

DELAWARE INVESTMENTS MINNESOTA MUNICIPAL INCOME FUND III INC  
Form N-Q  
March 01, 2006

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: 811-07938

Exact name of registrant as specified in charter: Delaware Investments Minnesota Municipal Income Fund III, 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, 2005

Item 1. Schedule of Investments.

Schedule of Investments (Unaudited)

Delaware Investments Minnesota Municipal Income Fund III, Inc.  
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December 31, 2005

Municipal Bonds - 154.89%  
Airport Revenue Bonds - 9.60%  
Minneapolis/St. Paul Metropolitan Airports Commission Revenue Series A  
5.00% 1/1/28 (MBIA)  
5.00% 1/1/30 (AMBAC)  
5.125% 1/1/25 (FGIC)

Continuing Care/Retirement Revenue Bonds - 7.38%  
St. Paul Housing & Redevelopment Authority Revenue (Franciscan Health Project)  
5.40% 11/20/42 (GNMA) (FHA)

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Corporate-Backed Revenue Bonds - 7.52%

Cloquet Pollution Control Revenue (Potlatch Corp. Project) 5.90% 10/1/26

Minneapolis Community Development Agency Supported Development Revenue

(Pajor Graphics) Series 1 6.75% 12/1/25 (LOC - US Bank NA) (AMT)

Escrowed to Maturity Bonds - 12.06%

University of Minnesota Hospital & Clinics 6.75% 12/1/16

Higher Education Revenue Bonds - 7.21%

Minnesota State Higher Education Facilities Authority

(College of St. Benedict) Series 5-W 5.25% 3/1/24

(St. Thomas University) Series 4-A1 5.625% 10/1/21

University of the Virgin Islands Series A 5.375% 6/1/34

Hospital Revenue Bonds - 17.02%

Bemidji Health Care Facilities First Meeting Revenue (North County Health Services)

5.00% 9/1/24 (RADIAN)

Duluth Economic Development Authority Health Care Facilities Revenue (Benedictine

Health System-St. Mary's Hospital) 5.25% 2/15/33

Minneapolis Health Care System Revenue

(Allina Health Systems) Series A 5.75% 11/15/32

(Fairview Health Services) Series D 5.00% 11/15/34 (AMBAC)

Minnesota Agricultural & Economic Development Broad Revenue (Fairview Health Care System)

Series A 6.375% 11/15/29

Rochester Health Care Facilities Revenue (Mayo Foundation) Series B 5.50% 11/15/27

Shakopee Health Care Facilities Revenue (St. Francis Regional Medical Center) 5.25% 9/1/34

Library/Museum Revenue Bonds - 1.01%

Minneapolis Art Center Facilities Revenue (Walker Art Center Project) 5.125% 7/1/21

Multifamily Housing Revenue Bonds - 7.51%

Minneapolis Multifamily Housing Revenue

o(Gaar Scott Loft Project) 5.95% 5/1/30 (AMT)

(Olson Townhomes Project) 6.00% 12/1/19 (AMT)

Municipal Lease Bonds - 2.13%

Puerto Rico Public Buildings Authority Guaranteed Government Facilities Revenue

Series D (Unrefunded Portion) Series D 5.25% 7/1/27

Municipal Lease Revenue Bonds - 12.59%

Andover Economic Development Authority Public Facilities Lease Revenue (Andover

Community Center) 5.125% 2/1/24

St. Paul Port Authority Lease Revenue

(Cedar Street Office Building Project)

5.125% 12/1/27

5.25% 12/1/27

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(Robnert Street Office Building Project) 5.00% 12/1/27  
Virginia Housing & Redevelopment Authority Health Care Facility (Lease Revenue)  
5.375% 10/1/30

Parking Revenue Bonds - 5.99%  
St. Paul Housing & Redevelopment Authority Parking Revenue (Block 19 Ramp Project)  
Series A 5.35% 8/1/29 (FSA)

Political Subdivision General Obligation Bonds - 14.68%  
Metropolitan Council Waste Water Treatment Series B 5.00% 12/1/21  
Minneapolis Sports Arena Project 5.125% 10/1/20  
Moorhead Series B 5.00% 2/1/33 (MBIA)  
Washington County Housing & Redevelopment Authority Series B 5.50% 2/1/22 (MBIA)

ss.Pre-Refunded Bonds - 18.05%  
Minnesota Agricultural & Economic Development Broad Revenue (Fairview Health Care System)  
Series A 6.375% 11/15/29-10  
Minnesota Public Facilities Authority Water Pollution Control Revenue Series B 5.40% 3/1/15-06  
Puerto Rico Commonwealth Highway & Transportation Authority Revenue  
Series D 5.25% 7/1/38-12

Public Power Revenue Bonds - 22.59%  
Chaska Electric Revenue (Generating Facilities) Series A 5.25% 10/1/25  
Minnesota State Municipal Power Agency Electric Revenue Series A  
5.00% 10/1/34  
5.25% 10/1/19  
Southern Minnesota Municipal Power Agency Power Supply Systems Revenue Series A  
5.25% 1/1/15 (AMBAC)  
5.25% 1/1/16 (AMBAC)  
&Southern Minnesota Municipal Power Agency Power Supply Systems Revenue, Inverse  
Floater ROLs Series II-R-189-3 6.866% 1/1/14 (AMBAC)  
Western Minnesota Municipal Power Agency  
Series A 5.00% 1/1/30 (MBIA)  
Series B 5.00% 1/1/15 (MBIA)

Public Utility District Revenue Bonds - 2.92%  
Laurentian Energy Authority I Series A 5.00% 12/1/21

School District General Obligation Bonds - 4.09%  
Farmington Independent School District #192 Series B 5.00% 2/1/27 (FSA)  
Princeton Independent School District #477 Series A 5.00% 2/1/24 (FSA)

Single Family Housing Revenue Bonds - 2.54%

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Minnesota State Housing Finance Agency Single Family Mortgage Series B 5.35%  
1/1/33 (AMT)

Total Municipal Bonds (cost \$37,995,222)

Total Market Value of Securities - 154.89%  
(cost \$37,995,222)

Receivables and Other Assets Net of Liabilities (See Notes) - 3.14%

Liquidation Value of Preferred Stock - (58.03%)

Net Assets Applicable to 1,837,200 Shares Outstanding - 100.00%

oVariable rate securities. The interest rate shown is the rate as of December 31, 2005.

ss.Pre-Refunded Bonds. Municipals 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."

&An inverse floater bond is a type of bond with variable or floating interest rates that move in the opposite direction of short-term interest rates. Interest rate disclosed is in effect as of December 31, 2005. See Note 3 in "Notes."

### Summary of Abbreviations:

AMBAC - Insured by the AMBAC Assurance Corporation

AMT - Subject to Alternative Minimum Tax

FGIC - Insured by the Financial Guaranty Insurance Company

FHA - Insured by the Federal Housing Administration

FSA - Insured by Financial Security Assurance

GNMA - Insured by Government National Mortgage Association

LOC- Letter of Credit

MBIA - Insured by the Municipal Bond Insurance Association

RADIAN - Insured by Radian Asset Assurance

ROs - Residual Option Longs

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### Notes

#### 1. Significant Accounting Policies

The following accounting policies are in accordance with U.S. generally accepted accounting principles and are consistently followed by Delaware Investments Minnesota Municipal Income Fund III, Inc. (the "Fund").

Security Valuation - Long-term debt securities are valued by an independent pricing service and such prices are believed to reflect the fair value of such securities. Short-term debt securities having less than 60 days to maturity are valued at amortized cost, which approximates market value. 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 Trustees. 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, aftermarket trading or significant events after local market trading (e.g., government actions or pronouncements, trading volume or volatility on markets, exchanges among dealers, or news events).

Federal Income Taxes - The Fund intends to continue to qualify for federal income tax purposes as a regulated investment company and make the requisite

distributions to shareholders. Accordingly, no provision for federal income taxes has been made in the financial statements.

Use of Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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.

Other - Expenses common to all funds within the Delaware Investments(R) Family of Funds are allocated amongst the 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. In addition, in order to satisfy certain distribution requirements of the Tax Reform Act of 1986, the Fund may declare special year-end dividend and capital gains distributions during November or December to shareholders of record on a date in such month. Such distributions, if received by shareholders by January 31, are deemed to have been paid by the Fund and received by shareholders on the earlier of the date paid or December 31 of the prior year.

## 2. Investments

At December 31, 2005, the cost of investments for federal income tax purposes has been estimated since the final tax characteristics cannot be determined until fiscal year end. At December 31, 2005, the cost of investments and unrealized appreciation (depreciation) for the Fund were as follows:

Cost of investments	\$37,995,222
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Aggregate unrealized appreciation	2,074,786
Aggregate unrealized depreciation	(30,330)
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Net unrealized appreciation	\$ 2,044,456
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## 3. Credit and Market Risk

The Fund uses leverage in the form of preferred shares. Leveraging may result in a higher degree of volatility because the Fund's net asset value could be more sensitive to fluctuations in short-term interest rates and changes in market value of portfolio securities attributable to the leverage.

The Fund concentrates its investments in securities issued by municipalities. The value of these investments may be adversely affected by new legislation within the state, regional or local 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 market value may fluctuate for other reasons and there is no assurance that the insurance company will meet its obligations. These securities have been identified in the Schedule of Investments.

The Fund may invest in inverse floating rate securities ("inverse floaters"), a type of derivative tax-exempt obligation with floating or variable interest

rates that move in the opposite direction of short-term interest rates, usually at an accelerated speed. Consequently, the market values of inverse floaters will generally be more volatile than other tax-exempt investments. Such securities are denoted on the Schedule of Investments.

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 or less 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 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 total 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 of Directors has delegated to Delaware Management Company the day-to-day functions of determining whether individual securities are liquid for purposes of the Fund's limitation on investments in illiquid assets. At December 31, 2005, no securities have been determined to be illiquid under the Fund's Liquidity Procedures.

#### 4. Other Fund Information

On February 24, 2006 Delaware Investments Minnesota Municipal Income Fund II, Inc. ("Minnesota II") acquired substantially all of the assets of Delaware Investments Minnesota Municipal Income Fund, Inc. (ASE: VMN) ("Minnesota I") and Delaware Investments Minnesota Municipal Income Fund III, Inc. (ASE: VYM) ("Minnesota III"). The acquisition of substantially all of the assets of Minnesota I and Minnesota III in exchange for common and preferred shares, as applicable, of Minnesota II was approved by shareholders of the three closed-end funds at the reconvened Special Meeting of Shareholders held on January 12, 2006 and was structured as a tax-free transaction.

Minnesota II will continue to trade and to be listed on the American Stock Exchange. Beginning on February 27, 2006 and going forward, however, Minnesota I and Minnesota III will no longer trade or be listed on the American Stock Exchange, and their corporate existence will be liquidated and dissolved. In

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January 2007, shareholders of Minnesota I and Minnesota III will receive Form 1099-DIV that will report the amount and character of each fund's distributions paid in calendar year 2006.

### 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 (the registrant's second fiscal half-year in the case of an annual report) 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:

#### CERTIFICATION

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I, Jude T. Driscoll, certify that:

1. I have reviewed this report on Form N-Q of Delaware Investments Minnesota Municipal Income Fund III, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the schedules of investments included in this report fairly present in all material respects the investments of the registrant as of the end of the fiscal quarter for which the report is filed;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940) and internal control over financial reporting (as defined in Rule 30a-3(d) under the Investment Company Act of 1940) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

- (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of a date within 90 days prior to the filing date of this report, based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Jude T. Driscoll

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By: Jude T. Driscoll  
Title: Chief Executive Officer  
Date: February 28, 2006

CERTIFICATION  
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I, Michael P. Bishof, certify that:

- 1. I have reviewed this report on Form N-Q of Delaware Investments Minnesota Municipal Income Fund III, Inc.;
- 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3. Based on my knowledge, the schedules of investments included in this report fairly present in all material respects the investments of the registrant as of the end of the fiscal quarter



for which the report is filed;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940) and internal control over financial reporting (as defined in Rule 30a-3(d) under the Investment Company Act of 1940) for the registrant and have:
- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of a date within 90 days prior to the filing date of this report, based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Michael P. Bishop

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By: Michael P. Bishop  
Title: Chief Financial Officer  
Date: February 28, 2006

SIGNATURES  
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Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DELAWARE INVESTMENTS MINNESOTA MUNICIPAL INCOME FUND III, INC.

Jude T. Driscoll

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By: Jude T. Driscoll  
Title: Chief Executive Officer  
Date: February 28, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Jude T. Driscoll

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By: Jude T. Driscoll  
Title: Chief Executive Officer  
Date: February 28, 2006

Michael P. Bishof

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By: Michael P. Bishof  
Title: Chief Financial Officer  
Date: February 28, 2006