in which to elect to become an objector by utilizing the procedures set forth in paragraph 3 above.
  - A TWU-represented nonmember employee, who provides notice in accordance with the procedures set forth in paragraph 3 above, will be considered an objector for each subsequent calendar year after the first year for which the employee elected to be an objector, unless and until the employee notifies the International Secretary Treasurer in writing that she/he no longer desires to be an objector.
- Expenditures in the following categories are among those chargeable to nonmember objectors.
    - Negotiation of agreements, practices and working conditions.
    - Administration of agreements, practices and working conditions, including grievance handling, all activities related to arbitration, and discussion with employees in the bargaining unit or employer representatives regarding working conditions, benefits and contract rights.
    - Conventions, Union business meetings, and other Union internal governance and related expenses.
    - Social activities.
    - Publications, to the extent related to chargeable activities.
    - Litigation before courts and administrative agencies related to contract administration, collective bargaining rights or other chargeable activities.
    - Legislative, executive branch and administrative agency activities on legislative or regulatory matters related to the negotiation or administration of contracts and working conditions.
    - Education and training of members, officers and staff intended to prepare the participants to better perform chargeable activities or otherwise related to chargeable activities.
    - Activities related to group cohesion and economic action of or by TWU-represented employees, e.g., demonstrations, general strike activity, informational picketing.
    - Overhead and administration related to or reflective of TWU or TWU Local Union chargeable activities.
  - Expenditures in the following categories arguably are non-chargeable to nonmember objectors:
    - Community service and charitable contributions.
    - Affiliations with non-TWU organizations.
    - Support for political candidates.
    - Member-only benefits.
    - Lobbying to the extent not chargeable as per paragraph 4.g. above.
    - Publications, litigation and for overhead and administration to the extent related to arguably non-chargeable activities.
    - external recruitment of new members.
  - The TWU Policy on Agency Fee Objections shall be reprinted in each December issue of the Express. The International shall also send a copy of this Policy to each nonmember who objected during that calendar year to inform such person of the right to elect to again object in a succeeding year. Any Local Union that is required by law to have an agency fee policy, but which has failed to adopt such a policy, shall be deemed to have adopted this “Policy on Agency Fee Objections” as its own, and such Locals shall be identified in the December issue of the Express.
  - The International shall retain an independent auditor who shall submit an annual report verifying the breakdown of chargeable and arguably non-chargeable expenditures (the “Report”). Similarly, if a Local Union has determined to apply this Policy for its expenditures, the Local Union shall arrange for an independent audit of the breakdown of the Local's chargeable and arguably non-chargeable expenditures. Any Local Union which fails in a given year to conduct an independent audit of expenditures shall be deemed to have spent the same percentage of its expenditures on chargeable activities as the International expended as reflected in the auditor's Report. The Report(s) of the independent auditor(s) for the International and, where applicable, the Locals shall be completed promptly after the end of the fiscal year. The most recent Report of the International's expenditures shall be reprinted in the December issue of the Express. The Local Union shall provide to the nonmembers it represents a copy of the Report of the breakdown of the Local Union's expenditures.
  - The fees paid by nonmember objectors shall be handled as follows:
    - Nonmember objectors who pay fees directly and not by checkoff shall pay an amount equal to the full amount of agency fees reduced by the percentage of agency fees

ascribed by the audit Report(s) (described in paragraph 7 above) to arguably non-chargeable activities (the latter amount referred to hereafter as the “non-chargeable amount”). An amount equal to 50% of the non-chargeable amount shall be placed in an interest bearing escrow account.

- b. With regard to nonmember objectors who pay agency fees by check-off, promptly following receipt of the checked-off fees, the non-chargeable amount, both for the International and the Local that is utilizing this Agency Fee Objection Policy, plus an additional 50% of that amount, shall be placed in an interest bearing escrow account. Promptly following each calendar quarter, the non-chargeable amount for the preceding calendar quarter, plus the interest accrued thereon, shall be paid to each such nonmember Objector.
- c. The International shall bill each Local for the monies return to objectors from escrow in connection with the Local’s arguably non-chargeable expenditures.

9. A nonmember objector may challenge the last audited breakdown of chargeable and arguably non-chargeable expenditures contained in the independent accountants’ Report(s) by filing a challenge with the International Secretary-Treasurer, together with notice to the employee’s Local Union, postmarked no later than thirty (30) days after mailing of the December issue of the EXPRESS that includes the Report(s).

- a. All such timely challenges shall be referred to an impartial arbitrator appointed by the American Arbitration Association (“AAA”) under its rules for impartial determination of Union fees. TWU will request that the AAA appoint an arbitrator to promptly consider and make a determination regarding the challenges in a single consolidated hearing to take place in Washington, D.C. TWU will provide the AAA with the names and addresses of the nonmember objectors who have filed timely challenges.
- b. Challengers, the International and, if a participant, the Local Union(s) shall each bear its/their own costs related to the arbitration. The challengers shall have the option of paying a pro rata portion of the arbitrator’s fees and expenses; if they decline that option, the Union parties to the proceeding will pay the full fees and expenses of the arbitrator and not just their pro rata portion of such fees and expenses.
- c. Challengers may, at their expense, be represented by counsel or other representative of choice. Challengers need not appear at the hearing for their challenges to be considered. Challengers who elect not to appear at the hearing may file written statements with the arbitrator, provided they do so by no later than the beginning of the hearing before the arbitrator. Challengers who appear but elect not to present evidence or otherwise participate in the hearing may also submit written statements at or before the beginning of the hearing.
- d. Fourteen (14) days prior to the start of the arbitration, challengers shall be provided with copies of all exhibits or a list of all such exhibits that a Union party then intends to introduce at the arbitration and a list of all witnesses the Union party then intends to call, except for exhibits and witnesses the Union party may introduce for rebuttal. If copies of exhibits have not otherwise been provided, a challenger may request that the Union forward a copy to the requesting challenger(s) during this 14-day pre-hearing period. Copies of all exhibits shall also be available for review by challengers at the hearing.
- e. A court reporter shall make a transcript of all proceedings before the arbitrator. This transcript shall be the only official record of the proceedings and may be purchased by the challengers. The parties shall be informed when the transcript is available for purchase and/or review. If challengers do not purchase a copy of the transcript, a copy shall be available for purposes of inspection by them at the Union party’s/parties’ headquarters during normal business hours.
- f. The arbitrator may determine all procedural matters affecting the arbitration consistent with the dual objectives of providing for an informed and an expeditious arbitration.
- g. Each party to the arbitration shall have the right to file a post-hearing statement by no later than fifteen (15) days after the parties have been provided notice that the transcript has been completed and is available for purchase or review. Neither challengers nor Union parties may include or refer in the post-hearing statements to any evidence that was not previously introduced and accepted by the arbitrator during the arbitration proceeding.
- h. The arbitrator, taking account of the record presented, shall issue a decision on the challenges to the validity of the auditor’s Report of the “chargeable” percentage of Union expenditures. The arbitrator’s decision shall be issued within forty-five (45) days after the final date for submission of post-hearing statements or within such other reasonable period as is consistent with the AAA rules and the requirements of law. The decision of the arbitrator shall be final and binding.
- i. Upon receipt of the arbitrator’s award, the escrowed funds, as referenced above, shall be distributed in accordance with the arbitrator’s decision, with the remaining balance, if any, after any required payments to challengers, returned to the International’s or Local Union’s general funds.

10. The provisions of this Policy on Agency Fee Objections shall be considered legally separable. Should any provision or portion thereof be held contrary to law by a court or tribunal of competent jurisdiction, the remaining provisions or portions thereof shall continue to be legally effective and binding.

## UNION MEMBER RIGHTS AND OFFICER RESPONSIBILITIES UNDER THE LMRDA

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### UNION MEMBER RIGHTS

Bill of Rights—Union members have:

- equal rights to participate in union activities
- freedom of speech and assembly
- voice in setting rates of dues, fees, and assessments
- protection of the right to sue
- safeguards against improper discipline

Copies of Collective Bargaining Agreements—Union members and nonunion employees have the right to receive or inspect copies of collective bargaining agreements.

Reports—Unions are required to file an initial information report (Form LM-1), copies of constitutions and bylaws, and an annual financial report (Form LM-2/3/4) with OLMS. Unions must make the reports available to members and permit members to examine supporting records for just cause. The reports are public information and copies are available from the OLMS Internet Public Disclosure Room at <http://www.union-reports.dol.gov>.

Officer Elections—Union members have the right to:

- nominate candidates for office
- run for office
- cast a secret ballot
- protest the conduct of an election

Officer Removal—Local union members have the right to an adequate procedure for the removal of an elected officer guilty of serious misconduct.

Trusteeships—Unions may only be placed in trusteeship by a parent body for the reasons specified in the LMRDA.

Prohibition Against Certain Discipline—A union or any of its officials may not fine, expel, or otherwise discipline a member for exercising any LMRDA right.

Prohibition Against Violence—No one may use or threaten to use force or violence to interfere with a union member in the exercise of LMRDA rights.

### UNION OFFICER RESPONSIBILITIES

Financial Safeguards—Union officers have a duty to manage the funds and property of the union solely for the benefit of the union and its members in accordance with the union’s constitution and bylaws. Union officers or employees who embezzle or steal union funds or other assets commit a Federal crime punishable by a fine and/or imprisonment.

Bonding—Union officers or employees who handle union funds or property must be bonded to provide protection against losses if their union has property and annual financial receipts which exceed \$5,000.

Labor Organization Reports—Union officers must:

- file an initial information report (Form LM-1) and annual financial reports (Forms LM-2/3/4) with OLMS.
- retain the records necessary to verify the reports for at least five years.

Officer Reports—Union officers and employees must file reports concerning any loans and benefits received from, or certain financial interests in, employers whose employees their unions represent and businesses that deal with their unions.

Officer Elections—Unions must:

- hold elections of officers of local unions by secret ballot at least every three years
- conduct regular elections in accordance with their constitution and bylaws and preserve all records for one year
- mail a notice of election to every member at least 15 days prior to the election
- comply with a candidate’s request to distribute campaign material (at the candidate’s expense)
- not use union funds or resources to promote any candidate (nor may employer funds or resources be used)
- permit candidates to have election observers
- allow candidates to inspect the union’s membership list once within 30 days prior to the election

Restrictions on Holding Office—A person convicted of certain crimes may not serve as a union officer, employee, or other representative of a union for up to 13 years.

Loans—A union may not have outstanding loans to any one officer or employee that in total exceed \$2,000 at any time.

Fines—A union may not pay the fine of any officer or employee convicted of any willful violation of the LMRDA.