

DELAWARE INVESTMENTS MINNESOTA MUNICIPAL INCOME FUND III INC

Form N-CSR

December 01, 2003

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

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:

Richelle S. Maestro, 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: September 30, 2003

Item 1. Reports to Stockholders

Delaware
Investments (SM)

A member of Lincoln Financial Group(R)

CLOSED END

Semiannual Report 2004

DELAWARE INVESTMENTS CLOSED-END
MUNICIPAL BOND FUNDS

[Logo]

POWERED BY RESEARCH.(SM)

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Dividend Reinvestment Plans

Each Fund offers an automatic dividend reinvestment program. If Fund shares are registered in your name and you are not already reinvesting dividends but would like to do so, contact the dividend plan agent, Mellon Investor Services, L.L.C., at 800 851-9677. You will be asked to put your request in writing. If you have shares registered in "street" name, contact your financial advisor or the broker/dealer holding the shares.

Under the current policies of Arizona Municipal Income Fund, Florida Insured Municipal Income Fund, Minnesota Municipal Income Fund I, and Minnesota Municipal Income Fund II, all distributions of net investment income and capital gains to common stock shareholders are automatically reinvested in additional shares unless shareholders elect to receive all dividends and other distributions in cash paid by check mailed directly to shareholders by the dividend plan agent. Under the current policies of Colorado Insured Municipal Income Fund and Minnesota Municipal Income Fund III, distributions of net investment income and capital gains to common shareholders will be paid in cash unless shareholders notify Mellon Investor Services, L.L.C. of their desire to participate in the dividend reinvestment program.

After each Fund declares a dividend or determines to make a capital gains distribution, the plan agent will, as agent for the participants, receive the cash payment and use it to buy shares in the open market on the American Stock Exchange. The Funds will not issue any new shares in connection with the plan. You can contact Mellon at:

Mellon Investor Services, L.L.C.
Dividend Reinvestment Department
Overpeck Centre
85 Challenger Road
Ridgefield, NJ 07660
800 851-9677

Funds are not FDIC insured and are not guaranteed. It is possible to lose the principal amount invested.

Mutual fund advisory services provided by Delaware Management Company, a series of Delaware Management Business Trust, which is a registered

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investment advisor.

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Statements Delaware Investments Minnesota Municipal Income Fund, Inc.
OF NET ASSETS September 30, 2003 (Unaudited)

	Principal Amount	Market Value
Municipal Bonds - 148.37%		
Airport Revenue Bonds - 7.82%		
Minneapolis/St. Paul Metropolitan Airports Commission Revenue Series A 5.00% 1/1/30 (AMBAC)	\$ 500,000	\$ 505,985
Minneapolis/St. Paul Metropolitan Airports Commission Revenue Series C 5.25% 1/1/32 (FGIC)	2,500,000	2,573,900
		----- 3,079,885 -----
City General Obligation Bonds - 2.60%		
Willmar County (Rice Memorial Hospital Project) 5.00% 2/1/32 (FSA)	1,000,000	1,022,700
		----- 1,022,700 -----
Continuing Care/Retirement Revenue Bonds - 6.13%		
Minnetonka Housing Facilities Revenue (Beacon Hill Housing Project, Presbyterian Homes & Services) 7.70% 6/1/25	1,500,000	1,509,405
St. Paul Housing & Redevelopment Authority Revenue (Franciscan Health Project) 5.40% 11/20/42 (GNMA/FHA)	880,000	904,992
		----- 2,414,397 -----
Corporate Backed Revenue Bonds - 4.49%		
Anoka County Solid Waste Disposal National Rural Co-Op Utility (United Power Association) Series A 6.95% 12/1/08 (AMT)	785,000	795,605
Sartell Environmental Improvement Revenue (International Paper) Series A 5.20% 6/1/27	1,000,000	972,860
		----- 1,768,465 -----
Escrowed to Maturity Bonds - 13.16%		
Dakota/Washington Housing & Redevelopment Authority Single Family Mortgage Revenue 8.375% 9/1/21 (GNMA/FHA/AMT)	2,555,000	3,757,358

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Southern Minnesota Municipal Power		
Agency Series B		
5.50% 1/1/15 (AMBAC)	390,000	399,348
5.75% 1/1/11 (FGIC)	1,000,000	1,024,350

		5,181,056

Hospital Revenue Bonds - 20.60%		
Bemidji County Health Care Facilities		
(North Country Health Services)		
5.00% 9/1/24 (RADIAN)	1,000,000	1,017,600
Duluth Economic Development Authority		
Health Care Facilities Revenue		
Benedictine Health System		
(St. Mary's Hospital) Series C		
6.00% 2/15/20 (Connie Lee)	1,000,000	1,023,460
Minneapolis Health Care Facilities Revenue		
(Fairview Hospital & Healthcare Service)		
Series A 5.25% 11/15/19 (MBIA)	1,500,000	1,536,705
Minneapolis Health Care System Revenue		
(Allina Health System) Series A		
5.75% 11/15/32	1,100,000	1,143,846
	Principal	Market
	Amount	Value
Municipal Bonds (continued)		
Hospital Revenue Bonds (continued)		
Minnesota Agricultural & Economic		
Development Health Care System		
(Fairview Hospital) Series A		
6.375% 11/15/29	\$2,500,000	\$ 2,697,175
St. Paul Housing & Redevelopment		
Authority Health Care Facilities Revenue		
(Regions Hospital Project)		
5.30% 5/15/28	700,000	691,887

		8,110,673

Investor Owned Utilities Revenue Bonds - 5.40%		
Bass Brook Pollution Control Revenue		
(Minnesota Power & Light		
Company Project) 6.00% 7/1/22		
	2,100,000	2,128,203

		2,128,203

Miscellaneous Revenue Bonds - 6.87%		
Minneapolis Art Center Facilities Revenue		
(Walker Art Center Project)		
5.125% 7/1/21	1,600,000	1,671,968
Minneapolis Community Development		
Agency Supported Development Revenue		
Series G-3 5.45% 12/1/31		
	1,000,000	1,032,310

		2,704,278

Multifamily Housing Revenue Bonds - 10.07%		
Brooklyn Center Multifamily Housing		
Revenue (Four Courts Apartments Project)		
Series A 7.50% 6/1/25 (AMT)	1,800,000	1,669,554
Minneapolis Multifamily Housing Revenue		
(Seward Towers Project)		

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5.00% 5/20/36 (GNMA)	1,000,000	1,008,460
Southeastern Minnesota Multi County Housing & Redevelopment Authority Revenue (Winona County) 5.35% 1/1/28	300,000	303,153
Washington County Housing & Redevelopment Authority Revenue (Woodland Park Apartments Project) 4.70% 10/1/32	1,000,000	982,890

		3,964,057

Municipal Lease Revenue Bonds - 3.05%		
St. Paul Port Authority Lease Revenue (Cedar Street Office Building Project) 5.25% 12/1/27	1,150,000	1,201,049

		1,201,049

Parking Revenue Bonds - 1.73%		
St. Paul Housing & Redevelopment Authority Parking Revenue (Block 19 Ramp Project) Series A 5.35% 8/1/29 (FSA)	650,000	682,110

		682,110

Political Subdivision General Obligation Bonds - 8.49%		
Hennepin County Series B 5.00% 12/1/18	1,300,000	1,397,708
Washington County Housing & Redevelopment Authority Series B 5.50% 2/1/22 (MBIA)	855,000	902,572
5.50% 2/1/32 (MBIA)	1,000,000	1,042,810

		3,343,090

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Statements Delaware Investments Minnesota Municipal Income Fund, Inc.
OF NET ASSETS (CONTINUED)

	Principal Amount	Market Value
Municipal Bonds (continued)		
*Pre-Refunded Bonds - 8.44%		
Duluth Economic Development Authority Health Care Facilities Revenue (Duluth Clinic) 6.30% 11/1/22-04 (AMBAC)	\$ 730,000	\$ 771,617
Puerto Rico Commonwealth 6.00% 7/1/26-07	1,000,000	1,165,540
St. Francis Independent School District #15 6.30% 2/1/11-06 (FSA)	1,250,000	1,387,750

		3,324,907

Public Power Revenue Bonds - 25.47%		
Chaska Electric Revenue Series A 6.00% 10/1/25	1,000,000	1,055,150
Rochester Electric 5.25% 12/1/30 (AMBAC)	150,000	155,489

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Southern Minnesota Municipal Power		
Agency Supply System Revenue Series A		
5.00% 1/1/12 (AMBAC)	1,000,000	1,114,630
5.25% 1/1/16 (AMBAC)	1,000,000	1,135,150
**Southern Minnesota Municipal Power		
Supply System Revenue, Inverse Floater		
8.96% 1/1/14 (AMBAC)	2,500,000	3,171,974
Western Minnesota Municipal Power Agency		
Series A 5.00% 1/1/30 (MBIA)	2,500,000	2,541,500
Series B 5.00% 1/1/15 (MBIA)	765,000	853,205

		10,027,098

School District General Obligation Bonds - 13.15%		
Centennial Independent School District #012		
Series A 5.00% 2/1/20 (FSA)	400,000	420,708
Farmington Independent School		
District #192 5.00% 2/1/23 (FSA)	1,200,000	1,235,784
Morris Minnesota Independent School		
District #769 5.00% 2/1/28 (MBIA)	1,000,000	1,020,810
Mounds View Minnesota Independent		
School District #621 5.00% 2/1/23 (FSA)	1,020,000	1,053,364
Robbinsdale Independent School		
District #281 5.00% 2/1/21 (FSA)	500,000	521,605
St. Michael Independent School District #885		
5.00% 2/1/22 (FSA)	500,000	518,420
5.00% 2/1/24 (FSA)	400,000	409,144

		5,179,835

Single Family Housing Revenue Bonds - 3.85%		
Dakota County Housing & Redevelopment		
Authority Single Family Mortgage Revenue		
5.85% 10/1/30 (GNMA/FNMA/AMT)	193,000	198,118
Minnesota Housing Finance Agency		
Single Family Mortgage Series J		
5.90% 7/1/28 (AMT)	1,275,000	1,319,115

		1,517,233

State General Obligation Bonds - 2.66%		
Minnesota State Refunding 5.00% 8/1/21		
	1,000,000	1,049,080

		1,049,080

Principal Amount	Market Value
---------------------	-----------------

Municipal Bonds (continued)		
Territorial Revenue Bonds - 4.39%		
Puerto Rico Commonwealth Highway &		
Transportation Authority Revenue		
Series A 5.00% 7/1/38	\$ 300,000	\$ 300,063
Puerto Rico Commonwealth Highway &		
Transportation Authority Revenue		
Series G 5.00% 7/1/42	250,000	248,413
Puerto Rico Public Buildings Authority		
Revenue Series D 5.25% 7/1/27	1,150,000	1,180,176

		1,728,652

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Total Municipal Bonds (cost \$56,259,452)	----- 58,426,768 -----
Total Market Value of Securities - 148.37% (cost \$56,259,452)	58,426,768
Receivables and Other Assets	
Net of Liabilities- 2.42%	951,036
Liquidation Value of Preferred Stock-- (50.79%)	(20,000,000) -----
Net Assets Applicable to 2,594,700 Shares	
Outstanding - 100.00%	\$39,377,804 -----
Net Asset Value Per Common Share ((\$39,377,804 / 2,594,700 Shares)	\$15.18 -----

Components of Net Assets at September 30, 2003:

Common stock, \$0.01 par value, 200 million shares authorized to the Fund	\$35,426,619
Undistributed net investment income	875,131
Accumulated net realized gain on investments	908,738
Net unrealized appreciation of investments	2,167,316 -----
Total net assets	\$39,377,804 -----

*For Pre-Refunded Bonds, the stated maturity is followed by the year in which the bond is pre-refunded.

**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 September 30, 2003.

Summary of Abbreviations:

AMBAC -- Insured by the AMBAC Indemnity Corporation
 AMT -- Subject to Alternative Minimum Tax
 Connie Lee -- Insured by the College Construction Insurance Association
 FGIC -- Insured by the Financial Guaranty Insurance Company
 FHA -- Insured by the Federal Housing Administration
 FNMA -- Insured by Federal National Mortgage Association
 FSA -- Insured by Financial Security Assurance
 GNMA -- Insured by Government National Mortgage Association
 MBIA -- Insured by the Municipal Bond Insurance Association
 RADIAN -- Insured by Radian Asset Assurance

See accompanying notes

Delaware Investments Minnesota Municipal Income Fund II, Inc.
 September 30, 2003 (Unaudited)

Statements
 OF NET ASSETS (CONTINUED)

Principal Amount	Market Value
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Municipal Bonds - 152.07%		
Airport Revenue Bonds - 6.52%		
Minneapolis/St. Paul Metropolitan Airports		
Commission Revenue Series A		
5.00% 1/1/28 (MBIA)	\$1,250,000	\$ 1,273,088
5.00% 1/1/30 (AMBAC)	1,200,000	1,214,364
Minneapolis/St. Paul Metropolitan Airports		
Commission Revenue Series B		
5.25% 1/1/24 (FGIC)	1,000,000	1,020,150
Minneapolis/St. Paul Metropolitan Airports		
Commission Revenue Series C		
5.25% 1/1/32 (FGIC)	3,500,000	3,603,460

		7,111,062

City General Obligation Bonds - 2.57%		
Moorhead Series B 5.00% 2/1/33 (MBIA)	1,250,000	1,273,675
Willmar County		
(Rice Memorial Hospital Project)		
5.00% 2/1/32 (FSA)	1,500,000	1,534,050

		2,807,725

Continuing Care/Retirement Revenue Bonds - 4.43%		
Minneapolis Health Care Facility Revenue		
(Jones-Harrison Residence Project)		
6.00% 10/1/27	1,565,000	1,445,418
Minnetonka Housing Facilities Revenue		
(Beacon Hill Senior Housing Project,		
Presbyterian Homes & Services)		
7.55% 6/1/19	2,365,000	2,388,414
Moorhead Economic Development Authority		
Multifamily Revenue (Eventide Lutheran		
Home Project) Series B 6.00% 6/1/18	1,000,000	1,003,970

		4,837,802

Corporate Backed Revenue Bonds - 5.08%		
Burnsville Commonwealth Development		
(Holiday Inn Project) 5.90% 4/1/08	1,430,000	1,492,748
Cloquet Pollution Control Revenue		
(Potlatch Corporation Projects)		
5.90% 10/1/26	4,500,000	4,051,575

		5,544,323

Escrowed to Maturity Bonds - 21.02%		
Dakota/Washington Housing &		
Redevelopment Authority Single Family		
Mortgage Revenue 8.375% 9/1/21		
(GNMA/FHA/AMT)	5,500,000	8,088,244
Metropolitan Council Minneapolis/St. Paul		
Area Sports Facilities Commission		
(Hubert H. Humphrey Metrodome)		
6.00% 10/1/09	2,360,000	2,480,218
Southern Minnesota Municipal Power		
Agency Supply Revenue Series A		
5.75% 1/1/18	3,715,000	3,804,346
St. Paul Housing & Redevelopment		
Authority Sales Tax (Civic Center)		
5.55% 11/1/23 (MBIA)	4,200,000	4,300,716
5.55% 11/1/23	2,300,000	2,355,154

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Western Minnesota Municipal Power Agency 6.625% 1/1/16	1,535,000	1,896,723

		22,925,401

	Principal Amount	Market Value
Municipal Bonds (continued)		
Higher Education Revenue Bonds - 7.56%		
Minnesota Higher Education Facilities Authority (St. Catherine College) Series 5-N1 5.375% 10/1/32	\$1,500,000	\$ 1,520,295
Minnesota Higher Education Facilities Authority (St. Thomas University) Series 3-R1 5.60% 10/1/15	1,050,000	1,061,792
Minnesota Higher Education Facilities Authority (St. Thomas University) Series 3-R2 5.60% 9/1/14	175,000	176,965
Minnesota Higher Education Facilities Authority (St. Thomas University) Series 4-A1 5.625% 10/1/21	1,000,000	1,031,690
St. Cloud Housing & Redevelopment Authority Revenue (State University Foundation Project) 5.00% 5/1/23	1,000,000	1,024,150
University of Minnesota Series A 5.50% 7/1/21	3,000,000	3,433,500

		8,248,392

Hospital Revenue Bonds - 24.42%		
Brainerd Health Care (Evangelical Lutheran Health Care Facilities) Series A 6.65% 3/1/17 (FSA)	1,195,000	1,212,208
Duluth Economic Development Authority Health Care Facilities Revenue Benedictine Health System (St. Mary's Hospital) Series C 6.00% 2/15/20 (Connie Lee)	6,000,000	6,140,759
Minneapolis Health Care System Revenue (Fairview Health Services) Series A 5.625% 5/15/32	2,750,000	2,840,915
Minneapolis/St. Paul Housing & Redevelopment Authority Health Care Systems (Children's Health Care Series) Series A 5.50% 8/15/25 (FSA)	1,400,000	1,471,848
Minnesota Agricultural & Economic Development Health Care System (Fairview Hospital) Series 97A 5.75% 11/15/26 (MBIA)	5,550,000	5,993,167
Minnesota Agricultural & Economic Development Health Care System (Fairview Hospital) Series A 6.375% 11/15/29	3,300,000	3,560,271
Rochester Health Care Facilities Revenue (Mayo Foundation) Series B 5.50% 11/15/27	3,365,000	3,534,024
St. Paul Housing & Redevelopment Authority Health Care Facilities Revenue (Regions Hospital Project) 5.30% 5/15/28	300,000	296,523
Waconia Health Care Facilities Revenue		

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(Ridgeview Medical Center Project) Series A 6.10% 1/1/19 (RADIAN)	1,405,000	1,581,342

		26,631,057

Investor Owned Utilities Revenue Bonds - 7.02% Bass Brook Pollution Control Revenue (Minnesota Power & Light Company Project) 6.00% 7/1/22	7,560,000	7,661,531

		7,661,531

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Delaware Investments Minnesota Municipal Income Fund II, Inc.

Statements
OF NET ASSETS (CONTINUED)

	Principal Amount	Market Value
Municipal Bonds (continued)		
Miscellaneous Revenue Bonds - 3.73% Minneapolis Art Center Facilities Revenue (Walker Art Center Project) 5.125% 7/1/21	\$2,400,000	\$ 2,507,952
Minneapolis Community Development Agency (Supported Development Revenue Limited Tax Common Bond Fund) Series 5 5.70% 12/1/27	375,000	381,608
Minneapolis Community Development Agency (Supported Development Revenue Limited Tax Common Bond Fund) Series G1 5.70% 12/1/19	1,100,000	1,177,308

		4,066,868

Multifamily Housing Revenue Bonds - 12.64%		
Chanhassen Multifamily Housing Revenue (Heritage Park Project Section 8) 6.20% 7/1/30 (FHA/AMT)	1,105,000	1,128,150
Coon Rapids Multifamily Housing Revenue (Browns Meadow Manor Project) Series A 4.70% 1/1/38 (FHA/AMT)	1,000,000	935,470
Dakota County Housing & Redevelopment Authority Multifamily Mortgage (Imperial Ridge Project) Series 1993-A 6.10% 12/15/28 (GNMA/FHA)	1,780,000	1,794,702
Harmony Multifamily Housing Revenue Refunding Section 8 (Zedakah Foundation Project) Series A 5.95% 9/1/20	1,000,000	867,350
Minneapolis Multifamily Housing Revenue (Sumner Housing Project) Series A 5.15% 2/20/45 (GNMA/AMT)	3,575,000	3,578,360
Minnesota Housing Finance Agency Series D 5.95% 2/1/18 (MBIA)	1,065,000	1,100,283
Minnetonka Housing Facilities (Beacon Hill Project, Presbyterian Homes & Services) 7.25% 6/1/09	1,225,000	1,227,046

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7.50% 6/1/14	760,000	767,167
Southeastern Minnesota Multi County Housing & Redevelopment Authority		
Revenue (Winona County) 5.35% 1/1/28	870,000	879,144
Stillwater Multifamily (Stillwater Cottages) (Orleans Homes Number One)		
7.25% 11/1/27 (AMT)	1,540,000	1,515,760

		13,793,432

Municipal Lease Revenue Bonds - 6.72%		
St. Paul Port Authority Lease Revenue (Cedar Street Office Building Project)		
5.00% 12/1/22	2,385,000	2,476,369
5.25% 12/1/27	2,650,000	2,767,634
St. Paul Port Authority Lease Revenue (Robert Street Site) 5.25% 12/1/27		
	2,000,000	2,088,780

		7,332,783

Parking Revenue Bonds - 1.20%		
St. Paul Housing & Redevelopment Authority Parking Revenue (Block 19 Ramp Project)		
Series A 5.35% 8/1/29 (FSA)	1,250,000	1,311,750

		1,311,750

	Principal	Market
	Amount	Value
Municipal Bonds (continued)		
Political Subdivision General Obligation Bonds - 5.35%		
Hennepin County Series B		
5.00% 12/1/18	\$1,000,000	\$ 1,075,160
Hennepin Regional Railroad Authority		
5.00% 12/1/26	3,500,000	3,574,795
Washington County Housing & Redevelopment Authority Series B		
5.50% 2/1/32 (MBIA)	1,140,000	1,188,803

		5,838,758

*Pre-Refunded Bonds - 8.47%		
Duluth Economic Development Authority Health Care Facilities Revenue (Duluth Clinic)		
6.20% 11/1/12-04 (AMBAC)	280,000	295,660
6.30% 11/1/22-04 (AMBAC)	960,000	1,014,730
Esko Independent School District #99		
5.65% 4/1/12-05 (FSA)	550,000	585,789
Hawley Independent School District #150		
Series A 5.75% 2/1/17-06 (FSA)	1,000,000	1,097,620
Minnesota Public Facilities Authority Water Pollution Control Revenue Series A		
6.25% 3/1/16-05	1,000,000	1,072,990
Puerto Rico Highway & Transportation Authority Revenue (Highway Improvements)		
Series Y 5.50% 7/1/26-06	3,000,000	3,379,920
Stewartville Independent School District #534 5.75% 2/1/17-05		
	1,705,000	1,797,428

		9,244,137

Public Power Revenue Bonds - 6.13%		
Rochester Electric 5.25% 12/1/30 (AMBAC)	450,000	466,466
**Southern Minnesota Municipal Power		
Agency Supply System Revenue,		
Inverse Floater		
8.96% 1/1/14 (AMBAC)	3,000,000	3,806,370
8.96% 1/1/15 (AMBAC)	1,500,000	1,905,405
Western Minnesota Municipal Power Agency		
Series A 5.00% 1/1/30 (MBIA)	500,000	508,300

		6,686,541

School District General Obligation Bonds - 8.31%		
Centennial Independent School District #012		
Series A 5.00% 2/1/20 (FSA)	400,000	420,708
Farmington Independent School District #192		
5.00% 2/1/23 (FSA)	1,080,000	1,112,206
Morris Minnesota Independent School		
District #769 5.00% 2/1/28 (MBIA)	2,750,000	2,807,227
Mounds View Minnesota Independent		
School District #621 5.00% 2/1/23 (FSA)	1,000,000	1,032,710
Rosemount Independent School		
District #196 Series A 5.70% 4/1/12	1,270,000	1,396,911
St. Michael Independent School District #885		
5.00% 2/1/22 (FSA)	1,500,000	1,555,260
5.00% 2/1/24 (FSA)	725,000	741,574

		9,066,596

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Delaware Investments Minnesota Municipal Income Fund II, Inc.
 Statements
 OF NET ASSETS (CONTINUED)

	Principal Amount	Market Value
Municipal Bonds (continued)		
Single Family Housing Revenue Bonds - 7.57%		
Minnesota Housing Finance Agency Single		
Family Housing Series 1992-B		
6.15% 1/1/26 (AMT)	\$2,430,000	\$ 2,465,357
Minnesota Housing Finance Agency Single		
Family Housing Series 1992-C2		
6.15% 7/1/23 (AMT)	2,465,000	2,505,081
Minnesota Housing Finance Agency Single		
Family Housing Series 1994-J		
6.95% 7/1/26 (AMT)	1,160,000	1,186,054
Minnesota Housing Finance Agency Single		
Family Housing Series F 6.30% 7/1/25	810,000	828,411
Minnesota State Housing Finance Agency		
Single Family Mortgage Series B		
5.35% 1/1/33 (AMT)	165,000	167,199
Minnesota State Housing Finance Agency		
Single Family Mortgage Series J		
5.90% 7/1/28	1,075,000	1,112,195

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		----- 8,264,297 -----
State General Obligation Bonds - 4.00%		
Minnesota State Refunding 5.00% 8/1/21	3,525,000	3,698,007
**Minnesota State, Inverse Floater		
8.86% 11/1/17	570,000	663,252
		----- 4,361,259 -----
Tax Increment/Special Assessment Bonds - 3.52%		
Becker Tax Increment Series D		
6.25% 8/1/15 (MBIA/AMT)	3,700,000	3,840,970
		----- 3,840,970 -----
Territorial General Obligation Bonds - 2.22%		
Puerto Rico Public Improvement Series A		
5.00% 7/1/27	1,250,000	1,258,988
5.50% 7/1/19 (MBIA)	1,000,000	1,164,400
		----- 2,423,388 -----
Territorial Revenue Bonds - 3.59%		
Puerto Rico Commonwealth Highway &		
Transportation Authority Revenue		
Series G 5.00% 7/1/42	1,500,000	1,490,475
Puerto Rico Electric Power Authority Power		
Revenue Series Z 5.25% 7/1/21	1,500,000	1,558,545
Puerto Rico Public Buildings Authority		
Revenue Series D 5.25% 7/1/27	850,000	872,304
		----- 3,921,324 -----
Total Municipal Bonds (cost \$159,208,998)		----- 165,919,396 -----
Total Market Value of Securities - 152.07%		
(cost \$159,208,998)		165,919,396
Receivables and Other Assets		
Net of Liabilities- 2.92%		3,184,830
Liquidation Value of Preferred		
Stock - (54.99%)		(60,000,000)

Net Assets Applicable to 7,252,200 Shares		
Outstanding - 100.00%		\$109,104,226 =====
Net Asset Value Per Common Share		
(\$109,104,226 / 7,252,200 Shares)		\$15.04 -----
Components of Net Assets at September 30, 2003:		
Common stock, \$0.01 par value, 200 million shares		
authorized to the Fund		\$99,710,000
Undistributed net investment income		3,507,338
Accumulated net realized loss on investments		(823,510)
Net unrealized appreciation of investments		6,710,398

Total net assets		\$109,104,226

=====

*For Pre-Refunded Bonds, the stated maturity is followed by the year in which the bond is pre-refunded.

**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 September 30, 2003.

Summary of Abbreviations:

AMBAC -- Insured by the AMBAC Indemnity Corporation
 AMT -- Subject to Alternative Minimum Tax
 Connie Lee -- Insured by the College Construction Insurance Association
 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
 MBIA -- Insured by the Municipal Bond Insurance Association
 RADIAN -- Insured by Radian Asset Assurance

See accompanying notes

Delaware Investments Minnesota Municipal Income Fund III, Inc.
 September 30, 2003 (Unaudited)

Statements
 OF NET ASSETS (CONTINUED)

	Principal Amount	Market Value
Municipal Bonds - 153.66%		
Airport Revenue Bonds - 9.30%		
Minneapolis/St. Paul Metropolitan Airports		
Commission Revenue Series A		
5.00% 1/1/28 (MBIA)	\$ 750,000	\$ 763,853
5.00% 1/1/30 (AMBAC)	750,000	758,978
5.125% 1/1/25 (FGIC)	900,000	922,598

		2,445,429

City General Obligation Bonds - 2.91%		
Moorhead Series B 5.00% 2/1/33 (MBIA)	750,000	764,205

		764,205

Continuing Care/Retirement Revenue Bonds - 11.77%		
Minnesota Agriculture & Economic		
Development Board Revenue		
(Benedictine Health Systems)		
5.75% 2/1/29	1,300,000	1,223,404
St. Paul Housing & Redevelopment		
Authority Revenue		
(Franciscan Health Project)		
5.40% 11/20/42 (GNMA/FHA)	1,820,000	1,871,688

		3,095,092

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Corporate Backed Revenue Bonds - 6.93%		
Cloquet Pollution Control Revenue (Potlatch Corporation Projects) 5.90% 10/1/26	1,000,000	900,350
Minneapolis Community Development Agency Supported Development Revenue (Pajor Graphics) Series 1 (LOC US Bank NA) 6.75% 12/1/25 (AMT)	865,000	922,367

		1,822,717

Escrowed to Maturity Bonds - 12.45%		
University of Minnesota Hospital 6.75% 12/1/16	2,580,000	3,272,962

		3,272,962

Higher Education Revenue Bonds - 9.13%		
Minnesota Higher Education Facilities Authority (College of St. Benedict) Series 3-W 6.375% 3/1/20	345,000	347,170
Minnesota Higher Education Facilities Authority (St. Mary's College) Series 3-Q 6.15% 10/1/23	1,000,000	1,010,610
Minnesota Higher Education Facilities Authority (St. Thomas University) Series 4-A1 5.625% 10/1/21	1,010,000	1,042,007

		2,399,787

Hospital Revenue Bonds - 14.50%		
Minneapolis Health Care System Revenue (Allina Health System) Series A 5.75% 11/15/32	1,100,000	1,143,846
Minnesota Agricultural & Economic Development Health Care System (Fairview Hospital) Series A 6.375% 11/15/29	1,500,000	1,618,305
Rochester Health Care Facilities Revenue (Mayo Foundation) Series B 5.50% 11/15/27	1,000,000	1,050,230

		3,812,381

	Principal	Market
	Amount	Value
Municipal Bonds (continued)		
Investor Owned Utilities Revenue Bonds - 5.80%		
Bass Brook Pollution Control Revenue (Minnesota Power & Light Company Project) 6.00% 7/1/22	\$1,505,000	\$ 1,525,212

		1,525,212

Miscellaneous Revenue Bonds - 0.99%		
Minneapolis Art Center Facilities Revenue (Walker Art Center Project) 5.125% 7/1/21	250,000	261,245

		261,245

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Multifamily Housing Revenue Bonds - 19.12%		
Brooklyn Center Multifamily Housing		
Revenue (Four Courts Apartments Project)		
Series A 7.50% 6/1/25 (AMT)	1,000,000	927,530
Burnsville Multifamily Housing Mortgage		
Revenue SCA Tax Exempt Trust		
Series A 7.10% 1/1/30 (FSA)	1,970,000	2,051,380
Minneapolis Multifamily Housing Revenue		
(Gaar Scott Loft Project) 5.95% 5/1/30	990,000	1,057,963
Minneapolis Multifamily Housing Revenue		
(Olson Townhomes Project)		
6.00% 12/1/19 (AMT)	1,000,000	990,720

		5,027,593

Municipal Lease Revenue Bonds - 3.97%		
St. Paul Port Authority Lease Revenue		
(Cedar Street Office Building Project)		
5.25% 12/1/27	1,000,000	1,044,390

		1,044,390

Parking Revenue Bonds - 5.79%		
St. Paul Housing & Redevelopment Authority		
Parking Revenue (Block 19 Ramp Project)		
Series A 5.35% 8/1/29 (FSA)	1,450,000	1,521,630

		1,521,630

Political Subdivision General Obligation Bonds - 6.44%		
Minneapolis Sports Arena Project		
5.125% 10/1/20	750,000	796,733
Washington County Housing &		
Redevelopment Authority Series B		
5.50% 2/1/22 (MBIA)	850,000	897,294

		1,694,027

*Pre-Refunded Bonds - 18.29%		
Duluth Economic Development Authority		
Health Care Facilities Revenue		
(Duluth Clinic)		
6.20% 11/1/12-04 (AMBAC)	420,000	443,491
Esko Independent School District #99		
5.75% 4/1/17-05 (FSA)	2,145,000	2,287,749
Minnesota Higher Education Facilities		
Authority (College of St. Benedict)		
Series 3-W 6.375% 3/1/20-04	930,000	950,804
Puerto Rico Highway & Transportation		
Authority Revenue		
(Highway Improvements)		
Series Y 5.50% 7/1/26-06	1,000,000	1,126,640

		4,808,684

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Statements

OF NET ASSETS (CONTINUED)

	Principal Amount	Market Value
Municipal Bonds (continued)		
Public Power Revenue Bonds - 11.94%		
Southern Minnesota Municipal Power Agency Supply System Revenue Series A 5.25% 1/1/16 (AMBAC)	\$ 500,000	\$ 567,575
**Southern Minnesota Municipal Power Agency Supply System Revenue, Inverse Floater 8.96% 1/1/14 (AMBAC)	1,500,000	1,903,185
Western Minnesota Municipal Power Agency Series B 5.00% 1/1/15 (MBIA)	600,000	669,180

		3,139,940

Single Family Housing Revenue Bonds - 2.51%		
Minnesota State Housing Finance Agency Single Family Mortgage Series B 5.35% 1/1/33 (AMT)	650,000	658,665

		658,665

Territorial Revenue Bonds - 2.83%		
Puerto Rico Highway & Transportation Authority Revenue Series G 5.00% 7/1/42	750,000	745,238

		745,238

Water & Sewer Revenue Bonds - 8.99%		
Minnesota Public Facilities Authority Water Pollution Control Revenue Series B 5.40% 3/1/15	2,200,000	2,362,910

		2,362,910

Total Municipal Bonds (cost \$38,146,697)		40,402,107

Total Market Value of Securities - 153.66% (cost \$38,146,697)		40,402,107
Receivables and Other Assets Net of Liabilities - 3.39%		891,094
Liquidation Value of Preferred Stock - (57.05%)		(15,000,000)

Net Assets Applicable to 1,837,200 Shares Outstanding - 100.00%		\$26,293,201
		=====
Net Asset Value Per Common Share ((\$26,293,201 / 1,837,200 Shares)		\$14.31

Components of Net Assets at September 30, 2003:

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Common stock, \$0.01 par value, 200 million shares authorized to the Fund	\$24,853,904
Undistributed net investment income	762,838
Accumulated net realized loss on investments	(1,578,951)
Net unrealized appreciation of investments	2,255,410

Total net assets	\$26,293,201
	=====

*For Pre-Refunded Bonds, the stated maturity is followed by the year in which the bond is pre-refunded.

**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 September 30, 2003.

Summary of Abbreviations:

AMBAC -- Insured by the AMBAC Indemnity 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

See accompanying notes

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Delaware Investments Arizona Municipal Income Fund, Inc.
September 30, 2003 (Unaudited)

Statements

OF NET ASSETS (CONTINUED)

	Principal Amount	Market Value
Municipal Bonds - 155.51%		
Airport Revenue Bonds - 2.23%		
Phoenix Civic Improvement Airport Revenue Senior Lien Series A 5.00% 7/1/25 (FSA)	\$1,000,000	\$ 1,016,250
		----- 1,016,250
Charter School Revenue Bonds - 8.21%		
Maricopa County Industrial Development Authority School District Revenue 6.75% 7/1/29	1,000,000	995,630
Pima County Industrial Development Authority (Arizona Charter Schools Project II) Series A 6.75% 7/1/31	2,750,000	2,737,653
		----- 3,733,283
Continuing Care/Retirement Revenue Bonds - 3.48%		
Yavapai County Industrial Development Authority Residential Care Facilities (Margaret T. Morris Center) Series A		

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5.40% 2/20/38 (GNMA)	1,575,000	1,581,316

		1,581,316

Dedicated Tax & Fees Revenue Bonds - 9.99%		
Glendale Municipal Property Corporation		
Excise Tax Revenue Series A		
5.00% 7/1/33 (AMBAC)	3,455,000	3,501,332
Phoenix Civic Improvement Corporation		
Excise Tax Revenue 5.25% 7/1/24	1,000,000	1,043,720

		4,545,052

Escrowed to Maturity Bonds - 10.72%		
Puerto Rico Commonwealth Infrastructure		
Financing Authority Special Series A		
5.50% 10/1/40	4,500,000	4,875,390

		4,875,390

Higher Education Revenue Bonds - 10.59%		
South Campus Group Student Housing		
Revenue (Arizona State University South		
Campus Project) 5.625% 9/1/35 (MBIA)		
	1,000,000	1,077,720
Southern Arizona Capital Facilities Finance		
Corporation Student Housing Revenue		
(University of Arizona Project)		
5.00% 9/1/23 (MBIA)	1,150,000	1,184,569
University of Arizona Certificates of		
Participation (University of Arizona		
Projects) Series B 5.125% 6/1/22 (AMBAC)		
	500,000	522,490
West Campus Housing Revenue		
(Arizona State University Project)		
5.50% 7/1/34 (ACA)	2,000,000	2,033,020

		4,817,799

Hospital Revenue Bonds - 18.27%		
Maricopa County Industrial Development		
Authority (Mayo Clinic Hospital)		
5.25% 11/15/37	2,000,000	2,023,960
Mohave County Industrial Development		
Authority (Chris/Silver Ridge)		
6.375% 11/1/31 (GNMA)	750,000	794,205
Scottsdale Industrial Development		
Authority Hospital Revenue		
(Scottsdale Healthcare) 5.80% 12/1/31		
	1,000,000	1,024,110
	Principal	Market
	Amount	Value
Municipal Bonds (continued)		
Hospital Revenue Bonds (continued)		
Show Low Industrial Development		
Authority Hospital Revenue		
(Navapache Regional Medical Center)		
Series A 5.50% 12/1/17 (ACA)		
	\$1,600,000	\$ 1,676,032
University of Arizona Medical Center		
6.25% 7/1/16 (MBIA)		
	700,000	709,793
Yavapai County Industrial Development		

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Authority Hospital Revenue (Yavapai Regional Medical Center) Series A 5.25% 8/1/21 (RADIAN)	2,000,000	2,083,300

		8,311,400

Miscellaneous Revenue Bonds - 8.15%		
Arizona School Facilities Board Revenue 5.00% 7/1/19	2,000,000	2,121,520
Arizona Student Loan Acquisition Authority Revenue 5.90% 5/1/24 (AMT)	1,500,000	1,586,565

		3,708,085

Multifamily Housing Revenue Bonds - 6.68%		
Maricopa County Industrial Development Authority Multifamily Housing Revenue (Pines at Camelback Apartments Project) Series A 5.45% 5/1/28 (RADIAN)	1,250,000	1,251,988
Maricopa County Industrial Development Authority Multifamily Housing Revenue (Sly-Mar Apartments) 6.10% 4/20/36 (GNMA/AMT)	465,000	494,123
Peoria Industrial Development Authority Multifamily Housing Revenue (Casa Del Rio) 7.30% 2/20/28 (GNMA)	1,230,000	1,293,603

		3,039,714

Municipal Lease Revenue Bonds - 8.23%		
Oro Valley Municipal Property Corporation Excise Tax Revenue 5.00% 7/1/20 (FGIC)	1,000,000	1,053,160
Prescott Valley Municipal Property Corporate Facilities Revenue 5.00% 1/1/27 (FGIC)	500,000	509,425
Tucson Certificates of Participation 5.60% 7/1/11	1,100,000	1,167,782
Yuma Municipal Property Corporation 5.00% 7/1/25 (AMBAC)	1,000,000	1,016,250

		3,746,617

Political Subdivision General Obligation Bonds - 3.70%		
Eagle Mountain Community Facilities District Series A 6.40% 7/1/17	1,500,000	1,683,165

		1,683,165

*Pre-Refunded Bonds - 6.06%		
Arizona State Transportation Board Highway 5.75% 7/1/18-09	2,350,000	2,758,148

		2,758,148

Public Power Revenue Bonds - 2.23%		
Salt River Project Arizona Agricultural Improvement & Power District Electric System Revenue (Salt River Project) Series A 5.00% 1/1/31	1,000,000	1,014,350

		1,014,350

Delaware Investments Arizona Municipal Income Fund, Inc.

Statements

OF NET ASSETS (CONTINUED)

	Principal Amount	Market Value
Municipal Bonds (continued)		
School District General Obligation Bonds - 17.14%		
Maricopa County School District #6 (Washington Elementary) 5.375% 7/1/13 (FSA)	\$3,000,000	\$ 3,454,529
Maricopa County School District #38 (Madison Elementary) 5.00% 7/1/13 (FSA)	1,250,000	1,399,888
Maricopa County School District #69 (Paradise Valley) 3.375% 7/1/13 (FGIC)	1,880,000	1,824,277
Tempe Union High School #213 5.00% 7/1/14 (FSA)	1,000,000	1,119,590
		----- 7,798,284 -----
Single Family Housing Revenue Bonds - 8.94%		
Phoenix Industrial Development Authority Single Family Mortgage 5.30% 4/1/20 (GNMA/FNMA/FHLMC)	1,325,000	1,366,168
5.35% 6/1/20 (GNMA/FNMA/FHLMC)	2,155,000	2,210,922
Pima County Industrial Development Authority Single Family Mortgage Revenue Series A 6.125% 11/1/33 (GNMA/FNMA/FHLMC/AMT)	465,000	492,551
		----- 4,069,641 -----
Territorial General Obligation Bonds - 0.56%		
Puerto Rico Commonwealth Refunding Public Improvement Series A 5.125% 7/1/31	250,000	253,170
		----- 253,170 -----
Territorial Revenue Bonds - 22.16%		
Puerto Rico Commonwealth Highway & Transportation Authority Transportation Revenue Series D 5.00% 7/1/32 (FSA)	8,500,000	8,705,190
Virgin Islands Public Finance Authority Revenue Series A 6.125% 10/1/29 (ACA)	1,250,000	1,381,125
		----- 10,086,315 -----
Water & Sewer Revenue Bonds - 8.17%		
Arizona Water Infrastructure Finance Authority Revenue Water Quality Series A 5.05% 10/1/20	1,500,000	1,586,520
Phoenix Civic Improvement Corporation Wastewater Systems Revenue 5.00% 7/1/24 (FGIC)	1,590,000	1,621,100
Phoenix Civic Improvement Corporation Water Systems Revenue 5.00% 7/1/26 (FGIC)	500,000	509,010

	3,716,630

Total Municipal Bonds (cost \$67,505,652)	70,754,609

Total Market Value of Securities - 155.51%	
(cost \$67,505,652)	70,754,609
Liabilities Net of Receivables and Other	
Assets - (0.56%)	(255,581)
Liquidation Value of Preferred	
Stock - (54.95%)	(25,000,000)

Net Assets Applicable to 2,982,200 Shares	
Outstanding - 100.00%	\$45,499,028
	=====
Net Asset Value Per Common Share	
(\$45,499,028 / 2,982,200 Shares)	\$15.26

Components of Net Assets at September 30, 2003:

Common stock, \$0.01 par value, 200 million shares authorized to the Fund	\$40,838,893
Undistributed net investment income	1,117,400
Accumulated net realized gain on investments	293,778
Net unrealized appreciation of investments	3,248,957

Total net assets	\$45,499,028
	=====

*For Pre-Refunded Bonds, the stated maturity is followed by the year in which the bond is pre-refunded.

Summary of Abbreviations:

- ACA -- Insured by American Capital Access
- AMBAC -- Insured by the AMBAC Indemnity Corporation
- AMT -- Subject to Alternative Minimum Tax
- FGIC -- Insured by the Financial Guaranty Insurance Company
- FHLMC -- Insured by the Federal Home Loan Mortgage Corporation
- FNMA -- Insured by Federal National Mortgage Association
- FSA -- Insured by Financial Security Assurance
- GNMA -- Insured by Government National Mortgage Association
- MBIA -- Insured by the Municipal Bond Insurance Association
- RADIAN -- Insured by Radian Asset Assurance

See accompanying notes

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	Principal Amount	Market Value
Municipal Bonds - 152.62%		
Airport Revenue Bonds - 6.87%		
Dade County Aviation Series 96B 5.60% 10/1/26 (MBIA)	\$1,000,000	\$ 1,066,430
Hillsborough County Aviation Authority (Tampa International Airport) Series B 5.60% 10/1/19 (FGIC)	1,600,000	1,632,208

		2,698,638

Dedicated Tax & Fees Revenue Bonds - 10.71%		
Jacksonville Sales Tax Revenue 5.00% 10/1/30 (MBIA)	1,000,000	1,016,930
Jacksonville Transportation Revenue 5.25% 10/1/29 (MBIA)	2,000,000	2,076,040
Miami Beach Resort Tax 5.50% 10/1/16 (AMBAC)	1,000,000	1,111,940

		4,204,910

Higher Education Revenue Bonds - 7.69%		
Florida Agriculture & Mechanical University (Student Apartment Facility) 5.625% 7/1/21 (MBIA)	1,250,000	1,365,263
Volusia County Educational Facilities Authority (Stetson University Project) Series A 5.50% 6/1/17 (MBIA)	1,500,000	1,653,000

		3,018,263

Hospital Revenue Bonds - 28.25%		
Escambia County Health Facilities Authority (Florida Health Care Facilities -- VHA Program) 5.95% 7/1/20 (AMBAC)	3,075,000	3,311,190
Lee County Memorial Health System Hospital Revenue 5.00% 4/1/20 (FSA)	1,000,000	1,047,600
Orange County Health Facilities Authority (Adventist Health Center) 5.75% 11/15/25 (AMBAC)	1,500,000	1,628,985
Orange County Health Facilities Authority (Orlando Regional Health) Series A 6.25% 10/1/18 (MBIA)	2,000,000	2,439,120
Venice Health Care (Bon Secours Health System) 5.60% 8/15/16 (MBIA)	2,405,000	2,663,129

		11,090,024

Multifamily Housing Revenue Bonds - 20.11%		
Broward County Multifamily Housing Finance Authority (St. Croix Apartments Project) Series A 5.45% 11/1/36 (FSA)	1,000,000	1,014,180
Florida Housing Finance Agency (Leigh Meadows Apartments) Series N 6.30% 9/1/36 (AMBAC/AMT)	2,510,000	2,612,458
Florida Housing Finance Agency (Woodbridge Apartments) Series L 6.05% 12/1/16 (AMBAC)	1,120,000	1,178,475
6.25% 6/1/36 (AMBAC/AMT)	1,500,000	1,561,980

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Volusia County Multifamily Housing Finance Authority (San Marco Apartments) Series A 5.60% 1/1/44 (FSA/AMT)	1,500,000	1,530,210

		7,897,303

	Principal Amount	Market Value
Municipal Bonds (continued)		
Municipal Lease Revenue Bonds - 23.58%		
Broward School Board Certificates of Participation Series A 5.25% 7/1/24 (FSA)	\$1,000,000	\$ 1,048,160
Escambia County School Board Certificates of Participation Series 2 5.50% 2/1/22 (MBIA)	5,000,000	5,419,250
Orange County School Board Certificates of Participation 5.00% 8/1/27 (MBIA)	1,250,000	1,268,925
Palm Beach County School Board Certificates of Participation Series D 5.00% 8/1/28 (FSA)	1,500,000	1,522,710

		9,259,045

Ports & Harbors Revenue Bonds - 2.61%		
Florida Ports Financing Commission State Transportation Trust Fund 5.375% 6/1/27 (MBIA/AMT)	1,000,000	1,022,750

		1,022,750

*Pre-Refunded Bonds - 30.83%		
Dade County School Board Certificates of Participation Series B 5.60% 8/1/17-06 (AMBAC)	1,000,000	1,126,210
Orange County Public Service Tax 6.00% 10/1/24-05 (FGIC)	3,000,000	3,294,600
Reedy Creek Improvement District (Sports Complex) Series A 5.75% 6/1/13-05 (MBIA)	2,300,000	2,477,399
Sunrise Utility System Series A 5.75% 10/1/26-06 (AMBAC)	2,500,000	2,843,850
Tampa Utility Tax Series A 6.125% 10/1/19-09 (AMBAC)	1,000,000	1,208,770
Village Center Community Development District Recreational Revenue Series A 5.85% 11/1/16-06 (MBIA)	1,000,000	1,152,030

		12,102,859

Single Family Housing Revenue Bonds - 2.95%		
Florida Housing Finance Agency (Homeowner Mortgage) Series 2 5.90% 7/1/29 (MBIA/AMT)	1,115,000	1,157,649

		1,157,649

State General Obligation Bonds - 9.34%		
Florida Department of Transportation 5.00% 7/1/31 (FGIC)	1,400,000	1,419,866

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Florida State Board of Education (Capital Outlay Public Education) Series C 6.00% 6/1/21 (FGIC)	2,000,000	2,247,980

		3,667,846

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Delaware Investments Florida Insured Municipal Income Fund

Statements
OF NET ASSETS (CONTINUED)

	Principal Amount	Market Value
Municipal Bonds (continued)		
Water & Sewer Revenue Bonds - 9.68%		
Dade County Water & Sewer System		
5.50% 10/1/25 (FGIC)	\$1,100,000	\$ 1,176,384
Indian River County Water & Sewer System		
5.50% 9/1/16 (FGIC)	1,000,000	1,109,450
Village Center Community Development		
District Florida Utility Revenue		
5.00% 10/1/36 (MBIA)	1,500,000	1,513,530

		3,799,364

Total Municipal Bonds (cost \$55,053,431)		59,918,651

Total Market Value of Securities - 152.62%		
(cost \$55,053,431)		59,918,651
Liabilities Net of Receivables and		
Other Assets - (1.68%)		(657,850)
Liquidation Value of Preferred		
Stock - (50.94%)		(20,000,000)

Net Assets Applicable to 2,422,200 Shares		
Outstanding - 100.00%		\$39,260,801

Net Asset Value Per Common Share		
(\$39,260,801 / 2,422,200 Shares)		\$16.21

Components of Net Assets at September 30, 2003:		
Common stock, \$0.01 par value, unlimited shares		
authorized to the Fund		\$33,361,389
Undistributed net investment income		1,027,015
Accumulated net realized gain on investments		7,177
Net unrealized appreciation of investments		4,865,220

Total net assets		\$39,260,801

*For Pre-Refunded Bonds, the stated maturity is followed by the year in which the bond is pre-refunded.

Summary of Abbreviations:

AMBAC -- Insured by the AMBAC Indemnity Corporation
 AMT -- Subject to Alternative Minimum Tax
 FGIC -- Insured by the Financial Guaranty Insurance Company
 FSA -- Insured by Financial Security Assurance
 MBIA -- Insured by the Municipal Bond Insurance Association

See accompanying notes

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Delaware Investments Colorado Insured Municipal Income Fund, Inc.
 September 30, 2003 (Unaudited)

Statements
 OF NET ASSETS (CONTINUED)

	Principal Amount	Market Value
Municipal Bonds - 149.80%		
Airport Revenue Bonds - 10.29%		
Denver City & County Airport		
5.25% 11/15/23 (MBIA)	\$7,500,000	\$ 7,888,200

	7,888,200	-----
Continuing Care/Retirement Revenue Bonds - 3.46%		
Colorado Health Facilities Authority		
(Porter Place) 6.00% 1/20/36 (GNMA)	2,515,000	2,654,381

		2,654,381

Dedicated Tax & Fees Revenue Bonds - 11.26%		
Broomfield Sales & Use Tax Revenue		
Refunding & Improvement Series A		
5.00% 12/1/31 (AMBAC)	750,000	760,140
Denver City & County Excise Tax Revenue		
(Colorado Convention Center Project)		
Series A 5.00% 9/1/20 (FSA)	6,500,000	6,811,415
Golden Sales & Use Tax Revenue		
Improvement Series B		
5.10% 12/1/20 (AMBAC)	1,000,000	1,060,290

		8,631,845

Higher Education Revenue Bonds - 34.74%		
Adams State College (Board of Trustees)		
5.75% 5/15/19 (MBIA)	1,000,000	1,034,300
Boulder County Development Revenue		
University Corporation for Atmospheric		
Research 5.00% 9/1/26 (MBIA)	4,500,000	4,574,835
Colorado Educational & Cultural Facilities		
Authority (Johnson & Wales		
University Project)		
Series A 5.00% 4/1/28 (XLCA)	3,000,000	3,036,900

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Colorado Educational & Cultural Facilities Authority (University of Colorado Foundation Project)		
5.00% 7/1/27 (AMBAC)	4,000,000	4,070,640
Colorado Educational & Cultural Facilities Authority (University of Denver Project)		
5.50% 3/1/21 (AMBAC)	3,200,000	3,502,400
Colorado Educational & Cultural Facilities Authority (University of Northern Colorado)		
5.00% 7/1/31 (MBIA)	3,000,000	3,041,160
Colorado Springs Revenue (Colorado College Project)		
5.375% 6/1/32 (MBIA)	5,000,000	5,265,050
Colorado State University Systems Series B 5.00% 3/1/35 (AMBAC)	2,095,000	2,120,978

		26,646,263

Hospital Revenue Bonds - 6.67%		
Colorado Health Facilities Authority (Boulder Community Hospital Project) Series B 5.875% 10/1/23 (MBIA)	1,925,000	2,043,619
Colorado Health Facilities Authority (North Colorado Medical Center)		
5.95% 5/15/12 (MBIA)	2,000,000	2,047,820
6.00% 5/15/20 (MBIA)	1,000,000	1,023,920

		5,115,359

	Principal	Market
	Amount	Value
Municipal Bonds (continued)		
Miscellaneous Revenue Bonds - 3.95%		
Denver Convention Center Series A 5.00% 12/1/33 (XLCA)	\$3,000,000	\$ 3,031,980
	-----	-----
		3,031,980

Multifamily Housing Revenue Bonds - 5.81%		
Burlingame Multifamily Housing Revenue Series A 6.00% 11/1/29 (MBIA)	2,290,000	2,418,835
Snowmass Village Multifamily Housing Revenue (Essential-Function Housing)		
6.25% 12/15/16 (FSA)	2,000,000	2,038,780

		4,457,615

Municipal Lease Revenue Bonds - 22.11%		
Arapahoe County Library District Certificates of Participation		
5.70% 12/15/10 (MBIA)	2,000,000	2,255,520
Aurora Certificates of Participation		
5.50% 12/1/30 (AMBAC)	2,000,000	2,122,280
Aurora Educational Development		
6.00% 10/15/15 (Connie Lee)	1,500,000	1,587,495
Broomfield Certificates of Participation		
5.75% 12/1/24 (AMBAC)	1,500,000	1,651,635

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Denver City & County Certificates of Participation Series B 5.50% 12/1/25 (AMBAC)	2,000,000	2,354,460
Eagle County Certificates of Participation 5.40% 12/1/18 (MBIA)	1,000,000	1,109,770
Garfield County Certificates of Participation 5.00% 12/1/24 (AMBAC)	1,000,000	1,025,890
Lakewood Certificates of Participation 5.375% 12/1/22 (AMBAC)	2,000,000	2,140,220
Westminster Building Authority Certificates of Participation 5.25% 12/1/22 (MBIA)	1,555,000	1,646,092
Westminster Certificates of Participation 5.40% 1/15/23 (AMBAC)	1,000,000	1,063,180

		16,956,542

Parking Revenue Bonds - 3.45%		
Auraria Higher Education Center Parking Facilities System Revenue 5.50% 4/1/26 (AMBAC)	2,485,000	2,647,668

		2,647,668

Political Subdivision General Obligation Bonds - 10.99%		
Arapahoe County Water & Wastewater Public Improvement District Series A 5.125% 12/1/32 (MBIA)	1,000,000	1,022,320
Bowles Metropolitan District 5.00% 12/1/33 (FSA)	2,000,000	2,027,740
GVR Metropolitan District 5.75% 12/1/19 (AMBAC)	1,000,000	1,137,490
Pueblo County 5.80% 6/1/11 (MBIA)	1,405,000	1,560,365
Pueblo County (Pueblo Library District Project) 5.80% 11/1/19 (AMBAC)	1,395,000	1,588,305
Stonegate Village Metropolitan District Refunding & Improvement Series A 5.50% 12/1/21 (FSA)	1,000,000	1,093,750

		8,429,970

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Delaware Investments Colorado Insured Municipal Income Fund, Inc.

Statements
OF NET ASSETS (CONTINUED)

	Principal Amount	Market Value
Municipal Bonds (continued)		
School District General Obligation Bonds - 17.42%		
Adams & Arapahoe Counties School		

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District #28J 5.00% 12/1/22 (FSA)	\$2,000,000	2,084,920
Adams County School District #1 5.00% 12/1/16 (FSA)	1,490,000	1,633,651
Archuleta & Hinsdale Counties School District #50JT 5.55% 12/1/20 (MBIA)	4,000,000	4,400,440
Douglas County School District #Re-1 (Douglas & Elbert Counties) 5.00% 12/15/21 (MBIA)	1,000,000	1,042,650
El Paso County School District #20 5.625% 12/15/16 (MBIA)	1,000,000	1,104,850
5.625% 12/15/16 (AMBAC)	2,800,000	3,093,580

		13,360,091

Turnpike/Toll Road Revenue Bonds - 13.50%		
E-470 Public Highway Authority		
5.75% 9/1/29 (MBIA)	3,000,000	3,300,660
5.75% 9/1/35 (MBIA)	1,700,000	1,881,050
Northwest Parkway Public Highway Authority Series A 5.25% 6/15/41 (FSA)	5,000,000	5,170,650

		10,352,360

Water & Sewer Revenue Bonds - 6.15%		
Colorado Water Resources & Power Development Authority Small Water Resources Revenue 5.80% 11/1/20 (FGIC)	2,000,000	2,278,340
Ute Utility Water Conservancy District Water Revenue 5.75% 6/15/20 (MBIA)	2,155,000	2,438,900

		4,717,240

Total Municipal Bonds (cost \$107,553,418)		114,889,514
		=====
Total Market Value of Securities - 149.80% (cost \$107,553,418)		114,889,514
Receivables and Other Assets Net of Liabilities - 2.35%		1,807,723
Liquidation Value of Preferred Stock - (52.15%)		(40,000,000)

Net Assets Applicable to 4,837,100 Shares Outstanding - 100.00%		\$76,697,237

Net Asset Value Per Common Share (\$76,697,237 / 4,837,100 Shares)		\$15.86

Components of Net Assets at September 30, 2003:		
Common stock, \$0.01 par value, 200 million shares authorized to the Fund		\$67,238,110
Undistributed net investment income		1,961,922
Accumulated net realized gain on investments		161,109
Net unrealized appreciation of investments		7,336,096

Total net assets		\$76,697,237
		=====

Summary of Abbreviations:

AMBAC -- Insured by the AMBAC Indemnity Corporation
 Connie Lee -- Insured by the College Construction Insurance Association
 FGIC -- Insured by the Financial Guaranty Insurance Company
 FSA -- Insured by Financial Security Assurance
 GNMA -- Insured by Government National Mortgage Association
 MBIA -- Insured by the Municipal Bond Insurance Association
 XLCA -- Insured by XL Capital Assurance

See accompanying notes

Statements OF OPERATIONS Delaware Investments Closed-End Municipal Bond Funds Six Months Ended September 30, 2003 (Unaudited)

	Delaware Investments Minnesota Municipal Income Fund, Inc.	Delaware Investments Minnesota Municipal Income Fund II, Inc.
Investment Income:		
Interest	\$1,585,563	\$4,535,388
	-----	-----
Expenses:		
Management fees	118,818	336,746
Accounting and administration expenses	42,500	42,675
Remarketing Agent fees	25,069	75,206
Professional fees	1,413	2,784
Transfer agent fees and expenses	12,439	7,778
Reports and statements to shareholders	1,242	30
Custodian fees	1,228	2,480
Directors'/Trustees' Fees	100	--
Rating Agency fees	4,200	2,100
Other	3,777	9,980
	-----	-----
	210,786	479,779
Less expenses paid indirectly	(1,949)	(4,515)
	-----	-----
Total expenses	208,837	475,264
	-----	-----
Net Investment Income	1,376,726	4,060,124
	-----	-----
Net Realized and Unrealized Gain (Loss) on Investments:		
Net realized gain on investments	812,985	1,131,227
Net change in unrealized appreciation/depreciation of investments	(1,077,142)	(1,487,531)
	-----	-----
Net Realized and Unrealized Loss on Investments	(264,157)	(356,304)
	-----	-----

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Dividends on Preferred Stock	(110,928)	(293,892)
	-----	-----
Net Increase in Net Assets Resulting from Operations	\$1,001,641	\$3,409,928
	=====	=====

See accompanying notes

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Delaware Investments Closed-End Municipal Bond Funds

Statements
OF OPERATIONS (CONTINUED)

	Delaware Investments Arizona Municipal Income Fund, Inc.	Delaware Investments Florida Insured Municipal Income Fund
Investment Income:		
Interest	\$1,773,237	\$1,541,254
	-----	-----
Expenses:		
Management fees	141,721	117,917
Accounting and administration expenses	42,500	42,500
Remarketing Agent fees	31,508	25,087
Professional fees	14,370	2,246
Transfer agent fees and expenses	11,700	3,712
Reports and statements to shareholders	7,500	--
Custodian fees	1,419	1,153
Directors'/Trustees' Fees	2,700	146
Rating Agency fees	6,000	5,500
Other	12,364	4,979
	-----	-----
	271,782	203,240
Less expenses paid indirectly	(2,273)	(1,436)
	-----	-----
Total expenses	269,509	201,804
	-----	-----
Net Investment Income	1,503,728	1,339,450
	-----	-----
Net Realized and Unrealized Gain (Loss) on Investments:		
Net realized gain on investments	238,027	--
Net change in unrealized appreciation/depreciation of investments	(575,003)	(393,672)
	-----	-----
Net Realized and Unrealized Gain (Loss) on Investments	(336,976)	(393,672)
	-----	-----

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Dividends on Preferred Stock	(122,693)	(98,258)
	-----	-----
Net Increase in Net Assets Resulting from Operations	\$1,044,059	\$ 847,520
	=====	=====

See accompanying notes

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Delaware Investments Closed-End Municipal Bond Funds

Statements
OF CHANGES IN NET ASSETS

	Delaware Investments Minnesota Municipal Income Fund, Inc.	
	Six Months Ended 9/30/03 (Unaudited)	Year Ended 3/31/03
Increase (Decrease) in Net Assets from Operations:		
Net investment income	\$1,376,726	\$ 2,902,39
Net realized gain on investments	812,985	995,36
Net change in unrealized appreciation/depreciation of investments	(1,077,142)	973,09
Dividends on preferred stock	(110,928)	(266,22)
	-----	-----
Net increase in net assets resulting from operations	1,001,641	4,604,63
	-----	-----
Dividends and Distributions to Common Shareholders from:		
Net investment income	(1,180,588)	(2,309,35)
Net realized gain on investments	(565,645)	(168,65)
	-----	-----
	(1,746,233)	(2,478,01)
	-----	-----
Net Increase (Decrease) in Net Assets	(744,592)	2,126,62
Net Assets:		
Beginning of period	40,122,396	37,995,77
	-----	-----
End of period	\$39,377,804	\$40,122,39
	=====	=====

	Delaware Investments Minnesota Municipal Income Fund III, Inc.	
	Six Months Ended 9/30/03 (Unaudited)	Year Ended 3/31/03

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Increase (Decrease) in Net Assets from Operations:		
Net investment income	\$981,931	\$1,991,07
Net realized gain on investments	402,515	326,28
Net change in unrealized appreciation/depreciation of investments	(501,665)	1,367,75
Dividends on preferred stock	(68,364)	(206,64)
	-----	-----
Net increase in net assets resulting from operations	814,417	3,478,47
	-----	-----
Dividends and Distributions to Common Shareholders from:		
Net investment income	(780,810)	(1,524,92)
Net realized gain on investments	--	--
	-----	-----
	(780,810)	(1,524,92)
	-----	-----
Net Increase (Decrease) in Net Assets	33,607	1,953,55
Net Assets:		
Beginning of period	26,259,594	24,306,04
	-----	-----
End of period	\$26,293,201	\$26,259,59
	=====	=====

See accompanying notes

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Delaware Investments Closed-End Municipal Bond Funds

Statements

OF CHANGES IN NET ASSETS (CONTINUED)

	Delaware Investments Florida Insured Municipal Income Fund	
	Six Months Ended 9/30/03 (Unaudited)	Year Ende 3/31/03
Increase (Decrease) in Net Assets from Operations:		
Net investment income	\$1,339,450	\$2,625,09
Net realized gain on investments	--	384,20
Net change in unrealized appreciation/depreciation of investments	(393,672)	2,487,45
Dividends on preferred stock	(98,258)	(264,65)
	-----	-----
Net increase in net assets resulting from operations	847,520	5,232,09
	-----	-----
Dividends and Distributions to Common Shareholders from:		
Net investment income	(1,174,767)	(2,276,96)
Net realized gain on investments	(62,977)	--
	-----	-----
	(1,237,744)	(2,276,96)

	-----	-----
Net Increase (Decrease) in Net Assets	(390,224)	2,955,13
Net Assets:		
Beginning of period	39,651,025	36,695,89
	-----	-----
End of period	\$39,260,801	\$39,651,02
	=====	=====

See accompanying notes

Financial
HIGHLIGHTS

Selected data for each share of the Fund outstanding throughout each period were as follows:

	Delaware Investments Minneso		
	Six Months		Year Ended
	Ended		3/31/02 (
	9/30/03 (6)	3/31/03	3/31/02 (
	(Unaudited)		
Net asset value, beginning of period	\$15.460	\$14.640	\$14.790
Income (loss) from investment operations:			
Net investment income	0.513	1.119	1.191
Net realized and unrealized gain (loss) on investments	(0.077)	0.758	(0.323)
Dividends on preferred stock from:			
Net investment income	(0.043)	(0.094)	(0.178)
Net realized gain on investments	--	(0.008)	--
	-----	-----	-----
Total dividends on preferred stock	(0.043)	(0.102)	(0.178)
	-----	-----	-----
Total from investment operations	0.393	1.775	0.690
	-----	-----	-----
Less dividends and distributions to common shareholders from:			
Net investment income	(0.455)	(0.890)	(0.840)
Net realized gain on investments	(0.218)	(0.065)	--
	-----	-----	-----
Total dividends and distributions	(0.673)	(0.955)	(0.840)
	-----	-----	-----
Net asset value, end of period	\$15.180	\$15.460	\$14.640
	=====	=====	=====
Market value, end of period	\$15.150	\$16.000	\$14.450
	=====	=====	=====

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Total investment return based on:(2)			
Market value	(1.11%)	17.74%	7.00%
Net asset value	2.54%	12.29%	4.81%
Ratios and supplemental data:			
Net assets applicable to common shares, end of period (000 omitted)	\$39,378	\$40,122	\$37,996
Ratio of expenses to average net assets applicable to common shares(3)	1.04%	1.21%	1.13%
Ratio of net investment income to average net assets applicable to common shares(3)	6.88%	7.35%	8.00%
Ratio of net investment income to average net assets applicable to common shares net of dividends to preferred shares(4)	6.33%	6.68%	6.84%
Portfolio turnover	87%	38%	15%
Leverage analysis:			
Value of preferred shares outstanding (000 omitted)	\$20,000	\$20,000	\$20,000
Net asset coverage per share of preferred shares, end of period	\$148,445	\$150,306	\$144,989
Liquidation value per share of preferred shares(5)	\$50,000	\$50,000	\$50,000

(1)As required, effective April 1, 2001, the Fund adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies that required amortization of all premiums and discounts on debt securities. The effect of these changes for the year ended March 31, 2002 was an increase in net investment income per share of \$0.006, a decrease in net realized and unrealized gain (loss) per share of \$0.006, and an increase in the ratio of net investment income to average net assets of 0.04%. Per share data and ratios for periods prior to April 1, 2001 have not been restated to reflect this change in accounting.

(2)Total investment return is calculated assuming a purchase of common stock on the opening of the first day and a sale on the closing of the last day of each period reported. Dividends and distributions, if any, are assumed for the purposes of this calculation, to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Generally, total investment return based on net asset value will be higher than total investment return based on market value in periods where there is an increase in the discount or a decrease in the premium of the market value to the net asset value from the beginning to the end of such periods. Conversely, total investment return based on net asset value will be lower than total investment return based on market value in periods where there is a decrease in the discount or an increase in the premium of the market value to the net asset value from the beginning to the end of such periods.

(3)Ratios do not reflect the effect of dividend payments to preferred shareholders.

(4)Ratio reflects total net investment income less dividends paid to preferred shareholders from net investment income divided by average net assets applicable to common shareholders.

(5)Excluding any accumulated but unpaid dividends.

(6)Ratios and portfolio turnover have been annualized and total return has not been annualized.

See accompanying notes

Financial
HIGHLIGHTS (CONTINUED)

Selected data for each share of the Fund outstanding throughout each period were as follows:

	Delaware Investments Minnesota		
	Six Months Ended 9/30/03 (6) (Unaudited)	3/31/03	Year Ended 3/31/02 (1)
Net asset value, beginning of period	\$15.060	\$14.280	\$14.450
Income (loss) from investment operations:			
Net investment income	0.560	1.143	1.163
Net realized and unrealized gain (loss) on investments	(0.054)	0.689	(0.313)
Dividends on preferred stock from:			
Net investment income	(0.041)	(0.112)	(0.182)
Total dividends on preferred stock	(0.041)	(0.112)	(0.182)
Total from investment operations	0.465	1.720	0.668
Less dividends to common shareholders from:			
Net investment income	(0.485)	(0.940)	(0.838)
Total dividends	(0.485)	(0.940)	(0.838)
Net asset value, end of period	\$15.040	\$15.060	\$14.280
Market value, end of period	\$15.590	\$15.300	\$14.050
Total investment return based on: (2)			
Market value	5.10%	15.84%	5.75%
Net asset value	3.01%	12.19%	4.73%
Ratios and supplemental data:			
Net assets applicable to common shares, end of period (000 omitted)	\$109,104	\$109,212	\$103,573
Ratio of expenses to average net assets applicable to common shares (3)	0.87%	1.03%	1.06%
Ratio of net investment income to average net assets applicable to common shares (3)	7.42%	7.74%	8.03%
Ratio of net investment income to average net assets applicable to common shares net of dividends to preferred shares (4)	6.88%	6.99%	6.79%
Portfolio turnover	49%	22%	7%
Leverage analysis:			
Value of preferred shares outstanding			

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(000 omitted)	\$60,000	\$60,000	\$60,000
Net asset coverage per share of preferred shares, end of period	\$140,920	\$141,010	\$136,311
Liquidation value per share of preferred shares(5)	\$50,000	\$50,000	\$50,000

(1)As required, effective April 1, 2001, the Fund adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies that required amortization of all premiums and discounts on debt securities. The effect of these changes for the year ended March 31, 2002 was an increase in net investment income per share of \$0.003, a decrease in net realized and unrealized gain (loss) per share of \$0.003, and an increase in the ratio of net investment income to average net assets of 0.02%. Per share data and ratios for periods prior to April 1, 2001 have not been restated to reflect this change in accounting.

(2)Total investment return is calculated assuming a purchase of common stock on the opening of the first day and a sale on the closing of the last day of each period reported. Dividends and distributions, if any, are assumed for the purposes of this calculation, to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Generally, total investment return based on net asset value will be higher than total investment return based on market value in periods where there is an increase in the discount or a decrease in the premium of the market value to the net asset value from the beginning to the end of such periods. Conversely, total investment return based on net asset value will be lower than total investment return based on market value in periods where there is a decrease in the discount or an increase in the premium of the market value to the net asset value from the beginning to the end of such periods.

(3)Ratios do not reflect the effect of dividend payments to preferred shareholders.

(4)Ratio reflects total net investment income less dividends paid to preferred shareholders from net investment income divided by average net assets applicable to common shareholders.

(5)Excluding any accumulated but unpaid dividends.

(6)Ratios and portfolio turnover have been annualized and total return has not been annualized.

See accompanying notes

Financial
HIGHLIGHTS (CONTINUED)

Selected data for each share of the Fund outstanding throughout each period were as follows:

Delaware Investments Minneso		
Six Months		
Ended		
9/30/03 (6)	3/31/03	3/31/02 (1
(Unaudited)		

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Net asset value, beginning of period	\$14.290	\$13.230	\$13.420
Income (loss) from investment operations:			
Net investment income	0.532	1.084	1.064
Net realized and unrealized gain (loss) on investments	(0.053)	0.918	(0.306)
Dividends on preferred stock from:			
Net investment income	(0.034)	(0.112)	(0.183)
	-----	-----	-----
Total dividends on preferred stock	(0.034)	(0.112)	(0.183)
	-----	-----	-----
Total from investment operations	0.445	1.890	0.575
	-----	-----	-----
Less dividends to common shareholders from:			
Net investment income	(0.425)	(0.830)	(0.765)
	-----	-----	-----
Total dividends			

man">CASH AND CASH EQUIVALENTS

\$

5,299,953

\$

12,889,180

SUPPLEMENTAL CASH FLOW INFORMATION:

Income taxes paid, net of refunds

\$

7,638,064

\$

6,848,616

Interest paid

\$

443,781

\$

232,071

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

NOTES:

1. **Financial Statements**

In the opinion of management, all adjustments (which include only normal recurring accruals) necessary to present fairly the financial information have been made. The results of operations for the three months or nine months ended September 30, 2006, are not necessarily indicative of results for the full year.

2. **Earnings Per Share**

The following table sets forth the computation of earnings per share and diluted earnings per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Numerator:				
Net Earnings	\$ 5,168,138	\$ 4,822,322	\$ 14,119,459	\$ 13,051,285
Denominator:				
Basic weighted average shares	11,675,238	11,575,788	11,621,084	11,555,307
Effect of dilutive securities:				
Employee stock options	422,807	416,542	410,042	418,606
Diluted weighted average shares	12,098,045	11,992,330	12,031,126	11,973,913
Basic earnings per share	\$.44	\$.42	\$ 1.21	\$ 1.13
Diluted earnings per share	\$.43	\$.40	\$ 1.17	\$ 1.09

Diluted weighted average shares outstanding for the quarter and nine months ended September 30, 2006 and 2005 included all outstanding options, as none were antidilutive.

3. **Employee Retirement Plans**

The components of the Company's net periodic pension cost were:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Benefits earned during the period	\$ 216,000	\$ 195,000	\$ 648,000	\$ 587,000
Interest cost on projected benefit obligation	425,000	396,000	1,277,000	1,188,000
Expected return on plan assets	(478,000)	(478,000)	(1,434,000)	(1,434,000)
Net amortization and deferral	135,000	107,000	404,000	322,000
Net pension expense	\$ 298,000	\$ 220,000	\$ 895,000	\$ 663,000

On September 6, 2006, the Company contributed \$1 million to its defined benefit pension plan.

4. Segment Information

The Company continues to operate in two operating segments: wholesale distribution and retail sales of men's footwear, which also constitute its reportable segments. None of the Company's operating segments were aggregated in determining the Company's reportable segments. The chief operating decision maker, the Company's Chief Executive Officer, evaluates the performance of its segments based on earnings from operations and accordingly, interest income, interest expense and other income or expense are not allocated to the segments. Summarized segment data for the three and nine months ended September 30, 2006 and 2005 was:

	<u>Wholesale Distribution</u>	<u>Retail</u>	<u>Total</u>
<u>Three Months Ended September 30</u>			
<u>2006</u>			
Product sales	\$ 48,472,000	\$ 6,697,000	\$ 55,169,000
Licensing revenues	916,000		916,000
Net sales	49,388,000	6,697,000	56,085,000
Earnings from operations	7,086,000	769,000	7,855,000
<u>2005</u>			
Product sales	\$ 48,264,000	\$ 6,036,000	\$ 54,300,000
Licensing revenues	919,000		919,000
Net sales	49,183,000	6,036,000	55,219,000
Earnings from operations	6,823,000	829,000	7,652,000
<u>Nine Months Ended September 30</u>			
<u>2006</u>			
Product sales	\$ 137,143,000	\$ 20,416,000	\$ 157,559,000
Licensing revenues	2,925,000		2,925,000
Net sales	140,068,000	20,416,000	160,484,000
Earnings from operations	18,763,000	2,783,000	21,546,000
<u>2005</u>			
Product sales	\$ 135,376,000	\$ 19,316,000	\$ 154,692,000
Licensing revenues	3,103,000		3,103,000
Net sales	138,479,000	19,316,000	157,795,000
Earnings from operations	17,503,000	3,160,000	20,663,000

5. Stock-Based Compensation Plans

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment, (SFAS 123(R)) using the modified prospective method. This method requires that companies recognize compensation expense for new grants and the unvested portion of prior grants at their fair value on the grant date and recognize this expense over the requisite service period for awards expected to vest. The results for prior year periods have not been restated. No stock-based employee compensation expense has been charged against income in the nine month period ended September 30, 2006, as there were no stock options granted during this period, and all of the Company's stock options granted prior to the effective date were 100% vested at the effective date. The Company's policy is to estimate the fair market value of each option granted on the date of grant using the Black-Scholes option pricing model and record the compensation expense on a straight-line basis over the vesting period. The Company issues new common stock to satisfy stock option exercises.

The following table illustrates the effect on quarterly net earnings per share for the three and nine month periods ended September 30, 2005, as if the fair value based method of SFAS No. 123, Accounting for Stock-Based Compensation, had been applied for all outstanding unvested awards for periods prior to the adoption of SFAS 123(R):

	Three Months ended September 30, 2005	Nine Months ended September 30, 2005
Net earnings, as reported	\$ 4,822,322	\$ 13,051,285
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	269,853	453,890
Pro forma net income	\$ 4,552,469	\$ 12,597,395
Earnings per share		
Basic - as reported	\$.42	\$ 1.13
Basic - pro forma.	\$.39	\$ 1.09
Diluted - as reported	\$.40	\$ 1.09
Diluted - pro forma	\$.38	\$ 1.05

At September 30, 2006, the Company had two stock option plans: the 1997 Stock Option Plan and the 2005 Equity Incentive Plan. Under the plans, options to purchase common stock were granted to officers and key employees at prices not less than the fair market value of the common stock on the date of the grant. Most options expire ten years from the grant date, with the exception of certain incentive stock options, which expire five years from the grant date. As of September 30, 2006, there were 798,750 shares remaining available for stock option grants under the 2005 Equity Incentive Plan.

The following table summarizes the stock option activity under the Company's plans for the nine-month period ended September 30, 2006:

	Shares	Weighted Average Exercise Price	Wtd. Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2005	1,537,048	\$ 11.44		
Exercised	(251,058)	\$ 7.28		
Outstanding at September 30, 2006	1,285,990	\$ 12.25	5.27	\$ 13,008,136

All of the outstanding stock options at September 30, 2006 were exercisable.

The following table summarizes stock option activity for the three- and nine-month periods ended September 30, 2006 and 2005:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Total intrinsic value of stock options exercised	\$ 875,935	\$ 318,460	\$ 3,072,980	\$ 1,965,258
Cash received from stock option exercises	\$ 633,090	\$ 419,245	\$ 1,828,579	\$ 1,722,494
Income tax benefit from the exercise of stock options	\$ 341,614	\$ 127,384	\$ 1,198,462	\$ 786,103
Total fair value of stock options vested	\$	\$ 441,780	\$	\$ 744,098

6. Comprehensive Income

Comprehensive income for the three- and nine-months ended September 30, 2006 and 2005 was as follows:

	Three Months Ended September 30,		Nine Months ended September 30,	
	2006	2005	2006	2005
Net earnings	\$ 5,168,138	\$ 4,822,322	\$ 14,119,459	\$ 13,051,285
Foreign currency translation adjustments	31,664	54,090	135,890	(162,384)
Total comprehensive income	\$ 5,199,802	\$ 4,876,412	\$ 14,255,349	\$ 12,888,901

The components of Accumulated Other Comprehensive Income as recorded on the accompanying balance sheets were as follows:

	September 30, 2006	December 31, 2005
Foreign currency translation adjustments	\$ 357,398	\$ 221,508

7. New Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109 (FIN 48). This Interpretation clarifies the accounting and disclosures for uncertainty in tax positions. FIN 48 provides that the tax effects from an uncertain tax position can be recognized in the Company's financial statements only if the position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 will be effective for the Company January 1, 2007. The Company is currently evaluating the impact of adopting FIN 48 on its financial statements.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans*, an amendment of FASB Statements No. 87, 88, 106, and 132 (R). SFAS No. 158 requires recognition of the over funded or under funded status of a defined benefit pension plan as an asset or a liability on the balance sheet and recognition of the changes in that funded status in the year in which changes occur through comprehensive income. SFAS No. 158 also requires an employer to measure the funded status of a plan as of the date of its year end balance sheet. Our use of a year end measurement date for all pension plans will not change. SFAS No. 158 is effective for financial statements issued for fiscal years ending after December 15, 2006. The Company is currently assessing the impact SFAS No. 158 will have on its consolidated financial statements upon adoption of the statement on December 31, 2006.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, to define fair value, establish a framework for measuring fair value in accordance with generally accepted accounting principles, and expand disclosures about fair value measurements. SFAS No. 157 will be effective for fiscal years ended after November 14, 2007, the Company's 2008 fiscal year. The Company is assessing the impact the adoption of SFAS No. 157 will have on its consolidated financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

The Company is a distributor of men's casual, dress and fashion shoes under the Florsheim, Nunn Bush, Nunn Bush NXXT, Brass Boot, Stacy Adams and SAO by Stacy Adams brand names. Inventory is purchased from third party overseas manufacturers. The majority of foreign-sourced purchases are denominated in U.S. dollars. The Company's products are sold to shoe specialty stores, department stores and clothing retailers primarily in North America, with some distribution in Europe. The Company also has a retail division, which as of September 30, 2006, consisted of 34 Company-owned retail stores in the United States, four in Europe and an Internet business. Sales in retail outlets are made directly to consumers by Company employees. The Company also has licensing agreements with third parties who sell its branded shoes overseas, as well as licensing agreements with apparel and accessory manufacturers in the United States. As such, the Company's results are primarily impacted by the economic conditions and the retail environment in the United States.

Overall, net earnings in the third quarter of 2006 were \$5.2 million, or \$.43 per diluted share compared with \$4.8 million, or \$.40 per diluted share in the same period of 2005. For the nine months ended September 30, 2006, net earnings were \$14.1 million, or \$1.17 per diluted share compared with \$13.1 million, or \$1.09 per diluted share in 2005. A detailed analysis of operating results follows.

RESULTS OF OPERATIONS

Consolidated net sales in the third quarter of 2006 were \$56.1 million, up from \$55.2 million in the prior year. For the nine months ended September 30, 2006, consolidated net sales increased to \$160.5 million from \$157.8 million in 2005. Sales in the Company's wholesale division for the three- and nine-month periods ended September 30, 2006 and 2005 were as follows:

Wholesale Division Sales

	Three Months ended September 30,			Nine Months ended September 30,		
	2006	2005	% change	2006	2005	% change
Stacy Adams	\$ 14,507,809	\$ 13,988,398	3.7%	\$ 42,410,963	\$ 41,466,069	2.3%
Nunn Bush	17,303,367	18,807,589	-8.0%	50,423,995	52,442,425	-3.8%
Florsheim	15,272,440	14,262,812	7.1%	40,562,138	38,239,495	6.1%
Foreign	1,387,974	1,205,188	15.2%	3,746,322	3,227,729	16.1%
Total Wholesale	\$ 48,471,590	\$ 48,263,987	0.4%	\$ 137,143,418	\$ 135,375,718	1.3%
Licensing	916,198	919,022	-0.3%	2,925,071	3,103,389	-5.7%
Total Wholesale Division	\$ 49,387,788	\$ 49,183,009	0.4%	\$ 140,068,489	\$ 138,479,107	1.1%

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The acquisition of one of the Company's significant customers by another retailer in 2005 resulted in some loss of sales volume at Nunn Bush and Florsheim in 2006. The acquiring company decided not to go forward with either the Nunn Bush or Florsheim product lines in its stores. Sales to this customer were down \$3.1 million and \$6.1 million for the current quarter and nine months, respectively. Total sales to this customer in 2005 were approximately \$12 million. The Company expects to lose a total of approximately \$9.2 million in sales volume during 2006 due to the loss of this customer.

The sales increase at Stacy Adams was attributable to growth in several categories of footwear within the brand, including high fashion, contemporary and casual styles. Quarterly and year-to-date sales in the Stacy Adams division were somewhat offset by a decline in sales of the SAO sub-brand this year.

Quarterly sales in the Nunn Bush division were down this year compared with last year due to \$1.8 million of lost sales to the customer discussed above. Sales to this customer were down \$3.7 million for the nine-month period ended September 30, 2006. For both the quarter and year-to-date, some of the lost business has been made up with other accounts.

In the current quarter, Florsheim sales were up 7.1%, despite the loss of \$1.3 million in sales to the major customer (discussed above). Florsheim sales for the first nine months of 2006 were up 6.1% compared with last year, despite the loss of approximately \$2.4 million in sales from the major customer and the loss of approximately \$2.1 million in sales of the FLS sub-brand following the Company's decision last year to discontinue FLS in the United States. Management believes this growth, despite the volume loss, reflects the positive reaction to the brand's evolution this year to more casual and contemporary styles in the line. In total, the discontinuation of FLS will cost the Company approximately \$2.5 million in sales volume during 2006 compared with 2005.

Retail net sales in the current quarter were up approximately 11% to \$6.7 million from \$6.0 million in the prior year. Year-to-date sales in the retail division increased to \$20.4 million this year from \$19.3 million last year. The quarter and year-to-date increases were primarily attributable to five additional stores at September 30, 2006 compared with September 30, 2005. Same store sales in the three- and nine-month periods ended September 30, 2006 were up 6% and 2%, respectively, compared with the same periods in the prior year. The Company continues to evaluate new store locations in the United States.

Overall gross earnings as a percent of net sales for the three months ended September 30, 2006 was 36.7% compared with 35.5% in the prior year period. Wholesale gross earnings as a percent of net sales for the quarter was 31.6% in 2006, up from 30.5% in 2005. Gross earnings as a percent of net sales in the retail division was 65.1% in the third quarter of 2006 compared with 65.5% in 2005.

Overall gross earnings as a percent of net sales for the nine months ended September 30, 2006 was 36.8% compared with 35.6% in 2005. Wholesale gross earnings as a percent of net sales for the nine months ended September 30 was 31.2% in 2006 and 30.0% in 2005. Retail gross earnings as a percent of net sales for the first nine months of this year was 65.4% and 64.7% last year. The increase in wholesale margins for the three and nine months ended September 30, 2006 was primarily the result of higher margins on new footwear, favorable purchase prices on selected product from our manufacturers, and the impact of fewer closeout sales this season.

The Company's cost of sales does not include distribution costs (e.g., receiving, inspection or warehousing costs). Distribution costs for the three-month periods ended September 30, 2006 and 2005, were \$1,596,000 and \$1,498,000, respectively. The Company's distribution costs to date in 2006 and 2005 were \$4,769,000 and \$4,561,000, respectively. The Company includes these costs in selling and administrative expenses. Therefore, the Company's gross earnings may not be comparable to other companies, as some companies may include distribution costs in cost of sales.

The Company's selling and administrative expenses include, and are primarily related to, distribution costs, salaries and commissions, advertising costs, employee benefit costs, rent and depreciation. In the current quarter, selling and administrative expenses as a percent of net sales were 22.7% versus 21.7% in 2005. Wholesale selling and administrative expenses as a percent of net wholesale sales were 18.9% in 2006 and 18.3% in 2005. Retail selling and administrative expenses as a percent of net sales were 53.6% in 2006 and 51.7% in 2005.

For the nine months ended September 30, selling and administrative expenses as a percent of net sales were 23.4% in 2006 versus 22.5% in 2005. Wholesale selling and administrative expenses as a percent of net wholesale sales to date were 19.7% in 2006 and 19.3% in 2005. Retail selling and administrative expenses as a percent of net sales increased to 51.8% in 2006 from 48.3% in 2005. The increase in retail expenses as a percent of sales for both the third quarter and first nine months of 2006 was due to higher expenses in relation to sales in the new stores, as well as increased costs associated with lease renewals at some existing stores.

Interest income in the third quarter and first nine months of 2006 was up over last year \$190,000 and \$757,000, respectively, due to higher interest earned on municipal bonds and cash. Interest expense in the three and nine months ended September 30, 2006 was up \$58,000 and \$206,000, respectively, over last year. The higher interest expense this year was due to higher interest rates on commercial paper in 2006 compared with 2005.

The effective tax rate for the quarter ended September 30, 2006 and 2005 was 36.9% and 38.7%, respectively. The effective tax rate for the nine months ended September 30, 2006 was 37.4% compared with 38.2% in the prior year. The lower rates in the current year resulted from the higher interest income earned on municipal bonds which is tax-exempt, lowering the Company's effective tax rate.

LIQUIDITY & CAPITAL RESOURCES

The Company's primary source of liquidity is its cash and short-term marketable securities, which aggregated approximately \$6.1 million at September 30, 2006 as compared with \$23.7 million at December 31, 2005.

Net cash provided by operating activities to date in 2006 was \$24.5 million lower than the same period in 2005 primarily due to the Company's efforts in 2005 to reduce inventory levels which resulted in an unusually high amount of cash provided by operations in 2005. In 2006, the Company built up inventory levels to accommodate additional needs this year. The Company also contributed \$1 million to its defined benefit pension plan in 2006.

Cash used for investing activities decreased \$1.7 million, mainly due to lower net purchases of marketable securities to date this year, as compared with 2005.

Cash flows used for financing activities in 2006 decreased \$2.9 million as compared with last year, primarily due to changes in net borrowings between periods.

As of September 30, 2006, the Company had a total of \$50 million available under its borrowing facility, of which total borrowings were \$11.6 million. The facility includes one financial covenant which specifies a minimum level of net worth. The Company was in compliance with the covenant at September 30, 2006. The facility has a 364-day term and expires April 30, 2007.

The Company will continue to evaluate the best uses for its free cash, including continued increased dividends, stock repurchases and acquisitions. The Company currently has 1.4 million shares available under its previously announced buyback program.

The Company believes that available cash and marketable securities, cash provided by operations, and available borrowing facilities will provide adequate support for the cash needs of the business in 2006.

FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements with respect to the Company's outlook for the future. These statements represent the Company's reasonable judgment with respect to future events and are subject to risks and uncertainties that could cause actual results to differ materially. These factors could include significant adverse changes in the economic conditions affecting overseas suppliers or the men's footwear markets served by the Company, as well as changes in interest rates, discount rates, or currency exchange rates.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes from those reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures designed to ensure that the information the Company must disclose in its filings with the Securities and Exchange Commission is recorded, processed, summarized and reported on a timely basis. The Company's Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act) as of the end of the period covered by this report (the Evaluation Date). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective in bringing to their attention on a timely basis material information relating to the Company required to be included in the Company's periodic filings under the Exchange Act. Such officers have also concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective in accumulating and communicating information in a timely manner allowing timely decisions regarding required disclosures.

There have not been any changes in the Company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In April 1998, the Company first authorized a stock repurchase program to purchase 1,500,000 shares of its common stock in open market transactions at prevailing prices. In April 2000 and again in May 2001, the Company's Board of Directors extended the stock repurchase program to cover the repurchase of 1,500,000 additional shares. Therefore, 4,500,000 shares have been authorized for repurchase since the program began. The table below presents information pursuant to Item 703(a) of Regulation S-K regarding the repurchase of the Company's Common Stock by the Company in the three-month period ended September 30, 2006.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of the Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program
07/01/06 - 07/31/06	2,850	\$ 23.26	2,850	1,436,236
08/01/06 - 08/31/06	12,289	\$ 20.61	12,289	1,426,947
09/01/06 - 09/30/06	43,350	\$ 21.44	43,350	1,380,597
Total	58,489	\$ 21.36	58,489	1,380,597

Item 6. Exhibits

See the Exhibit Index included herewith for a listing of exhibits.

SIGNATURES

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

WEYCO GROUP, INC.

Date November 2, 2006

/s/ John F. Wittkowske

John F. Wittkowske
Senior Vice President and
Chief Financial Officer

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WEYCO GROUP, INC.
(THE REGISTRANT)
(COMMISSION FILE NO. 0-9068)

EXHIBIT INDEX
TO
CURRENT REPORT ON FORM 10-Q
DATE OF SEPTEMBER 30, 2006

EXHIBIT NUMBER	DESCRIPTION	INCORPORATED HEREIN BY REFERENCE TO	FILED HEREWITH
31.1	<u>Certification of Chief Executive Officer</u>		X
31.2	<u>Certification of Chief Financial Officer</u>		X
32.1	<u>Section 906 Certification of Chief Executive Officer</u>		X
32.2	<u>Section 906 Certification of Chief Financial Officer</u>		X

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