

DREYFUS STRATEGIC MUNICIPAL BOND FUND INC
Form N-CSR
February 09, 2005

**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: 11/30/04

FORM N-CSR

Item 1. Reports to Stockholders.

Dreyfus
Strategic Municipal
Bond Fund, Inc.

ANNUAL REPORT November 30, 2004

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

Contents

THE FUND

2	Letter from the Chairman
3	Discussion of Fund Performance
6	Selected Information
7	Statement of Investments
16	Statement of Assets and Liabilities
17	Statement of Operations
18	Statement of Changes in Net Assets
19	Financial Highlights

21	Notes to Financial Statements
27	Report of Independent Registered Public Accounting Firm
28	Important Tax Information
29	Additional Information
32	Proxy Results
33	Board Members Information
35	Officers of the Fund
37	Officers and Directors
	FOR MORE INFORMATION

Back Cover

**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, 2003, through November 30, 2004. 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 Federal Reserve Board has raised short-term interest rates four times since June 2004, the U.S. labor market is strengthening, and lower federal tax rates have made tax-advantaged investments somewhat less beneficial for many investors. Nonetheless, the municipal bond market is poised to have another consecutive calendar year of positive returns. In our view, investor demand for municipal bonds has remained strong due to concerns that record energy prices and persistent geopolitical tensions may be eroding the rate of U.S. economic growth.

In uncertain markets such as these, the tax-exempt investments that are right for you depend on your current needs, future goals, tolerance for risk and the composition of your current portfolio. As always, your financial advisor may be in the best position to recommend the specific market sectors and most suitable investments that will satisfy most effectively your tax-exempt income and capital preservation needs.

Thank you for your continued confidence and support.

Sincerely,

Stephen E. Canter
Chairman and Chief Executive Officer
The Dreyfus Corporation
December 15, 2004

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, 2004, the fund achieved a total return of 6.04% .¹ Over the same period, the fund provided aggregate income dividends of \$0.6120 per share, which is equal to a distribution rate of 7.28% .²

Despite rising short-term interest rates and bouts of heightened market volatility, longer-term bond yields ended the reporting period close to where they began. Moderate economic growth and persistently low inflation helped support bond prices in a market environment characterized by better fiscal conditions for many states and municipalities and a reduced volume of municipal bond issuance compared to the same period one year earlier.

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.

We look for bonds that we believe can provide high current income. We strive to find such opportunities through analysis of individual bonds' structures. Within the context of our bond structure analyses, we pay particularly close attention to each bond's maturity and early redemption features.

The Fund **3**

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 our holdings in an attempt to avoid potential defaults on interest and principal payments.

What other factors influenced the fund's performance?

When the reporting period began, the U.S. economy was growing sluggishly and inflation remained low, helping to support higher bond prices. These relatively constructive market conditions prevailed through the first quarter of 2004. In April 2004, however, unexpected labor market gains and surging energy prices indicated that inflationary pressures might be resurfacing, leading to heightened market volatility. In fact, the municipal bond market's springtime decline rivaled the one that took place during the summer of 2003.

In late June, the Federal Reserve Board (the "Fed") raised short-term interest rates for the first time in more than four years in an effort to forestall potential inflationary pressures. Although the U.S. economy appeared to hit a "soft patch" in the summer and early fall, the Fed followed its initial rate-hike with three additional increases between August and November, driving the overnight federal funds rate from 1% to 2%. Nevertheless, longer-term municipal bonds rallied over the summer, erasing their previous losses, when inflation remained persistently low.

Municipal bonds also were positively influenced by the improving fiscal condition of many states and municipalities. Better business conditions in the recovering economy helped boost tax receipts, and many states ended their fiscal years with small budget surpluses. As a

4

result, most issuers had less need to borrow, and a lower volume of newly issued securities provided additional support for bond prices.

In this market environment, we gradually reduced the fund's average duration from a position we considered longer than industry averages to one that was slightly shorter than average. This change was designed to protect the fund from the full brunt of rising interest rates. In addition, we continued our attempts to manage risks more effectively by diversifying the fund's holdings more broadly across issuers and maturity ranges. When making new purchases, we focused primarily on higher-quality bonds selling at modest premiums to their face values. Historically, such securities have held more of their value during market declines.

However, the fund's return was hindered during the reporting period by credit-related concerns affecting one of its holdings that was backed by revenues from a hotel and convention center in a major city. We sold the fund's position in the affected security when questions about bookings and room rates arose, avoiding further weakness.

What is the fund's current strategy?

We have continued to maintain a relatively defensive investment posture in today's rising interest-rate environment, including a modestly shorter-than-average duration and an emphasis on income-oriented bonds. In addition, we recently converted one series of the fund's auction-rate preferred notes from a one year fixed rate to a variable rate, which we believe currently offers better value for the fund's leveraging strategy.

December 15, 2004

- 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.*
- 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.*

The Fund 5

SELECTED INFORMATION

November 30, 2004 (Unaudited)

Market Price per share November 30, 2004	\$8.41
Shares Outstanding November 30, 2004	48,181,284
New York Stock Exchange Ticker Symbol	DSM

MARKET PRICE (NEW YORK STOCK EXCHANGE)

Fiscal Year Ended November 30, 2004

	Quarter Ended February 29, 2004	Quarter Ended May 31, 2004	Quarter Ended August 31, 2004	Quarter Ended November 30, 2004
High	\$9.22	\$9.17	\$8.65	\$8.83
Low	8.65	7.60	7.93	8.34

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Close 9.10 7.97 8.60 8.41

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

November 22, 1989 (commencement of operations)	
through November 30, 2004	136.53%
December 1, 1994 through November 30, 2004	91.37
December 1, 1999 through November 30, 2004	53.57
December 1, 2003 through November 30, 2004	2.48
March 1, 2004 through November 30, 2004	(2.46)
June 1, 2004 through November 30, 2004	9.38
September 1, 2004 through November 30, 2004	(.48)

NET ASSET VALUE PER SHARE

November 22, 1989 (commencement of operations)	\$9.32
November 30, 2003	8.90
February 29, 2004	9.10
May 31, 2004	8.56
August 31, 2004	8.81
November 30, 2004	8.79

PERCENTAGE GAIN (LOSS) based on change in Net Asset Value*

November 22, 1989 (commencement of operations)	
through November 30, 2004	165.26%
December 1, 1994 through November 30, 2004	98.73
December 1, 1999 through November 30, 2004	44.15
December 1, 2003 through November 30, 2004	6.04
March 1, 2004 through November 30, 2004	1.95
June 1, 2004 through November 30, 2004	6.44
September 1, 2004 through November 30, 2004	1.54

*With dividends reinvested.

6

STATEMENT OF INVESTMENTS

November 30, 2004

Long-Term Municipal Investments 141.7%	Principal Amount (\$)	Value (\$)
Alaska 4.4%		
Alaska Housing Finance Corp.:		
6.25%, 6/1/2035	5,905,000	6,221,508
6.05%, 6/1/2039 (Insured; MBIA)	11,915,000	12,327,020
Arizona 1.5%		
Apache County Industrial Development Authority, PCR (Tucson Electric Power Co.) 5.85%, 3/1/2028	2,220,000	2,190,896
Maricopa County Pollution Control Corp., PCR (El Paso Electric Co.) 6.25%, 5/1/2037	4,000,000	4,086,240

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Arkansas 2.2%

Arkansas Development Finance Authority, SFMR 6.25%, 1/1/2032	3,840,000	3,987,686
Little Rock School District 5.25%, 2/1/2030 (Insured; FSA)	5,000,000	5,182,100

California 10.2%

California 5.50%, 4/1/2028	5,450,000	5,781,578
California Economic Recovery 5.25%, 7/1/2014 (Insured; FGIC)	7,435,000	8,357,683
California Department of Water Resources, Power Supply Revenue 6%, 5/1/2015	12,500,000	14,286,125
California Department of Veteran Affairs Home Purchase Revenue 5.20%, 12/1/2028	5,000,000	5,008,850
California Health Facilities Financing Authority, Revenue (Cedars-Sinai Medical Center) 6.25%, 12/1/2034	3,750,000	4,012,650
San Diego Unified School District Crossover (Election 1998) 5.50%, 7/1/2023 (Insured; MBIA)	5,000,000	5,731,050

Colorado 3.6%

Colorado Health Facilities Authority, Revenue (American Housing Foundation 1, Inc.) 8.50%, 12/1/2031	2,035,000	2,033,270
Denver City and County, Special Facilities Airport Revenue (United Air Lines) 6.875%, 10/1/2032	2,700,000 ^a	2,065,500
Northwest Parkway Public Highway Authority, Revenue (First Tier Subordinated) 7.125%, 6/15/2041	5,500,000	5,831,375
Silver Dollar Metropolitan District 7.05%, 12/1/2030	4,885,000	5,321,084

The Fund 7

STATEMENT OF INVESTMENTS (continued)

Long-Term Municipal Investments (continued)	Principal Amount (\$)	Value (\$)
Connecticut 3.7%		
Connecticut Development Authority, PCR (Connecticut Light and Power) 5.95%, 9/1/2028	9,000,000	9,511,290
Connecticut Resource Recovery Authority (American Refunding-Fuel Company) 6.45%, 11/15/2022	4,985,000	5,091,928
Mohegan Tribe Indians Gaming Authority Public Improvement-Priority Distribution 6.25%, 1/1/2031	1,000,000	1,059,450

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District of Columbia 1.3%

Metropolitan Washington Airports Authority, Special Facilities Revenue (Caterair International Corp.) 10.125%, 9/1/2011	5,420,000	5,426,775
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Florida 3.2%

Florida Housing Finance Corp., Housing Revenue (Seminole Ridge Apartments) 6%, 4/1/2041 (Collateralized; GNMA)	6,415,000	6,651,328
Orange County Health Facilities Authority, Revenue: (Adventist Health System) 6.25%, 11/15/2024	3,000,000	3,314,070
(Orlando Regional Healthcare System) 6%, 10/1/2026	3,500,000	3,675,525

Georgia 2.3%

Atlanta Airport Revenue: 5.25%, 1/1/2025 (Insured; FSA) (Passenger Facilities Charge)	3,000,000	3,106,110
5%, 1/1/2034 (Insured; FSA)	4,000,000	4,023,440
Savannah Economic Development Authority, Environmental Improvement Revenue (International Paper Company) 6.20%, 8/1/2027	2,670,000	2,820,828

Idaho 0.2%

Idaho Housing & Finance Association, SFMR 6.35%, 1/1/2030 (Collateralized; FNMA)	890,000	929,000
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Illinois 6.5%

Chicago O'Hare International Airport General Airport Revenue (3rd Lien B-2 XLCA) 6%, 1/1/2029	5,000,000	5,458,550
Illinois Educational Facilities Authority Revenues (University of Chicago) 5.125%, 7/1/2038 (Insured; MBIA)	5,000,000	5,049,300
Illinois Health Facilities Authority, Revenue: (Advocate Network Health Care) 6.125%, 11/15/2022	5,000,000	5,533,400
(OSF Healthcare Systems) 6.25%, 11/15/2029	10,900,000	11,486,093

8

Long-Term Municipal Investments (continued)	Principal Amount (\$)		Value (\$)
Indiana 1.7%			
Franklin Township School Building Corporation 6.125%, 1/15/2022 (Prerefunded 7/15/2010)	6,000,000	b	7,020,780
Kansas 1.7%			
Wyandotte County Kansas City, Unified Government Utility Systems Revenue 5.65%, 9/1/2022 (Insured; AMBAC)	6,365,000		7,307,402
Louisiana 2.6%			
Parish of De Soto, Environmental Improvement			

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Revenue (International Paper Co.)		
6.55%, 4/1/2019	2,900,000	3,007,619
West Feliciana Parish, PCR (Entergy Gulf States):		
7%, 11/1/2015	3,000,000	3,080,220
6.60%, 9/1/2028	4,700,000	4,785,211
Maryland 2.5%		
Maryland Economic Development Corp., Student Housing Revenue (University of Maryland)		
5.75%, 10/1/2033	2,550,000	2,619,054
Maryland Industrial Development Financing Authority, EDR (Medical Waste Associates Limited Partnership) 8.75%, 11/15/2010	3,710,000	^c 2,597,000
Maryland State and Local Facilities Loan 5%, 8/1/2017	5,000,000	5,399,100
Massachusetts 2.9%		
Massachusetts Development Finance Agency Revenue (WGBH Educational Foundation)		
5.37%, 1/1/2042 (Insured; AMBAC)	6,500,000	6,843,265
Massachusetts Health and Educational Facilities Authority, Revenue:		
(Civic Investments) 9%, 12/15/2015	2,000,000	2,312,640
(Partners Healthcare System) 5.75%, 7/1/2032	3,000,000	3,239,280
Michigan 2.9%		
Michigan Hospital Finance Authority, HR (Genesys Health System Obligated Group)		
8.125%, 10/1/2021 (Prerefunded 10/1/2005)	5,000,000	^b 5,346,100
Michigan Strategic Fund, SWDR (Genesee Power Station) 7.50%, 1/1/2021	7,550,000	6,792,811

The Fund 9

STATEMENT OF INVESTMENTS (continued)

Long-Term Municipal Investments (continued)	Principal Amount (\$)	Value (\$)
Mississippi 0.8%		
Mississippi Business Finance Corporation, PCR (Systems Energy Resources, Inc.) 5.90%, 5/1/2022	3,160,000	3,187,998
Nebraska 0.6%		
Nebraska Investment Finance Authority, SFMR 9.814%, 3/1/2026	2,150,000	^{d,e} 2,489,657
Nevada 5.7%		
Clark County, IDR (Southwest Gas Corporation):		

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6.50%, 12/1/2033 (Prerefunded 12/1/2004)	5,000,000	b	5,050,500
5%, 12/1/2033 (Insured; FGIC)	5,000,000		4,958,400
Washoe County:			
(Reno-Sparks Convention) 6.40%, 7/1/2029 (Insured; FSA) (Prerefunded 1/1/2010)	8,000,000	b	9,247,440
Water Facility Revenue (Sierra Pacific Power Co.) 5%, 3/1/2036	5,000,000		5,083,900
New Hampshire 3.6%			
New Hampshire Business Finance Authority, PCR (Public Service Co.):			
6%, Series D 5/1/2021 (Insured; MBIA)	2,690,000		2,957,709
6%, Series E 5/1/2021 (Insured; MBIA)	6,000,000		6,597,120
New Hampshire Industrial Development Authority, PCR (Connecticut Light) 5.90%, 11/1/2016	5,400,000		5,544,612
New Jersey 5.0%			
New Jersey Economic Development Authority Special Facilities Revenue (Continental Airlines, Inc.):			
6.25%, 9/15/2019	3,620,000		2,971,187
6.25%, 9/15/2029	2,500,000		1,925,000
7.20%, 11/15/2030	7,000,000		5,872,230
Tobacco Settlement Financing Corporation 7%, 6/1/2041	10,095,000		10,266,009
New Mexico 1.0%			
New Mexico Finance Authority Transportation Revenue			
5.25%, 6/15/2020 (Insured; MBIA)	4,000,000		4,332,240
New York 4.6%			
New York City 5.75%, 8/1/2014	5,000,000		5,575,500
New York City Transitional Finance Authority, Revenue (Future Tax Secured) 5.375%, 11/15/2021	5,000,000		5,398,400

10

Long-Term Municipal Investments (continued)	Principal Amount (\$)	Value (\$)
New York (continued)		
New York State Dormitory Authority, Revenue:		
City University Systems		
(Consolidated 4th General) 5.50%, 7/1/2017	3,060,000	3,296,722
Judicial Facility Lease		
(Suffolk County) 9.50%, 4/15/2014	605,000	857,763
(Marymount Manhattan College) 6.25%, 7/1/2029	4,000,000	4,334,280
North Carolina 7%		
North Carolina Eastern Municipal Power Agency, Power Systems Revenue 6.70%, 1/1/2019	2,500,000	2,794,050
Ohio 6.3%		
Cuyahoga County, HR (Metrohealth Systems)		

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6.15%, 2/15/2029 Cuyahoga County Hospital Facilities, Revenue (UHHS/CSAHS Cuyahoga Inc. & CSAHS/UHHS Canton Inc.) 7.50%, 1/1/2030	10,000,000	10,414,200
Mahoning County Hospital Facilities, Revenue (Forum Health Obligation Group)	3,500,000	3,865,470
6%, 11/15/2032 Ohio Air Quality Development Authority, PCR (Cleveland Electric Illuminating Co.)	4,000,000	4,222,640
6.10%, 8/1/2020 Ohio Housing Finance Agency, Mortgage Revenue	2,400,000	2,521,872
10.20%, 3/1/2029 (Collateralized; GNMA) Ohio Water Development Authority, PCR (Cleveland Electric) 6.10%, 8/1/2020	1,465,000 ^{d,e}	1,593,363
Oklahoma 4.1% Oklahoma Development Finance Authority, Revenue (St. John Health System) 6%, 2/15/2029	4,000,000	4,203,120
Oklahoma Industries Authority, Health System Revenue (Obligation Group)	9,000,000	9,681,930
5.75%, 8/15/2029 (Insured; MBIA) Tulsa Municipal Airport Trust Revenue (American Airlines Project)	5,000,000	5,428,100
5.65%, 12/1/2035 Oregon 1.4% Umatilla County Hospital Facility Authority, Revenue (Catholic Health Initiatives) 5.50%, 3/1/2022	2,550,000	2,391,517
	2,395,000	2,536,305

The Fund **11**

STATEMENT OF INVESTMENTS (continued)

Long-Term Municipal Investments (continued)	Principal Amount (\$)	Value (\$)
Oregon (continued) Western Generation Agency, Cogeneration Project Revenue (Wauna Cogeneration) 7.40%, 1/1/2016	3,250,000	3,304,113
Pennsylvania 1.3%		