

DREYFUS STRATEGIC MUNICIPAL BOND FUND INC
Form N-CSR
January 27, 2006
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)

Mark N. Jacobs, 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: 11/30/05

FORM N-CSR

Item 1. Reports to Stockholders.

Dreyfus Strategic Municipal Bond Fund, Inc.

Protecting Your Privacy Our Pledge to You

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, EXCEPT AS 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.

Not FDIC-Insured Not Bank-Guaranteed May Lose Value

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

The Fund

LETTER FROM THE CHAIRMAN

Dear Shareholder:

We are pleased to present this annual report for Dreyfus Strategic Municipal Bond Fund, Inc., covering the 12-month period from December 1, 2004, through November 30, 2005. Inside, you'll find valuable information about how the fund was managed during the reporting period, including a discussion with the fund's portfolio manager, James Welch.

The U.S. economy demonstrated remarkable resiliency over the past year, expanding at a steady pace despite the headwinds of soaring energy prices, higher interest rates and the dislocations caused by the Gulf Coast hurricanes. Although yields of longer-term municipal bonds recently have begun to creep upward, low inflation expectations among U.S. investors, improving fiscal conditions and robust investor demand have helped them withstand the potentially eroding effects of rising short-term interest rates.

As the end of 2005 approaches, the U.S. economy and financial markets may be reaching an inflection point. Investors' reactions to a change in leadership at the Federal Reserve Board and the effects of higher fuel prices on the rate of inflation may set the tone for the U.S. fixed-income markets in 2006. As always, we encourage you to discuss these and other market forces with your financial advisor.

Thank you for your continued confidence and support.

The Dreyfus Corporation
December 15, 2005

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DISCUSSION OF FUND PERFORMANCE

James Welch, Portfolio Manager

How did Dreyfus Strategic Municipal Bond Fund, Inc. perform during the period?

For the 12-month period ended November 30, 2005, the fund achieved a total return of 8.06%.¹ Over the same period, the fund provided aggregate income dividends of \$0.588 per share, which reflects a distribution rate of 7.21%.²

We attribute the fund's performance to the resiliency of longer-term bond prices in a rising interest-rate environment, which we attribute to persistently low inflation expectations and robust investor demand. While the fund also benefited from relatively strong income from its seasoned, core holdings, the fund's board declared a reduced dividend in August 2005 due to the higher cost of funding its preferred shares and lower levels of investment income from newly purchased securities.

What is 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. Municipal bonds are classified as general obligation bonds, revenue bonds and notes. 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 issues auction rate preferred stock and invests the proceeds in a manner consistent with its investment objective. This has the effect of "leveraging" the portfolio, which can increase the fund's performance potential as well as, depending on market conditions, enhance net asset value volatility.

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DISCUSSION OF FUND PERFORMANCE (continued)

Over time, many of the fund's older, higher-yielding bonds have matured or were redeemed by their issuers. We have generally 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 optimal redemption date or maturity. In addition, we conduct credit analysis of the fund's holdings in an attempt to avoid potential defaults on interest and principal payments.

What other factors influenced the fund's performance?

The fund was influenced during the reporting period by higher short-term interest rates and low inflation in a moderately growing U.S. economy. As part of its ongoing credit tightening campaign, the Federal Reserve Board (the "Fed") increased the overnight federal funds rate eight times during the reporting period, driving it from 2% to 4%. Contrary to historical norms, however, yields of longer-term bonds did not rise along with interest rates for most of the reporting period, partly due to persistently low inflation expectations among investors. As a result, prices of longer-term municipal bonds held up remarkably well as yield differences between shorter- and longer-term securities narrowed.

In addition, municipal bonds benefited from robust investor demand, including purchases by hedge funds, insurance companies and other "non-traditional" investors attracted by the market's generous after-tax returns. While the supply of newly issued bonds rose to record levels during the reporting period, the additional issuance volume was easily absorbed by income-oriented investors, lending further support to tax-exempt bond prices.

The fund continued to receive attractive levels of current income from its core holdings of seasoned municipal bonds, most of which were purchased during a market environment offering higher yields than are available today. In addition, the fund's return was supported by its relatively light holdings of shorter-term securities; instead, we focused

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on bonds toward the long end of the market's maturity range. The fund also benefited when a number of its premium-priced holdings were "pre-refunded" by issuers seeking to reduce their borrowing costs. Finally, favorable timing in the tactical trading of lower-rated tax-exempt securities, including bonds backed by health care facilities and the states' settlement with tobacco companies, made relatively strong contributions to the fund's performance.

However, as expected, some of the fund's higher-yielding core holdings were redeemed early by their issuers, and we were unable to reinvest in bonds with comparable income characteristics. In addition, the fund's leverage strategy has been affected by rising short-term interest rates, which resulted in higher borrowing costs. To adjust for these changes, the fund's Board of Directors reduced the fund's dividend in August 2005.

What is the fund's current strategy?

Despite stronger-than-expected economic data, inflation has remained subdued, and the Fed appears to be closer to the end of its credit tightening campaign. This suggests that most of the Fed's rate hikes probably are behind us. Accordingly, we recently have adopted a slightly more assertive investment posture, including a focus on income-oriented, premium-priced securities with maturities in the 15- to 25-year range.

December 15, 2005

- 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 figure provided reflects the absorption of certain expenses by The Dreyfus Corporation pursuant to an undertaking in effect through October 31, 2006. Had these expenses not been absorbed, the fund's return would have been lower.
- ² Distribution rate per share is based upon dividends per share paid from net investment income during the period, divided by the market price per share at the end of the period, adjusted for any capital gain distributions.

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Market Price per share November 30, 2005	\$8.16
Shares Outstanding November 30, 2005	48,254,703
New York Stock Exchange Ticker Symbol	DSM

MARKET PRICE (NEW YORK STOCK EXCHANGE)

Fiscal Year Ended November 30, 2005

	Quarter Ended February 28, 2005	Quarter Ended May 31, 2005	Quarter Ended August 31, 2005	Quarter Ended November 30, 2005
High	\$8.76	\$8.77	\$9.53	\$8.78
Low	8.25	8.27	8.65	8.05
Close	8.59	8.77	8.67	8.16

PERCENTAGE GAIN (LOSS) based on change in Market Price*

November 22, 1989 (commencement of operations) through November 30, 2005	145.49%
December 1, 1995 through November 30, 2005	72.53
December 1, 2000 through November 30, 2005	40.67
December 1, 2004 through November 30, 2005	3.78
March 1, 2005 through November 30, 2005	(0.19)
June 1, 2005 through November 30, 2005	(3.94)
September 1, 2005 through November 30, 2005	(4.44)

NET ASSET VALUE PER SHARE

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November 22, 1989 (commencement of operations)	\$9.32
November 30, 2004	8.79
February 28, 2005	8.96
May 31, 2005	9.05
August 31, 2005	9.13
November 30, 2005	8.88

PERCENTAGE	GAIN	based on change in Net Asset Value*
November 22, 1989 (commencement of operations)		
through November 30, 2005		186.66%
December 1, 1995 through November 30, 2005		80.92
December 1, 2000 through November 30, 2005		44.63
December 1, 2004 through November 30, 2005		8.06
March 1, 2005 through November 30, 2005		4.14
June 1, 2005 through November 30, 2005		1.30
September 1, 2005 through November 30, 2005		(1.25)

* With dividends reinvested.

SELECTED INFORMATION

November 30, 2005 (Unaudited)

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STATEMENT OF INVESTMENTS

November 30, 2005

Long-Term Municipal Investments 139.8%	Principal Amount (\$)	Value (\$)
Alabama 1.0%		
Jefferson County, Limited Obligation School Warrants 5.50%, 1/1/2022	4,000,000	4,296,520
Alaska 4.3%		
Alaska Housing Finance Corp.: 6.25%, 6/1/2035	5,640,000	5,930,403
6.05%, 6/1/2039 (Insured; MBIA)	11,915,000	12,301,999
Arizona .5%		
Apache County Industrial Development Authority, PCR (Tucson Electric Power Co.) 5.85%, 3/1/2028	2,220,000	2,220,510
Arkansas 2.0%		
Arkansas Development Finance Authority, SFMR 6.25%, 1/1/2032	3,110,000	3,142,312
Little Rock School District 5.25%, 2/1/2030 (Insured; FSA)	5,000,000	5,245,000
California 8.8%		
California 5.50%, 4/1/2028	5,450,000	5,858,313

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California Department of Veteran Affairs, Home Purchase Revenue 5.20%, 12/1/2028	5,000,000	5,002,150
California Department of Water Resources, Power Supply Revenue 6%, 5/1/2012	10,000,000 ^a	11,374,900
California Health Facilities Financing Authority, Revenue (Cedars-Sinai Medical Center): 6.25%, 12/1/2009	3,750,000 ^a	4,180,312
5%, 11/15/2018	3,925,000	4,102,841
Chula Vista, IDR (San Diego Gas Project) 5%, 12/1/2027	3,000,000	3,028,320
Golden State Tobacco Securitization Corp., Enhanced Tobacco Settlement Asset-Backed 5%, 6/1/2021	3,970,000	3,988,500
Colorado 4.7%		
Colorado Health Facilities Authority, Revenue (American Housing Foundation 1, Inc. 8.50%, 12/1/2031	2,015,000	2,037,528
Colorado Housing and Financing Authority (Single Family Program Senior and Subordinate) 6.60%, 8/1/2032	2,615,000	2,693,528
Denver City and County, Special Facilities Airport Revenue (United Air Lines) 6.875%, 10/1/2032	2,885,000 ^b	2,695,744

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STATEMENT OF INVESTMENTS (continued)

Long-Term Municipal Investments (continued)	Principal Amount (\$)	Value (\$)
Colorado (continued)		
Northwest Parkway Public Highway Authority, Revenue (First Tier Subordinated) 7.125%, 6/15/2041	7,000,000	7,556,710
Silver Dollar Metropolitan District 7.05%, 12/1/2006	4,825,000 ^a	4,997,928
Connecticut 4.9%		
Connecticut Development Authority, PCR (Connecticut Light and Power) 5.95%, 9/1/2028	9,000,000	9,545,940
Connecticut Health and Educational Facilities Authority, Revenue (Yale University) 5%, 7/1/2042	5,000,000	5,144,400
Connecticut Resource Recovery Authority (American Refunding-Fuel Company) 6.45%, 11/15/2022	4,985,000	5,043,673
Mohegan Tribe Indians Gaming Authority, Public Improvement-Priority Distribution		

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6.25%, 1/1/2031	1,000,000	1,071,150
District of Columbia 1.1%		
Metropolitan Washington Airports Authority, Special Facilities Revenue (Caterair International Corp.) 10.125%, 9/1/2011		
	4,500,000	4,505,940
Florida 4.0%		
Florida Housing Finance Corp., Housing Revenue (Seminole Ridge Apartments) 6%, 4/1/2041 (Collateralized; GNMA)		
	6,415,000	6,666,660
Miami-Dade County Expressway Authority, Toll System Revenue 5.125%, 7/1/2029 (Insured; FGIC)		
	3,250,000	3,369,243
Orange County Health Facilities Authority, Revenue: (Adventist Health System) 6.25%, 11/15/2024		
	3,000,000	3,315,330
(Orlando Regional Healthcare System) 6%, 10/1/2026		
	3,500,000	3,676,365
Georgia 2.0%		
Atlanta, Airport Revenue 5.25%, 1/1/2025 (Insured; FSA)		
	3,000,000	3,140,160
Augusta, Airport Revenue 5.45%, 1/1/2031		
	2,500,000	2,530,225
Savannah Economic Development Authority, EIR (International Paper Co.) 6.20%, 8/1/2027		
	2,670,000	2,812,712

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Long-Term Municipal Investments (continued)	Principal Amount (\$)	Value (\$)
Idaho 1.1%		
Idaho Housing and Finance Association, SFMR 6.35%, 1/1/2030 (Collateralized; FNMA)		
	585,000	611,483
Illinois 10.1%		
Chicago, SFMR 6.25%, 10/1/2032 (Collateralized: FHLMC, FNMA and GNMA)		
	2,590,000	2,677,231
Chicago O'Hare International Airport: General Airport Revenue (3rd Lien B-2) 6%, 1/1/2029 (Insured; XLCA)		
	5,000,000	5,548,150
Special Facility Revenue (American Airlines Inc.) 8.20%, 12/1/2024		
	8,200,000	7,132,032
Illinois Educational Facilities Authority, Revenue: (Northwestern University) 5%, 12/1/2038		
	5,000,000	5,087,400
(University of Chicago) 5.125%, 7/1/2038 (Insured; MBIA)		
	5,000,000	5,134,050
Illinois Health Facilities Authority, Revenue: (Advocate Network Health Care) 6.125%, 11/15/2010		
	5,000,000	^a 5,555,350

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(OSF Healthcare Systems) 6.25%, 11/15/2009	10,900,000	a	12,053,329
Indiana 1.6%			
Franklin Township School Building Corp. 6.125%, 7/15/2010	6,000,000	a	6,741,600
Louisiana 2.8%			
Louisiana Public Facilities Authority, HR (Franciscan Missionaries of Our Lady Health System Project) 5.25%, 8/15/2036	4,000,000		4,084,520
West Feliciana Parish, PCR (Entergy Gulf States): 7%, 11/1/2015	3,000,000		3,047,490
6.60%, 9/1/2028	4,700,000		4,747,517
Maryland 1.5%			
Maryland Economic Development Corp., Student Housing Revenue (University of Maryland) 5.75%, 10/1/2033	2,550,000		2,680,994
Maryland Industrial Development Financing Authority, EDR (Medical Waste Associates Limited Partnership) 8.75%, 11/15/2010	3,710,000		2,652,613
Prince George's County, Special Obligation (National Harbor Project) 5%, 7/1/2034	1,000,000		996,260

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STATEMENT OF INVESTMENTS (continued)

Long-Term Municipal Investments (continued)	Principal Amount (\$)	Value (\$)
Massachusetts 3.2%		
Massachusetts Development Finance Agency, Revenue (WGBH Educational Foundation) 5.375%, 1/1/2042 (Insured; AMBAC)	5,750,000	6,139,908
Massachusetts Health and Educational Facilities Authority, Revenue: (Civic Investments) 9%, 12/15/2015	2,000,000	2,428,860
(Partners Healthcare System) 5.75%, 7/1/2032	3,000,000	3,256,950
Massachusetts Housing Finance Agency (Housing): 5%, 6/1/2030	1,000,000	1,023,640
5.10%, 6/1/2037	900,000	905,229
Michigan 2.5%		
Charyl Stockwell Academy, COP 6%, 10/1/2035	2,000,000	2,007,600
Michigan Strategic Fund, SWDR (Genesee Power Station) 7.50%, 1/1/2021	8,950,000	8,920,376
Minnesota 1.0%		

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Saint Paul Housing and Redevelopment Authority, Hospital Facility Revenue (HealthEast Project):		
6%, 11/15/2025	1,000,000	1,074,010
6%, 11/15/2035	3,000,000	3,201,450
Mississippi 0.7%		
Mississippi Business Finance Corp. PCR (Systems Energy Resources, Inc.) 5.90%, 5/1/2022		
	3,160,000	3,215,616
Nebraska 0.3%		
Nebraska Investment Finance Authority, SFMR 8.983%, 3/1/2026		
	1,500,000 ^{c,d}	1,555,545
Nevada 3.9%		
Clark County, IDR (Nevada Power Co. Project) 5.60%, 10/1/2030		
	3,000,000	2,978,670
Washoe County: (Reno-Sparks Convention) 6.40%, 1/1/2010 (Insured; FSA)		
	8,000,000 ^a	8,877,520
Water Facility Revenue (Sierra Pacific Power Co.) 5%, 3/1/2036		
	5,000,000	5,058,950
New Hampshire 3.4%		
New Hampshire Business Finance Authority, PCR (Public Service Co.): Series D, 6%, 5/1/2021 (Insured; MBIA)		
	2,690,000	2,871,683
Series E, 6%, 5/1/2021 (Insured; MBIA)		
	6,000,000	6,405,240

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Long-Term Municipal Investments (continued)	Principal Amount (\$)	Value (\$)
New Hampshire (continued)		
New Hampshire Industrial Development Authority, PCR (Connecticut Light) 5.90%, 11/1/2016		
	5,400,000	5,512,158
New Jersey 4.2%		
New Jersey Economic Development Authority, Special Facilities Revenue (Continental Airlines, Inc. Project): 6.25%, 9/15/2019		
	3,620,000	3,142,269
6.25%, 9/15/2029		
	4,000,000	3,318,360
Tobacco Settlement Financing Corp. of New Jersey 7%, 6/1/2041		
	10,095,000	11,470,242
New York 1.9%		
New York City Industrial Development Agency, Special Facility Revenue (American Airlines, Inc. John F. Kennedy International Airport Project) 8%, 8/1/2028		
	3,000,000	2,989,830
New York State Dormitory Authority, Revenue: (Marymount Manhattan College)		

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6.25%, 7/1/2029 (Insured; Radian) (Suffolk County Judicial Facility)	4,000,000	4,338,720
9.50%, 4/15/2014	605,000	834,404
North Carolina 1.2%		
Gaston County Industrial Facilities and Pollution Control Financing Authority, Exempt Facilities Revenue (National Gypsum Co. Project) 5.75%, 8/1/2035	2,500,000	2,597,725
North Carolina Eastern Municipal Power Agency, Power Systems Revenue 6.70%, 1/1/2019	2,500,000	2,749,950
Ohio 6.5%		
Cuyahoga County: Hospital Facilities Revenue (UHHS/CSAHS Cuyahoga Inc. and CSAHS/UHHS Canton Inc. Projects) 7.50%, 1/1/2030	3,500,000	3,895,255
Hospital Improvement Revenue (The Metrohealth System Project) 6.15%, 2/15/2009	10,000,000 ^a	10,891,200
Mahoning County, HR (Forum Health Obligation Group) 6%, 11/15/2032	4,000,000	4,255,840

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STATEMENT OF INVESTMENTS (continued)