

DELAWARE INVESTMENTS MINNESOTA MUNICIPAL INCOME FUND II, INC
Form N-Q
February 27, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED
MANAGEMENT INVESTMENT COMPANY

| | |
|---|---|
| Investment Company Act file number: | 811-07420 |
| Exact name of registrant as specified in charter: | Delaware Investments [®] Minnesota Municipal Income Fund II, Inc. |
| Address of principal executive offices: | 2005 Market Street Philadelphia, PA 19103 |
| Name and address of agent for service: | David F. Connor, Esq. 2005 Market Street Philadelphia, PA 19103 |
| Registrant's telephone number, including area code: | (800) 523-1918 |
| Date of fiscal year end: | March 31 |
| Date of reporting period: | December 31, 2011 |

Item 1. Schedule of Investments.**Schedule of Investments (Unaudited)****Delaware Investments Minnesota Municipal Income Fund II, Inc.**

December 31, 2011

| | Principal Amount | Value |
|--|---------------------|-------------------|
| Municipal Bonds 142.17% | | |
| <i>Corporate-Backed Revenue Bonds 10.12%</i> | | |
| Cloquet Pollution Control Revenue (Potlatch Project) 5.90% 10/1/26 | \$ 5,500,000 | \$ 5,499,945 |
| Laurentian Energy Authority Cogeneration Revenue Series A 5.00% 12/1/21 | 3,325,000 | 3,438,316 |
| Sartell Environmental Improvement Revenue (International Paper) Series A 5.20% 6/1/27 | 1,000,000 | 1,001,230 |
| Tobacco Securitization Authority Revenue (Tobacco Settlement) Series B | | |
| 5.25% 3/1/26 | 2,000,000 | 2,125,400 |
| 5.25% 3/1/31 | 5,000,000 | 5,152,650 |
| | | 17,217,541 |
| <i>Education Revenue Bonds 12.79%</i> | | |
| Minnesota Higher Education Facilities Authority Revenue | | |
| (Augsburg College) Series 6-J1 5.00% 5/1/28 | 1,500,000 | 1,520,820 |
| (Carleton College) | | |
| Series D 5.00% 3/1/30 | 1,120,000 | 1,237,992 |
| Series 6-T 5.00% 1/1/28 | 1,000,000 | 1,104,780 |
| (College of St. Benedict) | | |
| Series 5-W 5.00% 3/1/20 | 2,000,000 | 2,043,000 |
| Series 7-M | | |
| 5.00% 3/1/31 | 300,000 | 304,299 |
| 5.125% 3/1/36 | 275,000 | 277,538 |
| (St. Mary's University) Series 5-U 4.80% 10/1/23 | 1,400,000 | 1,428,714 |
| (St. Scholastic College) Series H 5.25% 12/1/35 | 1,000,000 | 1,034,980 |
| (University of St. Thomas) | | |
| Series 6-X 5.00% 4/1/29 | 2,250,000 | 2,395,530 |
| Series 7-A 5.00% 10/1/39 | 1,000,000 | 1,070,510 |
| St. Paul Housing & Redevelopment Authority Charter School Lease Revenue | | |
| (Nova Classical Academy) Series A 6.375% 9/1/31 | 750,000 | 765,645 |
| University Minnesota | | |
| Series A | | |
| 5.00% 12/1/27 | 1,110,000 | 1,312,286 |
| 5.00% 12/1/36 | 3,000,000 | 3,386,370 |
| 5.25% 4/1/29 | 1,000,000 | 1,145,280 |
| Series C 5.00% 12/1/19 | 1,290,000 | 1,607,018 |
| University of Minnesota Special Purpose Revenue (State Supported Biomed Science) 5.00% 8/1/35 | 1,040,000 | 1,123,148 |
| | | 21,757,910 |
| <i>Electric Revenue Bonds 6.54%</i> | | |
| Chaska Electric Revenue (Generating Facilities) Series A 5.25% 10/1/25 | 250,000 | 268,020 |
| Minnesota Municipal Power Agency Electric Revenue Series A | | |
| 5.00% 10/1/34 | 1,900,000 | 1,999,389 |
| 5.25% 10/1/19 | 1,610,000 | 1,752,807 |
| Southern Minnesota Municipal Power Agency Supply Revenue Series A 5.25% 1/1/14 (AMBAC) | 1,875,000 | 2,033,588 |
| Western Minnesota Municipal Power Agency Supply Revenue Series A 5.00% 1/1/30 (NATL-RE) | 5,000,000 | 5,063,650 |
| | | 11,117,454 |
| <i>Healthcare Revenue Bonds 27.19%</i> | | |
| Anoka Health Care Facility Revenue (Homestead Anoka Income Project) Series A 7.00% 11/1/46 | 1,200,000 | 1,197,348 |
| Bemidji Health Care Facilities Revenue (North Country Health Services) 5.00% 9/1/24 (RADIAN) | 1,500,000 | 1,506,090 |
| Center City Health Care Facilities Revenue (Hazelden Foundation Project) 5.00% 11/1/41 | 1,600,000 | 1,640,016 |
| Fergus Falls Health Care Facilities Revenue (Lake Region Healthcare) 5.00% 8/1/30 | 1,000,000 | 1,012,340 |
| Glencoe Health Care Facilities Revenue (Glencoe Regional Health Services Project) 5.00% 4/1/25 | 2,000,000 | 2,018,540 |
| Maple Grove Health Care System Revenue (Maple Grove Hospital) 5.25% 5/1/37 | 1,000,000 | 1,006,630 |
| Minneapolis & St. Paul Housing & Redevelopment Authority Health Care Facilities | | |
| (Children's Hospital) Series A1 5.00% 8/15/34 (AGM) | 500,000 | 521,860 |
| Minneapolis Health Care System Revenue (Fairview Health Services) | | |
| Series A 6.625% 11/15/28 | 600,000 | 678,612 |

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| | | |
|--|-----------|-----------|
| Series B 6.50% 11/15/38 (ASSURED GTY) | 295,000 | 336,362 |
| Series D 5.00% 11/15/34 (AMBAC) | 2,000,000 | 2,020,560 |
| Minneapolis Revenue (National Marrow Donor Program Project) 4.875% 8/1/25 | 1,000,000 | 1,000,010 |
| Minnesota Agricultural & Economic Development Board Revenue Un-Refunded Balance Series A | | |
| 5.75% 11/15/26 (NATL-RE) | 100,000 | 100,113 |
| 6.375% 11/15/29 | 195,000 | 195,236 |
| Rochester Health Care & Housing Revenue (Samaritan Bethany) Series A 7.375% 12/1/41 | 1,220,000 | 1,286,331 |
| Rochester Health Care Facilities Revenue (Mayo Clinic) | | |
| Series B 4.00% 11/15/38 | 975,000 | 1,090,947 |
| Series C 4.50% 11/15/38 | 4,150,000 | 4,765,693 |
| Shakopee Health Care Facilities Revenue (St. Francis Regional Medical Center) 5.25% 9/1/34 | 1,560,000 | 1,565,070 |
| St. Cloud Health Care Revenue (Centracare Health System Project) | | |
| 5.50% 5/1/39 (ASSURED GTY) | 1,500,000 | 1,590,045 |
| Series A 5.125% 5/1/30 | 4,425,000 | 4,670,277 |

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|--|-----------|------------|
| St. Louis Park Health Care Facilities Revenue (Park Nicollet Health Services) | | |
| 5.75% 7/1/39 | 1,500,000 | 1,559,685 |
| Series C 5.50% 7/1/23 | 1,000,000 | 1,086,040 |
| St. Paul Housing & Redevelopment Authority Health Care Revenue (Allina Health System) | | |
| Series A 5.00% 11/15/18 (NATL-RE) | 1,380,000 | 1,573,780 |
| Series A-1 5.25% 11/15/29 | 1,395,000 | 1,482,188 |
| (Franciscan Health Elderly Project) 5.40% 11/20/42 (GNMA) (FHA) (Health East Project) | 2,700,000 | 2,712,879 |
| 6.00% 11/15/30 | 2,775,000 | 2,792,843 |
| 6.00% 11/15/35 | 2,000,000 | 1,997,320 |
| (Health Partners Obligation Group Project) 5.25% 5/15/36 | 2,000,000 | 2,007,120 |
| (Regions Hospital Project) 5.30% 5/15/28 | 1,000,000 | 1,000,310 |
| (Senior Carondelet Village Project) Series A 6.00% 8/1/42 | 770,000 | 785,847 |
| Winona Health Care Facilities Revenue (Winona Health Obligated Group) 5.00% 7/1/23 | 1,010,000 | 1,031,170 |
| | | 46,231,262 |
| Housing Revenue Bonds 8.48% | | |
| Chanhassen Multifamily Housing Revenue (Heritage Park Apartments Project) | | |
| 6.20% 7/1/30 (FHA) (HUD) (AMT) | 1,105,000 | 1,106,204 |
| Minneapolis Multifamily Housing Revenue | | |
| (Gaar Scott Loft Project) 5.95% 5/1/30 (AMT) (LOC-U.S. Bank N.A.) | 860,000 | 861,625 |
| (Olson Townhomes Project) 6.00% 12/1/19 (AMT) | 655,000 | 655,452 |
| (Seward Towers Project) 5.00% 5/20/36 (GNMA) | 2,000,000 | 2,037,301 |
| (Sumner Housing Project) Series A 5.15% 2/20/45 (GNMA) (AMT) | 2,000,000 | 2,013,760 |
| Minnesota State Housing Finance Agency Revenue | | |
| (Mortgage Backed Securities Program) 4.40% 7/1/32 (GNMA) (FNMA) (FHLMC) (Rental Housing) | 1,500,000 | 1,534,530 |
| Series A 5.00% 2/1/35 (AMT) | 1,000,000 | 1,003,200 |
| Series D 5.95% 2/1/18 (NATL-RE) (Residential Housing) | 90,000 | 90,394 |
| Series B-1 5.35% 1/1/33 (AMT) | 1,240,000 | 1,240,459 |
| Series D 4.75% 7/1/32 (AMT) | 985,000 | 985,591 |
| Series I 5.15% 7/1/38 (AMT) | 675,000 | 680,947 |
| Series L 5.10% 7/1/38 (AMT) | 1,445,000 | 1,457,369 |
| Washington County Housing & Redevelopment Authority Revenue (Woodland Park Apartments Project) | | |
| 4.70% 10/1/32 | 750,000 | 752,670 |
| | | 14,419,502 |
| Lease Revenue Bonds 6.02% | | |
| Andover Economic Development Authority Public Facilities Lease Revenue (Andover Community Center) | | |
| 5.125% 2/1/24 | 205,000 | 221,119 |
| 5.20% 2/1/29 | 410,000 | 442,870 |
| Puerto Rico Public Buildings Authority Revenue Un-Refunded Balance (Guaranteed Government Facilities) Series D 5.25% 7/1/27 | 530,000 | 531,055 |
| St. Paul Port Authority Lease Revenue (Cedar Street Office Building Project) | | |
| 5.00% 12/1/22 | 2,385,000 | 2,458,601 |
| 5.25% 12/1/27 | 2,800,000 | 2,848,831 |
| (Robert Street Office Building Project) Series 3-11 5.00% 12/1/27 | 2,000,000 | 2,062,500 |
| Virginia Housing & Redevelopment Authority Health Care Facility Lease Revenue | | |
| 5.25% 10/1/25 | 680,000 | 693,104 |
| 5.375% 10/1/30 | 965,000 | 976,995 |
| | | 10,235,075 |
| Local General Obligation Bonds 15.34% | | |
| Brainerd Independent School District #181 (School Building) Series A 4.00% 2/1/18 | 1,430,000 | 1,643,385 |
| Dakota County Community Development Agency (Senior Housing Facilities) Series A 5.00% 1/1/23 | 1,100,000 | 1,177,264 |
| Hennepin County Regional Railroad Authority Series A 4.00% 12/1/22 | 1,310,000 | 1,492,142 |
| Hennepin County Series A | | |
| 4.00% 12/1/19 | 2,580,000 | 3,068,600 |
| 4.00% 12/1/20 | 1,885,000 | 2,237,759 |
| Hopkins Independent School District #270 5.00% 2/1/28 | 1,000,000 | 1,161,030 |
| Minneapolis Special School District #1 5.00% 2/1/19 (AGM) | 1,175,000 | 1,225,043 |
| Morris Independent School District #769 5.00% 2/1/28 (NATL-RE) | 3,750,000 | 3,918,075 |
| Rocori Independent School District #750 (School Building) Series B | | |
| 5.00% 2/1/22 | 1,010,000 | 1,198,678 |
| 5.00% 2/1/24 | 1,075,000 | 1,247,527 |
| 5.00% 2/1/25 | 1,115,000 | 1,276,508 |

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| | | |
|---|-----------|------------|
| 5.00% 2/1/26 | 1,155,000 | 1,309,724 |
| St. Paul Refunding (Tax Increment) Series G 4.00% 2/1/17 | 1,100,000 | 1,267,431 |
| Washington County Housing & Redevelopment Authority Series B | | |
| 5.50% 2/1/22 (NATL-RE) | 1,705,000 | 1,711,155 |
| 5.50% 2/1/32 (NATL-RE) | 2,140,000 | 2,142,825 |
| | | 26,077,146 |
| <i>§Pre-Refunded/Escrowed to Maturity Bonds 24.47%</i> | | |
| Andover Economic Development Authority Public Facilities Lease Revenue (Andover Community Center) 5.20% 2/1/29-14 | 590,000 | 637,300 |
| Dakota-Washington Counties Housing & Redevelopment Authority Revenue (Bloomington Single Family Residential Mortgage) Series B 8.375% 9/1/21 (GNMA) (FHA) (VA) (AMT) | 7,055,000 | 10,401,681 |

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|--|------------|-----------------------|
| Minneapolis - St. Paul Metropolitan Airports Commission Revenue Series A 5.00% 1/1/22-13 (NATL-RE) | 3,000,000 | 3,142,770 |
| Southern Minnesota Municipal Power Agency Supply Revenue Refunding Series A 5.75% 1/1/18-13 | 3,715,000 | 4,030,292 |
| St. Louis Park Health Care Facilities Revenue (Park Nicollet Health Services) Series B 5.25% 7/1/30-14 | 1,250,000 | 1,396,325 |
| St. Paul Housing & Redevelopment Authority Sales Tax (Civic Center Project) | | |
| 5.55% 11/1/23 | 2,300,000 | 2,641,734 |
| 5.55% 11/1/23 (NATL-RE) (IBC) | 4,200,000 | 4,824,036 |
| University of Minnesota Hospital & Clinics 6.75% 12/1/16 | 2,580,000 | 3,153,147 |
| University of Minnesota Series A | | |
| 5.50% 7/1/21 | 4,000,000 | 4,905,000 |
| 5.75% 7/1/18 | 3,840,000 | 4,698,240 |
| University of the Virgin Islands Series A 5.375% 6/1/34-14 | 500,000 | 567,040 |
| Western Municipal Power Agency Supply Revenue Series A 6.625% 1/1/16 | 1,085,000 | 1,217,598 |
| | | 41,615,163 |
| <i>Special Tax Revenue Bonds 11.73%</i> | | |
| Guam Government Business Privilege Tax Revenue Series A 5.25% 1/1/36 | 1,360,000 | 1,445,367 |
| Hennepin County Sales Tax Revenue (Second Lien-Ballpark Project) Series B 4.75% 12/15/27 | 1,905,000 | 2,077,498 |
| Minneapolis Community Planning & Economic Development Department (Limited Tax Supported Common Bond Fund) | | |
| Series 1 6.75% 12/1/25 (AMT) | 865,000 | 872,923 |
| Series 5 5.70% 12/1/27 | 375,000 | 379,744 |
| Minneapolis Development Revenue (Limited Tax Supported Common Bond Fund) | | |
| 6.25% 12/1/30 | 1,000,000 | 1,130,890 |
| Series 1 5.50% 12/1/24 (AMT) | 1,000,000 | 1,045,650 |
| Minnesota Public Safety Radio 5.00% 6/1/23 | 2,845,000 | 3,315,079 |
| Puerto Rico Commonwealth Infrastructure Financing Authority Special Tax Revenue Series B | | |
| 5.00% 7/1/41 | 3,100,000 | 3,064,629 |
| 5.00% 7/1/46 | 800,000 | 785,032 |
| Puerto Rico Sales Tax Financing Revenue | | |
| Series C 5.00% 8/1/46 | 1,000,000 | 1,034,920 |
| First Subordinate | | |
| Series A 5.75% 8/1/37 | 1,200,000 | 1,311,972 |
| Series A-1 5.00% 8/1/43 | 2,000,000 | 2,037,600 |
| St. Paul Port Authority (Brownsfields Redevelopment Tax) Series 2 5.00% 3/1/37 | 895,000 | 929,386 |
| Virgin Islands Public Finance Authority Revenue (Senior Lien Matching Fund Loan Notes) | | |
| Series A 5.25% 10/1/23 | 500,000 | 515,160 |
| | | 19,945,850 |
| <i>State General Obligation Bonds 13.18%</i> | | |
| Minnesota State Refunding (State Various Purpose) Series D | | |
| 5.00% 8/1/19 | 2,000,000 | 2,523,680 |
| 5.00% 8/1/24 | 3,700,000 | 4,449,361 |
| Minnesota State (State Trunk Highway) Series B | | |
| 5.00% 8/1/21 | 1,000,000 | 1,252,690 |
| 5.00% 10/1/22 | 10,000,000 | 12,598,400 |
| Puerto Rico Commonwealth Public Improvement Series A 5.75% 7/1/41 | 1,500,000 | 1,583,685 |
| | | 22,407,816 |
| <i>Transportation Revenue Bonds 2.46%</i> | | |
| Minneapolis - St. Paul Metropolitan Airports Commission Revenue Series A | | |
| 5.00% 1/1/28 (NATL-RE) | 2,120,000 | 2,141,772 |
| 5.00% 1/1/35 (AMBAC) | 2,000,000 | 2,041,580 |
| | | 4,183,352 |
| <i>Water & Sewer Revenue Bonds 3.85%</i> | | |
| Minnesota Public Facilities Authority Clean Water Revenue | | |
| Series A 5.00% 3/1/16 | 275,000 | 321,835 |
| Series B 5.00% 3/1/18 | 500,000 | 614,790 |
| Minnesota Public Facilities Authority Revolving Fund Revenue Series A 5.00% 3/1/22 | 2,000,000 | 2,563,801 |
| St. Paul Sewer Revenue Series D | | |
| 5.00% 12/1/19 | 1,220,000 | 1,477,969 |
| 5.00% 12/1/21 | 1,325,000 | 1,568,071 |
| | | 6,546,466 |
| Total Municipal Bonds (cost \$228,956,773) | | 241,754,537 |
| Total Market Value of Securities 142.17% (cost \$228,956,773) | | 241,754,537 |
| Liquidation Value of Preferred Stock (44.10%) | | (75,000,000) |
| Receivables and Other Assets Net of Other Liabilities 1.93% | | 3,289,251 |
| Net Assets Applicable to 11,504,975 Shares Outstanding 100.00% | | \$ 170,043,788 |

Variable rate security. The rate shown is the rate as of December 31, 2011 Interest rates reset periodically.

§Pre-Refunded bonds. Municipal bonds that are generally backed or secured by U.S. Treasury bonds. For Pre-Refunded bonds, the stated maturity is followed by the year in which the bond is pre-refunded. See Note 3 in "Notes."

See Note 4 in Notes.

Summary of Abbreviations:

AGM Insured by Assured Guaranty Municipal Corporation

AMBAC Insured by AMBAC Assurance Corporation

AMT Subject to Alternative Minimum Tax

ASSURED GTY Insured by Assured Guaranty Corporation
 FHA Federal Housing Administration
 FHLMC Federal Home Loan Mortgage Corporation Collateral
 FNMA Federal National Mortgage Association Collateral
 GNMA Government National Mortgage Association Collateral
 HUD Housing & Urban Development Section 8
 IBC Insured Bond Certificate
 LOC Letter of Credit
 NATL-RE Insured by National Public Finance Guarantee Corporation
 RADIAN Insured by Radian Asset Assurance
 VA Veterans Administration Collateral

Notes

1. Significant Accounting Policies

The following accounting policies are in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and are consistently followed by Delaware Investments Minnesota Municipal Income Fund II, Inc. (Fund). This report covers the period of time since the Fund's last fiscal year end.

Security Valuation Debt securities are valued based upon valuations provided by an independent pricing service or broker and reviewed by management. To the extent current market prices are not available, the pricing service may take into account developments related to the specific security, as well as transactions in comparable securities. Generally, other securities and assets for which market quotations are not readily available are valued at fair value as determined in good faith under the direction of the Fund's Board of Directors (Board). In determining whether market quotations are readily available or fair valuation will be used, various factors will be taken into consideration, such as market closures or suspension of trading in a security.

Federal Income Taxes No provision for federal income taxes has been made as the Fund continues to qualify for federal income tax purposes as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended, and make the requisite distributions to shareholders. The Fund evaluates tax positions taken or expected to be taken in the course of preparing the Fund's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. Management has analyzed the Fund's tax positions taken on federal income tax returns for all open tax years (March 31, 2008 - March 31, 2011), and has concluded that no provision for federal income tax is required in the Fund's financial statements.

Use of Estimates The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the fair value of investments, 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 revenues and expenses during the reporting period. Actual results could differ from those estimates and the differences could be material.

Other Expenses directly attributable to a Fund are charged directly to that Fund. Other expenses common to various funds within the Delaware Investments® Family of Funds are generally allocated amongst such funds on the basis of average net assets. Management fees and some other expenses are paid monthly. Security transactions are recorded on the date the securities are purchased or sold (trade date) for financial reporting purposes. Costs used in calculating realized gains and losses on the sale of investment securities are those of the specific securities sold. Interest income is recorded on the accrual basis. Discounts and premiums are amortized to interest income over the lives of the respective securities. The Fund declares and pays dividends from net investment income monthly and distributions from net realized gain on investments, if any, annually. The Fund may distribute income dividends and capital gains more frequently, if necessary for tax purposes. Dividends and distributions, if any, are recorded on ex-dividend date.

2. Investments

At December 31, 2011, the cost of investments for federal income tax purposes has been estimated since final tax characteristics cannot be determined until fiscal year end. At December 31, 2011, the cost of investments and unrealized appreciation (depreciation) for the Fund were as follows:

| | |
|-----------------------------------|----------------|
| Cost of investments | \$ 228,956,773 |
| Aggregate unrealized appreciation | \$ 12,910,237 |
| Aggregate unrealized depreciation | (112,473) |
| Net unrealized appreciation | \$ 12,797,764 |

For federal income tax purposes, at March 31, 2011, capital loss carryforwards of \$1,959,315 may be carried forward and applied against future capital gains. Such capital loss carryforwards will expire as follows: \$1,695,121 expires in 2017, and \$264,194 expires in 2018.

On December 22, 2010, the Regulated Investment Company Modernization Act of 2010 (the Act) was enacted, which changed various technical rules governing the tax treatment of regulated investment companies. The changes are generally effective for taxable years beginning after the date of enactment. Under the Act, the Fund will be permitted to carry forward capital losses incurred in taxable years beginning after the date of enactment for an unlimited period. However, any losses incurred during those future taxable years will be required to be utilized prior to the losses incurred in pre-enactment taxable years, which carry an expiration date. As a result of this ordering rule, pre-enactment capital loss carryforwards may be more likely to expire unused. Additionally, post-enactment

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capital loss carryforwards will retain their character as either short-term or long-term capital losses rather than being considered all short-term as permitted under previous regulation.

U.S. GAAP defines fair value as the price that the Funds would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. A three level hierarchy for fair value measurements has been established based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available under the circumstances. Each Fund's investment in its entirety is assigned a level based upon the observability of the inputs which are significant to the overall valuation. The three level hierarchy of inputs is summarized below.

Level 1 - inputs are quoted prices in active markets for identical investments (e.g., equity securities, open-end investment companies, futures contracts, options contracts)

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Level 2 - other observable inputs (including, but not limited to: quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates) or other market-corroborated inputs) (e.g., debt securities, government securities, swap contracts, foreign currency exchange contracts, foreign securities utilizing international fair value pricing)

Level 3 - inputs are significant unobservable inputs (including the Fund's own assumptions used to determine the fair value of investments) (e.g., broker-quoted securities, fair valued securities)

The following table summarizes the valuation of the Fund's investments by fair value hierarchy levels as of December 31, 2011:

| | |
|-----------------|---------------|
| | Level 2 |
| Municipal Bonds | \$241,754,537 |

There were no unobservable inputs used to value investments at the beginning or end of the period.

The Fund's policy is to recognize transfers between levels at the end of the reporting period. During the period ended December 31, 2011, there were no transfers between Level 1 investments, Level 2 investments or Level 3 investments that had a material impact to the Fund.

3. Credit and Market Risk

The Fund concentrates its investments in securities issued by Minnesota municipalities. The value of these investments may be adversely affected by new legislation within the state, regional or local and national economic conditions and differing levels of supply and demand for municipal bonds. Many municipalities insure repayment for their obligations. Although bond insurance reduces the risk of loss due to default by an issuer, such bonds remain subject to the risk that value may fluctuate for other reasons and there is no assurance that the insurance company will meet its obligations. A real or perceived decline in creditworthiness of a bond insurer can have an adverse impact on the value of insured bonds held in the Fund. At December 31, 2011, 18% of the Fund's net assets were insured by bond insurers. These securities have been identified in the schedule of investments.

The Fund may invest a portion of its assets in high yield fixed income securities, which carry ratings of BB or lower by Standard & Poor's Rating Group (S&P) and/or Ba or lower by Moody's Investor Service, Inc. (Moody's). Investments in these higher yielding securities are generally accompanied by a greater degree of credit risk than higher rated securities. Additionally, lower rated securities may be more susceptible to adverse economic and competitive industry conditions than investment grade securities.

The Fund may invest in advanced refunded bonds, escrow secured bonds or defeased bonds. Under current federal tax laws and regulations, state and local government borrowers are permitted to refinance outstanding bonds by issuing new bonds. The issuer refinances the outstanding debt to either reduce interest costs or to remove or alter restrictive covenants imposed by the bonds being refinanced. A refunding transaction where the municipal securities are being refunded within 90 days from the issuance of the refunding issue is known as a "current refunding." "Advance refunded bonds" are bonds in which the refunded bond issue remains outstanding for more than 90 days following the issuance of the refunding issue. In an advance refunding, the issuer will use the proceeds of a new bond issue to purchase high grade interest bearing debt securities which are then deposited in an irrevocable escrow account held by an escrow agent to secure all future payments of principal and interest and bond premium of the advance refunded bond. Bonds are "escrowed to maturity" when the proceeds of the refunding issue are deposited in an escrow account for investment sufficient to pay all of the principal and interest on the original interest payment and maturity dates.

Bonds are considered "pre-refunded" when the refunding issue's proceeds are escrowed only until a permitted call date or dates on the refunded issue with the refunded issue being redeemed at the time, including any required premium. Bonds become "defeased" when the rights and interests of the bondholders and of their lien on the pledged revenues or other security under the terms of the bond contract are substituted with an alternative source of revenues (the escrow securities) sufficient to meet payments of principal and interest to maturity or to the first call dates. Escrowed secured bonds will often receive a rating of AAA from Moody's, S&P, and/or Fitch Ratings due to the strong credit quality of the escrow securities and the irrevocable nature of the escrow deposit agreement.

The Fund may invest up to 15% of its net assets in illiquid securities, which may include securities with contractual restrictions on resale, securities exempt from registration under Rule 144A of the Securities Act of 1933, as amended, and other securities which may not be readily marketable. The relative illiquidity of these securities may impair the Fund from disposing of them in a timely manner and at a fair price when it is necessary or desirable to do so. While maintaining oversight, the Fund's Board has delegated to Delaware Management Company, a series of Delaware Management Business Trust, the day-to-day functions of determining whether individual securities are liquid for purposes of the Fund's limitation on investments in illiquid securities. Securities eligible for resale pursuant to Rule 144A, which are determined to be liquid, are not subject to the Fund's 15% limit on investments in illiquid securities. As of December 31, 2011, there were no Rule 144A securities and no securities have been determined to be illiquid under the Fund's Liquidity Procedures.

4. Preferred Shares

On November 15, 2011, the Fund issued \$75,000,000 Series 2016 Variable Rate MuniFund Term Preferred (VMTP) Shares, with \$100,000 liquidation value per share in a privately negotiated offering. Proceeds from the issuance of VMTP Shares, net of offering expenses, were invested in accordance with the Fund's investment objective. The VMTP Shares were offered to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933.

The Fund is obligated to redeem its VMTP Shares on December 1, 2016, unless earlier redeemed or repurchased by the Fund. VMTP Shares are subject to optional and mandatory redemption in certain circumstances. The VMTP Shares are subject to redemption at the option of the Fund, subject to payment of a premium until December 1, 2013, and at par thereafter. The Fund may be obligated to redeem certain of the VMTP Shares if the Fund fails to maintain certain

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asset coverage and leverage ratio requirements and such failures are not cured by the applicable cure date. The redemption price per share is equal to the sum of the liquidation value per share plus any accumulated but unpaid dividends. Dividends on the VMTP Shares (which are treated as interest payments for financial reporting purposes) are set weekly.

The Fund uses leverage because its managers believe that, over time, leveraging may provide opportunities for additional income and total return for common shareholders. However, the use of leverage also can expose common shareholders to additional volatility. For example, as the prices of securities held by a fund decline, the negative impact of these valuation changes on common share net asset value and common shareholder total return is magnified by the use of leverage; accordingly, the use of structural leverage may hurt a fund's overall performance.

Leverage may also cause the Fund to incur certain costs. In the event that the Fund is unable to meet certain criteria (including, but not limited to, maintaining certain ratings with Fitch Ratings and Moody's Investor Service, funding dividend payments or funding redemptions), the Fund will pay additional fees with respect to the leverage.

5. Subsequent Events

Management has determined that no material events or transactions occurred subsequent to December 31, 2011 that would require recognition or disclosure in the Fund's schedule of investments.

Item 2. Controls and Procedures.

The registrant's principal executive officer and principal financial officer have evaluated the registrant's disclosure controls and procedures within 90 days of the filing of this report and have concluded that they are effective in providing reasonable assurance that the information required to be disclosed by the registrant in its reports or statements filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

There were no significant changes in the registrant's internal control over financial reporting that occurred during the registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 3. Exhibits.

File as exhibits as part of this Form a separate certification for each principal executive officer and principal financial officer of the registrant as required by Rule 30a-2(a) under the Act (17 CFR 270.30a-2(a)), exactly as set forth below:
