

PKM Electric Cooperative
Annual Meeting

Please Join Us

Saturday, April 14, 2007

Warren/Alvarado/Oslo High School

Doors Open at 9:00 A.M.

Report To The MEMBER/OWNERS



Charles Riesen

Any annual meeting report typically follows a predictable pattern, you talk about the year past (good or bad) and go on to talk a bit about culture at the company and plans made for the future. Interspersed between those bold ideas are often paragraphs of flowery prose designed to clue you in on how smart (at least in their minds) the leaders of the company are.

Ron and I aren't very good at that, and besides, we know too

many people that would see right through that, but we do believe we have a pretty good handle on what and why things happened in 2006 and where we are aiming your cooperative for 2007 and beyond. Of course as member/owners of this cooperative enterprise, you know that when Ron and I speak, it is because we are the reporting and responsible parties and not that every grand thing that occurs at your cooperative is the result of our labors. Let us be the first to tell you that the success of your cooperative and from comparative data by the Rural Utilities Service and Cooperative Finance Corporation your cooperative is a success, is a result of interested and supportive member/owners and dedicated employees and directors.

A little more than a year ago, your board of directors considered a budget for 2006 that relied on a number of events to happen if we were to post an acceptable margin for 2006. There was a good deal of discussion concerning proposal of a budget that very easily should have had a rate adjustment included with it. However, your cooperative enjoys a solid financial footing (including cash reserves) and could weather a poor year in terms of margins (even an operating loss) and not be irreparably harmed. In the end, the 2006 budget was approved and operating expenses were trimmed, subsidiary organizations contributed to margins and although it was awful dry, the weather cooperated in running a rural electric cooperative. 2006 was not a banner year and from an investing standpoint, you wouldn't rush out and buy stock in a company that had \$14 million invested in plant and made a \$500 thousand profit. I mean a 3.6% return on investment is not what would be considered an up and coming business opportunity. However, plenty good for a well capitalized member owned cooperative.

2006 was a good year, yes, weather was in our favor and some would say we were lucky, but luck didn't reduce operating expenses, luck played no roll in employees rolling up their sleeves and providing member/owners with value for the wages paid and we see little evidence of luck playing a part in our "moments of truth" with member/owners, whether they call in with a complaint, need service, provide advice or just want to know more about their cooperative.

The board and staff recently completed a planning meeting to address emerging issues in the electric business, discuss what we learned from the member meetings and fine-tune our planning for the year. For as long as we can remember, the goal of your electric cooperative has been to build load and sell more kill-o-watt hours,

and this wasn't because we had disregarded for the earth, it was because the more units we had to spread "fixed costs" over the less cost it would be for you the member/owner. It was basic and pretty sound business strategy, make more efficient use of your embedded assets and costs and thus driving down unit costs. Every business that is concerned with cost does it.

In recent years, the electric business has become increasingly complex and in 2007, State and Federal legislation will add additional layers of regulation, which

will result in more complexity and cost. Earlier this year the Minnesota legislature passed and the Governor signed a bill commonly known as 25/25 which basically states that by 2025, 25% of energy used in Minnesota will come from renewable resources. Recently, former vice-president Al Gore made presentations to the United States House and Senate addressing "global warming", stating that the "earth has a fever." The point of this is not to debate the wisdom or the science of these new laws and pronouncements, but just to say from what we know electricity (as well as all energy) will be more expensive in the future. Knowing this, the focus of our planning was conservation and efficiency. Now, this is not a dramatic shift in business strategy, because we have always seen our role as helping our member/owners make wise use of energy. The main purpose of our dual heating program was to wisely use "off-peak" energy during the "oil crisis" in the 1970's to free up oil for production agriculture. Sure, we sold more off-peak electricity, made better use of our facilities, which drove costs down, but this was always done in compliance with state and Federal environmental laws.

Our power supplier, Minnkota Power, is planning with others to build another power plant to meet the increasing demand for more electric energy. The estimated costs of this new plant are increasing each year. Minnkota is due to announce a major purchase of "wind energy" and is in discussions with suppliers of electricity from sources other than coal, but any of these new sources will cost more than the generation that is already in place. It is plain good business to promote conservation and efficiency, but we have made wise use of energy our focus for years.

For 2007, your cooperative will promote programs we have had in place for years that provide low cost and in many cases "no interest" loans for energy efficient appliances and heating and cooling technology. In the meantime, we will monitor existing and pending legislation with an eye toward how it will impact the price you pay for electricity. Above all, we will operate your electric cooperative in compliance with all applicable regulations, but more importantly, we will maintain information and programs that will allow you, the member/owner to use electricity wisely and efficiently.



Ronald Reitmeier

Ronald Reitmeier
President

Charles P. Riesen
Manager

Notice of Annual Meeting

SATURDAY, APRIL 14, 2007

Warren/Alvarado/Oslo High School Auditorium

The Annual Meeting of the members of PKM Electric Cooperative, Inc. will be held in the Auditorium of Warren/ Alvarado/Oslo High School, in the City of Warren, Minnesota, at 10:00 a.m., Saturday, April 14, 2007, to take action on the following matters:

1. REPORTS OF OFFICERS, DIRECTORS AND COMMITTEES.
2. THE ELECTION OF THREE DIRECTORS FOR TERMS OF THREE YEARS EACH.
(Only one Director may be elected from any one county.)

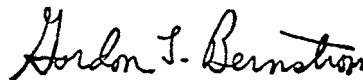
COUNTY	NOMINATIONS MADE BY COMMITTEE ON NOMINATIONS – 3 YEAR TERMS	NOMINATIONS MADE BY PETITION
KITTSOON	* John W. Anderson Hallock	NONE
POLK	* Ronald Reitmeier Fisher	NONE
MARSHALL	* Thomas Woinarowicz Stephen	NONE

*Incumbent

Note: Nominations may be made from the floor at the meeting.
Candidates will be provided time to address the members prior to voting.

3. SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING OR ANY ADJOURNMENTS THEREOF.

Dated March 28, 2007



Secretary

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One of the Minnkota Power Systems

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Next Board Meeting
Tuesday, May 29



Treasurer's Report

WE INVITE YOU TO STUDY THE FINANCIAL STATEMENTS IN THIS ANNUAL MEETING ISSUE OF THE PKM NEWS.

Statement of Operations

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

Minnesota 87 Marshall
PKM Electric Cooperative, Inc.
Warren, Minnesota

	2006	2005
OPERATING REVENUE:		
Electric.....	\$ 6,464,482	\$ 6,575,946
Other	36,573	30,655
Total operating revenue	<u>\$ 6,501,055</u>	<u>\$ 6,606,601</u>
OPERATING EXPENSES:		
Cost of power.....	\$ 3,468,253	\$ 3,661,948
Distribution - operation	237,325	227,984
Distribution - maintenance	561,555	610,159
Customer accounts	162,829	163,090
Customer service and informational	202,381	211,735
Administrative and general	548,431	564,895
Depreciation	587,278	581,113
Interest on long-term debt	384,342	357,726
Other income deductions	7,141	5,612
Total operating expenses.....	<u>\$ 6,159,535</u>	<u>\$ 6,384,262</u>
NET OPERATING MARGIN	<u>\$ 341,520</u>	<u>\$ 222,339</u>
NON-OPERATING MARGIN:		
Non-operating margins — other.....	\$ 62,920	\$ 13,626
Interest income	84,754	55,130
Other Cooperative Capital Credits	10,315	5,971
Total non-operating margin (deficit).....	<u>\$ 157,989</u>	<u>\$ 74,727</u>
NET MARGIN	<u>\$ 499,509</u>	<u>\$ 297,066</u>

The Board of Directors is proposing that the bylaws of PKM be amended to include a new provision to Article VIII of the bylaws which would read as follows:

Section 4. Right to offset. The Cooperative shall at no time be required to retire the patronage credits or the membership capital of any member who has not paid the member's obligation to the Cooperative, and the Board may, in its discretion, apply any member's patronage credits and membership capital against the unpaid obligations of the member in the same manner as if the member were deceased.

This provision allows the Cooperative to offset an unpaid bill to PKM against the stock and patronage dividends of that member. In addition, it allows the Board to apply future patronage dividends against the member's bill at a discounted amount similar to what is done for the estate of a deceased member. The discounted amount is paid because the payment is made now rather than over future years, as paid to regular members of the Cooperative.

Respectfully submitted,

Gordon J. Bernstrom

Treasurer

Balance Sheet

DECEMBER 31, 2006 AND 2005

**Minnesota 87 Marshall
PKM Electric Cooperative, Inc.
Warren, Minnesota**

ASSETS		
	2006	2005
ELECTRIC PLANT:		
In service	\$ 22,324,303	\$ 21,629,539
Under construction.....	843,314	785,077
Total electric plant	<u>23,167,617</u>	<u>22,414,616</u>
Less accumulated depreciation.....	(8,609,078)	(8,260,992)
Electric plant - net	<u>\$ 14,558,539</u>	<u>\$ 14,153,624</u>
OTHER PROPERTY AND INVESTMENTS:		
Non-utility property.....	\$ 0	\$ 0
Investments in associated companies.....	620,078	645,263
Other investments	863,961	886,902
Total other property and investments	<u>\$ 1,484,039</u>	<u>\$ 1,532,165</u>
CURRENT ASSETS:		
Cash - general	\$ 273,616	\$ 230,861
Temporary investments	1,437,389	1,297,595
Accounts receivable.....	1,262,181	1,015,420
Materials and supplies	275,671	366,390
Prepayments	93,650	99,470
Other current and accrued assets	47,023	19,513
Total current assets	<u>\$ 3,389,530</u>	<u>\$ 3,029,249</u>
DEFERRED DEBITS	<u>\$ 113,149</u>	<u>\$ 113,786</u>
TOTAL ASSETS	<u>\$ 19,545,257</u>	<u>\$ 18,828,824</u>
EQUITIES AND LIABILITIES		
EQUITIES:		
Memberships	\$ 18,230	\$ 18,240
Patronage capital	5,888,041	5,785,826
Other margins and equities.....	4,176,915	3,888,797
Total equities	<u>\$ 10,083,186</u>	<u>\$ 9,692,863</u>
LONG-TERM DEBT.....	<u>\$ 7,421,508</u>	<u>\$ 6,920,117</u>
CURRENT LIABILITIES:		
Accounts payable.....	\$ 486,126	\$ 559,741
Customers deposits	19,650	21,350
Other current liabilities.....	1,457,139	1,514,702
Total current liabilities	<u>\$ 1,962,915</u>	<u>\$ 2,095,793</u>
DEFERRED CREDITS (Consumers Energy Prepayments).....	77,648	120,051
TOTAL EQUITIES AND LIABILITIES	<u>\$ 19,545,257</u>	<u>\$ 18,828,824</u>

2006 Annual Meeting Minutes

P.K.M. ELECTRIC COOPERATIVE, INC.
Warren, Minnesota
ANNUAL MEETING OF STOCKHOLDERS
April 1, 2006

The Annual Meeting of the Stockholders (hereinafter referred to as members) of P.K.M. Electric Cooperative, Inc. was held at the High School Auditorium in the City of Warren, Minnesota, at 10:00 A.M. on April 1, 2006, pursuant to the provisions of the Bylaws of the Cooperative applying to notice of meeting.

The meeting was called to order by Ronald Reitmeier, President of the Cooperative, who presided, and Gordon Bernstrom, Secretary of the Cooperative, kept the minutes of said meeting.

After calling the meeting to order, the President called on Secretary Bernstrom for the invocation.

The President then called on the Mayor, Robert Kliner, of the City of Warren, who gave the welcome.

The President called on the Manager, Charles Riesen, to introduce guests and visitors from other organizations in attendance.

The Secretary then presented and read a copy of the notice of the meeting, together with the proof of mailing thereof to all members of the Cooperative and such statements, ballots and proof were ordered to be annexed to the minutes of the meeting.

The attendance of a sufficient number of members to constitute a quorum was established by a register showing the members present at said meeting, and verified by the President and Secretary of the Cooperative. The Secretary stated that at least 111 members were present in person and that there were 2,987 accepted members in the Cooperative, which established a quorum under Article II, Section 5 of the Bylaws of the Cooperative. The Secretary was directed to file a registration for the establishment of a quorum and the same was, upon motion duly made and seconded and passed, was made a part of the minutes.

Since the minutes of the last meeting of the members held on April 2, 2005, were included as a part of the Annual Report mailed to members prior to the meeting and distributed to members registering at the Annual Meeting. A motion was duly made, seconded and passed that the reading of said minutes be dispensed with and that they be approved as presented.

The annual report of the President was presented.

Michael Schmidt, Assistant General Manager, presented the annual report of the Treasurer.

The annual report of the Manager was presented.

Upon the conclusion thereof, all reports heretofore presented were upon motion duly made, seconded, carried and approved by the membership.

The President called on the Manager to read the nomi-

nating committee report. Said report disclosed the nominations of the following members for the Board of Directors:

POLK COUNTY (For a 3-year term)	KITTSOON COUNTY (For a 3-year term)	MARSHALL COUNTY (For a 3-year-term)
Blake Owens Warren, MN	Gordon Bernstrom Lancaster, MN	Wayne Malm Argyle, MN

The nominating committee consisted of the nine following members:

Chairman Jeff Chwialkowski, Argyle
Secretary James Feller, Argyle
Steve Goodwin, Angus
Dan Haberman, Hallock
Kenneth Peterson, Lancaster
Russ Steer, Euclid
Chris Urbaniak, Argyle
Joseph Wilebski, Lancaster
Bob Wimpfheimer, Warren

The committee finalized their decision during a meeting held at the cooperative headquarters on February 22, 2006.

The report of the Committee on Nominations was ordered to be certified by the Secretary and annexed to the minutes of the meeting.

The President called on the Cooperative's Attorney, Arthur Drenckhahn, for the election. The Attorney declared that nominations for the directors from the floor would be received by county. There being none, upon motion duly made and seconded and approved, it was ordered that nominations be closed. Those directors nominated and having no opposition were after motion duly made and seconded, declared elected, by virtue of the nominating ballot becoming the elective ballot.

The President stated that microphones have been placed in aisles of the auditorium so that members wishing to speak may be heard by all in attendance.

The President called for any unfinished business. Having determined that there was no unfinished business to be conducted at the annual meeting, he called for new business or discussion. There was one question from the comment box provided for member/owners. The Manager addressed the concern of a member/owner of the overhead power lines in the front of his yard where his children play. The Manager mentioned that underground was a potential solution, but that it required a "cost share" with the member/owner. The Manager said he would have the line department insure that the line is excellent repair and if a pole could be relocated to provide some relief.

The President thanked the members for their support of the Cooperative and attending the annual meeting.

There being no further business to come before the meeting, upon motion duly made and seconded and unanimously carried, the meeting was adjourned.

Board of Directors and Attorney



Ronald Reitmeier
President

Residence: Fisher, MN
Occupation: Farmer
Spouse: Julianne, medical secretary
PKM Director Since: 1987
PKM Term Expires: April 2007



Jeff Folland
Director

Residence: Halma, MN
Occupation: Building contractor
Spouse: Joyce, bank teller
PKM Director Since: February 1990
PKM Term Expires: April 2008



John W. Anderson
Vice President

Residence: Thompson Twp., Kittson Co., MN
Occupation: Farmer
Spouse: Pamela, secretary
PKM Director Since: 1987
PKM Term Expires: April 2007



Wayne Malm
Director

Residence: Argyle, MN
Occupation: Farmer
Spouse: Aime, homemaker
PKM Director Since: 1997
PKM Term Expires: April 2009



Gordon Bernstrom
Secretary/Treasurer

Residence: Lancaster, MN
Occupation: Farmer
Spouse: Kathy, Mattracks - Customer Service
PKM Director Since: 1982
PKM Term Expires: April 2009



Mike Beaudry
Director

Residence: Alvarado, MN
Occupation: Farmer
Spouse: Cindy, homemaker
PKM Director Since: April 2005
PKM Term Expires: April 2008



Darrel Loeck
Director

Residence: East Grand Forks, MN
Occupation: Farmer
Spouse: Debby, Embroidery & Screen Prints
PKM Director Since: 1997
PKM Term Expires: April 2008



Tom Woinarowicz
Director

Residence: Stephen, MN
Occupation: Farmer
Spouse: Ann, speech clinician, Tri-County Public Schools
PKM Director Since: June 1993
PKM Term Expires: April 2007



Arthur Drenckhahn
Attorney

Residence: Warren, MN
Occupation: Attorney
Spouse: Charlotte, Volunteer Worker, Teacher, Domestic Engineer
PKM Attorney Since: 1980
PKM Term Expires: I serve at the pleasure of the Board of Directors



Blake Owens
Director

Residence: Warren, MN
Occupation: Farmer
Spouse: Ronda, Six Star Marketing Bookkeeper
PKM Director Since: April 2003
PKM Term Expires: April 2009

PKM Electric Cooperative ANNUAL MEETING

Saturday, April 14, 2007

SCHEDULE:

9:00 A.M.

- Doors open for member registration
- Coffee and donuts in the cafeteria
- Movies and daycare provided by PKM

9:50 A.M.

- Early Bird Prize drawings in the auditorium

Business Meeting

10:00 A.M.

- Meeting will be called to order – President Ronald Reitmeier
- Invocation – Secretary/Treasurer Gordon Bernstrom
- Welcome to Warren – Mayor Robert Kliner
- Introduction of Guests – Manager Charles Riesen

BUSINESS SESSION

- Notice of Annual Meeting
- Establishment of Quorum
- Reading of 2006 Meeting Minutes – Sec./Treas. Gordon Bernstrom
- President's Report – Ronald Reitmeier
- Treasurer's Report – Mike Schmidt
- Manager's Report – Charles Riesen
- Nominating Committee Report – Charles Riesen
- Election of Directors
- Unfinished Business
- New Business
- Reading of Election Results
- Adjournment of Business Meeting
- Speaker: Dave Loer, CEO of Minnkota Power Cooperative

11:00 A.M.

- Prize Drawings
- All winners of door prizes must be present to win**

11:30 A.M.

- Meal will be served cafeteria style by PKM Directors
- Dinner will be served in the W/A/O School cafeteria located near the west entrance of the school

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