

DREYFUS STRATEGIC MUNICIPAL BOND FUND INC  
Form N-CSRS  
July 31, 2014

**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      811-5877

Dreyfus Strategic Municipal Bond Fund, Inc.  
(Exact name of Registrant as specified in charter)

c/o The Dreyfus Corporation

200 Park Avenue

New York, New York 10166  
(Address of principal executive offices) (Zip code)

John Pak, Esq.

200 Park Avenue

New York, New York 10166  
(Name and address of agent for service)

Registrant's telephone number, including area code:      (212) 922-6000

Date of fiscal year end:      11/30

Date of reporting period:      5/31/14

**FORM N-CSR**

**Item 1. Reports to Stockholders.**

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Dreyfus  
Strategic Municipal  
Bond Fund, Inc.

**SEMIANNUAL REPORT** May 31, 2014

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## **Dreyfus Strategic Municipal Bond Fund, Inc.**

### **Protecting Your Privacy**

**THE FUND IS COMMITTED TO YOUR PRIVACY.** On this page, you will find the Fund's policies and practices for collecting, disclosing, and safeguarding "nonpublic personal information," which may include financial or other customer information. These policies apply to individuals who purchase Fund shares for personal, family, or household purposes, or have done so in the past. This notification replaces all previous statements of the Fund's consumer privacy policy, and may be amended at any time. We'll keep you informed of changes as required by law.

**YOUR ACCOUNT IS PROVIDED IN A SECURE ENVIRONMENT.** The Fund maintains physical, electronic and procedural safeguards that comply with federal regulations to guard nonpublic personal information. The Fund's agents and service providers have limited access to customer information based on their role in servicing your account.

### **THE FUND COLLECTS INFORMATION IN ORDER TO SERVICE AND ADMINISTER YOUR ACCOUNT.**

The Fund collects a variety of nonpublic personal information, which may include:

- Information we receive from you, such as your name, address, and social security number.
- Information about your transactions with us, such as the purchase or sale of Fund shares.
- Information we receive from agents and service providers, such as proxy voting information.

**THE FUND DOES NOT SHARE NONPUBLIC PERSONAL INFORMATION WITH ANYONE UNLESS NECESSARY TO PROCESS A TRANSACTION, SERVICE AN ACCOUNT, OR AS OTHERWISE PERMITTED BY LAW.**

*Thank you for this opportunity to serve you.*

The views expressed in this report reflect those of the portfolio manager only through the end of the period covered and do not necessarily represent the views of Dreyfus or any other person in the Dreyfus organization. Any such views are subject to change at any time based upon market or other conditions and Dreyfus disclaims any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions for a Dreyfus fund are based on numerous factors, may not be relied on as an indication of trading intent on behalf of any Dreyfus fund.

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Dreyfus  
Strategic Municipal Bond Fund, Inc.

# The Fund

## A LETTER FROM THE PRESIDENT

Dear Shareholder:

We are pleased to present this semiannual report for Dreyfus Strategic Municipal Bond Fund, Inc., covering the six-month period from December 1, 2013, through May 31, 2014. For information about how the fund performed during the reporting period, as well as general market perspectives, we provide a Discussion of Fund Performance on the pages that follow.

Municipal bonds generally stabilized over the past six months in the wake of previously heightened volatility, enabling them to post solidly positive total returns, on average, for the reporting period. Investors generally took the Federal Reserve Board's gradual shift to a more moderately accommodative monetary policy in stride, investor demand rebounded while the supply of newly issued securities ebbed, and most states and municipalities saw improved credit conditions in the recovering U.S. economy.

We remain cautiously optimistic regarding the municipal bond market's prospects over the months ahead. We expect the domestic economy to continue to strengthen, which could support higher tax revenues for most states and municipalities. We also anticipate rising demand for a limited supply of securities as more income-oriented investors seek the tax advantages of municipal bonds. As always, we encourage you to discuss our observations with your financial advisor to assess their potential impact on your investments.

Thank you for your continued confidence and support.

J. Charles Cardona  
President  
The Dreyfus Corporation  
June 16, 2014

## DISCUSSION OF FUND PERFORMANCE

*For the period from December 1, 2013, through May 31, 2014, as provided by Daniel Barton and Steven Harvey, Portfolio Managers*

### Fund and Market Performance Overview

For the six-month period ended May 31, 2014, Dreyfus Strategic Municipal Bond Fund achieved a total return of 11.92% on a net-asset-value basis.<sup>1</sup> Over the same period, the fund provided aggregate income dividends of \$0.285 per share, which reflects an annualized distribution rate of 6.98%.<sup>2</sup>

The municipal bond market generally rallied over the reporting period when long-term interest rates moderated, investor demand rebounded, the supply of newly issued securities declined, and credit conditions improved. The fund's results benefited from its focus on lower rated and longer maturity securities, which generally outperformed their higher quality and shorter term counterparts.

### The Fund's Investment Approach

The fund seeks to maximize current income exempt from federal income tax to the extent believed by Dreyfus to be consistent with the preservation of capital. In pursuing this goal, the fund invests at least 80% of its assets in municipal bonds. Under normal market conditions, the weighted average maturity of the fund's portfolio is expected to exceed 10 years. Under normal market conditions, the fund invests at least 80% of its net assets in municipal bonds considered investment grade or the unrated equivalent as determined by Dreyfus.

The fund also has issued auction-rate preferred stock (ARPS), a percentage of which remains outstanding from its initial public offering, and has invested the proceeds in a manner consistent with its investment objective. This, along with the fund's participation in secondary inverse floater structures, has the effect of "leveraging" the portfolio, which can magnify gain and loss potential depending on market conditions.

Over time, many of the fund's older, higher yielding bonds have matured or were redeemed by their issuers. We have attempted to replace those bonds with investments consistent with the fund's investment policies. We have also sought to upgrade the fund with newly issued bonds that, in our opinion, have better structural or income characteristics than existing holdings. When such opportunities arise, we usually look to sell bonds that are close to their optional redemption date or maturity.

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DISCUSSION OF FUND PERFORMANCE *(continued)*

**Most Municipal Bonds Rebounded from Earlier Weakness**

In the months before the start of the reporting period, municipal bonds had endured market declines stemming from the Federal Reserve Board's (the "Fed") plans to back away from its quantitative easing program. The Fed's announcement sparked a flight of capital from the municipal bond market and sent long-term bond prices lower and yields higher. Selling pressure was particularly severe among lower rated and longer term securities.

However, the reporting period witnessed a market recovery amid weaker-than-expected economic data due to unusually harsh winter weather. Municipal bond prices also were supported by favorable supply-and-demand dynamics when investor demand recovered and less refinancing activity produced a reduced supply of newly issued securities.

The economic rebound resulted in better underlying credit conditions for most issuers as tax revenues increased, enabling many states to achieve budget surpluses and replenish reserves. However, credit concerns lingered with regard to two issuers: The City of Detroit had filed for bankruptcy protection, and municipal bonds issued by Puerto Rico lost value after media reports detailed the U.S. territory's fiscal challenges.

**Lower Quality Bonds Boosted Relative Performance**

The fund proved well positioned for the 2014 market rally through its emphasis on lower rated securities that, in our judgment, were punished more severely than warranted by their underlying fundamentals. The fund achieved especially robust results from municipal bonds with credit ratings of BBB and lower. The fund's overweighted exposure to revenue bonds also added value, particularly those backed by industrial development projects and the states' settlement of litigation with U.S. tobacco companies, which gained value as investors resumed their reach for higher yields. The fund's focus on longer maturities proved effective when long-term interest rates moderated and yield differences narrowed along the market's maturity range.

On the other hand, the benefits of the fund's constructive investment posture were partly offset by weakness among its holdings of Puerto Rico securities, which were hurt by publicity surrounding the U.S. territory's economic challenges and unsustainable pension liabilities.



The fund's leveraging strategy worked well in the rising market environment. During the period, the fund redeemed a percentage of auction-rate securities outstanding and utilized tender option bonds to provide leverage accordingly.

#### Maintaining an Emphasis on Income

We already have seen evidence of a stronger U.S. economic recovery in warmer spring weather, including a strengthening labor market and improved investor confidence. In addition, we believe that recently positive market trends have been driven, in part, by investors returning their focus to market and issuer fundamentals now that the Fed is tapering its quantitative easing program. In light of these positive developments, we have maintained the fund's focus on securities with strong income characteristics, including those with lower credit ratings and longer maturities.

June 16, 2014

*Bond funds are subject generally to interest rate, credit, liquidity, and market risks, to varying degrees, all of which are more fully described in the fund's prospectus. Generally, all other factors being equal, bond prices are inversely related to interest-rate changes, and rate increases can cause price declines.*

*High yield bonds are subject to increased credit risk and are considered speculative in terms of the issuer's perceived ability to continue making interest payments on a timely basis and to repay principal upon maturity.*

*The use of leverage may magnify the fund's gains or losses. For derivatives with a leveraging component, adverse changes in the value or level of the underlying asset can result in a loss that is much greater than the original investment in the derivative.*

*1 Total return includes reinvestment of dividends and any capital gains paid, based upon net asset value per share. Past performance is no guarantee of future results. Income may be subject to state and local taxes, and some income may be subject to the federal alternative minimum tax (AMT) for certain investors. Capital gains, if any, are fully taxable.*

*Return figures provided reflect the absorption of certain fund expenses by The Dreyfus Corporation (the "Manager" or "Dreyfus") pursuant to an undertaking in effect through November 30, 2014, at which time it may be extended, terminated, or modified. Had these expenses not been absorbed, the fund's returns would have been lower.*

*2 Annualized distribution rate per share is based upon dividends per share paid from net investment income during the period, annualized, divided by the market price per share at the end of the period, adjusted for any capital gain distributions.*

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## STATEMENT OF INVESTMENTS

May 31, 2014 (Unaudited)

| <b>Long-Term Municipal Investments—144.9%</b>   | Coupon Rate (%) | Maturity Date | Principal Amount (\$)     | Value (\$) |
|---|-----------------|---------------|---------------------------|------------|
| <b>Alabama—1.2%</b>   |                 |               |                           |            |
| Jefferson County, Limited Obligation School Warrants  | 5.25            | 1/1/17        | 2,000,000                 | 2,009,980  |
| Jefferson County, Limited Obligation School Warrants  | 5.25            | 1/1/19        | 2,150,000                 | 2,160,578  |
| Jefferson County, Limited Obligation School Warrants  | 5.00            | 1/1/24        | 1,000,000                 | 1,000,010  |
| <b>Alaska—2.2%</b>  |                 |               |                           |            |
| Northern Tobacco Securitization Corporation of Alaska, Tobacco Settlement Asset-Backed Bonds  | 5.00            | 6/1/32        | 2,500,000                 | 2,059,325  |
| Northern Tobacco Securitization Corporation of Alaska, Tobacco Settlement Asset-Backed Bonds  | 5.00            | 6/1/46        | 9,465,000                 | 7,156,013  |
| <b>Arizona—6.1%</b>   |                 |               |                           |            |
| Barclays Capital Municipal Trust Receipts (Series 21 W) Recourse (Salt River Project Agricultural Improvement and Power District, Salt River Project Electric System Revenue) | 5.00            | 1/1/38        | 13,198,367 <sup>a,b</sup> | 14,544,833 |
| Pima County Industrial Development Authority, Education Revenue (American Charter Schools Foundation Project)   | 5.50            | 7/1/26        | 4,000,000                 | 3,770,560  |
| Pima County Industrial Development Authority, IDR (Tucson Electric Power Company Project)   | 5.75            | 9/1/29        | 6,000,000                 | 6,111,900  |
| Salt Verde Financial Corporation, Senior Gas Revenue  | 5.00            | 12/1/37       | 1,000,000                 | 1,113,970  |
| <b>California—17.1%</b>   |                 |               |                           |            |

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|                                  |      |         |               |           |
|----------------------------------|------|---------|---------------|-----------|
| Barclays Capital Municipal Trust |      |         |               |           |
| Receipts (Series 80 W)           |      |         |               |           |
| Recourse (Los Angeles            |      |         |               |           |
| Department of Airports, Senior   |      |         |               |           |
| Revenue (Los Angeles             |      |         |               |           |
| International Airport))          | 5.00 | 5/15/31 | 5,247,500 a,b | 5,937,796 |

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| <b>Long-Term Municipal Investments (continued)</b>   | Coupon Rate (%) | Maturity Date | Principal Amount (\$)    | Value (\$) |
|--|-----------------|---------------|--------------------------|------------|
| <b>California (continued)</b>  |                 |               |                          |            |
| California, GO (Various Purpose)   | 5.75            | 4/1/31        | 7,800,000                | 9,246,510  |
| California, GO (Various Purpose)   | 6.00            | 3/1/33        | 2,250,000                | 2,723,760  |
| California, GO (Various Purpose)   | 6.50            | 4/1/33        | 5,000,000                | 6,129,100  |
| California, GO (Various Purpose)   | 6.00            | 11/1/35       | 5,000,000                | 6,052,300  |
| California Statewide Communities Development Authority, Revenue (Front Porch Communities and Services Project)   | 5.13            | 4/1/37        | 4,975,000 <sup>b</sup>   | 5,051,317  |
| JPMorgan Chase Putters/Drivers Trust (Series 4361) Non-recourse (Los Angeles Department of Water and Power, Water System Revenue)                        | 5.00            | 7/1/20        | 5,000,000 <sup>a,b</sup> | 5,540,800  |
| JPMorgan Chase Putters/Drivers Trust (Series 4414) Non-recourse (Los Angeles Department of Airports, Senior Revenue (Los Angeles International Airport)) | 5.00            | 5/15/21       | 6,000,000 <sup>a,b</sup> | 6,563,700  |
| JPMorgan Chase Putters/Drivers Trust (Series 4421) Non-recourse (The Regents of the University of California, General Revenue)                           | 5.00            | 5/15/21       | 6,250,000 <sup>a,b</sup> | 7,039,750  |
| Los Angeles Department of Water and Power, Power System Revenue  | 5.00            | 7/1/34        | 2,885,000                | 3,216,025  |
| Sacramento County, Airport System Subordinate and Passenger Facility Charges Grant Revenue   | 6.00            | 7/1/35        | 4,000,000                | 4,621,360  |

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|  |      |         |           |           |
|--|------|---------|-----------|-----------|
| San Buenaventura,<br>Revenue (Community Memorial<br>Health System) | 7.50 | 12/1/41 | 1,500,000 | 1,738,830 |
|--|------|---------|-----------|-----------|

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STATEMENT OF INVESTMENTS (Unaudited) (continued)

| <b>Long-Term Municipal Investments (continued)</b>   | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|--|-----------------|---------------|-----------------------|------------|
| <b>California (continued)</b>  |                 |               |                       |            |
| Santa Margarita/Dana Point Authority, Revenue (Santa Margarita Water District Improvement Districts Numbers 2,3 and 4)                           | 5.13            | 8/1/38        | 5,000,000             | 5,641,350  |
| Tuolumne Wind Project Authority, Revenue (Tuolumne Company Project)  | 5.88            | 1/1/29        | 2,000,000             | 2,397,660  |
| <b>Colorado—1.3%</b>   |                 |               |                       |            |
| JPMorgan Chase Putters/Drivers Trust (Series 4386) Non-recourse (Board of Governors of the Colorado State University, System Enterprise Revenue) | 5.00            | 3/1/20        | 4,950,000 a,b         | 5,451,831  |
| <b>Connecticut—1.2%</b>  |                 |               |                       |            |
| Connecticut Resources Recovery Authority, Special Obligation Revenue (American REF-FUEL Company of Southeastern Connecticut Project)             | 6.45            | 11/15/22      | 4,985,000             | 4,992,826  |
| <b>District of Columbia—4.0%</b>   |                 |               |                       |            |
| RIB Floater Trust (Barclays Bank PLC) (Series 15 U) Recourse (District of Columbia, Income Tax Secured Revenue)                                  | 5.00            | 12/1/35       | 14,828,227 a,b        | 16,807,291 |
| <b>Florida—5.3%</b>  |                 |               |                       |            |
| Davie, Educational Facilities Revenue (Nova Southeastern University Project)   | 6.00            | 4/1/42        | 2,000,000             | 2,276,780  |
| Mid-Bay Bridge Authority, Springing Lien Revenue Palm Beach County Health  | 7.25            | 10/1/34       | 5,000,000             | 6,095,900  |

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|                              |      |          |           |           |
|------------------------------|------|----------|-----------|-----------|
| Facilities Authority,        |      |          |           |           |
| Retirement Community Revenue |      |          |           |           |
| (Adult Communities Total     |      |          |           |           |
| Services, Inc. Retirement—   |      |          |           |           |
| Life Communities, Inc.       |      |          |           |           |
| Obligated Group)             | 5.50 | 11/15/33 | 6,825,000 | 7,262,687 |

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| <b>Long-Term Municipal Investments (continued)</b>   | Coupon Rate (%) | Maturity Date | Principal Amount (\$)    | Value (\$) |
|--|-----------------|---------------|--------------------------|------------|
| <b>Florida (continued)</b>   |                 |               |                          |            |
| Saint Johns County Industrial Development Authority, Revenue (Presbyterian Retirement Communities Project)                             | 6.00            | 8/1/45        | 3,500,000                | 3,781,785  |
| South Lake County Hospital District, Revenue (South Lake Hospital, Inc.)   | 6.25            | 4/1/39        | 2,500,000                | 2,757,650  |
| <b>Georgia—3.9%</b>  |                 |               |                          |            |
| Atlanta, Water and Wastewater Revenue  | 6.00            | 11/1/28       | 4,865,000                | 5,904,213  |
| Atlanta, Water and Wastewater Revenue (Insured; Assured Guaranty Municipal Corp.)  | 5.25            | 11/1/34       | 1,000,000                | 1,096,800  |
| Augusta, Airport Revenue   | 5.45            | 1/1/31        | 2,500,000                | 2,513,850  |
| RIB Floater Trust (Barclays Bank PLC) (Series 20 U) Recourse (Private Colleges and Universities Authority, Revenue (Emory University)) | 5.00            | 10/1/43       | 6,000,000 <sup>a,b</sup> | 6,744,300  |
| <b>Hawaii—1.2%</b>   |                 |               |                          |            |
| Hawaii Department of Budget and Finance, Special Purpose Revenue (Hawai'i Pacific Health Obligated Group)                              | 5.63            | 7/1/30        | 2,500,000                | 2,761,450  |
| Hawaii Department of Budget and Finance, Special Purpose Revenue (Hawaiian Electric Company, Inc. and Subsidiary Projects)             | 6.50            | 7/1/39        | 2,000,000                | 2,242,620  |
| <b>Idaho—0%</b>  |                 |               |                          |            |
| Idaho Housing and Finance Association, SFMR (Collateralized; FNMA)   | 6.35            | 1/1/30        | 125,000                  | 125,236    |
| <b>Illinois—3.2%</b>   |                 |               |                          |            |



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Chicago,

General Airport Third Lien

Revenue (Chicago O'Hare

International Airport)

5.63

1/1/35

3,000,000

3,382,320

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STATEMENT OF INVESTMENTS (Unaudited) (continued)

| <b>Long-Term Municipal<br/>Investments (continued)</b>  | Coupon<br>Rate (%) | Maturity<br>Date | Principal<br>Amount (\$) | Value (\$) |
|---|--------------------|------------------|--------------------------|------------|
| <b>Illinois (continued)</b>   |                    |                  |                          |            |
| Chicago,<br>GO  | 5.00               | 1/1/24           | 2,000,000                | 2,190,620  |
| Chicago,<br>GO (Project and<br>Refunding Series)  | 5.00               | 1/1/36           | 2,500,000                | 2,581,600  |
| Illinois Finance Authority,<br>Revenue (Sherman<br>Health Systems)  | 5.50               | 8/1/37           | 1,020,000                | 1,115,747  |
| Railsplitter Tobacco Settlement<br>Authority, Tobacco<br>Settlement Revenue   | 6.00               | 6/1/28           | 3,600,000                | 4,221,756  |
| <b>Iowa—1.7%</b>  |                    |                  |                          |            |
| Iowa Finance Authority,<br>Midwestern Disaster Area<br>Revenue (Iowa Fertilizer<br>Company Project)   | 5.25               | 12/1/25          | 5,125,000                | 5,359,008  |
| Tobacco Settlement Authority of<br>Iowa, Tobacco Settlement<br>Asset-Backed Bonds   | 5.60               | 6/1/34           | 2,000,000                | 1,836,720  |
| <b>Kentucky—3%</b>  |                    |                  |                          |            |
| Louisville/Jefferson County Metro<br>Government, Health Facilities<br>Revenue (Jewish Hospital and<br>Saint Mary's HealthCare, Inc.<br>Project) (Prerefunded) | 6.13               | 2/1/18           | 1,000,000 <sup>c</sup>   | 1,193,550  |
| <b>Louisiana—1.2%</b>   |                    |                  |                          |            |
| Lakeshore Villages Master<br>Community Development<br>District, Special<br>Assessment Revenue   | 5.25               | 7/1/17           | 1,987,000 <sup>d</sup>   | 735,587    |
| Louisiana Local Government<br>Environmental Facilities and<br>Community Development<br>Authority, Revenue (Westlake<br>Chemical Corporation Projects)         | 6.75               | 11/1/32          | 4,000,000                | 4,508,200  |

**Maine—.6%**

Maine Health and Higher

Educational Facilities

Authority, Revenue

(MaineGeneral Medical

Center Issue)

7.50

7/1/32

2,000,000

2,327,540

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| <b>Long-Term Municipal Investments (continued)</b>   | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|--|-----------------|---------------|-----------------------|------------|
| <b>Maryland—1.1%</b>   |                 |               |                       |            |
| JPMorgan Chase Putters/Drivers Trust (Series 4422)<br>Non-recourse (Mayor and City Council of Baltimore, Project Revenue (Water Projects))   | 5.00            | 7/1/21        | 4,000,000 a,b         | 4,491,880  |
| <b>Massachusetts—13.7%</b>   |                 |               |                       |            |
| Barclays Capital Municipal Trust Receipts (Series 15 W)<br>Recourse (Massachusetts Health and Educational Facilities Authority, Revenue (Massachusetts Institute of Technology Issue)) | 5.00            | 7/1/38        | 10,200,000 a,b        | 11,431,854 |
| JPMorgan Chase Putters/Drivers Trust (Series 3840)<br>Non-recourse (Massachusetts Development Finance Agency, Revenue (Harvard University Issue))                                      | 5.25            | 2/1/34        | 10,000,000 a,b        | 11,688,100 |
| JPMorgan Chase Putters/Drivers Trust (Series 3898)<br>Non-recourse (Massachusetts, Consolidated Loan)  | 5.00            | 4/1/19        | 6,400,000 a,b         | 7,524,928  |
| JPMorgan Chase Putters/Drivers Trust (Series 4395)<br>Non-recourse (University of Massachusetts Building Authority, Project and Refunding Revenue)                                     | 5.00            | 5/1/21        | 7,406,665 a,b         | 8,224,359  |
| Massachusetts Development Finance Agency, Revenue (Tufts Medical Center Issue)   | 7.25            | 1/1/32        | 2,500,000             | 3,043,800  |
| Massachusetts Educational Financing Authority, Education Loan Revenue (Issue K)<br>Massachusetts Health and  | 5.25            | 7/1/29        | 2,500,000             | 2,718,500  |

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|                               |      |         |           |           |
|-------------------------------|------|---------|-----------|-----------|
| Educational Facilities        |      |         |           |           |
| Authority, Revenue (Suffolk   |      |         |           |           |
| University Issue)             | 6.25 | 7/1/30  | 5,000,000 | 5,866,800 |
| Massachusetts Housing Finance |      |         |           |           |
| Agency, Housing Revenue       | 7.00 | 12/1/38 | 4,575,000 | 5,074,819 |

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STATEMENT OF INVESTMENTS (Unaudited) (continued)

| <b>Long-Term Municipal Investments (continued)</b>   | Coupon Rate (%) | Maturity Date | Principal Amount (\$)  | Value (\$) |
|--|-----------------|---------------|------------------------|------------|
| <b>Massachusetts (continued)</b>   |                 |               |                        |            |
| Massachusetts Housing Finance Agency, SFHR   | 5.00            | 12/1/31       | 1,965,000              | 1,989,523  |
| <b>Michigan—5.8%</b>   |                 |               |                        |            |
| Detroit, Sewage Disposal System Senior Lien Revenue (Insured; Assured Guaranty Municipal Corp.)  | 7.50            | 7/1/33        | 3,500,000              | 3,846,010  |
| Detroit, Water Supply System Senior Lien Revenue   | 5.00            | 7/1/31        | 3,780,000              | 3,747,681  |
| Detroit, Water Supply System Senior Lien Revenue   | 5.00            | 7/1/36        | 3,290,000              | 3,257,297  |
| Kent Hospital Finance Authority, Revenue (Metropolitan Hospital Project)   | 6.00            | 7/1/35        | 2,000,000              | 2,082,840  |
| Michigan Strategic Fund, SWDR (Genesee Power Station Project)  | 7.50            | 1/1/21        | 2,695,000              | 2,694,973  |
| Royal Oak Hospital Finance Authority, HR (William Beaumont Hospital Obligated Group) (Prerefunded)   | 8.00            | 9/1/18        | 5,000,000 <sup>C</sup> | 6,468,350  |
| Wayne County Airport Authority, Airport Revenue (Detroit Metropolitan Wayne County Airport) (Insured; National Public Finance Guarantee Corp.) | 5.00            | 12/1/34       | 2,450,000              | 2,476,289  |
| <b>New Jersey—2.6%</b>   |                 |               |                        |            |
| New Jersey Economic Development Authority, School Facilities Construction Revenue  | 5.50            | 12/15/29      | 5,000,000              | 5,574,550  |
| New Jersey Economic Development Authority, Water Facilities Revenue (New Jersey—American   |                 |               |                        |            |

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|  |      |         |           |           |
|--|------|---------|-----------|-----------|
| Water Company, Inc. Project)   | 5.70 | 10/1/39 | 3,000,000 | 3,285,990 |
| Tobacco Settlement Financing<br>Corporation of New Jersey,<br>Tobacco Settlement |      |         |           |           |
| Asset-Backed Bonds   | 4.63 | 6/1/26  | 1,600,000 | 1,430,112 |

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| <b>Long-Term Municipal Investments (continued)</b>   | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|--|-----------------|---------------|-----------------------|------------|
| <b>New Jersey (continued)</b>  |                 |               |                       |            |
| Tobacco Settlement Financing Corporation of New Jersey, Tobacco Settlement   |                 |               |                       |            |
| Asset-Backed Bonds   | 5.00            | 6/1/41        | 1,000,000             | 790,110    |
| <b>New Mexico—1.3%</b>   |                 |               |                       |            |
| Farmington, PCR (Public Service Company of New Mexico San Juan Project)  | 5.90            | 6/1/40        | 5,000,000             | 5,530,600  |
| <b>New York—17.4%</b>  |                 |               |                       |            |
| Austin Trust (Series 1107) Non-recourse (Port Authority of New York and New Jersey, Consolidated Bonds, 151st Series)                                  | 6.00            | 9/15/28       | 10,000,000 a,b        | 11,471,800 |
| Barclays Capital Municipal Trust Receipts (Series 7 B) Recourse (New York City Transitional Finance Authority, Future Tax Secured Subordinate Revenue) | 5.50            | 11/1/27       | 5,000,000 a,b         | 5,974,350  |
| Barclays Capital Municipal Trust Receipts (Series 11 B) Recourse (New York City Transitional Finance Authority, Future Tax Secured Revenue)            | 5.00            | 5/1/30        | 4,488,203 a,b         | 5,120,934  |
| JPMorgan Chase Putters/Drivers Trust (Series 3857) Non-recourse (New York City Transitional Finance Authority, Future Tax Secured Subordinate Revenue) | 5.25            | 11/1/18       | 5,000,000 a,b         | 5,944,350  |
| Long Island Power Authority, Electric System General Revenue Metropolitan Transportation   | 6.25            | 4/1/33        | 3,000,000             | 3,527,010  |



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|                            |      |          |           |            |
|----------------------------|------|----------|-----------|------------|
| Authority, Transportation  |      |          |           |            |
| Revenue                    | 6.25 | 11/15/23 | 9,425,000 | 11,268,342 |
| New York City Educational  |      |          |           |            |
| Construction Fund, Revenue | 6.50 | 4/1/28   | 2,785,000 | 3,511,857  |

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STATEMENT OF INVESTMENTS (Unaudited) (continued)

| <b>Long-Term Municipal Investments (continued)</b>  | Coupon Rate (%) | Maturity Date | Principal Amount (\$)     | Value (\$) |
|---|-----------------|---------------|---------------------------|------------|
| <b>New York (continued)</b>   |                 |               |                           |            |
| New York City Industrial Development Agency, Special Facility Revenue (American Airlines, Inc. John F. Kennedy International Airport Project)                             | 7.75            | 8/1/31        | 5,000,000                 | 5,518,400  |
| Niagara Area Development Corporation, Solid Waste Disposal Facility Revenue (Covanta Energy Project)  | 5.25            | 11/1/42       | 2,000,000                 | 2,033,980  |
| Port Authority of New York and New Jersey, Special Project Bonds (JFK International Air Terminal LLC Project)   | 6.00            | 12/1/36       | 4,710,000                 | 5,287,634  |
| RIB Floater Trust (Barclays Bank PLC) (Series 16 U) Recourse (New York City Municipal Water Finance Authority, Water and Sewer System Second General Resolution Revenue   | 5.00            | 6/15/44       | 12,600,000 <sup>a,b</sup> | 13,734,126 |
| <b>North Carolina—2.6%</b>  |                 |               |                           |            |
| Barclays Capital Municipal Trust Receipts (Series 31 W) Recourse (North Carolina Medical Care Commission, Health Care Facilities Revenue (Duke University Health System)) | 5.00            | 6/1/42        | 10,000,000 <sup>a,b</sup> | 10,735,800 |
| <b>Ohio—3.7%</b>  |                 |               |                           |            |
| Butler County, Hospital Facilities Revenue (UC Health)  | 5.50            | 11/1/40       | 3,000,000                 | 3,289,800  |
| Ohio Air Quality Development Authority, Air Quality Revenue (Ohio Valley Electric Corporation Project)  | 5.63            | 10/1/19       | 4,200,000                 | 4,762,926  |
| Port of Greater Cincinnati  |                 |               |                           |            |

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|   |      |        |                        |           |
|---|------|--------|------------------------|-----------|
| Development Authority, Tax<br>Increment Development Revenue<br>(Fairfax Village Red Bank<br>Infrastructure Project) | 5.63 | 2/1/36 | 2,530,000 <sup>b</sup> | 2,295,874 |
|---|------|--------|------------------------|-----------|

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| <b>Long-Term Municipal Investments (continued)</b>  | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|---|-----------------|---------------|-----------------------|------------|
| <b>Ohio (continued)</b>   |                 |               |                       |            |
| Southeastern Ohio Port Authority, Hospital Facilities Improvement Revenue (Memorial Health System Obligated Group Project)                              | 6.00            | 12/1/42       | 2,000,000             | 2,019,860  |
| Toledo-Lucas County Port Authority, Special Assessment Revenue (Crocker Park Public Improvement Project)  | 5.38            | 12/1/35       | 3,000,000             | 3,015,240  |
| <b>Oregon—4%</b>  |                 |               |                       |            |
| Warm Springs Reservation Confederated Tribes, Hydroelectric Revenue (Pelton Round Butte Project)  | 6.38            | 11/1/33       | 1,500,000             | 1,637,625  |
| <b>Pennsylvania—2.1%</b>  |                 |               |                       |            |
| JPMorgan Chase Putters/Drivers Trust (Series 3916) Non-recourse (Geisinger Authority, Health System Revenue (Geisinger Health System))                  | 5.13            | 6/1/35        | 3,000,000 a,b         | 3,264,510  |
| Philadelphia, GO  | 6.50            | 8/1/41        | 4,700,000             | 5,457,640  |
| <b>Rhode Island—1.4%</b>  |                 |               |                       |            |
| Rhode Island Health and Educational Building Corporation, Hospital Financing Revenue (Lifespan Obligated Group Issue) (Insured; Assured Guaranty Corp.) | 7.00            | 5/15/39       | 5,000,000             | 5,772,950  |
| <b>South Carolina—2.7%</b>  |                 |               |                       |            |
| JPMorgan Chase Putters/Drivers Trust (Series 4379) Non-recourse (South Carolina Public Service Authority,   |                 |               |                       |            |

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Revenue Obligations

(Santee Cooper)

5.13

6/1/37

10,200,000 a,b

11,268,552

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STATEMENT OF INVESTMENTS (Unaudited) (continued)

| <b>Long-Term Municipal Investments (continued)</b>  | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|---|-----------------|---------------|-----------------------|------------|
| <b>Tennessee—2.3%</b>   |                 |               |                       |            |
| JPMorgan Chase Putters/Drivers Trust (Series 4416)  |                 |               |                       |            |
| Non-recourse (Metropolitan Government of Nashville and Davidson County, Water and Sewer Revenue)  | 5.00            | 7/1/21        | 3,000,000 a,b         | 3,373,650  |
| Metropolitan Government of Nashville and Davidson County Health and Educational Facilities Board, Revenue (The Vanderbilt University)   | 5.50            | 10/1/29       | 2,500,000             | 2,946,600  |
| Metropolitan Government of Nashville and Davidson County Health and Educational Facilities Board, Revenue (The Vanderbilt University)   | 5.50            | 10/1/34       | 3,000,000             | 3,455,370  |
| <b>Texas—21.6%</b>  |                 |               |                       |            |
| Barclays Capital Municipal Trust Receipts (Series 28 W) Recourse (Leander Independent School District, Unlimited Tax School Building Bonds (Permanent School Fund Guarantee Program)) | 5.00            | 8/15/40       | 9,997,299 a,b         | 11,331,599 |
| Barclays Capital Municipal Trust Receipts (Series 39 W) Recourse (Texas A&M University System Board of Regents, Financing System Revenue)   | 5.00            | 5/15/39       | 13,160,000 a,b        | 14,841,716 |
| Dallas-Fort Worth International Airport Facility Improvement Corporation, Revenue (Learjet Inc. Project)  | 6.15            | 1/1/16        | 3,000,000             | 3,000,000  |
| Gulf Coast Industrial Development Authority, SWDR (CITGO  |                 |               |                       |            |

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|                                |      |        |           |           |
|--------------------------------|------|--------|-----------|-----------|
| Petroleum Corporation Project) | 4.88 | 5/1/25 | 1,000,000 | 1,023,110 |
|--------------------------------|------|--------|-----------|-----------|

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| <b>Long-Term Municipal Investments (continued)</b>   | Coupon Rate (%) | Maturity Date | Principal Amount (\$)     | Value (\$) |
|--|-----------------|---------------|---------------------------|------------|
| <b>Texas (continued)</b>   |                 |               |                           |            |
| Harris County Health Facilities Development Corporation, HR (Memorial Hermann Healthcare System) (Prerefunded)                                 | 7.25            | 12/1/18       | 7,290,000 <sup>c</sup>    | 9,278,712  |
| Houston, Airport System Special Facilities Revenue (United Airlines, Inc. Terminal E Project)  | 4.75            | 7/1/24        | 2,000,000                 | 2,036,200  |
| Houston Combined Utility System First Lien Revenue (Insured; Assured Guaranty Corp.)   | 6.00            | 11/15/36      | 5,000,000                 | 5,898,250  |
| JPMorgan Chase Putters/Drivers Trust (Series 4356) Non-recourse (San Antonio, Electric and Gas Systems Junior Lien Revenue)                    | 5.00            | 2/1/21        | 12,450,000 <sup>a,b</sup> | 13,722,888 |
| Love Field Airport Modernization Corporation, Special Facilities Revenue (Southwest Airlines Company—Love Field Modernization Program Project) | 5.00            | 11/1/28       | 1,000,000                 | 1,070,860  |
| Matagorda County Navigation District Number One, Revenue (Houston Lighting and Power Company Project) (Insured; AMBAC)                         | 5.13            | 11/1/28       | 4,295,000                 | 4,948,012  |
| North Texas Tollway Authority, First Tier System Revenue (Insured; Assured Guaranty Corp.)   | 5.75            | 1/1/40        | 14,705,000                | 16,579,299 |
| North Texas Tollway Authority, Second Tier System Revenue  | 5.75            | 1/1/38        | 6,650,000                 | 7,359,023  |
| Texas Department of Housing and Community Affairs, Home Mortgage Revenue (Collateralized: FHLMC, FNMA and GNMA)                                | 13.41           | 7/2/24        | 350,000 <sup>e</sup>      | 371,994    |





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STATEMENT OF INVESTMENTS (Unaudited) (continued)

| <b>Long-Term Municipal Investments (continued)</b>   | Coupon Rate (%) | Maturity Date | Principal Amount (\$)    | Value (\$) |
|--|-----------------|---------------|--------------------------|------------|
| <b>Vermont—9%</b>  |                 |               |                          |            |
| Burlington, Airport Revenue  | 3.50            | 7/1/18        | 3,710,000                | 3,731,704  |
| <b>Virginia—2.9%</b>   |                 |               |                          |            |
| Henrico County Industrial Development Authority, Revenue (Bon Secours Health System, Inc.) (Insured; Assured Guaranty Municipal Corp.) | 11.30           | 8/23/27       | 6,850,000 <sup>e</sup>   | 8,532,634  |
| Washington County Industrial Development Authority, HR (Mountain States Health Alliance)   | 7.75            | 7/1/38        | 3,000,000                | 3,506,670  |
| <b>Washington—4.0%</b>   |                 |               |                          |            |
| Barclays Capital Municipal Trust Receipts (Series 27 B) Recourse (King County, Sewer Revenue)  | 5.00            | 1/1/29        | 8,577,246 <sup>a,b</sup> | 9,740,651  |
| Washington Health Care Facilities Authority, Mortgage Revenue (Highline Medical Center) (Collateralized; FHA) (Prerefunded)            | 6.25            | 8/1/18        | 5,975,000 <sup>c</sup>   | 7,239,967  |
| <b>West Virginia—1.9%</b>  |                 |               |                          |            |
| The County Commission of Harrison County, SWDR (Allegheny Energy Supply Company, LLC Harrison Station Project)                         | 5.50            | 10/15/37      | 7,920,000                | 8,108,971  |

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| <b>Long-Term Municipal Investments (continued)</b>  | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$)         |
|---|-----------------|---------------|-----------------------|--------------------|
| <b>U.S. Related—6.0%</b>  |                 |               |                       |                    |
| Puerto Rico Aqueduct and Sewer Authority, Senior Lien Revenue                             | 5.13            | 7/1/37        | 3,660,000             | 2,712,536          |
| Puerto Rico Commonwealth, Public Improvement GO   | 5.50            | 7/1/32        | 1,500,000             | 1,129,455          |
| Puerto Rico Commonwealth, Public Improvement GO   | 6.50            | 7/1/37        | 1,500,000             | 1,215,210          |
| Puerto Rico Commonwealth, Public Improvement GO   | 6.00            | 7/1/39        | 5,500,000             | 4,159,705          |
| Puerto Rico Commonwealth, Public Improvement GO   | 6.00            | 7/1/39        | 1,610,000             | 1,217,659          |
| Puerto Rico Commonwealth, Public Improvement GO   | 6.50            | 7/1/40        | 2,390,000             | 1,906,073          |
| Puerto Rico Electric Power Authority, Power Revenue                                       | 5.25            | 7/1/24        | 1,895,000             | 1,232,432          |
| Puerto Rico Electric Power Authority, Power Revenue                                       | 5.00            | 7/1/42        | 1,900,000             | 1,137,891          |
| Puerto Rico Sales Tax Financing Corporation, Sales Tax Revenue (First Subordinate Series) | 5.38            | 8/1/39        | 2,500,000             | 2,027,125          |
| Puerto Rico Sales Tax Financing Corporation, Sales Tax Revenue (First Subordinate Series) | 6.00            | 8/1/42        | 10,000,000            | 8,699,200          |
| <b>Total Long-Term Municipal Investments</b><br>(cost \$556,053,831)                      |                 |               |                       | <b>609,783,385</b> |

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STATEMENT OF INVESTMENTS (Unaudited) (continued)

| Short-Term Municipal Investment—1.1%   | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$)           |
|--|-----------------|---------------|-----------------------|----------------------|
| <b>Massachusetts;</b><br>Massachusetts Health and Educational Facilities Authority, Revenue (Harvard University Issue)<br>(cost \$500,000) | 0.03            | 6/2/14        | 500,000 <sup>f</sup>  | <b>500,000</b>       |
| <b>Total Investments</b> (cost \$556,553,831)  |                 |               | <b>145.0 %</b>        | <b>610,283,385</b>   |
| <b>Liabilities, Less Cash and Receivables</b>  |                 |               | <b>(22.9 %)</b>       | <b>(96,510,425 )</b> |
| <b>Preferred Stock, at redemption value</b>  |                 |               | <b>(22.1 %)</b>       | <b>(93,000,000 )</b> |
| <b>Net Assets Applicable to Common Shareholders</b>  |                 |               | <b>100.0 %</b>        | <b>420,772,960</b>   |

a Collateral for floating rate borrowings.

b Securities exempt from registration pursuant to Rule 144A under the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers. At May 31, 2014, these securities were valued at \$239,863,539 or 57.0% of net assets applicable to Common Shareholders.

c These securities are prerefunded; the date shown represents the prerefunded date. Bonds which are prerefunded are collateralized by U.S. Government securities which are held in escrow and are used to pay principal and interest on the municipal issue and to retire the bonds in full at the earliest refunding date.

d Non-income producing—security in default.

e Inverse floater security—the interest rate is subject to change periodically. Rate shown is the interest rate in effect at May 31, 2014.

f Variable rate demand note—rate shown is the interest rate in effect at May 31, 2014. Maturity date represents the next demand date, or the ultimate maturity date if earlier.

Portfolio Summary (Unaudited)<sup>†</sup>

|                         | Value (%) |                   | Value (%) |
|-------------------------|-----------|-------------------|-----------|
| Transportation Services | 23.5      | Industrial        | 3.1       |
| Education               | 22.7      | Pollution Control | 2.9       |
| Special Tax             | 18.9      | City              | 2.5       |
| Health Care             | 17.1      | Housing           | 1.8       |
| Utility-Electric        | 16.1      | County            | .6        |

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|                         |      |              |              |
|-------------------------|------|--------------|--------------|
| Utility-Water and Sewer | 13.6 | Asset-Backed | .5           |
| State/Territory         | 5.2  | Other        | 8.5          |
| Prerefunded             | 4.2  |              |              |
| Resource Recovery       | 3.8  |              | <b>145.0</b> |

† Based on net assets applicable to Common Shareholders.

## Summary of Abbreviations

|                 |   |                |   |
|-----------------|---|----------------|---|
| <b>ABAG</b>     | Association of Bay Area Governments           | <b>ACA</b>     | American Capital Access                           |
| <b>AGC</b>      | ACE Guaranty Corporation                      | <b>AGIC</b>    | Asset Guaranty Insurance Company                  |
| <b>AMBAC</b>    | American Municipal Bond Assurance Corporation | <b>ARRN</b>    | Adjustable Rate Receipt Notes                     |
| <b>BAN</b>      | Bond Anticipation Notes                       | <b>BPA</b>     | Bond Purchase Agreement                           |
| <b>CIFG</b>     | CDC Ixis Financial Guaranty                   | <b>COP</b>     | Certificate of Participation                      |
| <b>CP</b>       | Commercial Paper                              | <b>DRIVERS</b> | Derivative Inverse Tax-Exempt Receipts            |
| <b>EDR</b>      | Economic Development Revenue                  | <b>EIR</b>     | Environmental Improvement Revenue                 |
| <b>FGIC</b>     | Financial Guaranty Insurance Company          | <b>FHA</b>     | Federal Housing Administration                    |
| <b>FHLB</b>     | Federal Home Loan Bank                        | <b>FHLMC</b>   | Federal Home Loan Mortgage Corporation            |
| <b>FNMA</b>     | Federal National Mortgage Association         | <b>GAN</b>     | Grant Anticipation Notes                          |
| <b>GIC</b>      | Guaranteed Investment Contract                | <b>GNMA</b>    | Government National Mortgage Association          |
| <b>GO</b>       | General Obligation                            | <b>HR</b>      | Hospital Revenue                                  |
| <b>IDB</b>      | Industrial Development Board                  | <b>IDC</b>     | Industrial Development Corporation                |
| <b>IDR</b>      | Industrial Development Revenue                | <b>LIFERS</b>  | Long Inverse Floating Exempt Receipts             |
| <b>LOC</b>      | Letter of Credit                              | <b>LOR</b>     | Limited Obligation Revenue                        |
| <b>LR</b>       | Lease Revenue                                 | <b>MERLOTS</b> | Municipal Exempt Receipts Liquidity Option Tender |
| <b>MFHR</b>     | Multi-Family Housing Revenue                  | <b>MFMR</b>    | Multi-Family Mortgage Revenue                     |
| <b>PCR</b>      | Pollution Control Revenue                     | <b>PILOT</b>   | Payment in Lieu of Taxes                          |
| <b>P-FLOATS</b> | Puttable Floating Option Tax-Exempt Receipts  | <b>PUTTERS</b> | Puttable Tax-Exempt Receipts                      |
| <b>RAC</b>      | Revenue Anticipation Certificates             | <b>RAN</b>     | Revenue Anticipation Notes                        |
| <b>RAW</b>      | Revenue Anticipation Warrants                 | <b>RIB</b>     | Residual Interest Bonds                           |
| <b>ROCS</b>     | Reset Options Certificates                    | <b>RRR</b>     | Resources Recovery Revenue                        |
| <b>SAAN</b>     | State Aid Anticipation Notes                  | <b>SBPA</b>    | Standby Bond Purchase Agreement                   |
| <b>SFHR</b>     | Single Family Housing Revenue                 | <b>SFMR</b>    | Single Family Mortgage Revenue                    |
| <b>SONYMA</b>   | State of New York Mortgage Agency             | <b>SPEARS</b>  | Short Puttable Exempt Adjustable Receipts         |

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|             |                              |             |                                    |
|-------------|------------------------------|-------------|------------------------------------|
| <b>SWDR</b> | Solid Waste Disposal Revenue | <b>TAN</b>  | Tax Anticipation Notes             |
| <b>TAW</b>  | Tax Anticipation Warrants    | <b>TRAN</b> | Tax and Revenue Anticipation Notes |
| <b>XLCA</b> | XL Capital Assurance         |             |                                    |

*See notes to financial statements.*

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## STATEMENT OF ASSETS AND LIABILITIES

May 31, 2014 (Unaudited)

|   | Cost        | Value              |
|---|-------------|--------------------|
| <b>Assets (\$):</b>   |             |                    |
| Investments in securities—See Statement of Investments  | 556,553,831 | 610,283,385        |
| Interest receivable   |             | 9,635,358          |
| Receivable for investment securities sold   |             | 2,060,917          |
| Prepaid expenses  |             | 31,214             |
|   |             | <b>622,010,874</b> |
| <b>Liabilities (\$):</b>  |             |                    |
| Due to The Dreyfus Corporation and affiliates—Note 2(b)   |             | 283,532            |
| Cash overdraft due to Custodian   |             | 2,194,883          |
| Payable for floating rate notes issued—Note 3   |             | 103,468,507        |
| Payable for investment securities purchased   |             | 1,976,280          |
| Interest and expense payable related to<br>floating rate notes issued—Note 3  |             | 182,855            |
| Commissions payable—Note 1  |             | 17,710             |
| Dividends payable to Preferred Shareholders   |             | 1,446              |
| Accrued expenses  |             | 112,701            |
|   |             | <b>108,237,914</b> |
| <b>Auction Preferred Stock</b> , Series A, B and C, par value<br>\$.001 per share (3,720 shares issued and outstanding<br>at \$25,000 per share liquidation value)—Note 1 |             | <b>93,000,000</b>  |
| <b>Net Assets applicable to Common Shareholders (\$)</b>  |             | <b>420,772,960</b> |
| <b>Composition of Net Assets (\$):</b>  |             |                    |
| Common Stock, par value, \$.001 per share<br>(49,082,366 shares issued and outstanding)   |             | 49,082             |
| Paid-in capital   |             | 418,710,223        |
| Accumulated undistributed investment income—net   |             | 4,020,041          |
| Accumulated net realized gain (loss) on investments   |             | (55,735,940 )      |
| Accumulated net unrealized appreciation<br>(depreciation) on investments  |             | 53,729,554         |
| <b>Net Assets applicable to Common Shareholders (\$)</b>  |             | <b>420,772,960</b> |
| <b>Shares Outstanding</b>   |             |                    |
| (110 million shares authorized)   |             | 49,082,366         |
| <b>Net Asset Value</b> , per share of Common Stock (\$)   |             | <b>8.57</b>        |

See notes to financial statements.





## STATEMENT OF OPERATIONS

Six Months Ended May 31, 2014 (Unaudited)

|  |                   |
|--|-------------------|
| <b>Investment Income (\$):</b>   |                   |
| <b>Interest Income</b>   | <b>15,386,769</b> |
| <b>Expenses:</b>   |                   |
| Investment advisory fee—Note 2(a)                                      | 1,242,006         |
| Administration fee—Note 2(a)   | 621,003           |
| Interest and expense related to floating rate notes issued—Note 3      | 291,138           |
| Commission fees—Note 1   | 84,577            |
| Professional fees  | 81,074            |
| Shareholders' reports  | 41,832            |
| Registration fees  | 21,923            |
| Directors' fees and expenses—Note 2(c)                                 | 11,935            |
| Shareholder servicing costs  | 2,359             |
| Custodian fees—Note 2(b)   | 1,385             |
| Miscellaneous  | 47,568            |
| <b>Total Expenses</b>  | <b>2,446,800</b>  |
| Less—reduction in expenses due to undertaking—Note 2(a)                | (248,401 )        |
| <b>Net Expenses</b>  | <b>2,198,399</b>  |
| <b>Investment Income—Net</b>   | <b>13,188,370</b> |
| <b>Realized and Unrealized Gain (Loss) on Investments—Note 3 (\$):</b> |                   |
| Net realized gain (loss) on investments                                | (426,422 )        |
| Net unrealized appreciation (depreciation) on investments              | 32,359,856        |
| <b>Net Realized and Unrealized Gain (Loss) on Investments</b>          | <b>31,933,434</b> |
| <b>Dividends to Preferred Shareholders</b>                             | <b>(52,641 )</b>  |
| <b>Net Increase in Net Assets Applicable to Common</b>                 |                   |
| <b>Shareholders Resulting from Operations</b>                          | <b>45,069,163</b> |

*See notes to financial statements.*

## STATEMENT OF CASH FLOWS

Six Months Ended May 31, 2014 (Unaudited)

|  |               |                      |
|--|---------------|----------------------|
| <b>Cash Flows from Operating Activities (\$):</b>                        |               |                      |
| Interest received  | 16,060,864    |                      |
| Operating expenses paid  | (1,950,548 )  |                      |
| Dividends paid to Preferred Shareholders                                 | (52,368 )     |                      |
| Purchases of portfolio securities  | (6,903,861 )  |                      |
| Net sales of short-term portfolio securities                             | (300,000 )    |                      |
| Proceeds from sales of portfolio securities                              | 9,371,105     |                      |
| <b>Net Cash Provided by Operating Activities</b>                         |               | <b>16,225,192</b>    |
| <b>Cash Flows from Financing Activities (\$):</b>                        |               |                      |
| Dividends paid to Common Shareholders                                    | (13,988,475 ) |                      |
| Redemptions of Auction Preferred Stock                                   | (25,800,000 ) |                      |
| Interest and expense related to floating rate notes issued paid          | (418,971 )    |                      |
| <b>Net Cash Used in Financing Activities</b>                             |               | <b>(40,207,446 )</b> |
| Decrease in cash   |               | (23,982,254 )        |
| Cash at beginning of period  |               | 21,787,371           |
| <b>Cash overdraft at end of period</b>                                   |               | <b>(2,194,883 )</b>  |
| <b>Reconciliation of Net Increase in Net Assets Applicable to</b>        |               |                      |
| <b>Common Shareholders Resulting from Operations to</b>                  |               |                      |
| <b>Net Cash Provided by Operating Activities (\$):</b>                   |               |                      |
| Net Increase in Net Assets Applicable to Common                          |               |                      |
| Shareholders Resulting From Operations                                   |               | <b>45,069,163</b>    |
| <b>Adjustments to reconcile net increase in net assets applicable to</b> |               |                      |
| <b>Common Shareholders resulting from operations to</b>                  |               |                      |
| <b>net cash provided by operating activities (\$):</b>                   |               |                      |
| Decrease in investments in securities, at cost                           |               | 4,860,954            |
| Increase in receivable for investment securities sold                    |               | (2,060,917 )         |
| Decrease in payable for investment securities purchased                  |               | (206,371 )           |
| Decrease in interest receivable  |               | 164,165              |
| Decrease in commissions payable and accrued expenses                     |               | (26,895 )            |
| Increase in prepaid expenses   |               | (23,145 )            |
| Increase in Due to The Dreyfus Corporation and affiliates                |               | 6,752                |
| Increase in dividends payable to Preferred Shareholders                  |               | 273                  |
| Interest and expense related to floating rate notes issued               |               | 291,138              |
| Net unrealized appreciation on investments                               |               | (32,359,856 )        |
| Net amortization of premiums on investments                              |               | 509,931              |
| <b>Net Cash Provided by Operating Activities</b>                         |               | <b>16,225,192</b>    |

**Supplemental disclosure cash flow information (\$):**

Non-cash financing activities:

**Reinvestment of dividends**

—

*See notes to financial statements.*

## STATEMENT OF CHANGES IN NET ASSETS

|   | Six Months Ended   |                      |
|---|--------------------|----------------------|
|   | May 31, 2014       | Year Ended           |
|   | (Unaudited)        | November 30, 2013    |
| <b>Operations (\$):</b>                                   |                    |                      |
| Investment income—net                                     | 13,188,370         | 26,041,267           |
| Net realized gain (loss) on investments                   | (426,422 )         | (1,160,410 )         |
| Net unrealized appreciation                               |                    |                      |
| (depreciation) on investments                             | 32,359,856         | (63,578,931 )        |
| Dividends to Preferred Shareholders                       | (52,641 )          | (230,731 )           |
| <b>Net Increase (Decrease) in Net Assets</b>              |                    |                      |
| <b>Applicable to Common Shareholders</b>                  |                    |                      |
| <b>Resulting from Operations</b>                          | <b>45,069,163</b>  | <b>(38,928,805 )</b> |
| <b>Dividends to Common Shareholders from (\$):</b>        |                    |                      |
| Investment income—net                                     | (13,988,475 )      | (27,963,142 )        |
| <b>Capital Stock Transactions (\$):</b>                   |                    |                      |
| Dividends reinvested                                      | —                  | 878,286              |
| <b>Total Increase (Decrease) in Net Assets</b>            |                    |                      |
| <b>Applicable to Common Shareholders</b>                  | <b>31,080,688</b>  | <b>(66,013,661 )</b> |
| <b>Net Assets Applicable to Common Shareholders (\$):</b> |                    |                      |
| Beginning of Period                                       | 389,692,272        | 455,705,933          |
| <b>End of Period</b>                                      | <b>420,772,960</b> | <b>389,692,272</b>   |
| Undistributed investment income—net                       | 4,020,041          | 4,872,787            |
| <b>Capital Share Transactions (Common Shares):</b>        |                    |                      |
| <b>Increase in Common Shares Outstanding</b>              |                    |                      |
| <b>as a Result of Dividends Reinvested</b>                | <b>—</b>           | <b>96,975</b>        |

See notes to financial statements.

## FINANCIAL HIGHLIGHTS

The following table describes the performance for the fiscal periods indicated. Total return shows how much your investment in the fund would have increased (or decreased) during each period, assuming you had reinvested all dividends and dis-tributions. These figures have been derived from the fund's financial statements and, with respect to common stock, market price data for the fund's common shares.

|                                     | Six Months Ended            |          | Year Ended November 30, |        |        |        |
|-------------------------------------|-----------------------------|----------|-------------------------|--------|--------|--------|
|                                     | May 31, 2014<br>(Unaudited) | 2013     | 2012                    | 2011   | 2010   | 2009   |
| <b>Per Share Data (\$):</b>         |                             |          |                         |        |        |        |
| Net asset value,                    |                             |          |                         |        |        |        |
| beginning of period                 | 7.94                        | 9.30     | 8.10                    | 7.87   | 7.93   | 6.76   |
| Investment Operations:              |                             |          |                         |        |        |        |
| Investment income—net               | .27                         | .53      | .55                     | .57    | .59    | .64    |
| Net realized and unrealized         |                             |          |                         |        |        |        |
| gain (loss) on investments          | .65                         | (1.31 )  | 1.23                    | .24    | (.10 ) | 1.02   |
| Dividends to Preferred              |                             |          |                         |        |        |        |
| Shareholders from                   |                             |          |                         |        |        |        |
| investment income—net               | (.00 ) <sup>b</sup>         | (.01 )   | (.01 )                  | (.01 ) | (.01 ) | (.03 ) |
| Total from                          |                             |          |                         |        |        |        |
| Investment Operations               | .92                         | (.79 )   | 1.77                    | .80    | .48    | 1.63   |
| Distributions to                    |                             |          |                         |        |        |        |
| Common Shareholders:                |                             |          |                         |        |        |        |
| Dividends from                      |                             |          |                         |        |        |        |
| investment income—net               | (.29 )                      | (.57 )   | (.57 )                  | (.57 ) | (.54 ) | (.46 ) |
| Net asset value, end of period      | 8.57                        | 7.94     | 9.30                    | 8.10   | 7.87   | 7.93   |
| Market value, end of period         | 8.17                        | 7.31     | 9.79                    | 8.39   | 7.94   | 7.58   |
| <b>Total Return (%)<sup>c</sup></b> | 15.89 <sup>d</sup>          | (20.01 ) | 24.46                   | 13.67  | 11.95  | 46.74  |

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|   | Six Months Ended  | Year Ended November 30, |         |         |         |         |
|---|-------------------|-------------------------|---------|---------|---------|---------|
|   | May 31, 2014      | 2013                    | 2012    | 2011    | 2010    | 2009    |
|   | (Unaudited)       |                         |         |         |         |         |
| <b>Ratios/Supplemental Data (%):</b>  |                   |                         |         |         |         |         |
| Ratio of total expenses to average net assets applicable to Common Stock <sup>e</sup>   | 1.22 <sup>f</sup> | 1.24                    | 1.23    | 1.30    | 1.30    | 1.37    |
| Ratio of net expenses to average net assets applicable to Common Stock <sup>e</sup>   | 1.10 <sup>f</sup> | 1.11                    | 1.07    | 1.16    | 1.16    | 1.21    |
| Ratio of interest and expense related to floating rate notes issued to average net assets applicable to Common Stock <sup>e</sup> | .15 <sup>f</sup>  | .11                     | .10     | .10     | .07     | .01     |
| Ratio of net investment income to average net assets applicable to Common Stock <sup>e</sup>                                      | 6.60 <sup>f</sup> | 6.21                    | 6.22    | 7.36    | 7.30    | 8.65    |
| Ratio of total expenses to total average net assets   | .99 <sup>f</sup>  | .94                     | .93     | .95     | .91     | .90     |
| Ratio of net expenses to total average net assets   | .89 <sup>f</sup>  | .84                     | .81     | .85     | .81     | .80     |
| Ratio of interest and expense related to floating rate notes issued to total average net assets .12 <sup>f</sup>                  |                   | .08                     | .07     | .07     | .05     | .01     |
| Ratio of net investment income to total average net assets  | 5.31 <sup>f</sup> | 4.70                    | 4.69    | 5.36    | 5.11    | 5.68    |
| Portfolio Turnover Rate   | 1.37 <sup>d</sup> | 20.27                   | 15.99   | 20.50   | 25.94   | 31.59   |
| Asset coverage of Preferred Stock, end of period  | 552               | 428                     | 427     | 383     | 356     | 307     |
| Net Assets, applicable to Common Shareholders, end of period (\$ x 1,000)   | 420,773           | 389,692                 | 455,706 | 394,955 | 382,293 | 384,457 |
| Preferred Stock outstanding, end of period (\$ x 1,000)   | 93,000            | 118,800                 | 139,500 | 139,500 | 149,475 | 186,000 |
| Floating Rate Notes outstanding, end of period (\$ x 1,000)   | 103,469           | 103,469                 | 57,129  | 57,129  | 46,540  | 5,000   |

<sup>a</sup> Based on average common shares outstanding at each month end.

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- b* Amount represents less than \$.01 per share.
- c* Calculated based on market value.
- d* Not annualized.
- e* Does not reflect the effect of dividends to Preferred Shareholders.
- f* Annualized.

*See notes to financial statements.*

The Fund **27**

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NOTES TO FINANCIAL STATEMENTS (Unaudited)

NOTE 1—Significant Accounting Policies:

Dreyfus Strategic Municipal Bond Fund, Inc. (the “fund”) is registered under the Investment Company Act of 1940, as amended (the “Act”), as a diversified closed-end management investment company. The fund’s investment objective is to maximize current income exempt from federal income tax to the extent consistent with the preservation of capital. The Dreyfus Corporation (the “Manager” or “Dreyfus”), a wholly-owned subsidiary of The Bank of New York Mellon Corporation (“BNY Mellon”), serves as the fund’s investment adviser. The fund’s Common Stock trades on the New York Stock Exchange Amex (the “NYSE”) under the ticker symbol DSM.

The fund has outstanding 1,240 shares each of Series A, Series B and Series C, for a total of 3,720 shares, of Auction Preferred Stock (“APS”), with a liquidation preference of \$25,000 per share (plus an amount equal to accumulated but unpaid dividends upon liquidation). APS dividend rates are determined pursuant to periodic auctions or by reference to a market rate. Deutsche Bank Trust Company America, as Auction Agent, receives a fee from the fund for its services in connection with such auctions. The fund also compensates broker-dealers generally at an annual rate of .15%-.25% of the purchase price of the shares of APS.

The fund is subject to certain restrictions relating to the APS. Failure to comply with these restrictions could preclude the fund from declaring any distributions to shareholders of Common Stock (“Common Shareholders”) or repurchasing common shares and/or could trigger the mandatory redemption of APS at liquidation value. Thus, redemptions of APS may be deemed to be outside of the control of the fund.

The holders of APS, voting as a separate class, have the right to elect at least two directors. The holders of APS will vote as a separate class on certain other matters, as required by law. The fund’s Board of Directors (the “Board”) has designated Robin A. Melvin and John E. Zuccotti as directors to be elected by the holders of APS.

On February 11, 2013, the Board authorized the fund to redeem up to 25% of the original amount of the fund’s outstanding APS, subject

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to market, regulatory and other conditions and factors, over a period of up to approximately twelve months.

During the period ended May 31, 2014, the fund redeemed the following APS at a price of \$25,000 per share plus any accrued and unpaid dividends through the redemption date.

| Series       | Shares<br>Redeemed | Amount<br>Redeemed (\$) | Redemption<br>Date |
|--------------|--------------------|-------------------------|--------------------|
| A            | 344                | 8,600,000               | December 31, 2013  |
| B            | 344                | 8,600,000               | January 2, 2014    |
| C            | 344                | 8,600,000               | December 30, 2013  |
| <b>Total</b> | <b>1,032</b>       | <b>25,800,000</b>       |                    |

The Financial Accounting Standards Board (“FASB”) Accounting Standards Codification is the exclusive reference of authoritative U.S. generally accepted accounting principles (“GAAP”) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (“SEC”) under authority of federal laws are also sources of authoritative GAAP for SEC registrants. The fund’s financial statements are prepared in accordance with GAAP, which may require the use of management estimates and assumptions. Actual results could differ from those estimates.

The fund enters into contracts that contain a variety of indemnifications. The fund’s maximum exposure under these arrangements is unknown. The fund does not anticipate recognizing any loss related to these arrangements.

**(a) Portfolio valuation:** The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the exit price). GAAP establishes a fair value hierarchy that prioritizes the inputs of valuation techniques used to measure fair value. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The Fund **29**

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NOTES TO FINANCIAL STATEMENTS (Unaudited) *(continued)*

Additionally, GAAP provides guidance on determining whether the volume and activity in a market has decreased significantly and whether such a decrease in activity results in transactions that are not orderly. GAAP requires enhanced disclosures around valuation inputs and techniques used during annual and interim periods.

Various inputs are used in determining the value of the fund's investments relating to fair value measurements. These inputs are summarized in the three broad levels listed below:

**Level 1**—unadjusted quoted prices in active markets for identical investments.

**Level 2**—other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.).

**Level 3**—significant unobservable inputs (including the fund's own assumptions in determining the fair value of investments).

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Changes in valuation techniques may result in transfers in or out of an assigned level within the disclosure hierarchy. Valuation techniques used to value the fund's investments are as follows:

Investments in securities are valued each business day by an independent pricing service (the "Service") approved by the Board. Investments for which quoted bid prices are readily available and are representative of the bid side of the market in the judgment of the Service are valued at the mean between the quoted bid prices (as obtained by the Service from dealers in such securities) and asked prices (as calculated by the Service based upon its evaluation of the market for such securities). Other investments (which constitute a majority of the portfolio securities) are carried at fair value as determined by the Service, based on methods which include consideration of the following: yields or prices of municipal securities of comparable quality, coupon, maturity and type; indications as to values from dealers; and general market conditions. All of the preceding securities are generally categorized within Level 2 of the fair value hierarchy.

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The Service's procedures are reviewed by Dreyfus under the general supervision of the Board.

When market quotations or official closing prices are not readily available, or are determined not to reflect accurately fair value, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded, but before the fund calculates its net asset value, the fund may value these investments at fair value as determined in accordance with the procedures approved by the Board. Certain factors may be considered when fair valuing investments such as: fundamental analytical data, the nature and duration of restrictions on disposition, an evaluation of the forces that influence the market in which the securities are purchased and sold, and public trading in similar securities of the issuer or comparable issuers. These securities are either categorized within Level 2 or 3 of the fair value hierarchy depending on the relevant inputs used.

For restricted securities where observable inputs are limited, assumptions about market activity and risk are used and are generally categorized within Level 3 of the fair value hierarchy.

The following is a summary of the inputs used as of May 31, 2014 in valuing the fund's investments:

|                                   | Level 1—<br>Unadjusted<br>Quoted Prices | Level 2—Other<br>Significant<br>Observable<br>Inputs | Level 3—<br>Significant<br>Unobservable<br>Inputs | Total                 |
|-----------------------------------|---|--|---|-----------------------|
| <b>Assets (\$)</b>                |   |  |   |                       |
| Investments in Securities:        |   |  |   |                       |
| Municipal Bonds <sup>†</sup>      | —                                       | 610,283,385  | —   | <b>610,283,385</b>    |
| <b>Liabilities (\$)</b>           |   |  |   |                       |
| Floating Rate Notes <sup>††</sup> | —                                       | (103,468,507 )                                       | —   | <b>(103,468,507 )</b> |

<sup>†</sup> See Statement of Investments for additional detailed categorizations.

<sup>††</sup> Certain of the fund's liabilities are held at carrying amount, which approximates fair value for financial reporting purposes.

At May 31, 2014, there were no transfers between Level 1 and Level 2 of the fair value hierarchy.

The Fund **31**

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NOTES TO FINANCIAL STATEMENTS (Unaudited) *(continued)*

**(b) Securities transactions and investment income:** Securities transactions are recorded on a trade date basis. Realized gains and losses from securities transactions are recorded on the identified cost basis. Interest income, adjusted for accretion of discount and amortization of premium on investments, is earned from settlement date and recognized on the accrual basis. Securities purchased or sold on a when issued or delayed delivery basis may be settled a month or more after the trade date.

**(c) Dividends to Common Shareholders:** Dividends are recorded on the ex-dividend date. Dividends from investment income-net are normally declared and paid monthly. Dividends from net realized capital gains, if any, are normally declared and paid annually, but the fund may make distributions on a more frequent basis to comply with the distribution requirements of the Internal Revenue Code of 1986, as amended (the "Code"). To the extent that net realized capital gains can be offset by capital loss carryovers, it is the policy of the fund not to distribute such gains. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from GAAP.

For Common Shareholders who elect to receive their distributions in additional shares of the fund, unless such Common Shareholder elects to receive cash as provided below, such distributions will be reinvested at the lower of the market price or net asset value per share (but not less than 95% of the market price). If market price is equal to or exceeds net asset value, shares will be issued at net asset value. If net asset value exceeds market price or if a cash dividend only is declared, Computershare Shareowner Services LLC ("Computershare"), the fund's transfer agent, will buy fund shares in the open market.

On May 29, 2014, the Board declared a cash dividend of \$.0475 per share from investment income-net, payable on June 30, 2014 to Common Shareholders of record as of the close of business on June 13, 2014.

**(d) Dividends to shareholders of APS:** Dividends, which are cumulative, are generally reset every 7 days for each Series of APS pursuant to a process specified in related fund charter documents. Dividend

rates as of May 31, 2014, for each Series of APS were as follows: Series A-0.131%, Series B-0.131% and Series C-0.131%. These rates reflect the “maximum rates” under the governing instruments as a result of “failed auctions” in which sufficient clearing bids are not received. The average dividend rates for the period ended May 31, 2014 for each Series of APS were as follows: Series A-0.11%, Series B-0.11% and Series C-0.11%.

**(e) Federal income taxes:** It is the policy of the fund to continue to qualify as a regulated investment company, which can distribute tax-exempt dividends, by complying with the applicable provisions of the Code, and to make distributions of income and net realized capital gain sufficient to relieve it from substantially all federal income and excise taxes.

As of and during the period ended May 31, 2014, the fund did not have any liabilities for any uncertain tax positions. The fund recognizes interest and penalties, if any, related to uncertain tax positions as income tax expense in the Statement of Operations. During the period ended May 31, 2014, the fund did not incur any interest or penalties.

Each tax year in the three-year period ended November 30, 2013 remains subject to examination by the Internal Revenue Service and state taxing authorities.

Under the Regulated Investment Company Modernization Act of 2010 (the “2010 Act”), the fund is permitted to carry forward capital losses incurred in taxable years beginning after December 22, 2010 (“post-enactment losses”) for an unlimited period. Furthermore, post-enactment capital loss carryovers retain their character as either short-term or long-term capital losses rather than short-term as they were under previous statute. The 2010 Act requires post-enactment losses to be utilized before the utilization of losses incurred in taxable years prior to the effective date of the 2010 Act (“pre-enactment losses”). As a result of this ordering rule, pre enactment losses may be more likely to expire unused.

The Fund **33**

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NOTES TO FINANCIAL STATEMENTS (Unaudited) *(continued)*

The fund has an unused capital loss carryover of \$55,460,352 available for federal income tax purposes to be applied against future net realized capital gains, if any, realized subsequent to November 30, 2013. If not applied, \$1,427,978 of the carryover expires in fiscal year 2015, \$5,522,685 expires in fiscal year 2016, \$20,261,695 expires in fiscal year 2017, \$5,075,623 expires in fiscal year 2018 and \$21,871,958 expires in fiscal year 2019. The fund has \$1,239,494 of post-enactment short-term capital losses and \$60,919 of post-enactment long-term capital losses which can be carried forward for an unlimited period.

The tax character of distributions paid to shareholders during the fiscal year ended November 30, 2013 was as follows: tax-exempt income \$28,029,623 and ordinary income \$164,250. The tax character of current year distributions will be determined at the end of the current fiscal year.

NOTE 2—Investment Advisory Fee, Administration Fee and Other Transactions with Affiliates:

(a) The fee payable by the fund, pursuant to the provisions of an Investment Advisory Agreement with the Manager, is payable monthly based on an annual rate of .50% of the value of the fund's average weekly net assets (including net assets representing APS outstanding). The fund also has an Administration Agreement with Dreyfus and a Custody Agreement with The Bank of New York Mellon (the "Custodian"), a subsidiary of BNY Mellon and an affiliate of Dreyfus. The fund pays in the aggregate for administration, custody and transfer agency services a monthly fee based on an annual rate of .25% of the value of the fund's average weekly net assets (including net assets representing APS outstanding). All out of pocket transfer agency and custody expenses, including custody transaction expenses, are paid separately by the fund.

The Manager has currently undertaken, from December 1, 2013 through November 30, 2014, to waive receipt of a portion of the fund's investment advisory fee, in the amount of .10% of the value of the fund's average weekly net assets (including net assets representing APS outstanding). The reduction in expenses, pursuant to the undertaking, amounted to \$248,401 during the period ended May 31, 2014.

(b) The fund compensates the Custodian, under a Custody Agreement for providing custodial services for the fund. These fees are determined based on net assets and transactions activity. During the period ended May 31, 2014, the fund was charged \$1,385, pursuant to the Custody Agreement.

The fund has an arrangement with the Custodian whereby the fund may receive earnings credits when positive cash balances are maintained, which are used to offset custody fees. For financial reporting purposes, the fund includes net earnings credits as an expense offset in the Statement of Operations.

During the period ended May 31, 2014, the fund was charged \$4,622 for services performed by the Chief Compliance Officer and his staff.

The components of "Due to The Dreyfus Corporation and affiliates" in the Statement of Assets and Liabilities consist of: investment advisory fees \$216,587, Administration fees \$108,293, Custodian fees \$497 and Chief Compliance Officer fees \$1,472, which are offset against an expense reimbursement currently in effect in the amount of \$43,317.

(c) Each Board member also serves as a Board member of other funds within the Dreyfus complex. Annual retainer fees and attendance fees are allocated to each fund based on net assets.

**NOTE 3—Securities Transactions:**

The aggregate amount of purchases and sales of investment securities, excluding short-term securities, during the period ended May 31, 2014, amounted to \$6,697,490 and \$11,432,022, respectively.

**Inverse Floater Securities:** The fund participates in secondary inverse floater structures in which fixed-rate, tax-exempt municipal bonds are transferred to a trust (the "Trust"). The Trust typically issues two variable rate securities that are collateralized by the cash flows of the fixed-rate, tax-exempt municipal bonds. One of these variable rate securities pays interest based on a short-term floating rate set by a remarketing agent at predetermined intervals ("Trust Certificates"). A residual interest



NOTES TO FINANCIAL STATEMENTS (Unaudited) *(continued)*

tax-exempt security is also created by the Trust, which is transferred to the fund, and is paid interest based on the remaining cash flow of the Trust, after payment of interest on the other securities and various expenses of the Trust. An inverse floater security may be collapsed without the consent of the fund due to certain termination events such as bankruptcy, default or other credit event.

The fund accounts for the transfer of bonds to the Trust as secured borrowings, with the securities transferred remaining in the fund's investments, and the related floating rate certificate securities reflected as fund liabilities in the Statement of Assets and Liabilities.

The fund may invest in inverse floater securities on either a non-recourse or recourse basis. These securities are typically supported by a liquidity facility provided by a bank or other financial institution (the "Liquidity Provider") that allows the holders of the Trust Certificates to tender their certificates in exchange for payment from the Liquidity Provider of par plus accrued interest on any business day prior to a termination event. When the fund invests in inverse floater securities on a non-recourse basis, the Liquidity Provider is required to make a payment under the liquidity facility due to a termination event to the holders of the Trust Certificates. When this occurs, the Liquidity Provider typically liquidates all or a portion of the municipal securities held in the Trust. A liquidation shortfall occurs if the Trust Certificates exceed the proceeds of the sale of the bonds in the Trust ("Liquidation Shortfall"). When a fund invests in inverse floater securities on a recourse basis, the fund typically enters into a reimbursement agreement with the Liquidity Provider where the fund is required to repay the Liquidity Provider the amount of any Liquidation Shortfall. As a result, the fund investing in a recourse inverse floater security bears the risk of loss with respect to any Liquidation Shortfall.

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The average amount of borrowings outstanding under the inverse floater structure during the period ended May 31, 2014 was approximately \$103,468,500, with a related weighted average annualized interest rate of .56%.

At May 31, 2014, accumulated net unrealized appreciation on investments was \$53,729,554, consisting of \$60,830,223 gross unrealized appreciation and \$7,100,669 gross unrealized depreciation.

At May 31, 2014, the cost of investments for federal income tax purposes was substantially the same as the cost for financial reporting purposes (see the Statement of Investments).

The Fund **37**

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## OFFICERS AND DIRECTORS

Dreyfus Strategic Municipal Bond Fund, Inc.

200 Park Avenue  
New York, NY 10166

*The fund's net asset value appears in the following publications: Barron's, Closed-End Bond Funds section under the heading "Municipal Bond Funds" every Monday; and Wall Street Journal, Mutual Funds section under the heading "Closed-End Funds" every Monday.*

*Notice is hereby given in accordance with Section 23(c) of the Act that the fund may purchase shares of its Common Stock in the open market when it can do so at prices below the then current net asset value per share.*

The Fund **41**

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## For More Information

The fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission ("SEC") for the first and third quarters of each fiscal year on Form N-Q. The fund's Forms N-Q are available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

Information regarding how the fund voted proxies relating to portfolio securities for the most recent 12-month period ended June 30 is available on the SEC's website at <http://www.sec.gov> and without charge, upon request, by calling 1-800-DREYFUS.

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**Item 2. Code of Ethics.**

Not applicable.

**Item 3. Audit Committee Financial Expert.**

Not applicable.

**Item 4. Principal Accountant Fees and Services.**

Not applicable.

**Item 5. Audit Committee of Listed Registrants.**

Not applicable.

**Item 6. Investments.**

(a) Not applicable.

**Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.**

None

**Item 8. Portfolio Managers of Closed-End Management Investment Companies.**

(a) (1) The following information is as of May 31, 2014, the date of the filing of this report:

Daniel A. Barton and Steven Harvey manage the Registrant.

(a) (2) The following information is as of the Registrant's most recently completed fiscal year, except where otherwise noted:

Portfolio Managers. The Manager manages the Fund's portfolio of investments in accordance with the stated policies of the Fund, subject to the approval of the Fund's Board members. The Manager is responsible for investment decisions and provides the Fund with portfolio managers who are authorized by the Fund's Board to execute purchases and sales of securities. The Fund's portfolio managers are Daniel Barton and Steven Harvey. The Manager also maintains a research department with a professional staff of portfolio managers and securities analysts who provide research services for the Fund and for other funds advised by the Manager.

Portfolio Manager Compensation. The portfolio managers' compensation is comprised primarily of a market-based salary and an incentive compensation plan (annual and long term). Each Fund's portfolio managers are compensated by Dreyfus or its affiliates and not by the Fund. Funding for the Standish Mellon Asset Management Company LLC (Standish) Incentive Plan is through a pre-determined fixed percentage of overall company profitability. Therefore, all bonus awards are based initially on Standish's overall performance as opposed to the performance of a single



product or group. All investment professionals are eligible to receive incentive awards. Cash awards are payable in the February month end pay of the following year. Most of the awards granted have some portion deferred for three years in the form of deferred cash, The Bank of New York Mellon equity, investment vehicle (consisting of investments in a range of Standish Products), or a combination of the above. Individual awards for portfolio managers are discretionary, based on both benchmarks and peer comparisons over one year, three year and five year periods. Also considered in determining individual awards are team participation and general contributions to Standish. Individual objectives and goals established at the beginning of each calendar year and are taken into account.

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Portfolio managers whose compensation exceeds certain levels may elect to defer portions of their base salaries and/or incentive compensation pursuant to BNY Mellon's Elective Deferred Compensation Plan.

Additional Information About Portfolio Managers. The following table lists the number and types of other accounts advised by the Fund's primary portfolio manager and assets under management in those accounts as of the end of the Fund's fiscal year:

| <u>Portfolio Manager</u> | <u>Registered Investment Company Accounts</u> | <u>Assets Managed</u> | <u>Pooled Accounts</u> | <u>Assets Managed</u> | <u>Other Accounts</u> | <u>Assets Managed</u> |
|--------------------------|---|-----------------------|------------------------|-----------------------|-----------------------|-----------------------|
| Daniel Barton            | 6   | \$2.4 Billion         | 0                      | \$0                   | 0                     | \$0                   |
| Steven Harvey            | 7   | \$3.4 Billion         | 0                      | \$0                   | 18                    | \$202 Million         |

None of the funds or accounts are subject to a performance-based advisory fee.

The dollar range of Fund shares beneficially owned by the primary portfolio managers is as follows as of the end of the Fund's fiscal year:

| <u>Portfolio Manager</u> | <u>Registrant Name</u>                      | <u>Dollar Range of Registrant Shares Beneficially Owned</u> |
|--------------------------|---|---|
| Dan Barton               | Dreyfus Strategic Municipal Bond Fund, Inc. | None  |
| Steven Harvey            | Dreyfus Strategic Municipal Bond Fund, Inc. | None  |

Portfolio managers may manage multiple accounts for a diverse client base, including mutual funds, separate accounts (assets managed on behalf of institutions such as pension funds, insurance companies and foundations), bank common trust accounts and wrap fee programs ("Other Accounts").

Potential conflicts of interest may arise because of Dreyfus' management of the Fund and Other Accounts. For example, conflicts of interest may arise with both the aggregation and allocation of securities transactions and allocation of limited investment opportunities, as Dreyfus may be perceived as causing accounts it manages to participate in an offering to increase Dreyfus' overall allocation of securities in that offering, or to increase Dreyfus' ability to participate in future offerings by the same underwriter or issuer. Allocations of bunched trades, particularly trade orders that were only partially filled due to limited availability and allocation of investment opportunities generally, could raise a potential conflict of interest, as Dreyfus may have an incentive to allocate securities that are expected to increase in value to preferred accounts. Initial public offerings, in particular, are frequently of very limited availability. Additionally, portfolio managers may be perceived to have a conflict of interest if there are a large number of Other Accounts, in addition to the Fund, that they are managing on behalf of Dreyfus. Dreyfus periodically reviews each portfolio manager's overall responsibilities to ensure that he or she is able to allocate the necessary time and resources to effectively manage the Fund. In addition, Dreyfus could be viewed as having a conflict of interest to the extent that Dreyfus or its affiliates and/or portfolio managers have a materially larger investment in Other Accounts than their investment in the Fund.

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Other Accounts may have investment objectives, strategies and risks that differ from those of the Fund. For these or other reasons, the portfolio manager may purchase different securities for the Fund and the Other Accounts, and the performance of securities purchased for the Fund may vary from the performance of securities purchased for Other Accounts. The portfolio manager may place transactions on behalf of Other Accounts that are directly or indirectly contrary to investment decisions made for the Fund, which could have the potential to adversely impact the Fund, depending on market conditions.

A potential conflict of interest may be perceived to arise if transactions in one account closely follow related transactions in another account, such as when a purchase increases the value of securities previously purchased by the other account, or when a sale in one account lowers the sale price received in a sale by a second account.

Dreyfus' goal is to provide high quality investment services to all of its clients, while meeting Dreyfus' fiduciary obligation to treat all clients fairly. Dreyfus has adopted and implemented policies and procedures, including brokerage and trade allocation policies and procedures that it believes address the conflicts associated with managing multiple accounts for multiple clients. In addition, Dreyfus monitors a variety of areas, including compliance with Fund guidelines, the allocation of IPOs, and compliance with the firm's Code of Ethics. Furthermore, senior investment and business personnel at Dreyfus periodically review the performance of the portfolio managers for Dreyfus-managed funds.

**Item 9. Purchases of Equity Securities by Closed-End Management Investment Companies and Affiliated Purchasers.**

None

**Item 10. Submission of Matters to a Vote of Security Holders.**

There have been no material changes to the procedures applicable to Item 10.

**Item 11. Controls and Procedures.**

(a) The Registrant's principal executive and principal financial officers have concluded, based on their evaluation of the Registrant's disclosure controls and procedures as of a date within 90 days of the filing date of this report, that the Registrant's disclosure controls and procedures are reasonably designed to ensure that information required to be disclosed by the Registrant on Form N-CSR is recorded, processed, summarized and reported within the required time periods and that information required to be disclosed by the Registrant in the reports that it files or submits on Form N-CSR is accumulated and communicated to the Registrant's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

(b) There were no changes to the Registrant's internal control over financial reporting that occurred during the second fiscal quarter of the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.



**Item 12. Exhibits.**

(a)(1) Not applicable.

(a)(2) Certifications of principal executive and principal financial officers as required by Rule 30a-2(a) under the Investment Company Act of 1940.

(a)(3) Not applicable.

(b) Certification of principal executive and principal financial officers as required by Rule 30a-2(b) under the Investment Company Act of 1940.

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**SIGNATURES**

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

Dreyfus Strategic Municipal Bond Fund, Inc.

By: /s/ Bradley J. Skapyak

Bradley J. Skapyak,

President

Date: July 21, 2014

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

By: /s/ Bradley J. Skapyak

Bradley J. Skapyak,

President

Date: July 21, 2014

By: /s/ James Windels

James Windels,

Treasurer

Date: July 21, 2014

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**EXHIBIT INDEX**

(a)(2) Certifications of principal executive and principal financial officers as required by Rule 30a-2(a) under the Investment Company Act of 1940. (EX-99.CERT)

(b) Certification of principal executive and principal financial officers as required by Rule 30a-2(b) under the Investment Company Act of 1940. (EX-99.906CERT)