

MV Oil Trust  
Form 10-Q  
November 09, 2016

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**for the quarterly period ended September 30, 2016**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**for the transition period from                      to**

**Commission File Number: 001-33219**

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**MV OIL TRUST**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**06-6554331**  
(I.R.S. Employer  
Identification No.)

**The Bank of New York Mellon Trust Company,  
N.A., Trustee  
Global Corporate Trust  
919 Congress Avenue  
Austin, Texas**  
(Address of principal executive offices)

**78701**  
(Zip Code)

**1-512-236-6599**

(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of November 8, 2016, 11,500,000 Units of Beneficial Interest in MV Oil Trust were outstanding.



## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements.

## MV OIL TRUST

## CONDENSED STATEMENTS OF DISTRIBUTABLE INCOME

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Income from net profits interest	\$ 1,467,044	\$ 2,503,043	\$ 3,436,568	\$ 12,867,232
Cash on hand used (withheld) for Trust expenses	27,695	(7,446)	(24,958)	(24,154)
General and administrative expenses(1)	(229,739)	(195,597)	(651,610)	(595,578)
Distributable income	\$ 1,265,000	\$ 2,300,000	\$ 2,760,000	\$ 12,247,500
Distributions per Trust unit (11,500,000 Trust units issued and outstanding at September 30, 2016 and 2015)	\$ 0.11	\$ 0.20	\$ 0.24	\$ 1.065

(1) Includes \$22,204 and \$21,350 paid to MV Partners, LLC during the three months ended September 30, 2016 and 2015, respectively, and \$66,611 and \$61,586 during the nine months ended September 30, 2016 and 2015, respectively. Also includes \$37,500 paid to The Bank of New York Mellon Trust Company, N.A. during each of the three months ended September 30, 2016 and 2015, and \$112,600 during each of the nine months ended September 30, 2016 and 2015.

## CONDENSED STATEMENTS OF ASSETS AND TRUST CORPUS

(Unaudited)

	September 30, 2016	December 31, 2015
<b>ASSETS</b>		
Cash and cash equivalents	\$ 198,798	\$ 173,840
Investment in net profits interest	50,383,675	50,383,675
Accumulated amortization	(30,289,025)	(28,370,680)
Total assets	\$ 20,293,448	\$ 22,186,835
<b>TRUST CORPUS</b>		
Trust corpus, 11,500,000 Trust units issued and outstanding at September 30, 2016 and December 31, 2015	\$ 20,293,448	\$ 22,186,835

## MV OIL TRUST

## CONDENSED STATEMENTS OF CHANGES IN TRUST CORPUS

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Trust corpus, beginning of period	\$ 20,947,263	\$ 23,487,310	\$ 22,186,835	\$ 24,723,712
Income from net profits interest	1,467,044	2,503,043	3,436,568	12,867,232
Cash distributions	(1,265,000)	(2,300,000)	(2,760,000)	(12,247,500)
Trust expenses	(229,739)	(195,597)	(651,610)	(595,578)
Amortization of net profits interest	(626,120)	(615,079)	(1,918,345)	(1,868,189)
Trust corpus, end of period	\$ 20,293,448	\$ 22,879,677	\$ 20,293,448	\$ 22,879,677

The accompanying notes are an integral part of these condensed financial statements.

**MV OIL TRUST**

**NOTES TO CONDENSED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1 Organization of the Trust**

MV Oil Trust (the Trust ) is a statutory trust formed on August 3, 2006, under the Delaware Statutory Trust Act pursuant to a Trust Agreement (the Trust Agreement ) among MV Partners, LLC, a Kansas limited liability company ( MV Partners ), as trustor, The Bank of New York Mellon Trust Company, N.A., as Trustee (the Trustee ), and Wilmington Trust Company, as Delaware Trustee (the Delaware Trustee ).

The Trust was created to acquire and hold a term net profits interest for the benefit of the Trust unitholders pursuant to a conveyance from MV Partners to the Trust. The term net profits interest represents the right to receive 80% of the net proceeds (calculated as described below in Note 5) from production from the underlying properties (as defined below) (the net profits interest ). The term net profits interest consists of MV Partners' net interests in all of its oil and natural gas properties located in the Mid-Continent region in the states of Kansas and Colorado (the underlying properties ). The underlying properties include approximately 1,000 producing oil and gas wells.

The net profits interest is passive in nature, and the Trustee has no management control over and no responsibility relating to the operation of the underlying properties. The net profits interest entitles the Trust to receive 80% of the net proceeds attributable to MV Partners' interest from the sale of production from the underlying properties during the term of the Trust. The net profits interest will terminate on the later to occur of (1) June 30, 2026 or (2) the time when 14.4 million barrels of oil equivalent ( MMBoe ) have been produced from the underlying properties and sold (which amount is the equivalent of 11.5 MMBoe with respect to the Trust's net profits interest), and the Trust will soon thereafter wind up its affairs and terminate.

The Trustee can authorize the Trust to borrow money to pay administrative or incidental expenses of the Trust that exceed cash held by the Trust. The Trustee may authorize the Trust to borrow from the Trustee or the Delaware Trustee as a lender provided the terms of the loan are similar to the terms it would grant to a similarly situated commercial customer with whom it did not have a fiduciary relationship. The Trustee may also deposit funds awaiting distribution in an account with itself and make other short-term investments with the funds distributed to the Trust.

**Note 2 Basis of Presentation**

The accompanying Condensed Statements of Assets and Trust Corpus as of December 31, 2015, which has been derived from audited financial statements, and the unaudited interim condensed financial statements as of September 30, 2016 and for the three and nine month periods ended September 30, 2016 and September 30, 2015, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC ). Accordingly, certain information and note disclosures normally included in annual financial statements have been condensed or omitted pursuant to those rules and regulations.

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The preparation of financial statements requires the Trust to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The Trustee believes such information includes all the disclosures necessary to make the information presented not misleading. The information furnished reflects all adjustments that are, in the opinion of the Trustee, necessary for a fair presentation of the results of the interim period presented. The financial information should be read in conjunction with the financial statements and notes thereto included in the Trust's Annual Report on Form 10-K for the year ended December 31, 2015.

### **Note 3 Trust Accounting Policies**

The Trust uses the modified cash basis of accounting to report Trust receipts by the Trust of the term net profits interest and payments of expenses incurred. The term net profits interest represents the right to receive revenues (oil, gas and natural gas liquid sales) less direct operating expenses (lease operating expenses, lease maintenance, lease overhead, and production and property taxes) and an adjustment for lease equipment costs and lease development expenses (which are capitalized in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP )) of the underlying properties times 80%. Actual cash receipts may vary due to timing delays of actual cash receipts from the property operators or purchasers and due to wellhead and pipeline volume balancing agreements or practices. The actual cash distributions of the Trust will be made based on the terms of the conveyance creating the Trust's net profits interest. Expenses of the Trust, which include accounting, engineering, legal and other professional fees, Trustee fees, an administrative fee paid to MV Partners and out-of-pocket expenses, are recognized when paid. Under U.S. GAAP, revenues and expenses would be recognized on an accrual basis. Amortization of the investment in net profits interest is recorded on a unit-of-production method in the period in which the cash is received with respect to such production. Such amortization does not reduce distributable income, rather it is charged directly to Trust corpus.

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This comprehensive basis of accounting other than U.S. GAAP corresponds to the accounting permitted for royalty trusts by the SEC as specified by Staff Accounting Bulletin Topic 12:E, Financial Statements of Royalty Trusts.

Investment in the net profits interest was recorded initially at the historical cost of MV Partners and is periodically assessed to determine whether its aggregate value has been impaired below its total capitalized cost based on the underlying properties. The Trust will provide a write-down to its investment in the net profits interest if and when total capitalized costs, less accumulated amortization, exceed undiscounted future net revenues attributable to the proved oil and gas reserves of the underlying properties.

No new accounting pronouncements have been adopted or issued during the quarter ended September 30, 2016 that would impact the financial statements of the Trust.

### Note 4 Investment in Net Profits Interest

The net profits interest was recorded at the historical cost of MV Partners on January 24, 2007, the date of conveyance of the net profits interest to the Trust, and was calculated as follows:

Oil and gas properties	\$	96,210,819
Accumulated depreciation and depletion		(40,468,762)
Hedge asset		7,237,537
Net property value to be conveyed		62,979,594
Times 80% net profits interest to Trust	\$	50,383,675

### Note 5 Income from Net Profits Interest

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Excess of revenues over direct operating expenses and lease equipment and development costs(1)	\$ 1,833,805	\$ 3,128,804	\$ 3,983,210	\$ 16,084,040
Times net profits interest over the term of the Trust	80%	80%	80%	80%
Income from net profits interest before reserve adjustments	1,467,044	2,503,043	3,186,568	12,867,232
MV Partners reserve for future capital expenditures(2)			250,000	
Income from net profits interest(3)	\$ 1,467,044	\$ 2,503,043	\$ 3,436,568	\$ 12,867,232

(1) Excess of revenues over direct operating expenses and lease equipment and development costs reflect expenses and costs incurred by MV Partners during the March through May production period for each of the three months ended September 30, 2016 and 2015 and during the September through May production period for each



of the nine months ended September 30, 2016 and 2015. Pursuant to the terms of the conveyance of the net profits interest, lease equipment and development costs are to be deducted when calculating the distributable income to the Trust.

(2) Pursuant to the terms of the conveyance of the net profits interest, MV Partners can reserve up to \$1.0 million for future capital expenditures at any time. During the three months ended September 30, 2016, MV Partners did not withhold or release any dollar amounts due to the Trust. During the nine months ended September 30, 2016, MV Partners released \$250,000 previously held for future capital expenditures. During the three and nine months ended September 30, 2015, MV Partners did not withhold or release any dollar amounts due to the Trust. The reserve balance was \$750,000 at September 30, 2016 and \$1,000,000 at September 30, 2015.

(3) The income from net profits interest is based upon the cash receipts from MV Partners for the oil and gas production. The revenues from oil production are typically received by MV Partners one month after production; thus, the cash received by the Trust during the three months ended September 30, 2016 substantially represents the production by MV Partners from March 2016 through May 2016 and the cash received by the Trust during the three months ended September 30, 2015 substantially represents the production by MV Partners from March 2015 through May 2015. The cash received by the Trust during the nine months ended September 30, 2016 substantially represents the production by MV Partners from September 2015 through May 2016 and the cash received by the Trust during the nine months ended September 30, 2015 substantially represents the production by MV Partners from September 2014 through May 2015.

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For the three and nine months ended September 30, 2016 and 2015, MV Purchasing, LLC, which is majority owned by the indirect equity owners of MV Partners, purchased a majority of the production from the underlying properties. Sales to MV Purchasing, LLC are under short-term arrangements, ranging from one to six months, using market sensitive pricing.

### **Note 6 Income Taxes**

The Trust is a Delaware statutory trust and is not required to pay federal or state income taxes. Accordingly, no provision for federal or state income taxes has been made.

### **Note 7 Distributions to Unitholders**

MV Partners makes quarterly payments of the net profits interest to the Trust. The Trustee determines for each quarter the amount available for distribution to the Trust unitholders. This distribution is expected to be made on or before the 25th day of the month following the end of each quarter to the Trust unitholders of record on the 15th day of the month following the end of each quarter (or the next succeeding business day). Such amounts will be equal to the excess, if any, of the cash received by the Trust relating to the preceding quarter, over the expenses of the Trust paid during such quarter, subject to adjustments for changes made by the Trustee during such quarter in any cash reserves established for future expenses of the Trust.

The first quarterly distribution during 2016 was \$1,150,000, or \$0.10 per Trust unit and was made on January 25, 2016 to Trust unitholders owning Trust units as of January 15, 2016. Such distribution included the net proceeds of production collected by MV Partners from October 1, 2015 through December 31, 2015.

The second quarterly distribution during 2016 was \$345,000, or \$0.03 per Trust unit, and was made on April 25, 2016 to Trust unitholders owning Trust units as of April 15, 2016. Such distribution included the net proceeds of production collected by MV Partners from January 1, 2016 through March 31, 2016.

The third quarterly distribution during 2016 was \$1,265,000, or \$0.11 per Trust unit, and was made on July 25, 2016 to Trust unitholders owning Trust units as of July 15, 2016. Such distribution included the net proceeds of production collected by MV Partners from April 1, 2016 through June 30, 2016.

The first quarterly distribution during 2015 was \$7,015,000, or \$0.61 per Trust unit and was made on January 23, 2015 to Trust unitholders owning Trust units as of January 15, 2015. Such distribution included the net proceeds of production collected by MV Partners from October 1, 2014 through December 31, 2014.

The second quarterly distribution during 2015 was \$2,932,500, or \$0.255 per Trust unit, and was made on April 24, 2015 to Trust unitholders owning Trust units as of April 15, 2015. Such distribution included the net proceeds of production collected by MV Partners from January 1, 2015 through March 31, 2015.

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The third quarterly distribution during 2015 was \$2,300,000, or \$0.20 per Trust unit, and was made on July 24, 2015 to Trust unitholders owning Trust units as of July 16, 2015. Such distribution included the net proceeds of production collected by MV Partners from April 1, 2015 through June 30, 2015.