

Indian Mineral Royalty Management

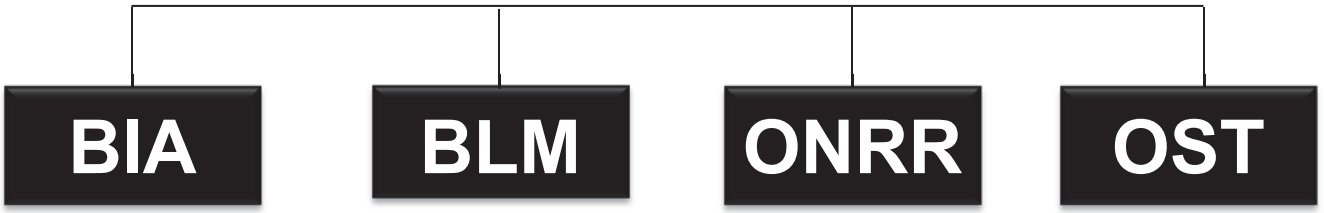
Roles and Responsibilities of the U.S. Department of the Interior

Prepared by the Office of Natural Resources Revenue (ONRR)

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U.S. Department of the Interior (DOI)

Bureaus and Offices Involved with Indian Leases



Bureau of Indian Affairs

Bureau of Land Management

Office of Natural Resources Revenue

Office of the Special Trustee for American Indians

What BIA Does

- Facilitates the leasing process and ensures minimum requirements are met
- Approves and issues Indian leases
- Maintains ownership records
- Finalizes and approves Communitization Agreements (CA)



What BLM Does

Reservoir Management

- Well spacing
- Reservoir review
- Communitization Agreement reviews and recommendations

Operations

- Approves Applications for Permit to Drill (APD)
- First and last production
- Plugging and reclamation

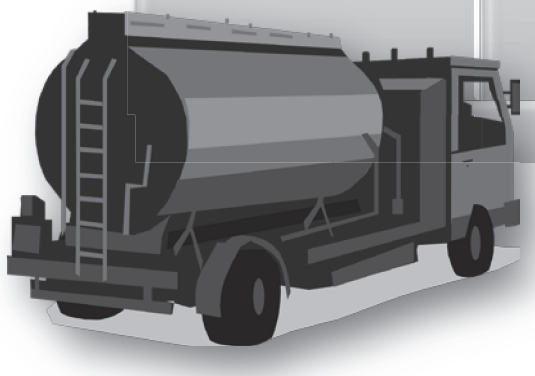


What BLM Does

Inspection and Enforcement



Drilling and production activities	Well work overs and repairs	Witness sales	Inspect measurement devices



What ONRR Does

Receives royalty payments from oil and gas companies

- Deposits money in U.S. Treasury within 24 hours of receipt so royalties can begin to earn interest

Receives sales and production reports from oil and gas companies

- Provides BIA with distribution reports two times per month

Performs audits and compliance reviews



What OST Does

Distributes royalty payments based on:

- Availability of funds from ONRR
- Disbursement instructions from BIA

Pays Indian mineral owners through:

- Direct Deposit
- Debit Card
- Check

Provides statements with each payment, quarterly Individual Indian Money (IIM) account statements and Internal Revenue Service 1099 Forms* to Indian mineral owners

Invests royalties in United States Treasury securities to earn income

For additional information contact:

- Trust Beneficiary Call Center toll free # 1-888-678-6836

*Reports the various types of income you may receive throughout the year other than the salary your employer pays you.

BIA Lease Documents

Lease Terms

- Primary Term – time frame the company has to begin drilling (length of terms vary and can be up to 10 years)
- Secondary Term - once mineral production is established the lease remains in force as long as it is producing in paying quantities

Assignments

- Lessee can assign or sell the lease
- The buyer assumes responsibility for all of the original lease terms and liabilities

Heirs

- Lessor's lease interest can pass to heirs



Lease Payment Types

Bonus Payment

- Normally stated as a dollar amount per acre
- One-time payment following lease approval

Rental Payment

- Normally stated as a dollar amount per acre
- Annual payment on lease anniversary date



Royalty Payments

- Received by ONRR at the end of the month following the month the company sells the product

Sample Timeline of Indian Royalty Payments



Sale of oil and gas during the month of April 2014



Oil & Gas Company

Royalties owed on April sales are reported and paid to ONRR by 5/31/14



Royalties are deposited in the United States Treasury: 06/01/14 (begins earning interest)



BIA and OST

Royalties and interest earned are paid to Indian mineral owners on or about 06/11/14 and/or 06/25/2014

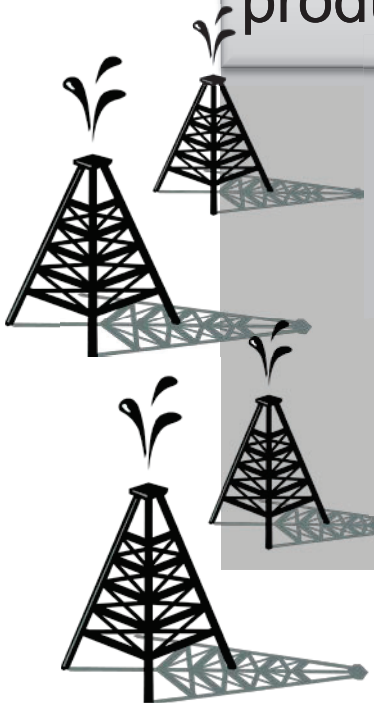


How Royalties are Calculated on a Lease



Step 1	Total sales volume for the lease	750 barrels
	Price per barrel	$90.00
	Total sales revenue for the lease (750 x $90)	$67,500.00
Step 2	Royalty rate (per lease terms)	18%
	Total royalties for the lease ($67,500 x .18)	$12,150.00
Step 3	Individual Indian mineral ownership in the lease	8.526%
	Individual Indian mineral royalty ($12,150 x .08526)	$1,035.91

Why is my Lease in a Communitization Agreement (CA)?

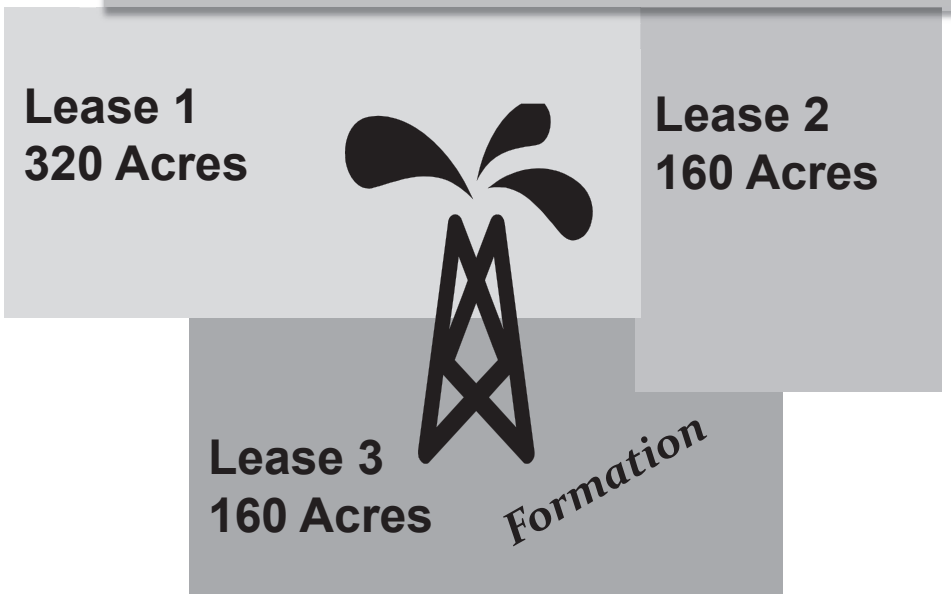


►Well spacing requirements, set by the State and BLM, manage the number and location of wells in an oil and gas field and ensure reservoirs are not damaged by over production.

►When an individual lease does not meet the well spacing requirements to support an independent well, a CA is formed by joining multiple leases together to meet the spacing requirements.

Benefits of a Communitization Agreement

- Enables the development of leases that might otherwise be too small to support their own well.
- Each lease in the CA shares proportionately in the production from the communitized acreage based on the amount of acreage it contributes to the CA.



For example, if well spacing is 640 acres for a particular reservoir, the operator can only drill 1 well for each 640 acres. If your lease is 160 acres, it must link up with other neighboring leases to total 640 acres. Your lease would then be allocated 25% of sales from the CA.

How Royalties are Calculated on a Communitization Agreement

Step 1	Total sales volume for the agreement	4,000 barrels
	Lease allocation % in the agreement	25%
	Total sales volume for the lease (4,000 X .25)	1,000 barrels
Step 2	Total sales volume for the lease	1,000 barrels
	Price per barrel	$90.00
	Total sales revenue for the lease (1000 X $90.00)	$90,000
Step 3	Royalty rate (per lease terms)	18%
	Total royalties for the lease ($90,000 X .18)	$16,200
Step 4	Individual Indian mineral ownership in the lease	8.526%
	Individual Indian mineral royalty amount ($16,200 x .08526)	$1,381.21

Items that Cause Your Royalty Payments to Change

Sales Price	**Volumes Sold**	**Audits**
Compliance Reviews	**Adjustments**	**Recoupments**
	**Estimated Payments**	

Adjustments to Royalty Payments:

Can either increase or decrease your payment

Are shown on your “Explanation of Payment” (EOP) Report provided by the OST



Are verified by ONRR to ensure oil & gas companies reported correctly

Oil and Gas Companies Make Adjustments When:

Correcting their reported and/or payment mistakes

Underpayments and/or overpayments were made

New or corrected information concerning sales volumes and prices is received

Notified of reporting problems identified by ONRR's audit and compliance verification processes



Adjustments often result in interest collections from the oil and gas companies which are then passed on to the individual Indian mineral owner.



Adjustments for Overpayments (commonly called recoupments) are:



Made by companies when they have overpaid lease royalties in prior periods



Monitored by ONRR to ensure the lease has no more than 50% of the current month's royalties recouped (Refer to 30 CFR § 1218.53)

OST Explanation of Payment Report (EOP)

Summary of your royalty distribution including:

- Volumes Sold
- Sales Price
- Products Sold

Itemizes any allowances, adjustments, and recoupments that affect your royalties



Contains important information such as your lease number, ownership percentage, tract name, and tract number

Important Information To Have When Calling ONRR

Your lease number issued by BIA

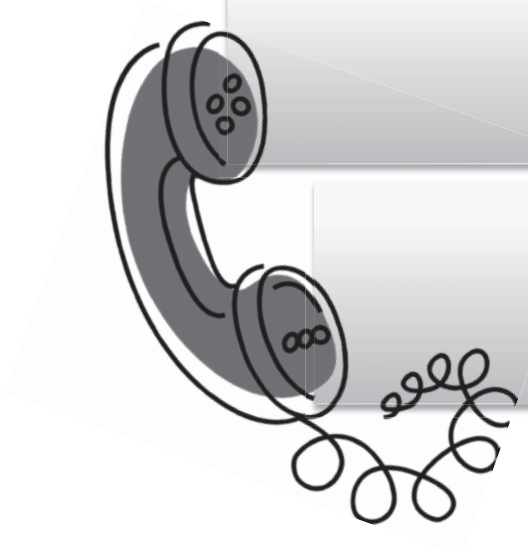
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Your mineral interest ownership from BIA

Example 0.00829

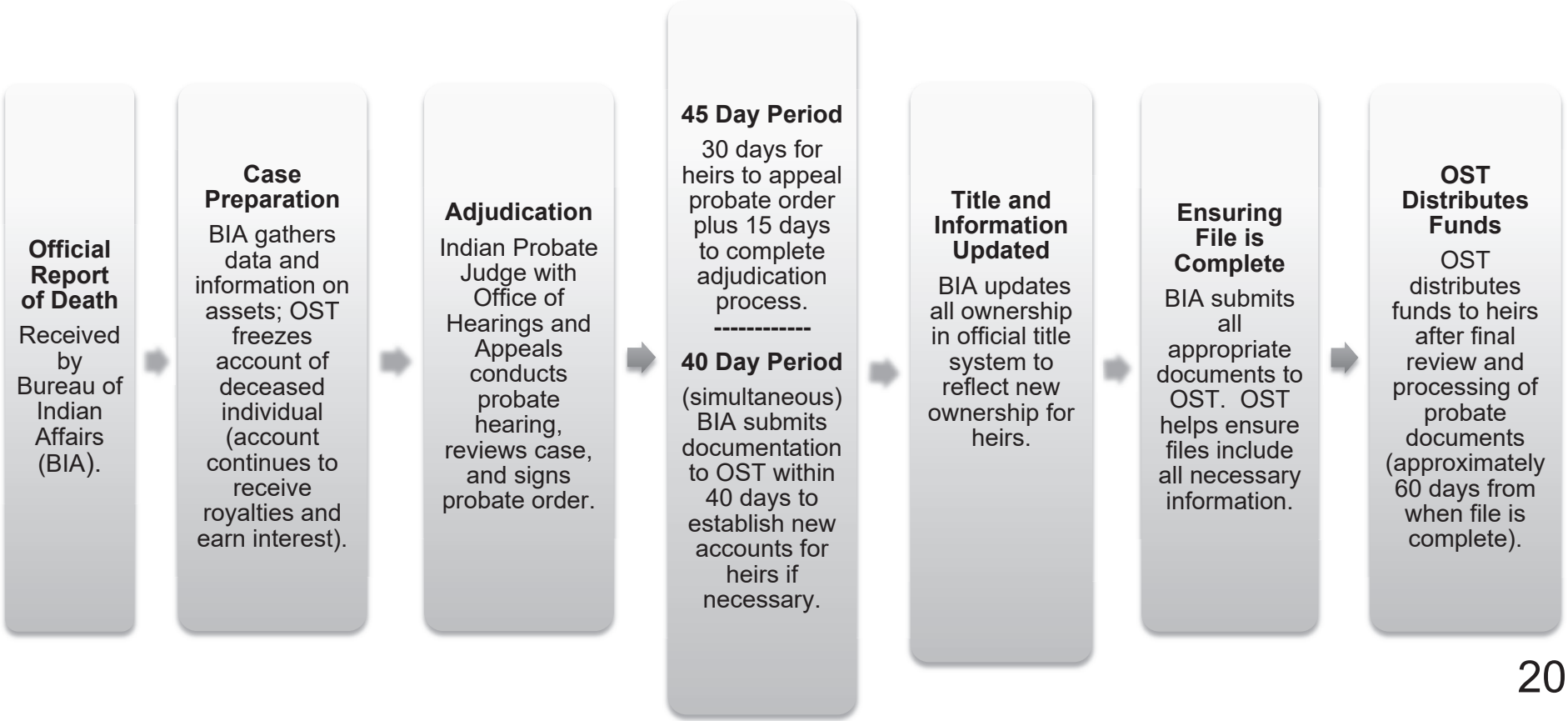
Your enrollment location

Your enrollment number



Probate Process and Timeframes

When an Indian trust beneficiary passes away, the U.S. Department of the Interior is responsible for distributing the beneficiary's assets to his or her rightful heirs. Interior is working to improve the probate process and time that it takes to distribute the assets. This chart explains the required step-by-step process to correctly distribute the assets.



Probate Process: Who Does What?

BIA and OST have responsibilities in the probate process

The local BIA agency is responsible for:

- Case preparation
- Title updates in all necessary systems
- Preparing and submitting the necessary probate transmittal and supporting documents to complete the process

The local OST office is responsible for:

- Ensuring new accounts are established for heirs
- Following up to help ensure estates are distributed within the expected processing time
- Assisting the local BIA agency when probate packages are “rejected” because of incomplete information

Is the Income from Trust Land Subject to Federal Income Tax?



Revised Ruling 56-342

Income held in trust for or received by the patent holder which is derived directly from allotted and restricted Indian lands while such lands are held by the United States, as trustee, in accordance with section 5 of the General Allotment Act of 1887, 24 Stat. 338, as amended, 25 U.S.C. 348, is exempt from Federal income tax. Squire v. Horton Capoeman et ux., 351 U.S. 1, Ct. D. 1796, C.B. 1956-1, 605. Such exempt income includes rentals (including crop rentals), royalties, proceeds of sales of the natural resources of such land, and income from the sale of crops grown upon the land and from the use of the land for grazing purposes. Such income is not includible in computing net earnings from self-employment for purpose of the tax imposed by the Self-Employment Contributions Act of 1954 (chapter 2, subtitle A, Internal Revenue Code of 1954).

Please consult your tax professional for additional guidance or if you hold lands within The Five Civilized Tribes of Oklahoma.

For Additional Information Contact

Office of Natural Resources Revenue
Indian Outreach
PO Box 25165, MS64120C
Denver, CO 80225-0165



For General Information visit us at www.onrr.gov

For Toll Free Assistance please call our:

Denver Office	**1-800-982-3226**
Oklahoma City Office	**1-800-354-7015**
Federal Indian Minerals Office in Farmington	**1-800-238-2839**

Questions can also be emailed to:
onrroutreachdenver@onrr.gov or onrroutreachokc@onrr.gov

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Last Updated on 8/06/2014

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