

DELAWARE INVESTMENTS MINNESOTA MUNICIPAL INCOME FUND II, INC
Form N-CSR
June 06, 2016

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:	811-07420
Exact name of registrant as specified in charter:	Delaware Investments [®] Minnesota Municipal Income Fund II, Inc.
Address of principal executive offices:	2005 Market Street Philadelphia, PA 19103
Name and address of agent for service:	David F. Connor, Esq. 2005 Market Street Philadelphia, PA 19103
Registrant's telephone number, including area code:	(800) 523-1918
Date of fiscal year end:	March 31
Date of reporting period:	March 31, 2016

Item 1. Reports to Stockholders

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Delaware Investments[®] Closed-End Municipal Bond Funds

Annual report

March 31, 2016

The figures in the annual report for Delaware Investments Closed-End Municipal Bond Funds represent past results, which are not a guarantee of future results. A rise or fall in interest rates can have a significant impact on bond prices. Funds that invest in bonds can lose their value as interest rates rise.

Closed-end funds

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Unless otherwise noted, views expressed herein are current as of March 31, 2016, and subject to change for events occurring after such date.

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

Mutual fund advisory services are provided by Delaware Management Company, a series of Delaware Management Business Trust, which is a registered investment advisor. Delaware Investments, a member of Macquarie Group, refers to Delaware Management Holdings, Inc. and its subsidiaries. Macquarie Group refers to Macquarie Group Limited and its subsidiaries and affiliates worldwide.

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Portfolio management review

Delaware Investments® Closed-End Municipal Bond Funds

April 12, 2016 (Unaudited)

Economic conditions

For the fiscal year ended March 31, 2016, the U.S. economy continued along its slow but steady growth path. The country's gross domestic product (GDP) — a widely used measure of economic performance — grew by 2.4% in calendar year 2015, according to the U.S. Commerce Department, matching the prior year's result. The expansion, partly driven by increased consumer spending, was accompanied by further gains in the national labor market. At the Funds' fiscal year end, the U.S. jobless rate was 5.0%, down half a percentage point from 12 months earlier. Nevertheless, a weak global economic backdrop coupled with declining corporate profits contributed to the decision of the U.S. Federal Reserve to slow the pace of its widely anticipated interest rate increases. Although the Fed did ultimately raise its benchmark federal funds rate in December 2015 — the first such rate hike in nine years — that increase came months later than investors originally expected. What's more, the Fed opted to leave rates alone for the rest of the period, citing continued economic uncertainty and a seemingly manageable level of inflation.

Municipal bond market conditions

Against this economic backdrop, the Barclays Municipal Bond Index, a measure of the long-term, investment grade tax-exempt bond market, returned +3.98% for the Funds' fiscal year. Early on, municipal bonds struggled in an environment of reduced demand coupled with increased supply, as issuers actively sought to refinance outstanding debt prior to the Fed's expected rate hikes. Beginning in the third quarter of 2015, however, and continuing through much of the rest of the fiscal year, the municipal bond market rallied. It ultimately finished the 12 months in positive territory, as demand picked up and investors concluded, correctly, that the Fed would take its time raising rates.

Overall, credit spreads continued to narrow, meaning that investors finished the 12 months somewhat more willing to accept credit risk in exchange for income. Lower- and below-investment-grade bonds generally outperformed their higher-quality counterparts. Meanwhile, the municipal yield curve flattened, indicating that short-dated bonds saw their yields rise modestly, while intermediate- and longer-maturity issues saw their yields drift downward, while their prices rose accordingly (bond yields and prices move in opposite directions).

Sticking to our strategy

In managing the three Funds, we followed the consistent strategy we regularly use, regardless of market conditions. We apply a bottom-up investment approach — meaning we invest on an issuer-by-issuer basis — to select those securities we believe provide a favorable risk-reward balance for our shareholders.

Because of our confidence in our team's credit research capabilities, we generally overweight lower-investment-grade bonds, and, when

consistent with the Funds' objectives, we also maintain allocations to bonds rated below investment grade. Many of our lower- and below-investment-grade holdings are longer dated, as we believe they provide better opportunities for us to add long-term value for shareholders.

During the fiscal year, we made relatively few changes to the three Funds' portfolios. This reflected the fact that many of the Funds' older bonds were issued during periods of higher interest rates and offered attractive yields, especially compared with newer bonds offering lower coupons. In other words, we were reluctant to exchange existing holdings for more recent bonds with less attractive performance characteristics.

Those relatively few new purchases we did make were primarily funded with the proceeds of bond calls and maturities taking place in each of the Funds' portfolios. In the rare instances we had capital to invest, in our view we did so in the best available opportunities we could find in each Fund's investment universe, with many of the new additions consisting of bonds with maturities ranging from 20 to 30 years, representing the portion of the yield curve where we saw good long-term potential. Our new purchases included various lower-rated charter school issues, as we have continued to find increasing numbers of opportunities in this area of the market. We also invested in the healthcare sector, specifically continuing care retirement community (CCRC) bonds, in **Delaware Investments Colorado Municipal Income Fund, Inc.** and **Delaware Investments Minnesota Municipal Income Fund II, Inc.**

In **Delaware Investments Minnesota Municipal Income Fund II, Inc.**, we encountered a relatively high number of bond calls. Because of supply patterns in the state, a relatively high percentage of the Fund's portfolio was originally acquired during a several-year span more than a decade ago, at a time of much higher interest rates. Now, many of the bonds are eligible to be redeemed or called—an attractive situation for borrowers, but a challenging situation for the Fund, as it has left us with a pool of cash requiring reinvestment in a less favorable interest rate environment. Our approach has been to invest in lower-rated Minnesota issues when possible, while also periodically adding highly liquid, highly rated bonds as placeholders as we await future opportunities that may more directly fit our credit- and value-oriented management strategy.

Another strategy we periodically employed in all three Funds, and most often in **Delaware Investments Colorado Municipal Income Fund, Inc.**, was to sell some very short-dated bonds whose performance prospects we found limited and reinvest the proceeds in longer-dated general obligation bonds, whose income characteristics we found more desirable.

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Portfolio management review

Delaware Investments® Closed-End Municipal Bond Funds

Individual performance effects

In **Delaware Investments Colorado Municipal Income Fund, Inc.**, we saw particularly good results from lower-investment-grade hospital bonds of Colorado Health Facilities Authority for Total Long-Term Care and nonrated issues for the Tallyn s Reach Metropolitan District. These bonds returned more than 12% and 8%, respectively, for the fiscal year, significantly outpacing the return of the benchmark.

In contrast, the Fund s weakest-performing bonds were generally pre-refunded issues, which were held back by the securities very short maturity dates and very high credit quality both out-of-favor characteristics during the Funds fiscal year. Specifically, the Fund s holdings in bonds for the Adams & Arapahoe Counties Joint School District No. 28J and the Colorado State Board of Governors University Enterprise System produced only slightly positive returns.

In **Delaware Investments National Municipal Income Fund**, the strongest-performing securities by a wide margin were long-dated tobacco securitization bonds issued in both California and Ohio. This debt, backed by tobacco industry revenues, fared very well; demand for the bonds picked up for these securities in light of perceived improvements in the issuers credit quality.

Although most tobacco bonds were exceptional performers over the 12 months, the Fund s position in Railsplitter (Illinois) Tobacco Settlement Authority bonds managed only a very modest gain, owing to the bonds very short call date and investment grade credit rating. Elsewhere, the Fund s holdings in Gila County (Arizona) Unified School District No. 10 bonds also produced a minimally positive return for the fiscal year.

Delaware Investments Minnesota Municipal Income Fund II, Inc. benefited from positions in Deephaven Charter School bonds for the Eagle Ridge Academy Project and bonds for the Minneapolis National Marrow Donor Program project. Because these securities were pre-refunded during the fiscal year, they received an immediate boost in their prices as their credit quality improved, making their relatively high income stream even more attractive to investors. These bonds gained more than 20% and 9%, respectively, for the fiscal year.

The Fund s weakest performer was St. Paul Port Authority Revenue corporate-backed industrial development revenue solid-waste bonds for Gerdau Steel, a Brazilian steel company. These lower-investment-grade bonds with a 2037 maturity date struggled because of the twin headwinds of declining steel prices coupled with Brazil s economic weakness and political turmoil. Although we trimmed the Fund s allocation to these bonds, commensurate with our assessment of their risk, we remained comfortable maintaining a position in these credits. In fact, demand for the securities increased toward the end of the fiscal year, allowing the bonds to regain a portion of their lost value. To a lesser extent, the Fund also saw subpar results from a position in charter school bonds for Academia Cesar Chavez, as negative investor sentiment weighed on these credits.

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Fund basics

Delaware Investments®

Colorado Municipal Income Fund, Inc.

As of March 31, 2016 (Unaudited)

Fund objective

The Fund seeks to provide current income exempt from both regular federal income tax and Colorado state personal income tax, consistent with the preservation of capital.

Total Fund net assets

\$76 million

Number of holdings

87

Fund start date

July 29, 1993

CUSIP number

246101109

Delaware Investments

Minnesota Municipal Income Fund II, Inc.

As of March 31, 2016 (Unaudited)

Fund objective

The Fund seeks to provide current income exempt from both regular federal income tax and Minnesota state personal income tax, consistent with the preservation of capital.

Total Fund net assets

\$173 million

Number of holdings

172

Fund start date

Feb. 26, 1993

CUSIP number

24610V103

Delaware Investments

National Municipal Income Fund

As of March 31, 2016 (Unaudited)

Fund objective

The Fund seeks to provide current income exempt from regular federal income tax, consistent with the preservation of capital.

Total Fund net assets

\$68 million

Number of holdings

161

Fund start date

Feb. 26, 1993

CUSIP number

24610T108

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Security type / sector / state allocations

As of March 31, 2016 (Unaudited)

Sector designations may be different than the sector designations presented in other Fund materials.

Delaware Investments®**Colorado Municipal Income Fund, Inc.**

Security type / sector	Percentage of net assets
Municipal Bonds*	139.01%
Corporate-Backed Revenue Bonds	4.73%
Education Revenue Bonds	26.74%
Electric Revenue Bonds	3.38%
Healthcare Revenue Bonds	42.25%
Lease Revenue Bonds	5.82%
Local General Obligation Bonds	14.74%
Pre-Refunded/Escrowed to Maturity Bonds	5.74%
Special Tax Revenue Bonds	24.99%
Transportation Revenue Bonds	7.85%
Water & Sewer Revenue Bond	2.77%
Total Value of Securities	139.01%
Liquidation Value of Preferred Stock	(39.59)%
Receivables and Other Assets Net of Liabilities	0.58%
Total Net Assets	100.00%

* As of the date of this report, Delaware Investments Colorado Municipal Income Fund, Inc. held bonds issued by or on behalf of territories and the states of the United States as follows:

State / territory	Percentage of net assets
Colorado	136.80%
Guam	1.46%
U.S. Virgin Islands	0.75%

Total Value of Securities	139.01%
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Delaware Investments**Minnesota Municipal Income Fund II, Inc.**

Security type / sector	Percentage of net assets
Municipal Bonds*	141.35%
Corporate-Backed Revenue Bonds	5.94%
Education Revenue Bonds	19.56%
Electric Revenue Bonds	10.12%
Healthcare Revenue Bonds	33.52%
Housing Revenue Bonds	3.26%
Lease Revenue Bonds	15.01%
Local General Obligation Bonds	8.11%
Pre-Refunded/Escrowed to Maturity Bonds	18.48%
Special Tax Revenue Bonds	5.53%
State General Obligation Bonds	15.30%
Transportation Revenue Bonds	4.46%
Water & Sewer Revenue Bonds	2.06%
Total Value of Securities	141.35%
Liquidation Value of Preferred Stock	(43.32)%
Receivables and Other Assets Net of Liabilities	1.97%
Total Net Assets	100.00%

* As of the date of this report, Delaware Investments Minnesota Municipal Income Fund II, Inc. held bonds issued by or on behalf of territories and the states of the United States as follows:

State / territory	Percentage of net assets
Guam	0.57%
Minnesota	140.78%

Total Value of Securities	141.35%
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Table of Contents**Delaware Investments®****National Municipal Income Fund**

	Percentage of net assets
Municipal Bonds*	140.67%
Corporate-Backed Revenue Bonds	12.75%
Education Revenue Bonds	21.41%
Electric Revenue Bonds	4.04%
Healthcare Revenue Bonds	20.64%
Housing Revenue Bond	0.68%
Lease Revenue Bonds	9.19%
Local General Obligation Bonds	2.44%
Pre-Refunded/Escrowed to Maturity Bonds	15.28%
Special Tax Revenue Bonds	21.70%
State General Obligation Bonds	3.62%
Transportation Revenue Bonds	23.40%
Water & Sewer Revenue Bonds	5.52%
Short-Term Investment	1.47%
Total Value of Securities	142.14%
Liquidation Value of Preferred Stock	(44.11)%
Receivables and Other Assets Net of Liabilities	1.97%
Total Net Assets	100.00%

* As of the date of this report, Delaware Investments National Municipal Income Fund held bonds issued by or on behalf of territories and the states of the United States as follows:

	Percentage of net assets
State / territory	
Alabama	2.26%
Alaska	0.50%
Arizona	10.84%
California	18.91%
Colorado	1.44%
District of Columbia	0.40%
Florida	6.84%
Georgia	4.29%
Guam	2.19%
Hawaii	0.49%
Idaho	1.57%
Illinois	5.83%
Indiana	0.95%
Kansas	0.38%
Louisiana	4.33%
Maine	0.50%
Maryland	3.22%
Massachusetts	1.41%
Michigan	1.67%
Minnesota	5.25%
Mississippi	1.47%
Missouri	4.00%
New Hampshire	0.50%
New Jersey	7.80%
New Mexico	0.80%
New York	17.81%
North Carolina	0.43%
Ohio	2.67%
Oregon	3.82%
Pennsylvania	14.52%
Texas	10.87%
Virginia	0.88%
Washington	1.33%
West Virginia	0.80%
Wisconsin	0.75%
Wyoming	0.42%
Total Value of Securities	142.14%

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Schedules of investments

Delaware Investments® Colorado Municipal Income Fund, Inc.

March 31, 2016

	Principal Amount^o	Value (U.S. \$)
Municipal Bonds 139.01%		
Corporate-Backed Revenue Bonds 4.73%		
Public Authority for Colorado Energy Revenue 6.25% 11/15/28	865,000	\$ 1,113,169
Public Authority of Colorado Energy Natural Gas Revenue Series 2008 6.50% 11/15/38	1,750,000	2,472,750
		3,585,919
Education Revenue Bonds 26.74%		
Colorado Educational & Cultural Facilities Authority Revenue 144A 5.00% 7/1/36 #	500,000	520,250
5.125% 11/1/49	765,000	786,466
144A 5.25% 7/1/46 #	500,000	519,405
(Academy Charter School Project) 5.50% 5/1/36 (SGI)	1,720,000	1,726,089
(Charter School - Atlas Preparatory School) 144A 5.25% 4/1/45 #	700,000	700,994
(Charter School - Community Leadership Academy) 7.45% 8/1/48	500,000	598,250
(Charter School - Peak to Peak Charter) 5.00% 8/15/34	1,000,000	1,132,030
(Improvement - Charter School - University Lab School Building) 144A 5.00% 12/15/45 #	500,000	504,560
(Johnson & Wales University) Series A 5.25% 4/1/37	900,000	1,025,784
(Liberty Charter School) Series A 5.00% 1/15/44	1,000,000	1,093,590
(Littleton Charter School Project) 4.375% 1/15/36 (AGC)	1,200,000	1,207,716
(Skyview Charter School) 144A 5.50% 7/1/49 #	750,000	806,310
(Student Housing - Campus Village Apartments) 5.00% 6/1/23	1,065,000	1,144,875
Colorado School of Mines Series B 5.00% 12/1/42	2,500,000	2,833,900
		Value
	Principal Amount^o	(U.S. \$)

Municipal Bonds (continued)

Education Revenue Bonds (continued)

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Colorado State Board of Governors (University Enterprise System) Series A 5.00% 3/1/39	10,000	\$	11,001
University of Colorado 5.00% 6/1/31	3,185,000		3,662,718
Series A 5.00% 6/1/33	1,000,000		1,168,790
Western State College 5.00% 5/15/34	750,000		818,325
			20,261,053
Electric Revenue Bonds 3.38%			
Colorado Springs Utilities System Improvement Revenue Series A 5.00% 11/15/45	750,000		880,020
Platte River Power Authority Series HH 5.00% 6/1/28	1,500,000		1,686,180
			2,566,200
Healthcare Revenue Bonds 42.25%			
Aurora Hospital Revenue (Children s Hospital Association Project) Series A 5.00% 12/1/40	4,000,000		4,379,960
Colorado Health Facilities Authority Revenue (Catholic Health Initiatives) Series A 5.00% 7/1/39	750,000		808,395
Series A 5.00% 2/1/41	2,400,000		2,625,120
Series A 5.25% 2/1/33	1,625,000		1,811,907
Series A 5.25% 1/1/45	1,000,000		1,142,750
Series D 6.125% 10/1/28	750,000		835,597
(Christian Living Community Project) 6.375% 1/1/41	615,000		669,809
Series A 5.75% 1/1/37	885,000		895,682
(Covenant Retirement Communities Inc.) 5.00% 12/1/35	1,000,000		1,102,280
Series A 5.75% 12/1/36	1,000,000		1,141,070
(Evangelical Lutheran Good Samaritan Society) 5.00% 6/1/28 5.50% 6/1/33	1,250,000		1,428,350
5.625% 6/1/43	2,000,000		2,325,100
	1,000,000		1,167,050

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	Principal Amount^o	Value (U.S. \$)
Municipal Bonds (continued)		
Healthcare Revenue Bonds (continued)		
Colorado Health Facilities Authority Revenue (Healthcare Facilities - American Baptist) 8.00% 8/1/43	500,000	\$ 601,585
(Mental Health Center of Denver Project) Series A 5.75% 2/1/44	1,500,000	1,722,210
(National Jewish Health Project) 5.00% 1/1/27	500,000	529,245
(Sisters of Charity of Leavenworth Health System) Series A 5.00% 1/1/40	4,750,000	5,260,387
Sunny Vista Living Center Series A 6.25% 12/1/50	505,000	522,720
Vail Valley Medical Center Project 5.00% 1/15/35	1,250,000	1,462,387
Denver Health & Hospital Authority Health Care Revenue (Recovery Zone Facilities) 5.625% 12/1/40	750,000	830,107
University of Colorado Hospital Authority Revenue Series A 6.00% 11/15/29	650,000	749,379