

DREYFUS STRATEGIC MUNICIPAL BOND FUND INC
Form N-CSR
January 30, 2013

**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)

Janette E. Farragher, 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: 11/30/12

FORM N-CSR

Item 1. Reports to Stockholders.

Dreyfus Strategic Municipal Bond Fund, Inc.

ANNUAL REPORT November 30, 2012

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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THE 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 annual report for Dreyfus Strategic Municipal Bond Fund, Inc., covering the 12-month period from December 1, 2011, through November 30, 2012. 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.

The municipal bond market generally advanced over the past year in response to positive supply-and-demand dynamics, improving credit conditions, and investors' changing expectations of global and domestic economic conditions. While monthly variations in economic data were pronounced, the longer-term pace of U.S. economic growth has been relatively consistent at about half the average rate achieved in prior recoveries. However, a number of macroeconomic headwinds remain, including uncertainty regarding U.S. fiscal and tax policies and the ongoing effects of the European financial crisis.

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In light of these factors, the U.S. economic recovery appears likely to persist at subpar levels over the first half of 2013. However, the nation's easy monetary policy and a favorable resolution of the fiscal debate may prompt corporate decision-makers to increase capital spending, which could have positive implications for the U.S. economy and most states' fiscal conditions later in the year. As always, we encourage you to stay in touch with your financial advisor as new developments unfold.

Thank you for your continued confidence and support.

Sincerely,

J. Charles Cardona
President
The Dreyfus Corporation
December 17, 2012

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DISCUSSION OF FUND PERFORMANCE

For the period of December 1, 2011, through November 30, 2012, as provided by Daniel Barton and Steven Harvey, Portfolio Managers

Fund and Market Performance Overview

For the 12-month period ended November 30, 2012, Dreyfus Strategic Municipal Bond Fund, Inc. achieved a total return of 22.46% on a net-asset-value basis.¹ Over the same period, the fund provided aggregate income dividends of \$0.57 per common share, which reflects a distribution rate of 5.82%.²

Falling long-term interest rates and favorable supply-and-demand dynamics continued to support municipal bond prices over the reporting period. The fund's results benefited from a long average duration and its leveraging strategy, both of which enabled it to participate more fully in market rallies.

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

The Fund

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DISCUSSION OF FUND PERFORMANCE (continued)

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.

Supply-and-Demand Dynamics Supported Municipal Bonds

Most financial markets were rallying at the start of the reporting period amid U.S. employment gains and a quantitative easing program in Europe. Investors grew more tolerant of risks, focusing more on underlying fundamentals and less on macroeconomic developments. These positive influences were called into question during the spring, when the U.S. labor market's rebound slowed and measures designed to relieve fiscal pressures in Europe encountered resistance. Although these headwinds temporarily sparked a flight to perceived safe havens, municipal bonds remained strong across the credit-quality range, in part due to robust demand from investors seeking competitive levels of after-tax income.

Municipal bond prices also responded positively to falling long-term interest rates stemming from stimulative measures by the Federal Reserve Board over the summer. Meanwhile, new issuance volumes remained relatively low when political pressure led to less borrowing for capital projects. Instead, municipalities primarily issued new bonds to refinance older debt, resulting in a net decrease in the supply of tax-exempt securities. From a credit quality perspective, most states have seen their credit fundamentals improve along with the U.S. economy. While a number of pressures continue to burden the finances of state and municipal governments, many have made the difficult decisions required to shore up their fiscal conditions.

In this environment, lower rated and longer maturity municipal bonds led the market higher, while highly rated and shorter term securities generally lagged market averages.

Longer Maturities Supported Relative Performance

The fund's relative performance was buoyed by a relatively long average duration, which increased its participation in gains at the longer end of the maturity spectrum. In addition, the fund benefited from overweighted exposure to high yield municipal bonds, as well as to bonds backed by revenues from municipal projects, particularly those issued to finance hospitals and industrial development projects. The fund's returns

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also were bolstered by bonds backed by the states' settlement of litigation with U.S. tobacco companies. Finally, the fund's leveraging strategy magnified the market's gains.

These positive factors were partly offset by our ongoing efforts to upgrade the fund's overall credit quality, which may have been premature as lower quality bonds outpaced their higher quality counterparts. Moreover, the fund encountered shortfalls among Puerto Rico municipal bonds, which are tax-exempt for residents of most states. Puerto Rico bonds suffered amid a weak local economy and rising fiscal pressures from unfunded pension liabilities.

Adjusting to Changing Market Conditions

We have been encouraged by recently improved data, but we remain aware that the U.S. economy is still vulnerable to uncertainty regarding future tax and fiscal policies. We expect market volatility to increase at times as lawmakers attempt to address these issues. Therefore, we have continued our efforts to upgrade the fund's credit quality, and we have retained the fund's emphasis on longer maturity municipal bonds.

December 17, 2012

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 pursuant to an

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undertaking in effect through May 31, 2013, 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 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.

The Fund

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SELECTED INFORMATION

November 30, 2012 (Unaudited)

Market Price per share November 30, 2012	\$	9.79
Shares Outstanding November 30, 2012		48,985,391
New York Stock Exchange Ticker Symbol		DSM

MARKET PRICE (NEW YORK STOCK EXCHANGE)

	Fiscal Year Ended November 30, 2012			
	Quarter	Quarter	Quarter	Quarter
	Ended	Ended	Ended	Ended
	February 29, 2012	May 31, 2012	August 31, 2012	November 30, 2012
High	\$9.04	\$9.12	\$9.49	\$9.88
Low	8.29	8.24	8.83	9.12
Close	8.91	9.10	9.49	9.79

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

November 22, 1989 (commencement of operations)	
through November 30, 2012	362.97 %
December 1, 2002 through November 30, 2012	140.32
December 1, 2007 through November 30, 2012	76.34
December 1, 2011 through November 30, 2012	24.46
March 1, 2012 through November 30, 2012	15.24
June 1, 2012 through November 30, 2012	11.00
September 1, 2012 through November 30, 2012	4.74

NET ASSET VALUE PER SHARE

November 22, 1989 (commencement of operations)	\$9.32
November 30, 2011	8.10

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February 29, 2012	8.70
May 31, 2012	8.82
August 31, 2012	8.99
November 30, 2012	9.30

PERCENTAGE GAIN based on change in Net Asset Value*

November 22, 1989 (commencement of operations)	
through November 30, 2012	371.60 %
December 1, 2002 through November 30, 2012	110.16
December 1, 2007 through November 30, 2012	51.35
December 1, 2011 through November 30, 2012	22.46
March 1, 2012 through November 30, 2012	12.12
June 1, 2012 through November 30, 2012	8.79
September 1, 2012 through November 30, 2012	5.03

* *With dividends reinvested.*

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STATEMENT OF INVESTMENTS

November 30, 2012

Long-Term Municipal	Coupon	Maturity	Principal	
Investments—141.9%	Rate (%)	Date	Amount (\$)	Value (\$)
Alabama—7%				
Jefferson County, Limited Obligation School Warrants	5.25	1/1/17	2,000,000	2,002,800
Jefferson County, Limited Obligation School Warrants	5.00	1/1/24	1,000,000	990,730
Alaska—2.3%				
Northern Tobacco Securitization Corporation of Alaska, Tobacco Settlement Asset-Backed Bonds	5.00	6/1/32	2,500,000	2,265,525
Northern Tobacco Securitization Corporation of Alaska, Tobacco Settlement Asset-Backed Bonds	5.00	6/1/46	9,465,000	8,069,196
Arizona—7.3%				

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Barclays Capital Municipal Trust Receipts (Salt River Project Agricultural Improvement and Power District, Salt River Project Electric System Revenue)	5.00	1/1/38	13,198,367 ^{a,b}	15,266,411
Glendale Western Loop 101 Public Facilities Corporation, Third Lien Excise Tax Revenue	7.00	7/1/33	6,010,000	6,393,378
Pima County Industrial Development Authority, Education Revenue (American Charter Schools Foundation Project)	5.50	7/1/26	4,000,000	3,977,120
Pima County Industrial Development Authority, IDR (Tucson Electric Power Company Project)	5.75	9/1/29	6,000,000	6,396,180
Salt Verde Financial Corporation, Senior Gas Revenue	5.00	12/1/37	1,000,000	1,206,840
California—15.9%				
Barclays Capital Municipal Trust Receipts (Los Angeles Department of Airports, Senior Revenue (Los Angeles International Airport))	5.00	5/15/31	5,247,500 ^{a,b,c}	6,183,864
California, GO (Various Purpose)	5.75	4/1/31	7,800,000	9,529,728

The Fund

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STATEMENT OF INVESTMENTS *(continued)*

Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
California (continued)				
California, GO (Various Purpose)	6.00	3/1/33	2,250,000	2,895,953
California, GO (Various Purpose)	6.50	4/1/33	5,000,000	6,430,500
California, GO (Various Purpose)	6.00	11/1/35	5,000,000	6,336,200

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California State Public Works Board, LR (The Regents of the University of California) (Various University of California Projects)	5.00	4/1/34	3,000,000	3,372,300
California Statewide Communities Development Authority, Revenue (Front Porch Communities and Services Project)	5.13	4/1/37	4,975,000 ^b	5,185,443
Golden State Tobacco Securitization Corporation, Tobacco Settlement Asset-Backed Bonds	4.50	6/1/27	2,000,000	1,847,120
Los Angeles Department of Water and Power, Power System Revenue	5.00	7/1/34	2,885,000	3,383,095
Los Angeles Department of Water and Power, Water System Revenue	5.00	7/1/43	5,000,000	5,939,900
Sacramento City Unified School District, GO (Insured; Assured Guaranty Municipal Corp.)	0.00	7/1/24	5,220,000 ^d	3,254,357
Sacramento County, Airport System Subordinate and Passenger Facility Charges Grant Revenue	6.00	7/1/35	4,000,000 ^c	4,809,960
San Buenaventura, Revenue (Community Memorial Health System)	7.50	12/1/41	1,500,000	1,894,935
San Diego Public Facilities Financing Authority, Senior Sewer Revenue	5.25	5/15/34	2,500,000	2,931,225
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	5,917,250

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Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
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California (continued)				
Tuolumne Wind Project Authority, Revenue (Tuolumne Company Project)	5.88	1/1/29	2,000,000	2,424,740
Colorado—2%				
Colorado Housing and Finance Authority, Single Family Program Senior and Subordinate Bonds (Collateralized; FHA)	6.60	8/1/32	785,000	835,774
Connecticut—1.1%				
Connecticut Resources Recovery Authority, Special Obligation Revenue (American REF-FUEL Company of Southeastern Connecticut Project)	6.45	11/15/22	4,985,000	4,994,372
Florida—5.6%				
Citizens Property Insurance Corporation, Personal Lines Account/Commercial Lines Account Senior Secured Revenue	5.00	6/1/22	3,500,000	4,189,885
Mid-Bay Bridge Authority, Springing Lien Revenue	7.25	10/1/34	5,000,000 ^C	6,595,100
Palm Beach County Health Facilities Authority, Retirement Community Revenue (Adult Communities Total Services, Inc. Retirement—Life Communities, Inc. Obligated Group)	5.50	11/15/33	6,825,000	7,642,635
Saint Johns County Industrial Development Authority, Revenue (Presbyterian Retirement Communities Project)	6.00	8/1/45	3,500,000	3,986,675
South Lake County Hospital District, Revenue (South Lake Hospital, Inc.)	6.25	4/1/39	2,500,000	2,930,125
Georgia—3.6%				
Atlanta, Airport General Revenue	5.00	1/1/26	3,500,000 ^C	4,113,130
Atlanta, Water and Wastewater Revenue	6.00	11/1/28	4,865,000	6,082,710

The Fund

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STATEMENT OF INVESTMENTS (continued)

Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Georgia (continued)				
Atlanta, Water and Wastewater Revenue (Insured; Assured Guaranty Municipal Corp.)	5.25	11/1/34	1,000,000	1,167,150
Augusta, Airport Revenue Savannah Economic Development Authority, EIR (International Paper Company Project)	5.45	1/1/31	2,500,000 ^C	2,503,875
	6.20	8/1/27	2,670,000	2,751,568
Hawaii—1.1%				
Hawaii Department of Budget and Finance, Special Purpose Revenue (Hawai'i Pacific Health Obligated Group)	5.63	7/1/30	2,500,000	2,870,025
Hawaii Department of Budget and Finance, Special Purpose Revenue (Hawaiian Electric Company, Inc. and Subsidiary Projects)	6.50	7/1/39	2,000,000	2,369,500
Idaho—0%				
Idaho Housing and Finance Association, SFMR (Collateralized; FNMA)	6.35	1/1/30	185,000	185,414
Illinois—2.0%				
Chicago, General Airport Third Lien Revenue (Chicago O'Hare International Airport)	5.63	1/1/35	3,000,000 ^C	3,605,760
Illinois Finance Authority, Revenue (Sherman Health Systems)	5.50	8/1/37	1,020,000	1,134,291
Railsplitter Tobacco Settlement				

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Authority, Tobacco				
Settlement Revenue	6.00	6/1/28	3,600,000	4,437,180
Indiana— .7%				
Indianapolis Local Public				
Improvement Bond Bank,				
Revenue (Indianapolis				
Airport Authority Project)				
(Insured; AMBAC)	5.00	1/1/36	3,000,000 ^c	3,190,410

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Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Iowa— .4%				
Tobacco Settlement Authority of Iowa, Tobacco Settlement				
Asset-Backed Bonds	5.60	6/1/34	2,000,000	1,958,420
Kentucky— .3%				
Louisville/Jefferson County Metro Government, Health Facilities				
Revenue (Jewish Hospital and Saint Mary's HealthCare, Inc. Project) (Prerefunded)	6.13	2/1/18	1,000,000 ^e	1,277,170
Louisiana— 1.2%				
Lakeshore Villages Master Community Development District, Special Assessment Revenue	5.25	7/1/17	1,987,000 ^f	795,297
Louisiana Local Government Environmental Facilities and Community Development Authority, Revenue (Westlake Chemical Corporation Projects)	6.75	11/1/32	4,000,000	4,540,120
Maine— .6%				
Maine Health and Higher Educational Facilities Authority, Revenue (MaineGeneral Medical Center Issue)	7.50	7/1/32	2,000,000	2,601,760
Massachusetts— 11.5%				
Barclays Capital Municipal Trust				

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Receipts (Massachusetts Health and Educational Facilities Authority, Revenue (Massachusetts Institute of Technology Issue))	5.00	7/1/38	10,200,000 a,b	11,904,522
JPMorgan Chase Putters/Drivers Trust (Massachusetts, Consolidated Loan)	5.00	4/1/19	6,400,000 a,b	7,952,256
JPMorgan Chase Putters/Drivers Trust (Massachusetts Development Finance Agency, Revenue (Harvard University Issue))	5.25	2/1/34	10,000,000 a,b	12,442,300

The Fund

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STATEMENT OF INVESTMENTS (continued)

Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Massachusetts (continued)				
Massachusetts Development Finance Agency, Revenue (Tufts Medical Center Issue)	7.25	1/1/32	2,500,000	3,219,350
Massachusetts Health and Educational Facilities Authority, Revenue (Suffolk University Issue)	6.25	7/1/30	5,000,000	5,943,100
Massachusetts Housing Finance Agency, Housing Revenue	7.00	12/1/38	4,575,000	5,343,509
Massachusetts Housing Finance Agency, SFHR	5.00	12/1/31	5,575,000	5,788,021
Michigan—8.3%				
Detroit, Sewage Disposal System Senior Lien Revenue (Insured; Assured Guaranty Municipal Corp.)	7.50	7/1/33	3,500,000	4,469,675
Detroit, Water Supply System Senior				

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Lien Revenue	5.00	7/1/31	3,780,000	4,116,760
Detroit, Water Supply System Senior				
Lien Revenue	5.00	7/1/36	3,290,000	3,518,359
Kent Hospital Finance Authority, Revenue (Metropolitan				
Hospital Project)	6.00	7/1/35	2,000,000	2,107,840
Michigan Finance Authority, Clean Water Revolving				
Fund Revenue	5.00	10/1/31	2,000,000	2,483,820
Michigan Strategic Fund, LOR (State of Michigan				
Cadillac Place Office				
Building Project)	5.25	10/15/31	4,500,000	5,270,265
Michigan Strategic Fund, SWDR (Genesee Power				
Station Project)	7.50	1/1/21	6,620,000	6,620,927
Royal Oak Hospital Finance Authority, HR (William Beaumont				
Hospital Obligated Group)	8.00	9/1/29	5,000,000	6,501,500

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Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Michigan (continued)				
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 ^c	2,557,800
Minnesota—0.6%				
Tobacco Securitization Authority of Minnesota, Tobacco Settlement Revenue Bonds	5.25	3/1/31	2,500,000	2,815,025
Nevada—1.3%				
Clark County, Passenger Facility Charge Revenue (Las Vegas-McCarran International Airport)	5.00	7/1/30	5,000,000 ^c	5,773,650

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New Jersey—3.5%

New Jersey Economic Development Authority, School Facilities				
Construction Revenue	5.50	12/15/29	5,000,000	5,988,350
New Jersey Economic Development Authority, Special Facility				
Revenue (Continental Airlines, Inc. Project)				
Airlines, Inc. Project)	5.13	9/15/23	2,500,000 ^c	2,566,575
New Jersey Economic Development Authority, Water Facilities				
Revenue (New Jersey—American Water Company, Inc. Project)				
Water Company, Inc. Project)	5.70	10/1/39	3,000,000	3,418,950
Tobacco Settlement Financing Corporation of New Jersey, Tobacco Settlement				
Asset-Backed Bonds	4.50	6/1/23	1,475,000	1,467,684
Tobacco Settlement Financing Corporation of New Jersey, Tobacco Settlement				
Asset-Backed Bonds	5.00	6/1/41	1,000,000	904,540
Tobacco Settlement Financing Corporation of New Jersey, Tobacco Settlement Asset-Backed				
Bonds (Prerefunded)	7.00	6/1/13	1,595,000 ^e	1,649,405

The Fund

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STATEMENT OF INVESTMENTS (continued)

Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
New Mexico—1.2%				
Farmington, PCR (Public Service Company of New Mexico San Juan Project)				
	5.90	6/1/40	5,000,000	5,638,150
New York—15.4%				
Austin Trust (Port Authority of New York and New Jersey, Consolidated				

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Bonds, 151st Series)	6.00	9/15/28	10,000,000	a,b,c	12,068,500
Barclays Capital Municipal Trust Receipts (New York City Transitional Finance Authority, Future Tax Secured Revenue)	5.00	5/1/30	4,488,203	a,b	5,317,798
Barclays Capital Municipal Trust Receipts (New York City Transitional Finance Authority, Future Tax Secured Subordinate Revenue)	5.50	11/1/27	5,000,000	a,b	6,395,750
JPMorgan Chase Putters/Drivers Trust (New York City Transitional Finance Authority, Future Tax Secured Subordinate Revenue)	5.25	11/1/18	5,000,000	a,b	6,302,750
Long Island Power Authority, Electric System General Revenue	6.25	4/1/33	3,000,000		3,843,960
Metropolitan Transportation Authority, Transportation Revenue	6.25	11/15/23	9,425,000	c	12,139,589
Metropolitan Transportation Authority, Transportation Revenue	5.00	11/1/28	1,500,000	c	1,822,470
New York City Educational Construction Fund, Revenue	6.50	4/1/28	2,785,000		3,636,792
New York City Industrial Development Agency, Senior Airport Facilities Revenue (Transportation Infrastructure Properties, LLC Obligated Group)	5.00	7/1/22	2,165,000	c	2,357,490

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Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
New York (continued)				
New York City Industrial Development Agency, Special Facility Revenue (American Airlines, Inc. John F. Kennedy				

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International Airport Project)	7.75	8/1/31	5,000,000 ^{c,f}	5,284,650
New York State Dormitory Authority, Revenue (Orange Regional Medical Center Obligated Group)	6.25	12/1/37	2,500,000	2,804,625
New York State Dormitory Authority, Revenue (Suffolk County Judicial Facility)	9.50	4/15/14	605,000	650,526
Niagara Area Development Corporation, Solid Waste Disposal Facility Revenue (Covanta Energy Project)	5.25	11/1/42	2,000,000	2,042,720
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 ^c	5,634,620
North Carolina—2.6%				
Barclays Capital Municipal Trust Receipts (North Carolina Medical Care Commission, Health Care Facilities Revenue (Duke University Health System))	5.00	6/1/42	10,000,000 ^{a,b}	11,917,700
Ohio—5.8%				
Buckeye Tobacco Settlement Financing Authority, Tobacco Settlement Asset-Backed Bonds	5.88	6/1/47	2,500,000	2,229,925
Butler County, Hospital Facilities Revenue (UC Health)	5.50	11/1/40	3,000,000	3,412,890
Cleveland, Airport System Revenue	5.00	1/1/30	2,000,000 ^c	2,322,060

The Fund

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STATEMENT OF INVESTMENTS (continued)

Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
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Ohio (continued)

Ohio Air Quality Development Authority, Air Quality Revenue (Ohio Valley Electric Corporation Project)	5.63	10/1/19	4,200,000	5,097,834
Port of Greater Cincinnati Development Authority, Tax Increment Development Revenue (Fairfax Village Red Bank Infrastructure Project)	5.63	2/1/36	2,530,000 ^b	2,206,615
Southeastern Ohio Port Authority, Hospital Facilities Improvement Revenue (Memorial Health System Obligated Group Project)	6.00	12/1/42	2,000,000	2,187,220
Toledo-Lucas County Port Authority, Special Assessment Revenue (Crocker Park Public Improvement Project)	5.38	12/1/35	3,000,000	3,095,400
University of Akron, General Receipts Bonds (Insured; Assured Guaranty Municipal Corp.)	5.00	1/1/22	5,000,000	6,050,650
Oregon—.3%				
Warm Springs Reservation Confederated Tribes, Hydroelectric Revenue (Pelton Round Butte Project)	6.38	11/1/33	1,500,000	1,592,850
Pennsylvania—2.0%				
JPMorgan Chase Putters/Drivers Trust (Geisinger Authority, Health System Revenue (Geisinger Health System))	5.13	6/1/35	3,000,000 ^{a,b}	3,457,080
Philadelphia, GO	6.50	8/1/41	4,700,000	5,875,940
Rhode Island—1.4%				
Rhode Island Health and Educational Building Corporation, Hospital Financing Revenue (Lifespan Obligated Group Issue) (Insured; Assured Guaranty Municipal Corp.)	7.00	5/15/39	5,000,000	6,173,200

Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Tennessee—1.5%				
Metropolitan Government of Nashville and Davidson County Health and Educational Facilities Board, Revenue (The Vanderbilt University)	5.50	10/1/29	2,500,000	3,117,000
Metropolitan Government of Nashville and Davidson County Health and Educational Facilities Board, Revenue (The Vanderbilt University)	5.50	10/1/34	3,000,000	3,709,800
Texas—20.2%				
Barclays Capital Municipal Trust Receipts (Leander Independent School District, Unlimited Tax School Building Bonds (Permanent School Fund Guarantee Program))	5.00	8/15/40	9,997,299 ^{a,b}	11,778,299
Barclays Capital Municipal Trust Receipts (Texas A&M University System Board of Regents, Financing System Revenue) Dallas and Fort Worth, Joint Improvement Revenue (Dallas/Fort Worth International Airport)	5.00	5/15/39	13,160,000 ^{a,b}	15,332,321
Dallas-Fort Worth International Airport Facility Improvement Corporation, Revenue (Learjet Inc. Project)	5.00	11/1/42	5,000,000 ^c	5,548,000
Gulf Coast Industrial Development Authority, SWDR (CITGO Petroleum Corporation Project)	6.15	1/1/16	3,000,000 ^c	3,005,820
Harris County Health Facilities Development Corporation, HR	4.88	5/1/25	1,000,000	1,029,480

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(Memorial Hermann Healthcare System) Houston, Combined Utility System First Lien Revenue (Insured; Assured Guaranty Municipal Corp.)	7.25	12/1/35	9,290,000	11,797,835
	6.00	11/15/36	5,000,000	6,276,650

The Fund

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STATEMENT OF INVESTMENTS *(continued)*

Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Texas (continued)				
Love Field Airport Modernization Corporation, Special Facilities Revenue (Southwest Airlines Company—Love Field Modernization Program Project)	5.00	11/1/28	1,000,000 ^C	1,088,880
Matagorda County Navigation District Number One, Revenue (Houston Lighting and Power Company Project) (Insured; AMBAC)	5.13	11/1/28	4,295,000	5,283,537
North Texas Tollway Authority, First Tier System Revenue (Insured; Assured Guaranty Municipal Corp.)	5.75	1/1/40	14,705,000 ^C	17,339,401
North Texas Tollway Authority, Second Tier System Revenue	5.75	1/1/38	6,650,000 ^C	7,504,857
Texas Department of Housing and Community Affairs, Home Mortgage Revenue (Collateralized: FHLMC, FNMA and GNMA)	11.67	7/2/24	550,000 ^G	572,418
Texas Turnpike Authority, Central Texas Turnpike System Revenue (Insured; AMBAC)	5.25	8/15/42	5,375,000 ^C	5,397,414
Vermont—.9%				

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Burlington, Airport Revenue	3.50	7/1/18	4,000,000 ^c	4,000,000
Virginia—7.7%				
Henrico County Industrial Development Authority, Revenue (Bon Secours Health System) (Insured; Assured Guaranty Municipal Corp.)	11.20	8/23/27	7,050,000 ^g	9,558,249
Virginia Commonwealth Transportation Board, Transportation Capital Projects Revenue	5.00	5/15/21	8,565,000 ^c	11,058,271
Virginia Commonwealth Transportation Board, Transportation Capital Projects Revenue	5.00	5/15/22	3,840,000 ^c	4,996,608

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Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Virginia (continued)				
Virginia Housing Development Authority, Commonwealth Mortgage Revenue	6.25	7/1/31	4,845,000	5,630,229
Washington County Industrial Development Authority, HR (Mountain States Health Alliance)	7.75	7/1/38	3,000,000	3,784,350
Washington—5.3%				
Barclays Capital Municipal Trust Receipts (King County, Sewer Revenue)	5.00	1/1/29	8,577,246 ^{a,b}	10,435,846
Seattle, Water System Revenue	5.00	9/1/24	5,000,000	6,410,750
Washington Health Care Facilities Authority, Mortgage Revenue (Highline Medical Center) (Collateralized; FHA)	6.25	8/1/36	5,975,000	7,306,170
West Virginia—1.9%				
The County Commission of Harrison				

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County, SWDR (Allegheny Energy Supply Company, LLC Harrison Station Project)	5.50	10/15/37	7,920,000	8,462,758
Wisconsin—1.2%				
Public Finance Agency, Senior Airport Facilities Revenue (Transportation Infrastructure Properties, LLC Obligated Group)	5.00	7/1/42	1,500,000 ^C	1,533,180
Wisconsin Health and Educational Facilities Authority, Revenue (Aurora Health Care, Inc.)	6.40	4/15/33	4,000,000	4,049,560
U.S. Related—6.3%				
Puerto Rico Aqueduct and Sewer Authority, Senior Lien Revenue	5.13	7/1/37	5,000,000	5,125,400
Puerto Rico Commonwealth, Public Improvement GO	5.50	7/1/32	1,500,000	1,596,525
Puerto Rico Commonwealth, Public Improvement GO	6.00	7/1/39	1,610,000	1,734,389
Puerto Rico Commonwealth, Public Improvement GO	6.50	7/1/40	2,390,000	2,746,468

The Fund

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STATEMENT OF INVESTMENTS (continued)

Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
U.S. Related (continued)				
Puerto Rico Electric Power Authority, Power Revenue	5.25	7/1/24	1,895,000	2,058,292
Puerto Rico Sales Tax Financing Corporation, Sales Tax Revenue (First Subordinate Series)	5.38	8/1/39	2,500,000	2,714,725
Puerto Rico Sales Tax Financing Corporation, Sales Tax Revenue (First Subordinate Series)	6.00	8/1/42	10,000,000	11,357,300
Virgin Islands Public Finance				

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Authority, Revenue (Virgin Islands Matching Fund Loan Notes) (Senior Lien/Capital Projects)	5.00	10/1/39	1,250,000	1,336,000
Total Long-Term Municipal Investments (cost \$561,775,186)				646,723,815
Short-Term Municipal Investments— .7%				
California— .0%				
California Infrastructure and Economic Development Bank, Revenue, Refunding (Los Angeles County Museum of Natural History Foundation) (LOC; Wells Fargo Bank)	0.14	12/3/12	100,000 ^h	100,000
New York— .2%				
New York City, GO Notes (LOC; JPMorgan Chase Bank)	0.16	12/3/12	500,000 ^h	500,000
New York City, GO Notes (LOC; JPMorgan Chase Bank)	0.17	12/3/12	400,000 ^h	400,000

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Short-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Pennsylvania— .5%				
Geisinger Authority, Health System Revenue (Geisinger Health System) (Liquidity Facility; JPMorgan Chase Bank)	0.17	12/3/12	2,300,000 ^h	2,300,000
Total Short-Term Municipal Investments (cost \$3,300,000)				3,300,000
Total Investments (cost \$565,075,186)			142.6 %	650,023,815
Liabilities, Less Cash and Receivables			(12.0 %)	(54,817,882)
Preferred Stock, at redemption value			(30.6 %)	(139,500,000)

Net Assets Applicable to Common Shareholders	100.0 %	455,705,933
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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 November 30, 2012, these securities were valued at \$144,147,455 or 31.6% of net assets applicable to Common Shareholders.

c At November 30, 2012, the fund had \$145,001,934 or 31.8% of net assets applicable to Common Shareholders

invested in securities whose payment of principal and interest is dependent upon revenues generated from transportation.

d Security issued with a zero coupon. Income is recognized through the accretion of discount.

e 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.

f Non-income producing—security in default.

g Inverse floater security—the interest rate is subject to change periodically. Rate shown is the interest rate in effect at November 30, 2012.

h Variable rate demand note—rate shown is the interest rate in effect at November 30, 2012. Maturity date represents the next demand date, or the ultimate maturity date if earlier.

The Fund

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STATEMENT OF INVESTMENTS *(continued)*

Summary of Abbreviations

ABAG	Association of Bay Area Governments	ACA	American Capital Access
AGC	ACE Guaranty Corporation	AGIC	Asset Guaranty Insurance Company
AMBAC	American Municipal Bond Assurance Corporation	ARRN	Adjustable Rate Receipt Notes
BAN	Bond Anticipation Notes	BPA	Bond Purchase Agreement
CIFG	CDC Ixis Financial Guaranty	COP	Certificate of Participation
CP	Commercial Paper	DRIVERS	Derivative Inverse Tax-Exempt Receipts
EDR	Economic Development Revenue	EIR	Environmental Improvement Revenue
FGIC	Financial Guaranty Insurance Company	FHA	Federal Housing Administration
FHLB	Federal Home	FHLMC	Federal Home Loan Mortgage

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	Loan Bank		Corporation
FNMA	Federal National Mortgage Association	GAN	Grant Anticipation Notes
GIC	Guaranteed Investment Contract	GNMA	Government National Mortgage Association
GO	General Obligation	HR	Hospital Revenue
IDB	Industrial Development Board	IDC	Industrial Development Corporation
IDR	Industrial Development Revenue	LIFERS	Long Inverse Floating Exempt Receipts
LOC	Letter of Credit	LOR	Limited Obligation Revenue
LR	Lease Revenue	MERLOTS	Municipal Exempt Receipt Liquidity Option Tender
MFHR	Multi-Family Housing Revenue	MFMR	Multi-Family Mortgage Revenue
PCR	Pollution Control Revenue	PILOT	Payment in Lieu of Taxes
P-FLOATS	Puttable Floating Option Tax-Exempt Receipts	PUTTERS	Puttable Tax-Exempt Receipts
RAC	Revenue Anticipation Certificates	RAN	Revenue Anticipation Notes
RAW	Revenue Anticipation Warrants	ROCS	Reset Options Certificates
RRR	Resources Recovery Revenue	SAAN	State Aid Anticipation Notes
SBPA	Standby Bond Purchase Agreement	SFHR	Single Family Housing Revenue
SFMR	Single Family Mortgage Revenue	SONYMA	State of New York Mortgage Agency
SPEARS	Short Puttable Exempt Adjustable Receipts	SWDR	Solid Waste Disposal Revenue
TAN	Tax Anticipation Notes	TAW	Tax Anticipation Warrants
TRAN	Tax and Revenue Anticipation Notes	XLCA	XL Capital Assurance

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Summary of Combined Ratings (Unaudited)

Fitch	or	Moody's	or	Standard & Poor's	Value (%) [†]
AAA		Aaa		AAA	6.6
AA		Aa		AA	31.5
A		A		A	32.9
BBB		Baa		BBB	19.3
BB		Ba		BB	4.2
B		B		B	2.1
F1		MIG1/P1		SP1/A1	.5
Not Rated ⁱ		Not Rated ⁱ		Not Rated ⁱ	2.9
					100.0

† Based on total investments.

i Securities which, while not rated by Fitch, Moody's and Standard & Poor's, have been determined by the Manager to be of comparable quality to those rated securities in which the fund may invest.

See notes to financial statements.

The Fund

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STATEMENT OF ASSETS AND LIABILITIES

November 30, 2012

	Cost	Value
Assets (\$):		
Investments in securities—See Statement of Investments	565,075,186	650,023,815
Interest receivable		9,175,347
Prepaid expenses		12,918
		659,212,080
Liabilities (\$):		
Due to The Dreyfus Corporation and affiliates—Note 2(a)		310,211
Cash overdraft due to Custodian		2,274,752
Payable for floating rate notes issued—Note 3		57,128,615
Payable for investment securities purchased		4,000,000
Interest and expense payable related to floating rate notes issued—Note 3		120,965
Commissions payable—Note 1		7,624
Dividends payable to Preferred Shareholders		3,481
Accrued expenses		160,499
		64,006,147
Auction Preferred Stock , Series A, B and C, par value \$.001 per share (5,580 shares issued and outstanding at \$25,000 per share liquidation value)—Note 1		139,500,000
Net Assets applicable to Common Shareholders (\$)		455,705,933
Composition of Net Assets (\$):		
Common Stock, par value, \$.001 per share (48,985,391 shares issued and outstanding)		48,985
Paid-in capital		417,643,042
Accumulated undistributed investment income—net		7,188,167

Accumulated net realized gain (loss) on investments	(54,122,890)
Accumulated net unrealized appreciation (depreciation) on investments	84,948,629
Net Assets applicable to Common Shareholders (\$)	455,705,933
Shares Outstanding	
(110 million shares of \$.001 par value Common Stock authorized)	48,985,391
Net Asset Value, per share of Common Stock (\$)	9.30

See notes to financial statements.

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STATEMENT OF OPERATIONS

Year Ended November 30, 2012

Investment Income (\$):	
Interest Income	31,242,091
Expenses:	
Investment advisory fee—Note 2(a)	2,839,818
Administration fee—Note 2(a)	1,419,909
Interest and expense related to floating rate notes issued—Note 3	418,379
Commission fees—Note 1	237,103
Professional fees	97,713
Directors' fees and expenses—Note 2(b)	75,592
Shareholders' reports	50,235
Registration fees	47,095
Shareholder servicing costs	25,397
Custodian fees—Note 2(a)	1,941
Miscellaneous	65,122
Total Expenses	5,278,304
Less—reduction in expenses due to undertaking—Note 2(a)	(567,891)
Less—reduction in administration fee—Note 2(a)	(127,002)
Net Expenses	4,583,411
Investment Income—Net	26,658,680
Realized and Unrealized Gain (Loss) on Investments—Note 3 (\$):	
Net realized gain (loss) on investments	2,528,678
Net realized gain (loss) on swap transactions	42,976
Net Realized Gain (Loss)	2,571,654
Net unrealized appreciation (depreciation) on investments	57,696,686
Net Realized and Unrealized Gain (Loss) on Investments	60,268,340

Dividends to Preferred Shareholders	(358,587)
Net Increase in Net Assets Applicable to	
Common Shareholders Resulting from Operations	86,568,433

See notes to financial statements.

The Fund

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STATEMENT OF CASH FLOWS

November 30, 2012

Cash Flows from Operating Activities (\$):		
Interest received	32,650,302	
Operating expenses paid	(4,143,141)	
Dividends paid to Preferred Shareholders	(358,273)	
Purchases of long-term portfolio securities	(93,649,912)	
Net sales of short-term portfolio securities	2,000,000	
Proceeds from sales of long-term portfolio securities	89,476,834	
Net proceeds from swap transactions	42,976	
		26,018,786
Cash Flows from Financing Activities (\$):		
Dividends paid to Common Shareholders	(25,817,910)	
Interest and expense related to floating rate notes issued	(412,744)	(26,230,654)
Decrease in cash		(211,868)
Cash overdraft at beginning of period		(2,062,884)
Cash overdraft at end of period		(2,274,752)
Reconciliation of Net Increase in Net Assets Applicable to		
Common Shareholders Resulting from Operations to		
Net Cash Provided by Operating Activities (\$):		
Net Increase in Net Assets Applicable to Common		
Shareholders Resulting From Operations		86,568,433
Adjustments to reconcile net increase in net assets applicable		
to Common Shareholders resulting from operations to		
net cash provided by operating activities (\$):		
Increase in investments in securities, at cost		(7,785,784)
Increase in payable for investment securities purchased		3,084,028
Decrease in interest receivable		567,266
Increase in commissions payable and accrued expenses		1,747

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Decrease in prepaid expenses	2,302
Increase in Due to The Dreyfus Corporation and affiliates	17,842
Increase in dividends payable to Preferred Shareholders	314
Interest and expense related to floating rate notes issued	418,379
Net unrealized appreciation on investments	(57,696,686)
Net amortization of premiums on investments	840,945
Net Cash Provided by Operating Activities	26,018,786
Supplemental disclosure of cash flow information (\$):	
Non-cash financing activities:	
Reinvestment of dividends	2,038,862

See notes to financial statements.

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STATEMENT OF CHANGES IN NET ASSETS

	Year Ended November 30,	
	2012	2011
Operations (\$):		
Investment income—net	26,658,680	27,805,189
Net realized gain (loss) on investments	2,571,654	(21,888,260)
Net unrealized appreciation (depreciation) on investments	57,696,686	33,481,801
Dividends to Preferred Shareholders	(358,587)	(436,571)
Net Increase (Decrease) in Net Assets Applicable to Common Shareholders Resulting from Operations	86,568,433	38,962,159
Dividends to Common Shareholders from (\$):		
Investment income—net	(27,856,772)	(27,730,629)
Capital Stock Transactions (\$):		
Dividends reinvested	2,038,862	1,430,458
Total Increase (Decrease) in Net Assets Applicable to Common Shareholders	60,750,523	12,661,988
Net Assets Applicable to Common Shareholders(\$):		
Beginning of Period	394,955,410	382,293,422
End of Period	455,705,933	394,955,410
Undistributed investment income—net	7,188,167	8,944,685
Capital Share Transactions (Shares):		

Increase in Common Shares Outstanding

as a Result of Dividends Reinvested	233,568	185,781
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See notes to financial statements.

The Fund

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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 distributions. 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.

	Year Ended November 30,				
	2012	2011	2010	2009	2008
Per Share Data (\$):					
Net asset value, beginning of period	8.10	7.87	7.93	6.76	8.60
Investment Operations:					
Investment income—net	.55	.57	.59	.64	.63
Net realized and unrealized gain (loss) on investments	1.23	.24	(.10)	1.02	(1.86)
Dividends to Preferred Shareholders					
from investment income—net	(.01)	(.01)	(.01)	(.03)	(.14)
Total from Investment Operations	1.77	.80	.48	1.63	(1.37)
Distributions to Common Shareholders:					
Dividends from investment income—net	(.57)	(.57)	(.54)	(.46)	(.47)
Net asset value, end of period	9.30	8.10	7.87	7.93	6.76
Market value, end of period	9.79	8.39	7.94	7.58	5.53
Total Return (%)^b	24.46	13.67	11.95	46.74	(24.12)

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	Year Ended November 30,				
	2012	2011	2010	2009	2008
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets applicable to Common Stock ^c	1.23	1.30	1.30	1.37	1.44
Ratio of net expenses to					

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average net assets applicable to Common Stock ^C	1.07	1.16	1.16	1.21	1.30
Ratio of interest and expense related to floating rate notes issued to average net assets applicable to Common Stock ^C	.10	.10	.07	.01	.12
Ratio of net investment income to average net assets applicable to Common Stock ^C	6.22	7.36	7.30	8.65	7.89
Ratio of total expenses to total average net assets	.93	.95	.91	.90	.98
Ratio of net expenses to total average net assets	.81	.85	.81	.80	.88
Ratio of interest and expense related to floating rate notes issued to total average net assets	.07	.07	.05	.01	.08
Ratio of net investment income to total average net assets	4.69	5.36	5.11	5.68	5.34
Portfolio Turnover Rate	15.99	20.50	25.94	31.59	53.01
Asset coverage of Preferred Stock, end of period	427	383	356	307	276
Net Assets, net of Preferred Stock, end of period (\$ x 1,000)	455,706	394,955	382,293	384,457	327,879
Preferred Stock outstanding, end of period (\$ x 1,000)	139,500	139,500	149,475	186,000	186,000

a Based on average common shares outstanding at each month end.

b Calculated based on market value.

c Does not reflect the effect of dividends to Preferred Shareholders.

See notes to financial statements.

The Fund

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NOTES TO FINANCIAL STATEMENTS

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

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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 1,860 shares of Series A, Series B and Series C, for a total of 5,580 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 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 the APS, voting as a separate class, have the right to elect at least two directors. The holders of the APS will vote as a separate class on certain other matters, as required by law. The fund has

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designated Robin A. Melvin and John E. Zuccotti as directors to be elected by the holders of APS.

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).

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.

The Fund

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NOTES TO FINANCIAL STATEMENTS *(continued)*

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).

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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 fund's Board of Directors (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 categorized within Level 2 of the fair value hierarchy. Investments in swap transactions are valued each business day by the Service. Swaps are valued by the Service by using a swap pricing model which incorporates among other factors, default probabilities, recovery rates, credit curves of the underlying issuer and swap spreads

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on interest rates. These securities are generally categorized within Level 2 of the fair value hierarchy.

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 depending on the relevant inputs used.

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

The following is a summary of the inputs used as of November 30, 2012 in valuing the fund's investments:

	Level 1— Unadjusted Quoted Prices	Level 2—Other Significant Observable Inputs	Level 3— Significant Unobservable Inputs	Total
Assets (\$)				
Investments in Securities:				
Municipal Bonds	—	650,023,815	—	650,023,815
Liabilities (\$)				
Floating Rate Notes [†]	—	(57,128,615)	—	(57,128,615)

[†] Certain of the fund's liabilities are held at carrying amount, which approximates fair value for financial reporting purposes.

NOTES TO FINANCIAL STATEMENTS (continued)

At November 30, 2012, there were no transfers between Level 1 and Level 2 of the fair value hierarchy.

(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 shareholders of Common Stock (“Common Shareholder(s)”) Dividends are recorded on the ex-dividend date. Dividends from investment income-net are 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, in lieu of cash, 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) as defined in the Dividend Reinvestment and Cash Purchase Plan.

On November 29, 2012, the Board declared a cash dividend of \$0.0475 per share from investment income-net, payable on December 31, 2012 to Common Shareholders of record as of the close of business on December 14, 2012.

(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

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rates as of November 30, 2012, for each Series of APS were as follows: Series A-0.274%, Series B-0.274% and Series C-0.274%. 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 November 30, 2012 for each Series of APS were as follows: Series A-0.266%, Series B-0.257% and Series C-0.248%.

(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 November 30, 2012, 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, the fund did not incur any interest or penalties.

Each of the tax years in the four-year period ended November 30, 2012 remains subject to examination by the Internal Revenue Service and state taxing authorities.

At November 30, 2012, the components of accumulated earnings on a tax basis were as follows: tax-exempt income \$8,370,654, accumulated capital losses \$54,159,939 and unrealized appreciation \$85,125,681. In addition, the fund had \$140,003 of capital losses realized after October 31, 2012, which were deferred for tax purposes to the first day of the following fiscal year.

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

NOTES TO FINANCIAL STATEMENTS *(continued)*

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 accumulated capital loss carryover is available for federal income tax purposes to be applied against future net realized capital gains, if any, realized subsequent to November 30, 2012. 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 tax character of distributions paid to shareholders during the fiscal periods ended November 30, 2012 and November 30, 2011 were as follows: tax-exempt income \$27,885,959 and \$28,038,726 and ordinary income \$329,400 and \$128,474, respectively.

During the period ended November 30, 2012, as a result of permanent book to tax differences, primarily due to the tax treatment for amortization adjustments and capital loss carryover expiration, the fund decreased accumulated undistributed investment income-net by \$199,839, increased accumulated net realized gain (loss) on in