

MESABI TRUST
Form 10-Q
December 07, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2018

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: 1-4488

MESABI TRUST

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(Exact name of registrant as specified in its charter)

New York
(State or other jurisdiction of
incorporation or organization)

13-6022277
(I.R.S. Employer Identification No.)

c/o Deutsche Bank Trust Company Americas

Trust & Agency Services

60 Wall Street

16th Floor

New York, New York
(Address of principal executive offices)

10005
(Zip code)

(904) 271-2520

(Registrant's telephone number, including area code)

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 every Interactive Data File required to be submitted 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 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 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
	Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 December 7, 2018, there were 13,120,010 Units of Beneficial Interest in Mesabi Trust outstanding.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements. (Note 1)

Mesabi Trust

Condensed Statements of Operations

Three and Nine Months Ended October 31, 2018 and 2017

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2018 (unaudited)	2017 (unaudited)	2018 (unaudited)	2017 (unaudited)
A. Condensed Statements of Operations				
Revenues				
Royalty income	\$ 13,891,273	\$ 10,898,615	\$ 39,663,012	\$ 29,889,218
Interest	82,570	26,384	146,830	40,199
Total revenues	13,973,843	10,924,999	39,809,842	29,929,417
Expenses				
	388,781	227,330	1,037,477	762,869
Net income	\$ 13,585,062	\$ 10,697,669	\$ 38,772,365	\$ 29,166,548
WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING				
Number of units outstanding	13,120,010	13,120,010	13,120,010	13,120,010
Net income per unit (Note 2)	\$ 1.0354	\$ 0.8154	\$ 2.9552	\$ 2.2231
Distributions declared per unit (Note 3)	\$ 0.9400	\$ 0.6400	\$ 1.6100	\$ 1.3500

See Notes to Condensed Financial Statements.

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Mesabi Trust

Condensed Balance Sheets

October 31, 2018 and January 31, 2018

	October 31, 2018 (unaudited)	January 31, 2018
B. Condensed Balance Sheets		
Assets		
Cash and cash equivalents	\$ 605,436	\$ 314,835
U.S. Government securities, at amortized cost (which approximates market)	32,571,424	23,797,451
Accrued income receivable	6,110,966	1,956,091
Contract asset	1,362,897	99,264
Prepaid expenses	95,343	54,640
Current assets	40,746,066	26,222,281
Fixed property, including intangibles, at nominal values		
Assignments of leased property		
Amended assignment of Peters Lease	1	1
Assignment of Cloquet Leases	1	1
Certificate of beneficial interest for 13,120,010 units of Land Trust	1	1
	3	3
Total assets	\$ 40,746,069	\$ 26,222,284
Liabilities, Unallocated Reserve And Trust Corpus		
Liabilities		
Distribution payable	\$ 12,332,809	\$ 15,481,612
Accrued expenses	157,433	133,994
Total liabilities	12,490,242	15,615,606
Unallocated reserve	28,255,824	10,606,675
Trust corpus	3	3
Total liabilities, unallocated reserve and trust corpus	\$ 40,746,069	\$ 26,222,284

See Notes to Condensed Financial Statements.

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Mesabi Trust

Condensed Statements of Cash Flows

Nine Months Ended October 31, 2018 and 2017

	Nine Months Ended October 31,	
	2018	2017
	(unaudited)	(unaudited)
C. Condensed Statements of Cash Flows		
Operating activities		
Royalties received	\$ 34,316,372	\$ 24,271,530
Interest received	74,962	39,896
Expenses paid	(1,054,741)	(825,270)
Net cash from operating activities	33,336,593	23,486,156
Investing activities		
Maturities of U.S. Government securities	28,893,900	9,933,171
Sales of U.S. Government securities	99,740	—
Purchases of U.S. Government securities	(37,767,613)	(35,768,880)
Net cash used for investing activities	(8,773,973)	(25,835,709)
Financing activity		
Distributions to unitholders	(24,272,019)	(11,152,009)
Net change in cash and cash equivalents	290,601	(13,501,562)
Cash and cash equivalents, beginning of period	314,835	13,695,168
Cash and cash equivalents, end of period	\$ 605,436	\$ 193,606
Reconciliation of net income to net cash from operating activities		
Net income	\$ 38,772,365	\$ 29,166,548
Increase in accrued income receivable	(4,154,875)	(2,792,115)
Increase in contract asset	(1,263,633)	(726,461)
Increase in prepaid expense	(40,703)	(41,078)
Increase (decrease) in accrued expenses	23,439	(21,323)
Decrease in contract liability	—	(2,099,415)
Net cash from operating activities	\$ 33,336,593	\$ 23,486,156
Non cash financing activity		

Distributions declared and payable	\$ 12,332,809	\$ 8,396,806
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See Notes to Condensed Financial Statements.

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Mesabi Trust

Notes to Condensed Financial Statements

October 31, 2018 (Unaudited)

Note 1. The financial statements and notes to financial statements included herein have been prepared without audit (except for the balance sheet at January 31, 2018) in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. In the opinion of the Trustees, all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of (a) the results of operations for the three and nine months ended October 31, 2018 and 2017, (b) the financial position at October 31, 2018 and (c) the cash flows for the nine months ended October 31, 2018 and 2017, have been made. For further information, refer to the financial statements and footnotes included in Mesabi Trust's Annual Report on Form 10-K for the year ended January 31, 2018.

Recent Accounting Pronouncements

Revenue from Contracts with Customers

Mesabi Trust adopted Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers and ASU 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date ("ASC 606") on February 1, 2018 using the full retrospective transition method, under which it is required to revise its financial statements for the year ended January 31, 2018, as well as any applicable interim periods within the year ended January 31, 2018, as if ASC 606 had been effective for those periods. Under ASC 606, the Trust recognizes revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. See Note 2 for disclosures required by ASU 2014-09, including the Trust's revenue recognition accounting policies.

The cumulative effect of adopting ASC 606 was an increase in the January 31, 2018 unallocated reserve of approximately \$99,000.

The following tables present the effect of the adoption of ASC 606 on the Trust's financial statements included in this report.

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	Three Months Ended October 31, 2017 (As Previously Reported)		Three Months Ended October 31, 2017 (As Adjusted)	Nine Months Ended October 31, 2017 (As Previously Reported)		Nine Months Ended October 31, 2017 (As Adjusted)
		Adoption of ASC 606			Adoption of ASC 606	
Condensed Statements of Operations						
Revenues						
Royalty income	\$ 12,165,191	\$ (1,266,576)	\$ 10,898,615	\$ 29,162,757	\$ 726,461	\$ 29,889,218
Interest	26,384	—	26,384	40,199	—	40,199
Total revenues	12,191,575	(1,266,576)	10,924,999	29,202,956	726,461	29,929,417
Expenses	227,330	—	227,330	762,869	—	762,869
Net income	\$ 11,964,245	\$ (1,266,576)	\$ 10,697,669	\$ 28,440,087	\$ 726,461	\$ 29,166,548
WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING						
Number of units outstanding	13,120,010	—	13,120,010	13,120,010	—	13,120,010
Net income per unit	\$ 0.9119	\$ (0.0965)	\$ 0.8154	\$ 2.1677	\$ 0.0554	\$ 2.2231
Distributions declared per unit	\$ 0.6400	\$ —	\$ 0.6400	\$ 1.3500	\$ —	\$ 1.3500

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	January 31, 2018 (As Previously Reported)	Adoption of ASC 606	January 31, 2018 (As Adjusted)
Condensed Balance Sheets			
Assets			
Cash and cash equivalents	\$ 314,835	\$ —	\$ 314,835
U.S. Government securities, at amortized cost (which approximates market)	23,797,451	—	23,797,451
Accrued income receivable	1,956,091	—	1,956,091
Contract asset	—	99,264	99,264
Prepaid expenses	54,640	—	54,640
Current assets	26,123,017	99,264	26,222,281
Fixed property, including intangibles, at nominal values			
Assignments of leased property			
Amended assignment of Peters Lease	1	—	1
Assignment of Cloquet Leases	1	—	1
Certificate of beneficial interest for 13,120,010 units of Land Trust	1 3	— —	1 3
Total assets	\$ 26,123,020	\$ 99,264	\$ 26,222,284