

DREYFUS STRATEGIC MUNICIPAL BOND FUND INC
Form N-CSR
July 26, 2007
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)

Michael A. Rosenberg, Esq.
200 Park Avenue
New York, New York 10166
(Name and address of agent for service)

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

Date of fiscal year end: 11/30

Date of reporting period: 5/31/07

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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Back Cover

Dreyfus
Strategic Municipal Bond Fund, Inc.

The Fund

A LETTER FROM THE CEO

Dear Shareholder:

We are pleased to present this semiannual report for Dreyfus Strategic Municipal Bond Fund, Inc., covering the six-month period from December 1, 2006, through May 31, 2007.

The U.S. economy continued to moderate during the reporting period as cooling housing markets took their toll on consumer and business spending. Labor markets, however, remained quite strong, and key measures of inflation have stayed stubbornly above the Federal Reserve's stated "comfort zone." Our economists believe that the anemic rate of U.S. economic growth recorded in the first quarter of 2007 should be the weakest reading of the current midcycle slowdown, and economic growth is likely to recover eventually to a near-trend pace.

The likely implications of our economic outlook include a long pause in Fed policy, a modest drop in 10-year Treasury bond yields (and consequent rise in price) and, in the absence of an as-yet unforeseen event, persistently tight yield spreads throughout the municipal bond market sectors. We expect these developments to produce both challenges and opportunities for fixed-income investors. As always, your financial advisor can help you position your investments for these trends.

For information about how the fund performed during the reporting period, as well as market perspectives, we have provided a Discussion of Fund Performance given by the fund's Portfolio Manager.

Thank you for your continued confidence and support.

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DISCUSSION OF FUND PERFORMANCE

For the period of December 1, 2006, through May 31, 2007, as provided by James Welch, Portfolio Manager

Fund and Market Performance Overview

Although municipal bonds rallied over much of the reporting period, bouts of volatility largely offset those gains, and the market's returns were derived primarily from income. The fund participated in the market's strength, with particularly strong results from its core holdings of seasoned bonds.

For the six-month period ended May 31, 2007, the fund achieved a total return of 0.53%.¹ Over the same period, the fund provided aggregate income dividends of \$0.258 per share, which reflects a distribution rate of 5.66%.²

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.

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 invest-

The Fund 3

DISCUSSION OF FUND PERFORMANCE (continued)

ment 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.

Heightened Volatility Offset Previous Market Gains

After a sustained period of strong economic growth, higher energy prices and rising short-term interest rates, U.S. economic growth had begun to moderate by the time the reporting period began. Weakness in the housing and automobile sectors weighed on the economy, falling energy prices alleviated inflation concerns, and the Federal Reserve Board (the "Fed") refrained from further rate hikes throughout the reporting period. As investors' inflation fears waned, municipal bonds rallied. In addition, while the supply of newly issued municipal bonds increased compared to the same period one year earlier, technical forces remained positive due to robust investor demand.

However, heightened volatility over the first five months of 2007 erased earlier market gains. Turmoil in overseas equity markets and the U.S. sub-prime mortgage sector caused investor sentiment to falter in late February and early March, and signs of stronger-than-expected economic growth in April and May caused bond yields to rise and prices to fall. As a result, municipal bond prices ended the reporting period slightly lower than where they began, and the majority of the market's and fund's returns were comprised of current income.

Core Holdings Helped Boost Current Income

The fund benefited in this environment from its holdings of income-oriented bonds, including seasoned, core holdings that were acquired when yields were higher than today. The fund received especially strong income contributions from lower-rated holdings, such as bonds issued on behalf of airlines and the states' settlement of litigation with

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U.S. tobacco companies. The fund's returns also were supported by a modestly long average duration, which enabled the fund to participate more fully in incrementally higher income toward the longer end of the market's maturity range.

On the other hand, some of the fund's longstanding holdings matured or were redeemed early by their issuers, and we were unable to replace them with securities carrying comparable yields. In addition, the fund's leveraging strategy proved to be less effective than in previous reporting periods, primarily due to a narrowing of yield differences along the market's maturity range. Yields of the fund's auction-rate preferred notes, which fuel our leveraging strategy, rose along with short-term interest rates, while yields declined on the long-term municipal bonds in which the fund invests. These factors led us to reduce the fund's dividend distribution rate in May to a level that better reflects prevailing and expected market conditions.

Fed Expected to Remain On Hold

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Recent U.S. economic data have been mixed, with signs of greater economic weakness emerging at the same time that inflation has remained stubbornly above the Fed's "comfort zone." As a result, it seems to us that the Fed is unlikely to raise or reduce short-term interest rates any time soon. We therefore expect to maintain the fund's long average duration and its focus on income-oriented securities.

June 15, 2007

- 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 August 31, 2007. 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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STATEMENT OF INVESTMENTS

May 31, 2007 (Unaudited)

| Long-Term Municipal Investments | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|---|-----------------|---------------|------------------------|------------|
| Alaska 3.8% | | | | |
| Alaska Housing Finance Corporation, General Mortgage Revenue (Insured; MBIA) | 6.05 | 6/1/39 | 11,915,000 | 12,167,836 |
| Alaska Housing Finance Corporation, Single-Family Residential Mortgage Revenue (Veterans Mortgage Program) | 6.25 | 6/1/35 | 4,180,000 | 4,340,972 |
| Arizona 0.5% | | | | |
| Apache County Industrial Development Authority, PCR (Tucson Electric Power Company Project) | 5.85 | 3/1/28 | 2,220,000 | 2,221,354 |
| Arkansas 0.6% | | | | |
| Arkansas Development Finance Authority, SFMR (Mortgage Backed Securities Program) (Collateralized: FNMA and GNMA) | 6.25 | 1/1/32 | 2,610,000 | 2,659,433 |
| California 10.6% | | | | |
| California, GO (Various Purpose) | 5.50 | 4/1/14 | 4,605,000 ^a | 5,056,014 |

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|---|------|---------|------------------------|------------|
| California, GO (Various Purpose) | 5.25 | 11/1/27 | 4,240,000 | 4,503,898 |
| California Department of Veteran Affairs, Home Purchase Revenue | 5.20 | 12/1/28 | 2,950,000 | 2,951,681 |
| California Health Facilities Financing Authority, Revenue (Cedars-Sinai Medical Center) | 6.25 | 12/1/09 | 3,750,000 ^a | 4,019,400 |
| Golden State Tobacco Securitization Corporation, Tobacco Settlement | | | | |
| Asset-Backed Bonds Golden State Tobacco Securitization Corporation, Tobacco Settlement | 5.00 | 6/1/33 | 5,000,000 | 4,949,050 |
| Asset-Backed Bonds Silicon Valley Tobacco Securitization Authority, Tobacco Settlement | 5.75 | 6/1/47 | 20,000,000 | 21,185,400 |
| Asset-Backed Bonds (Santa Clara County Tobacco Securitization Corporation) | 0.00 | 6/1/36 | 15,290,000 | 3,111,821 |

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**Long-Term Municipal
Investments (continued)**

| | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|--|--------------------|------------------|--------------------------|------------|
| Colorado 3.9% | | | | |
| Colorado Health Facilities Authority, Revenue (American Housing Foundation I, Inc. Project) | 8.50 | 12/1/31 | 1,970,000 | 2,100,335 |
| Colorado Housing Finance Authority (Single Family Program) (Collateralized; FHA) | 6.60 | 8/1/32 | 1,910,000 | 2,007,964 |
| Denver City and County, Special Facilities Airport Revenue (United Airlines Project) | 6.88 | 10/1/32 | 2,885,000 | 2,922,505 |
| Northwest Parkway Public Highway Authority, Revenue | 7.13 | 6/15/41 | 7,000,000 | 7,503,440 |
| Salida Hospital District, HR | 5.25 | 10/1/36 | 2,500,000 | 2,515,400 |
| Connecticut 4.6% | | | | |
| Connecticut Development Authority, PCR (Connecticut Light and Power Company Project) | 5.95 | 9/1/28 | 9,000,000 | 9,330,120 |
| Connecticut Resources Recovery Authority, Special Obligation | | | | |

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|---|-------|----------|-------------|------------|
| Revenue (American REF-FUEL Company of Southeastern Connecticut Project) | 6.45 | 11/15/22 | 4,985,000 | 5,060,722 |
| Mohegan Tribe of Indians of Connecticut Gaming Authority, Priority Distribution Payment | | | | |
| Public Improvement Revenue | 5.38 | 1/1/11 | 4,400,000 | 4,478,584 |
| Mohegan Tribe of Indians of Connecticut Gaming Authority, Priority Distribution Payment | | | | |
| Public Improvement Revenue | 6.25 | 1/1/31 | 1,000,000 | 1,059,500 |
| District of Columbia 3.2% | | | | |
| District of Columbia Tobacco Settlement Financing Corporation, Tobacco | | | | |
| Settlement Asset-Backed Bonds | 0.00 | 6/15/46 | 104,040,000 | 10,077,314 |
| Metropolitan Washington Airports Authority, Special Facility | | | | |
| Revenue (Caterair International Corporation) | 10.13 | 9/1/11 | 3,700,000 | 3,705,624 |

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STATEMENT OF INVESTMENTS (Unaudited) (continued)

| Long-Term Municipal Investments (continued) | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|---|-----------------|---------------|-----------------------|------------|
| Florida 5.0% | | | | |
| Escambia County, EIR (International Paper Company Project) | 5.00 | 8/1/26 | 1,825,000 | 1,835,439 |
| Escambia County, EIR (International Paper Company Project) | 5.00 | 8/1/26 | 2,300,000 | 2,313,156 |
| Florida Housing Finance Corporation, Housing Revenue (Seminole Ridge Apartments) (Collateralized; GNMA) | 6.00 | 4/1/41 | 6,415,000 | 6,617,586 |
| Highlands County Health Facilities Authority, HR (Adventist Health System/Sunbelt Obligated Group) | 5.25 | 11/15/36 | 4,000,000 | 4,147,760 |
| Orange County Health Facilities Authority, HR (Orlando Regional Healthcare System) | 6.00 | 10/1/09 | 70,000 ^a | 73,972 |

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|--|------|----------|------------------------|-----------|
| Orange County Health Facilities Authority, HR (Orlando Regional Healthcare System) | 6.00 | 10/1/26 | 3,430,000 | 3,582,361 |
| Orange County Health Facilities Authority, Revenue (Adventist Health System) | 6.25 | 11/15/12 | 3,000,000 ^a | 3,322,410 |
| Georgia 2.5% | | | | |
| Atlanta, Airport Revenue (Insured; FSA) | 5.25 | 1/1/25 | 3,000,000 | 3,151,770 |
| Augusta, Airport Revenue | 5.45 | 1/1/31 | 2,500,000 | 2,623,225 |
| Georgia Housing and Finance Authority, SFMR | 5.60 | 12/1/32 | 2,335,000 | 2,431,342 |
| Savannah Economic Development Authority, EIR (International Paper Company Project) | 6.20 | 8/1/27 | 2,670,000 | 2,880,716 |
| Idaho 1.1% | | | | |
| Idaho Housing and Finance Association, SFMR (Collateralized; FNMA) | 6.35 | 1/1/30 | 390,000 | 401,213 |

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| Long-Term Municipal Investments (continued) | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|---|-----------------|---------------|------------------------|------------|
| Illinois 8.4% | | | | |
| Chicago, MFHR (Sankofa House Project) (Collateralized; GNMA and Insured; FHA) | 5.00 | 11/20/48 | 1,360,000 | 1,336,377 |
| Chicago, SFMR (Collateralized: FHLMC, FNMA and GNMA) | 6.25 | 10/1/32 | 1,805,000 | 1,839,512 |
| Chicago O'Hare International Airport, General Airport Third Lien Revenue (Insured; XLCA) | 6.00 | 1/1/29 | 5,000,000 | 5,561,350 |
| Chicago O'Hare International Airport, Special Facilities Revenue (American Airlines Inc. Project) | 8.20 | 12/1/24 | 5,700,000 | 5,757,000 |
| Illinois Educational Facilities Authority, Revenue (Northwestern University) | 5.00 | 12/1/38 | 5,000,000 | 5,172,300 |
| Illinois Health Facilities Authority, Revenue (Advocate Health Care Network) | 6.13 | 11/15/10 | 5,000,000 ^a | 5,358,800 |

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|--|------|----------|-------------------------|------------|
| Illinois Health Facilities Authority, Revenue (OSF Healthcare System) | 6.25 | 11/15/09 | 10,900,000 ^a | 11,623,542 |
| Indiana 1.5% | | | | |
| Franklin Township School Building Corporation, First Mortgage Bonds | 6.13 | 7/15/10 | 6,000,000 ^a | 6,508,800 |
| Louisiana 2.2% | | | | |
| Lakeshore Villages Master Community Development District, Special Assessment Revenue | 5.25 | 7/1/17 | 2,000,000 | 1,976,040 |
| West Feliciana Parish, PCR (Entergy Gulf States Project) | 7.00 | 11/1/15 | 3,000,000 | 3,032,280 |
| West Feliciana Parish, PCR (Entergy Gulf States Project) | 6.60 | 9/1/28 | 4,700,000 | 4,736,613 |
| Maryland 1.3% | | | | |
| Maryland Economic Development Corporation, Senior Student Housing Revenue (University of Maryland, Baltimore Project) | 5.75 | 10/1/33 | 2,550,000 | 2,548,062 |

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STATEMENT OF INVESTMENTS (Unaudited) (continued)

| Long-Term Municipal Investments (continued) | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|---|--------------------|------------------|--------------------------|------------|
| Maryland (continued) | | | | |
| Maryland Industrial Development Financing Authority, EDR (Medical Waste Associates Limited Partnership Facility) | 8.75 | 11/15/10 | 3,710,000 | 3,104,676 |
| Massachusetts 2.7% | | | | |
| Massachusetts Health and Educational Facilities Authority, Revenue (Civic Investments Issue) | 9.00 | 12/15/15 | 2,000,000 | 2,453,700 |
| Massachusetts Health and Educational Facilities Authority, Revenue (Partners HealthCare System Issue) | 5.75 | 7/1/32 | 3,000,000 | 3,214,950 |
| Massachusetts Housing Finance Agency, SFHR | 5.00 | 12/1/31 | 6,000,000 | 6,055,860 |
| Michigan 2.9% | | | | |
| Kent Hospital Finance Authority, Revenue (Metropolitan Hospital Project) | 6.00 | 7/1/35 | 4,000,000 | 4,371,480 |

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|---|------|----------|--------------------------|-----------|
| Michigan Strategic Fund, SWDR (Genesee Power Station Project) | 7.50 | 1/1/21 | 8,420,000 | 8,419,747 |
| Minnesota 1.1% | | | | |
| Saint Paul Housing and Redevelopment Authority, Hospital Facility Revenue (HealthEast Project) | 6.00 | 11/15/25 | 1,240,000 | 1,352,741 |
| Saint Paul Housing and Redevelopment Authority, Hospital Facility Revenue (HealthEast Project) | 6.00 | 11/15/35 | 3,000,000 | 3,270,570 |
| Mississippi 0.7% | | | | |
| Mississippi Business Finance Corporation, PCR (System Energy Resources, Inc. Project) | 5.90 | 5/1/22 | 3,160,000 | 3,191,853 |
| Nebraska 0.2% | | | | |
| Nebraska Investment Finance Authority, SFMR | 7.77 | 3/1/26 | 1,000,000 ^{b,c} | 1,016,260 |

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| Long-Term Municipal Investments (continued) | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|--|--------------------|------------------|--------------------------|------------|
| Nevada 2.6% | | | | |
| Clark County, IDR (Nevada Power Company Project) | 5.60 | 10/1/30 | 3,000,000 | 3,019,050 |
| Washoe County, GO Convention Center Revenue (Reno-Sparks Convention and Visitors Authority) (Insured; FSA) | 6.40 | 1/1/10 | 8,000,000 ^a | 8,501,840 |
| New Hampshire 3.3% | | | | |
| New Hampshire Business Finance Authority, PCR (Public Service Company of New Hampshire Project) (Insured; MBIA) | 6.00 | 5/1/21 | 2,690,000 | 2,789,342 |
| New Hampshire Business Finance Authority, PCR (Public Service Company of New Hampshire Project) (Insured; MBIA) | 6.00 | 5/1/21 | 6,000,000 | 6,221,580 |
| New Hampshire Industrial Development Authority, PCR (Connecticut Light and Power Company Project) | 5.90 | 11/1/16 | 5,400,000 | 5,539,266 |
| New Jersey 4.9% | | | | |

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|---|------|---------|-------------------------|------------|
| New Jersey Economic Development Authority, Special Facility Revenue (Continental Airlines, Inc. Project) | 6.25 | 9/15/19 | 4,620,000 | 4,778,697 |
| Tobacco Settlement Financing Corporation of New Jersey, Tobacco Settlement | | | | |
| Asset-Backed Bonds | 7.00 | 6/1/13 | 10,095,000 ^a | 11,746,037 |
| Tobacco Settlement Financing Corporation of New Jersey, Tobacco Settlement | | | | |
| Asset-Backed Bonds | 5.00 | 6/1/41 | 5,000,000 | 4,886,500 |
| New York 8.1% | | | | |
| New York City Industrial Development Agency, Special Facility Revenue (American Airlines, Inc. John F. Kennedy International Airport Project) | 8.00 | 8/1/28 | 3,000,000 | 3,671,130 |

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STATEMENT OF INVESTMENTS (Unaudited) (continued)

| 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 International Airport Project) | 7.75 | 8/1/31 | 10,000,000 | 12,056,800 |
| New York Liberty Development Corporation, Revenue (Goldman Sachs Headquarters Issue) | 5.25 | 10/1/35 | 13,000,000 | 14,473,550 |
| New York State Dormitory Authority, Revenue (Marymount Manhattan College) (Insured; Radian) | 6.25 | 7/1/29 | 4,000,000 | 4,205,000 |
| New York State Dormitory Authority, Revenue (Suffolk County Judicial Facility) | 9.50 | 4/15/14 | 605,000 | 800,294 |
| North Carolina 6% | | | | |
| North Carolina Eastern Municipal Power Agency, Power System Revenue | 6.70 | 1/1/19 | 2,500,000 | 2,671,625 |
| Ohio 5.1% | | | | |

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|--|------|---------|-------------------------|------------|
| Cuyahoga County, Hospital Facilities Revenue (UHHS/CSAHS-Cuyahoga, Inc. and CSAHS/UHHS-Canton, Inc. Project) | 7.50 | 1/1/30 | 3,500,000 | 3,815,210 |
| Cuyahoga County, Hospital Improvement Revenue (The Metrohealth Systems Project) | 6.15 | 2/15/09 | 10,000,000 ^a | 10,487,000 |
| Ohio Air Quality Development Authority, PCR (The Cleveland Electric Illuminating Company Project) (Insured; ACA) | 6.10 | 8/1/20 | 2,400,000 | 2,453,712 |
| Ohio Housing Finance Agency, Residential Mortgage Revenue (Mortgage-Backed Securities Program) (Collateralized; GNMA) | 6.15 | 3/1/29 | 1,510,000 | 1,547,826 |
| Ohio Water Development Authority, PCR (The Cleveland Electric Illuminating Company Project) (Insured; ACA) | 6.10 | 8/1/20 | 4,000,000 | 4,089,520 |

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| Long-Term Municipal Investments (continued) | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|---|--------------------|------------------|--------------------------|------------|
| Oklahoma 3.3% | | | | |
| Oklahoma Development Finance Authority, Revenue (Saint John Health System) | 6.00 | 2/15/29 | 9,000,000 | 9,361,620 |
| Oklahoma Industries Authority, Health System Revenue (Obligated Group) (Insured; MBIA) | 5.75 | 8/15/09 | 2,105,000 ^a | 2,213,260 |
| Oklahoma Industries Authority, Health System Revenue (Obligated Group) (Insured; MBIA) | 5.75 | 8/15/29 | 2,895,000 | 3,020,411 |
| Pennsylvania 3.4% | | | | |
| Allegheny County Port Authority, Special Transportation Revenue (Insured; MBIA) | 6.13 | 3/1/09 | 4,750,000 ^a | 4,981,467 |
| Lehman Municipal Trust Receipts (Pennsylvania Economic Development Financing Authority, SWDR (USG Corporation Project)) | 6.00 | 6/1/31 | 7,000,000 ^{c,d} | 7,280,245 |
| Pennsylvania Economic Development Financing Authority, Exempt | | | | |

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|---|------|----------|-----------------------------|------------|
| Facilities Revenue (Reliant Energy Seward, LLC Project) | 6.75 | 12/1/36 | 2,000,000 | 2,211,340 |
| Pennsylvania Housing Finance Agency, Multi-Family Development Revenue | 8.25 | 12/15/19 | 241,000 | 241,549 |
| Rhode Island 7% | | | | |
| Rhode Island Health and Educational Building Corporation, Higher Educational Facilities Revenue (University of Rhode Island Auxiliary Enterprise Revenue Issue) (Insured; MBIA) | 5.88 | 9/15/09 | 3,000,000 ^a | 3,165,600 |
| South Carolina 10.0% | | | | |
| Greenville County School District, Installment Purchase Revenue (Building Equity Sooner for Tomorrow) | 5.50 | 12/1/12 | 19,000,000 ^{a,c,d} | 20,601,225 |

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STATEMENT OF INVESTMENTS (Unaudited) (continued)

| Long-Term Municipal Investments (continued) | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|---|-----------------|---------------|------------------------|------------|
| South Carolina (continued) | | | | |
| Greenville Hospital System, Hospital Facilities Revenue (Insured; AMBAC) | 5.50 | 5/1/26 | 7,000,000 | 7,418,530 |
| Medical University of South Carolina, Hospital Facilities Revenue | 6.00 | 7/1/09 | 5,000,000 ^a | 5,265,900 |
| Richland County, EIR (International Paper Company Project) | 6.10 | 4/1/23 | 6,500,000 | 7,026,305 |
| Securing Assets for Education, Installment Purchase Revenue (Berkeley County School District Project) | 5.13 | 12/1/30 | 3,280,000 | 3,450,002 |
| Tennessee 6.0% | | | | |
| Johnson City Health and Educational Facilities Board, Hospital First Mortgage Revenue (Mountain States Health Alliance) | 7.50 | 7/1/25 | 2,000,000 | 2,308,240 |
| Johnson City Health and | | | | |

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|--|------|---------|-----------|------------|
| Educational Facilities Board, Hospital First Mortgage Revenue (Mountain States Health Alliance) | 7.50 | 7/1/33 | 4,875,000 | 5,611,905 |
| Memphis Center City Revenue Finance Corporation, Sports Facility Revenue (Memphis Redbirds Baseball Foundation Project) | 6.50 | 9/1/28 | 6,000,000 | 5,981,400 |
| Tennessee Energy Acquisition Corporation, Gas Project Revenue | 5.25 | 9/1/26 | 9,700,000 | 10,583,573 |
| Tennessee Housing Development Agency (Homeownership Program) | 6.00 | 1/1/28 | 1,575,000 | 1,587,285 |
| Texas 21.5% | | | | |
| Alliance Airport Authority Inc., Special Facilities Revenue (American Airlines, Inc. Project) | 5.75 | 12/1/29 | 2,000,000 | 2,014,460 |
| Brazos River Harbor Navigation District, Revenue (The Dow Chemical Company Project) | 5.13 | 5/15/33 | 5,000,000 | 5,046,650 |

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| Long-Term Municipal Investments (continued) | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|---|--------------------|------------------|--------------------------|------------|
| Texas (continued) | | | | |
| Cities of Dallas and Fort Worth, Dallas/Fort Worth International Airport, Facility Improvement Corporation Revenue (Learjet Inc. Project) | 6.15 | 1/1/16 | 3,000,000 | 3,019,890 |
| Gregg County Health Facilities Development Corporation, HR (Good Shepherd Medical Center Project) (Insured; Radian) | 6.38 | 10/1/10 | 2,500,000 ^a | 2,714,700 |
| Gulf Coast Industrial Development Authority, Environmental Facilities Revenue (Microgy Holdings Project) | 7.00 | 12/1/36 | 5,000,000 | 5,363,700 |
| Harris County Health Facilities Development Corporation, HR (Memorial Hermann Healthcare System) | 6.38 | 6/1/11 | 7,000,000 ^a | 7,689,080 |
| Harris County-Houston Sports Authority, Third Lien Revenue (Insured; MBIA) | 0.00 | 11/15/31 | 9,685,000 | 2,830,732 |
| Katy Independent School District, | | | | |

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| | | | | |
|--|------|---------|-------------------------|------------|
| Unlimited Tax School Building Bonds (Permanent School Fund Guarantee Program) | 6.13 | 2/15/09 | 10,000,000 ^a | 10,392,400 |
| Lubbock Housing Financing Corporation, SFMR (Collateralized: FNMA and GNMA) | 6.70 | 10/1/30 | 1,430,000 | 1,441,426 |
| Sabine River Authority, PCR (TXU Electric Company Project) | 6.45 | 6/1/21 | 4,900,000 | 5,112,905 |
| Texas (Veterans Housing Assistance Program) (Collateralized; FHA) | 6.10 | 6/1/31 | 8,510,000 | 8,875,164 |
| Texas (Veterans Land) | 6.00 | 12/1/30 | 3,935,000 | 4,156,777 |
| Texas Department of Housing and Community Affairs, Home Mortgage Revenue (Collateralized: FHLMC, FNMA and GNMA) | 9.61 | 7/2/24 | 1,300,000 ^b | 1,369,394 |

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STATEMENT OF INVESTMENTS (Unaudited) (continued)

| Long-Term Municipal Investments (continued) | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|---|--------------------|------------------|--------------------------|------------|
| Texas (continued) | | | | |
| Texas Department of Housing and Community Affairs, Residential Mortgage Revenue (Collateralized: FHLMC, FNMA and GNMA) | 5.35 | 7/1/33 | 5,265,000 | 5,378,566 |
| Texas Transportation Commission, GO (Mobility Fund) (Insured; FGIC) | 4.50 | 4/1/35 | 7,500,000 | 7,319,250 |
| Texas Turnpike Authority, Central Texas Turnpike System Revenue (Insured; AMBAC) | 5.25 | 8/15/42 | 6,775,000 | 7,113,818 |
| Tomball Hospital Authority, Revenue (Tomball Regional Hospital) | 6.00 | 7/1/25 | 4,650,000 | 4,803,636 |
| Tyler Health Facilities Development Corporation, HR (East Texas Medical Center Regional Healthcare System Project) | 6.75 | 11/1/25 | 5,850,000 | 5,894,987 |
| Willacy County Local Government Corporation, Project Revenue | 6.00 | 3/1/09 | 3,000,000 | 3,010,230 |

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Virginia 4.8%

| | | | | |
|--|------|---------|------------------------|-----------|
| Henrico County Industrial Development Authority, Revenue (Bon Secours Health System) (Insured; FSA) | 7.92 | 8/23/27 | 7,500,000 ^b | 9,894,750 |
| Tobacco Settlement Financing Corporation of Virginia, Tobacco Settlement Asset-Backed Bonds | 5.63 | 6/1/15 | 2,000,000 ^a | 2,214,440 |
| Virginia Housing Development Authority, Rental Housing Revenue | 6.20 | 8/1/24 | 8,520,000 | 8,873,239 |

Washington 2.4%

| | | | | |
|---|------|---------|-------------------------|------------|
| Washington Higher Educational Facilities Authority, Revenue (Whitman College) | 5.88 | 10/1/09 | 10,000,000 ^a | 10,468,800 |
|---|------|---------|-------------------------|------------|

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**Long-Term Municipal
Investments (continued)**

| | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|---|--------------------|------------------|--------------------------|------------|
| Wisconsin 8.0% | | | | |
| Badger Tobacco Asset Securitization Corporation, Tobacco Settlement Asset-Backed Bonds | 6.13 | 6/1/27 | 9,560,000 ^{c,d} | 10,255,347 |
| Badger Tobacco Asset Securitization Corporation, Tobacco Settlement Asset-Backed Bonds | 7.00 | 6/1/28 | 14,570,000 | 16,473,279 |
| Wisconsin Health and Educational Facilities Authority, Revenue (Aurora Health Care, Inc.) | 6.40 | 4/15/33 | 5,500,000 | 6,054,180 |
| Wisconsin Health and Educational Facilities Authority, Revenue (Marshfield Clinic) | 5.38 | 2/15/34 | 2,000,000 | 2,083,060 |
| Wyoming 3.5% | | | | |
| Sweetwater County, SWDR (FMC Corporation Project) | 5.60 | 12/1/35 | 5,000,000 | 5,285,450 |
| Wyoming Student Loan Corporation, Student Loan Revenue | 6.20 | 6/1/24 | 5,000,000 | 5,000,000 |
| Wyoming Student Loan Corporation, Student Loan Revenue | 6.25 | 6/1/29 | 5,000,000 | 5,000,000 |
| U.S. Related 0.3% | | | | |
| Children's Trust Fund of Puerto Rico, Tobacco Settlement Asset-Backed Bonds | 0.00 | 5/15/50 | 5,000,000 | 351,850 |

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Rico, Tobacco Settlement

Asset-Backed Bonds 0.00 5/15/55 20,000,000 750,000

Total Long-Term Municipal Investments

(cost \$605,105,949)

629,527,826

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STATEMENT OF INVESTMENTS (Unaudited) (continued)

| Option 9.0% | Contracts | Value (\$) |
|---|----------------|----------------------|
| Call Option; | | |
| July 2007 10 Year U.S. Treasury Future June 2007 @ 107 (cost \$35,531) | 125 | 21,484 |
| Total Investments (cost \$605,141,480) | 144.3% | 629,549,310 |
| Liabilities, Less Cash and Receivables | (1.7%) | (7,242,981) |
| Preferred Stock, at redemption value | (42.6%) | (186,000,000) |
| Net Assets Applicable to Common Shareholders | 100.0% | 436,306,329 |

^a 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. ^b Inverse floater security the interest rate is subject to change periodically. ^c Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers. At May 31, 2007, these securities amounted to \$39,153,077 or 9.0% of net assets applicable to Common Shareholders. ^d Collateral for floating rate borrowings.

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Summary of Abbreviations

| | | | |
|-------------|--------------------------------------|--------------|---|
| 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 |
| BIGI | Bond Investors Guaranty Insurance | BPA | Bond Purchase Agreement |
| CGIC | Capital Guaranty Insurance Company | CIC | Continental Insurance Company |
| CIFG | CDC Ixis Financial Guaranty | CMAC | Capital Market Assurance Corporation |
| COP | Certificate of Participation | CP | Commercial Paper |
| EDR | Economic Development Revenue | EIR | Environmental Improvement Revenue |
| FGIC | Financial Guaranty Insurance Company | FHA | Federal Housing Administration |

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| | | | |
|---------------|--|--------------|--|
| FHLB | Federal Home Loan Bank | FHLMC | Federal Home Loan Mortgage Corporation |
| FNMA | Federal National Mortgage Association | FSA | Financial Security Assurance |
| 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 |
| LOC | Letter of Credit | LOR | Limited Obligation Revenue |
| LR | Lease Revenue | MBIA | Municipal Bond Investors Assurance Insurance Corporation |
| MFHR | Multi-Family Housing Revenue | MFMR | Multi-Family Mortgage Revenue |
| PCR | Pollution Control Revenue | PILOT | Payment in Lieu of Taxes |
| RAC | Revenue Anticipation Certificates | RAN | Revenue Anticipation Notes |
| RAW | Revenue Anticipation Warrants | 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 | 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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STATEMENT OF INVESTMENTS (Unaudited) (continued)

Summary of Combined Ratings (Unaudited)

| Fitch | or Moody's | or | Standard & Poor's | Value (%) [□] |
|------------------------|------------------------|----|------------------------|------------------------|
| AAA | Aaa | | AAA | 23.9 |
| AA | Aa | | AA | 19.6 |
| A | A | | A | 13.3 |
| BBB | Baa | | BBB | 24.9 |
| BB | Ba | | BB | 2.8 |
| B | B | | B | 5.9 |
| CCC | Caa | | CCC | 1.3 |
| Not Rated ^e | Not Rated ^e | | Not Rated ^e | 8.3 |
| | | | | 100.0 |

[□] Based on total investments.
^e 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.

STATEMENT OF ASSETS

May 31, 2007 (Unaudited)

AND

LIABILITIES

| | Cost | Value |
|---|-------------|--------------------|
| Assets (\$): | | |
| Investments in securities—See Statement of Investments | 605,141,480 | 629,549,310 |
| Cash | | 229,785 |
| Interest receivable | | 11,248,638 |
| Prepaid expenses | | 5,702 |
| | | 641,033,435 |
| Liabilities (\$): | | |
| Due to The Dreyfus Corporation and affiliates—Note 3(a) | | 350,445 |
| Payable for floating rate notes issued | | 17,780,000 |
| Interest and related expenses payable | | 368,208 |
| Dividends payable to Preferred shareholders | | 44,456 |
| Commissions payable | | 16,725 |
| Accrued expenses and other liabilities | | 167,272 |
| | | 18,727,106 |
| Auction Preferred Stock , Series A, B and C, par value \$.001 per share (7,440 shares issued and outstanding at \$25,000 per share liquidation value)—Note 1 | | 186,000,000 |
| | | 436,306,329 |
| Composition of Net Assets (\$): | | |
| Common Stock, par value, \$.001 per share (48,495,729 shares issued and outstanding) | | 48,496 |
| Paid-in capital | | 438,464,435 |
| Accumulated distributions in excess of investment income—net | | (175,120) |
| Accumulated net realized gain (loss) on investments | | (26,439,312) |
| Accumulated net unrealized appreciation (depreciation) on investments | | 24,407,830 |
| | | 436,306,329 |
| Common Shares Outstanding (110 million shares of \$.001 par value Common Stock authorized) | | |
| | | 48,495,729 |
| Net Asset Value per share of Common Stock (\$) | | 9.00 |

See notes to financial statements.

STATEMENT OF OPERATIONS

Six Months Ended May 31, 2007 (Unaudited)

| | |
|--|--------------------|
| Investment Income (\$): | |
| Interest Income | 17,974,495 |
| Expenses: | |
| Investment advisory fee—Note 3(a) | 1,561,873 |
| Administration fee—Note 3(a) | 780,937 |
| Interest and related expenses | 366,323 |
| Commission fees—Note 1 | 244,998 |
| Professional fees | 41,301 |
| Shareholders' reports | 32,575 |
| Directors' fees and expenses—Note 3(b) | 23,944 |
| Registration fees | 7,148 |
| Shareholder servicing costs | 6,712 |
| Custodian fees | 6,202 |
| Miscellaneous | 31,118 |
| Total Expenses | 3,103,131 |
| Less—reduction in investment advisory fee due to undertaking—Note 3(a) | (312,374) |
| Less—reduction in custody fees due to earnings credit—Note 1(b) | (1,187) |
| Net Expenses | 2,789,570 |
| Investment Income—Net | 15,184,925 |
| Realized and Unrealized Gain (Loss) on Investments—Note 4 (\$): | |
| Net realized gain (loss) on investments | 1,742,758 |
| Net unrealized appreciation (depreciation) on investments | (11,284,091) |
| Net Realized and Unrealized Gain (Loss) on Investments | (9,541,333) |
| Dividends on Preferred Stock | (3,368,272) |
| Net Increase in Net Assets Resulting from Operations | 2,275,320 |

See notes to financial statements.

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STATEMENT OF CHANGES IN NET ASSETS

| | Six Months Ended May 31, 2007 (Unaudited) | Year Ended November 30, 2006 |
|-------------------------|---|---------------------------------|
| Operations (\$): | | |

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| | | |
|--|---------------------|---------------------|
| Investment income [Ⓜ] net | 15,184,925 | 31,008,822 |
| Net realized gain (loss) on investments | 1,742,758 | 3,900,272 |
| Net unrealized appreciation (depreciation) on investments | (11,284,091) | 11,976,354 |
| Dividends on Preferred Stock | (3,368,272) | (6,123,205) |
| Net Increase (Decrease) in Net Assets Resulting from Operations | 2,275,320 | 40,762,243 |
| <hr/> | | |
| Dividends to Common Shareholders from (\$): | | |
| Investment income[Ⓜ]net | (12,484,751) | (24,902,021) |
| <hr/> | | |
| Capital Stock Transactions (\$): | | |
| Dividends reinvested [Ⓜ] Note 1(c) | 1,916,979 | 272,463 |
| Total Increase (Decrease) in Net Assets | (8,292,452) | 16,132,685 |
| <hr/> | | |
| Net Assets (\$): | | |
| Beginning of Period | 444,598,781 | 428,466,096 |
| End of Period | 436,306,329 | 444,598,781 |
| Undistributed (distributions in excess of) investment income [Ⓜ] net | (175,120) | 492,978 |
| <hr/> | | |
| Capital Share Transactions (Common Shares): | | |
| Increase in Common Shares Outstanding as a Result of Dividends Reinvested | 210,887 | 73,419 |

See notes to financial statements.

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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, with respect to common stock and market price data for the fund's common shares.

| | Six Months Ended | Year Ended November 30, | | | | |
|--|------------------|-------------------------|------|------|------|------|
| | May 31, 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
| | (Unaudited) | | | | | |
| <hr/> | | | | | | |
| Per Share Data (\$): | | | | | | |
| Net asset value, | | | | | | |
| beginning of period | 9.21 | 8.88 | 8.79 | 8.90 | 8.56 | 8.75 |
| Investment Operations: | | | | | | |
| Investment income [Ⓜ] ne [Ⓐ] | .31 | .64 | .63 | .61 | .64 | .70 |
| Net realized and unrealized | | | | | | |

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| | | | | | | |
|---|------------------|-------|-------|-------|-------|-------|
| gain (loss) on investments | (.19) | .34 | .13 | (.06) | .36 | (.26) |
| Dividends on Preferred Stock from investment income net | (.07) | (.13) | (.08) | (.05) | (.06) | (.07) |
| Total from Investment Operations | .05 | .85 | .68 | .50 | .94 | .37 |
| Distributions to Common Shareholders: Dividends from investment income net | (.26) | (.52) | (.59) | (.61) | (.60) | (.56) |
| Net asset value, end of period | 9.00 | 9.21 | 8.88 | 8.79 | 8.90 | 8.56 |
| Market value, end of period | 9.12 | 9.29 | 8.16 | 8.41 | 8.81 | 7.88 |
| Total Return (%)^b | .99 ^c | 9.94 | 3.78 | 2.48 | 19.89 | (.36) |

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| | Six Months Ended | | | | | |
|--|--------------------|-------------------------|---------|---------|---------|---------|
| | May 31, 2007 | Year Ended November 30, | | | | |
| | (Unaudited) | 2006 | 2005 | 2004 | 2003 | 2002 |
| Ratios/Supplemental Data (%): | | | | | | |
| Ratio of total expenses to average net assets applicable to Common Stock ^d | 1.41 ^e | 1.38 | 1.26 | 1.26 | 1.28 | 1.28 |
| Ratio of net expenses to average net assets applicable to Common Stock ^d | 1.27 ^e | 1.24 | 1.12 | 1.25 | 1.28 | 1.28 |
| Ratio of net investment income to average net assets applicable to Common Stock ^d | 6.91 ^e | 7.16 | 6.98 | 6.96 | 7.35 | 8.10 |
| Ratio of total expenses to total average net assets | .99 ^e | .97 | .88 | .88 | .86 | .89 |
| Ratio of net expenses to total average net assets | .89 ^e | .87 | .78 | .86 | .86 | .89 |
| Ratio of net investment income to total average net assets | 4.86 ^e | 5.01 | 4.88 | 4.84 | 5.10 | 5.61 |
| Portfolio Turnover Rate | 23.61 ^c | 57.12 | 44.20 | 39.94 | 77.92 | 44.71 |
| Asset coverage of Preferred Stock, end of period | 335 | 339 | 330 | 328 | 330 | 321 |
| Net Assets, net of Preferred Stock, end of period (\$ x 1,000) | 436,306 | 444,599 | 428,466 | 423,556 | 428,301 | 411,369 |
| Preferred Stock outstanding, end of period (\$ x 1,000) | 186,000 | 186,000 | 186,000 | 186,000 | 186,000 | 186,000 |

- a Based on average common shares outstanding at each month end.
- b Calculated based on market value.
- c Not annualized.
- d Does not reflect the effect of dividends to Preferred Stock shareholders.
- e Annualized.

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS (Unaudited)

NOTE 1 Significant Accounting Policies:

Dreyfus Strategic Municipal Bond Fund, Inc. (the "fund") is registered under the Investment Company Act of 1940, as amended (the "Act"), as a diversified closed-end management investment company. The fund's investment objective is to maximize current income exempt from federal income tax to the extent believed by the fund's investment adviser to be consistent with the preservation of capital. The Dreyfus Corporation (the "Manager" or "Dreyfus") serves as the fund's investment adviser. During the reporting period, Dreyfus was a wholly-owned subsidiary of Mellon Financial Corporation ("Mellon Financial"). Mellon Trust of New England, N.A. (the "Custodian") acts as the fund's custodian. The Custodian is a wholly-owned subsidiary of Mellon Financial. PFPC Global Fund Services ("PFPC"), a subsidiary of PNC Bank ("PNC"), serves as the fund's transfer agent, dividend-paying agent, registrar and plan agent. The fund's Common Stock trades on the New York Stock Exchange under the ticker symbol DSM.

On July 1, 2007, Mellon Financial and The Bank of New York Company, Inc. merged, forming The Bank of New York Mellon Corporation. As part of this transaction, Dreyfus became a wholly-owned subsidiary of The Bank of New York Mellon Corporation.

The fund has outstanding 2,480 shares of Series A, Series B and Series C for a total of 7,440 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. Deutsche Bank Trust Company Americas, 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 .25% of the purchase price of the shares of APS placed by the broker-dealer in an auction.

The fund is subject to certain restrictions relating to the APS. Failure to comply with these restrictions could preclude the fund from declar-

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ing any distributions to common shareholders or repurchasing common shares and/or could trigger the mandatory redemption of APS at liquidation value.

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

The fund's financial statements are prepared in accordance with U.S. generally accepted accounting principles, 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: Investments in municipal debt securities are valued on the last business day of each week and month by an independent pricing service (the "Service") approved by the Board of Directors. 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: yields or prices of municipal securities of comparable quality, coupon, maturity and type; indications as to values from dealers; and general market conditions. Options and financial futures on municipal securities and U.S. Treasury securities are valued at the last sales price

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NOTES TO FINANCIAL STATEMENTS (Unaudited) (continued)

on the securities exchange on which such securities are primarily traded or at the last sales price on the national securities market on the last business day of each week and month.

The Financial Accounting Standards Board (FASB) released Statement of Financial Accounting Standards No. 157 "Fair Value Measurements" ("FAS 157"). FAS 157 establishes an authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair-value measurements. The application of FAS 157 is required for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Management does not believe that the application of this standard will have a material impact on the financial statements of the fund.

(b) Securities transactions and investment income: Securities transactions are recorded on a trade date basis. Realized gain and loss 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.

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

(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 gain, 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

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extent that net realized capital gain can be offset by capital loss carryovers, it is the policy of the fund not to distribute such gain. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from U.S. generally accepted accounting principles.

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) based on the record date's respective prices. If the net asset value per share on the record date is lower than the market price per share, shares will be issued by the fund at the record date's net asset value on the payable date of the distribution. If net asset value per share is less than 95% of the market value, shares will be issued by the fund at 95% of the market value. If the market price is lower than the net assets value per share on the record date, PFPC will purchase fund shares in the open market commencing on the payable date and reinvest those shares accordingly. As a result of purchasing fund shares in the open market, fund shares outstanding will not be affected by this form of reinvestment.

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On May 8, 2007, the Board of Directors declared a cash dividend to Common Shareholders of \$.0405 per share from investment income-net, payable on June 29, 2007 to Common Shareholders of record as of the close of business on June 8, 2007.

(d) Dividends to Shareholders of APS: For APS, dividends are currently reset every 7 days for Series A,B and C.The dividend rates in effect at May 31, 2007 were as follows: Series A \square 3.79%, Series B \square 3.40% and Series C \square 3.80%

(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

The Fund 29

NOTES TO FINANCIAL STATEMENTS (Unaudited) (continued)

Internal Revenue Code of 1986 as amended, and to make distributions of income and net realized capital gain sufficient to relieve it from substantially all federal income and excise taxes.

The FASB released FASB Interpretation No. 48 \square Accounting for Uncertainty in Income Taxes \square (FIN 48). FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the fund's tax returns to determine whether the tax positions are \square more-likely-than-not \square of being sustained by the applicable tax authority. Tax positions not deemed to meet the more likely-than-not threshold would be recorded as a tax benefit or expense in the current year.Adoption of FIN 48 is required for fiscal years beginning after December 15,2006 and is to be applied to all open tax years as of the effective date. Management does not believe that the application of this standard will have a material impact on the financial statements of the fund.

The fund has an unused capital loss carryover of \$28,408,189 available for federal income tax purposes to be applied against future net securities profits, if any, realized subsequent to November 30, 2006. If not applied, \$2,280,744 of the carryover expires in fiscal 2008, \$442,201 expires in fiscal 2009, \$9,253,314 expires in fiscal 2010, \$5,474,907 expires in fiscal 2011 and \$10,957,023 expires in fiscal 2012.

The tax character of distributions paid to shareholders during the fiscal year ended November 30, 2006 were as follows: tax exempt income \$31,025,226. The tax character of current year distributions will be determined at the end of the current fiscal year.

NOTE 2 \square Bank Line of Credit:

The fund participates with other Dreyfus-managed funds in a \$100 million unsecured line of credit primarily to be utilized for temporary or emergency purposes. Interest is charged to the fund based on prevailing market rates in effect at the time of borrowing. During the period ended May 31, 2007, the fund did not borrow under the Facility.

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NOTE 3 \square Investment Advisory Fee, Administration Fee and Other Transactions With Affiliates:

(a) The fee payable by the fund, pursuant to the provisions of an Investment Advisory Agreement with Dreyfus, is payable monthly based on an annual rate of .50% of the value of the fund's average weekly net assets (including net assets representing auction preferred stock outstanding). The fund also has an Administration Agreement with Dreyfus, a Custody Agreement with the Custodian and a Transfer Agency and Registrar Agreement with PFPC. The fund pays in the aggregate for administration, custody and transfer agency services a monthly fee based on an annual rate of .25% of the value of the fund's average weekly net assets (including net assets representing auction preferred stock outstanding); out-of pocket transfer agency and custody expenses are paid

separately by the fund.

Dreyfus has agreed from December 1, 2006 through August 31, 2007, to waive receipt of a portion of the fund's investment advisory fee, in the amount of .10% of the value of the fund's average weekly net assets (including net assets representing auction preferred stock outstanding). The reduction in investment advisory fee, pursuant to the undertaking, amounted to \$312,374 during the period ended May 31, 2007.

During the period ended May 31, 2007, the fund was charged \$2,044 for services performed by the Chief Compliance Officer.

The Components of "Due to The Dreyfus Corporation and affiliates" in the Statement of Assets and Liabilities consist of: investment advisory fees \$396,475, administration fees \$3,226 and chief compliance officer fees \$3,748, which are offset against an expense reimbursement currently in effect in the amount of \$53,004.

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

The Fund 31

NOTES TO FINANCIAL STATEMENTS (Unaudited) (continued)

NOTE 4 Securities Transactions:

The aggregate amount of purchases and sales of investment securities, excluding short-term securities and options transactions, during the period ended May 31, 2007, amounted to \$152,521,999 and \$149,854,839, respectively.

The fund may purchase floating rate notes. A floating rate note is a Municipal Bond or other debt obligation (generally held pursuant to a custodial arrangement) having a relatively long maturity and bearing interest at a fixed rate substantially higher than prevailing short-term tax exempt rates, that has been coupled with the agreement of a third party, such as a bank, broker-dealer or other financial institution, pursuant to which such institution grants the security holders the option, at periodic intervals, to tender their securities to the institution and receive the face value thereof. As consideration for providing the option, the financial institution receives periodic fees equal to the difference between the obligation's fixed coupon rate and the rate, as determined by a remarketing or similar agent at or near the commencement of such period, that would cause the securities, coupled with the tender option, to trade at par on the date of such determination. Thus, after payment of this fee, the security holder effectively holds a demand obligation that bears interest at the prevailing short-term tax exempt rate.

At May 31, 2007, accumulated net unrealized appreciation on investments was \$24,407,830, consisting of \$33,773,732 gross unrealized appreciation and \$9,365,902 gross unrealized depreciation.

At May 31, 2007, the cost of investments for federal income tax purposes was substantially the same as the cost for financial reporting purposes (see the Statement of Investments).

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OFFICERS AND DIRECTORS

Dreyfus Strategic Municipal Bond Fund, Inc.

200 Park Avenue
New York, NY 10166

Directors

Joseph S. DiMartino
David W. Burke
William Hodding Carter, III
Gordon J. Davis
Joni Evans
Arnold S. Hiatt □
Ehud Houminer
Richard C. Leone
Hans C. Mautner
Robin A. Melvin □□
Burton N. Wallack
John E. Zuccotti □□
□
□□

Emeritus Board Member
Auction Preferred Stock Directors

Officers

President
J. David Officer
Executive Vice Presidents
A. Paul Disdier
Vice President
Mark N. Jacobs
Vice President and Secretary
Michael A. Rosenberg
Vice President and Assistant Secretaries
James Bitetto
Joni Lacks Charatan
Joseph M. Chioffi
Janette E. Farragher
John B. Hammalian
Robert R Mullery
Jeff Prusnofsky
Treasurer
James Windels
Assistant Treasurers
Robert Salviolo
Robert Robol
Robert Svagna
Gavin C. Reilly
Chief Compliance Officer
Joseph W. Connolly

Portfolio Managers

Joseph P. Darcy
A. Paul Disdier
Douglas J. Gaylor
Joseph A. Irace

Colleen A. Meehan
W. Michael Petty
James Welch
Monica S. Wieboldt
Bill Vasiliou

**Investment Adviser
and Administrator**

The Dreyfus Corporation

Custodian

Mellon Trust of New England, N.A.

Counsel

Stroock & Stroock & Lavan LLP

**Transfer Agent,
Dividend-Paying Agent,
Registrar and Disbursing Agent**

PFPC Global Fund Services

(Common Stock)

Deutsche Bank Trust Company Americas

(Auction Preferred Stock)

Auction Agent

Deutsche Bank Trust Company Americas

(Auction Preferred Stock)

Stock Exchange Listing

NYSE Symbol: DSM

Initial SEC Effective Date

11/22/89

The Net Asset Value appears in the following publications: Barron's, Closed-End Bond Funds section under the heading "Municipal Bond Funds" every Monday; Wall Street Journal, Mutual Funds section under the heading "Closed-End Funds" every Monday; New York Times, Business section under the heading "Closed-End Bond Funds" Municipal Bond Funds" every Monday.

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that the fund may purchase shares of its common stock in the open market when it can do so at prices below the then current net asset value per share.

The Fund 33

Item 2. Code of Ethics.

Not applicable.

Item 3. Audit Committee Financial Expert.

Not applicable.

Item 4. Principal Accountant Fees and Services.

Not applicable.

Item 5. Audit Committee of Listed Registrants.

Not applicable.

Item 6. Schedule of Investments.

Not applicable.

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

Not applicable.

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

Not applicable.

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

None.

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

The Registrant has a Nominating Committee (the "Committee"), which is responsible for selecting and nominating persons for election or appointment by the Registrant's Board as Board members. The Committee has adopted a Nominating Committee Charter (the "Charter"). Pursuant to the Charter, the Committee will consider recommendations for nominees from shareholders submitted to the Secretary of the Registrant, c/o The Dreyfus Corporation Legal Department, 200 Park Avenue, 8th Floor East, New York, New York 10166. A nomination submission must include information regarding the recommended nominee as specified in the Charter. This information includes all information relating to a recommended nominee that is required to be disclosed in solicitations or proxy statements for the election of Board members, as well as information sufficient to evaluate the factors to be considered by the Committee, including character and integrity, business and professional experience, and whether the person has the ability to apply sound and independent business judgment and would act in the interests of the Registrant and its shareholders.

Nomination submissions are required to be accompanied by a written consent of the individual to stand for election if nominated by the Board and to serve if elected by the shareholders, and such additional information must be provided regarding the recommended nominee as reasonably requested by the Committee.

Item 11. Controls and Procedures.

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

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

Item 12. Exhibits.

(a)(1) Not applicable.

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

(a)(3) Not applicable.

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

SIGNATURES

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

Dreyfus Strategic Municipal Bond Fund, Inc.

By: /s/ J. David Officer
J. David Officer
President

Date: July 23, 2007

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

By: /s/ J. David Officer
J. David Officer
President

Date: July 23, 2007

By: /s/ James Windels
James Windels
Treasurer

Date: July 23, 2007

EXHIBIT INDEX

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

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