

DREYFUS STRATEGIC MUNICIPALS INC  
Form N-CSR  
June 01, 2004

**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 811-5245

**DREYFUS STRATEGIC MUNICIPALS, INC.**  
(Exact name of Registrant as specified in charter)

c/o The Dreyfus Corporation  
200 Park Avenue  
New York, New York 10166  
(Address of principal executive offices) (Zip code)

Mark N. Jacobs, Esq.  
200 Park Avenue  
New York, New York 10166  
(Name and address of agent for service)

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

Date of fiscal year end: 9/30

Date of reporting period: 3/31/04  
SSL-DOCS2 70128344v10

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**FORM N-CSR**

**Item 1. Reports to Stockholders.**

# Dreyfus Strategic Municipals, Inc.

**SEMIANNUAL REPORT** March 31, 2004

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**Dreyfus Strategic Municipals, Inc.**

**Protecting Your Privacy Our Pledge to You**

**THE FUND IS COMMITTED TO YOUR PRIVACY.** On this page, you will find the Fund's policies and practices for collecting, disclosing, and safeguarding nonpublic personal information, which may include financial or other customer information. These policies apply to individuals who purchase Fund shares for personal, family, or

household purposes, or have done so in the past. This notification replaces all previous statements of the Fund's consumer privacy policy, and may be amended at any time. We'll keep you informed of changes as required by law.

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

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

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

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

**THE FUND DOES NOT SHARE NONPUBLIC PERSONAL INFORMATION WITH ANYONE, EXCEPT AS PERMITTED BY LAW.**

***Thank you for this opportunity to serve you.***

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

Not FDIC-Insured ☐ Not Bank-Guaranteed ☐ May Lose Value

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**Dreyfus Strategic Municipals, Inc.**

# The Fund

## LETTER FROM THE CHAIRMAN

Dear Shareholder:

This semiannual report for Dreyfus Strategic Municipals, Inc. covers the six-month period from October 1, 2003, through March 31, 2004. Inside, you'll find valuable information about how the fund was managed during the reporting period, including a discussion with the fund's portfolio manager, W. Michael Petty.

Municipal bonds generally continued to rally during the reporting period, despite heightened market volatility and the onset of a stronger U.S. economy. Although recovering economies historically have given rise to inflationary pressures, which have tended to hinder returns from the more interest-rate-sensitive areas of the tax-exempt bond market, the current cycle has been different to date. Sluggish job growth has helped forestall potential inflationary factors, and a rising supply of municipal bonds has supported their yields compared to comparable taxable bonds, benefiting performance.

Although our analysts and portfolio managers work hard to identify trends that may move the markets, no one can know with complete certainty what lies ahead for the U.S. economy and the municipal bond market. As always, we encourage you to review your investments regularly with your financial advisor, who may be in the best position to suggest ways to position your portfolio for the opportunities and challenges of today's financial markets.

Thank you for your continued confidence and support.

Sincerely,

Stephen E. Canter

Chairman and Chief Executive Officer The Dreyfus Corporation

April 15, 2004

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## DISCUSSION OF FUND PERFORMANCE

W. Michael Petty, Portfolio Manager

**How did Dreyfus Strategic Municipals, Inc. perform relative to its benchmark?**

For the six-month period ended March 31, 2004, the fund achieved a total return of 6.12%.<sup>1</sup> During the same period, the fund provided income dividends of \$0.3420 per share, which is equal to a distribution rate of 7.13%.<sup>2</sup>

Despite heightened market volatility in a recovering U.S. economy, municipal bonds generally ended the reporting period with prices that were modestly higher than where they began, contributing positively to the fund's total return. However, the fund reduced its dividend during the reporting period, primarily because of the trend over the past several years toward lower yields on securities purchased with the income and principal proceeds from holdings that matured, were sold or were redeemed early by their issuers.

**What is the fund's investment approach?**

The fund's investment objective is to maximize current income exempt from federal income tax to the extent consistent with the preservation of capital. Under normal market conditions, the fund invests at least 80% of its net assets in municipal obligations. Generally, the fund invests at least 50% of its net assets in municipal bonds considered investment-grade or the unrated equivalent as determined by Dreyfus in the case of bonds, and in the two highest-rating categories or the unrated equivalent as determined by Dreyfus in the case of short-term obligations having or deemed to have maturities of less than one year.

To this end, we have constructed the portfolio by seeking income opportunities through analysis of each bond's structure, including paying close attention to each bond's yield, maturity and early redemption features.

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DISCUSSION OF FUND PERFORMANCE *(continued)*

Over time, many of the fund's relatively higher-yielding bonds mature or are redeemed by their issuers, and we generally attempt to replace those bonds with investments consistent with the fund's investment policies. When we believe an opportunity exists, we also may seek to upgrade the portfolio's investments with newly issued bonds that, in our opinion, have better structural or income characteristics than existing holdings.

**What other factors influenced the fund's performance?**

When the reporting period began, stronger than expected economic growth had already sparked a sharp decline in the prices of U.S. fixed-income securities, causing tax-exempt bonds to suffer one of the worst six-week declines in their history during the summer of 2003. Although the bond market subsequently remained volatile as investors' economic expectations changed, municipal bond prices gradually recovered during the reporting period as it became clearer that the labor market remained weak, keeping a lid on potential inflationary pressures and allowing the Federal Reserve Board (the "Fed") to maintain short-term interest rates at historically low levels.

In addition, a strengthening economy was expected to produce better fiscal conditions for many states and municipalities that previously had struggled with budget deficits. The resulting price appreciation of the fund's holdings, combined with competitive levels of income from longstanding core positions, contributed positively to its total return for the reporting period. The fund also benefited from strong performance among its holdings of bonds backed by the states' settlement of litigation with U.S. tobacco companies. Investors' concerns regarding additional litigation eased during the reporting period, helping to support a rebound in the prices of tobacco-backed bonds.

Because of the risk that stronger economic growth might lead to higher interest rates, we sold some of the fund's longer-dated securities during the reporting period and reinvested the proceeds in bonds with a more diverse mix of issuers and maturities, especially within the intermediate-term range. Consistent with this strategy, we gradually

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reduced the fund's average duration — a measure of sensitivity to changing interest rates — in an effort to protect the fund from the full effect of rising interest rates in the event that the Fed implements a tighter monetary policy. Overall, we reduced the fund's average duration from 6.4 years at the start of the reporting period to 5.7 years as of the reporting period's end.

When making new purchases, we generally favored premium-priced bonds that historically have tended to perform well during market declines. We also attempted to maintain the fund's overall credit quality by investing mainly in highly rated bonds, insured securities<sup>3</sup> and bonds backed by the revenues from essential services, such as water facilities and toll roads.

### What is the fund's current strategy?

The U.S. economy reportedly has continued to expand, and economic data released just after the end of the reporting period suggested that new jobs are being created at a faster rate. Accordingly, we have maintained the fund's conservative positioning, including a more diversified portfolio, a focus on premium-priced bonds and a short average duration in the expectation that the Fed's next move, the timing of which is uncertain, is likely to be an increase in short-term interest rates. In our view, these are prudent strategies after the municipal bond market's strong performance over the past several years.

April 15, 2004

- 1 *Total return includes reinvestment of dividends and any capital gains paid, based upon net asset value per share. Past performance is no guarantee of future results. Market price per share, net asset value per share and investment return fluctuate. Income may be subject to state and local taxes, and some income may be subject to the federal alternative minimum tax (AMT) for certain investors. Capital gains, if any, are fully taxable.*
- 2 *Distribution rate per share is based upon dividends per share paid from net investment income during the period, annualized, divided by the market price per share at the end of the period.*
- 3 *Insurance on individual bonds extends to the repayment of principal and the payment of interest in the event of default. It does not extend to the market value of the portfolio securities or the value of the fund's shares.*

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## STATEMENT OF INVESTMENTS

March 31, 2004 (Unaudited)

| Long-Term Municipal Investments — 146.5% | Principal<br>Amount (\$) | Value (\$) |
|--|--------------------------|------------|
| <b>Alabama — 5.4%</b>                    |                          |            |
| Houston County Health Care Authority     |                          |            |
| 6.25%, 10/1/2030 (Insured; AMBAC)        | 8,000,000                | 9,216,640  |
| Jefferson County, Sewer Revenue:         |                          |            |
| 5.25%, 2/1/2023 (Insured; FGIC)          |                          |            |
| (Prerefunded 8/1/2012)                   | 5,000,000                | 5,735,300  |
| 5%, 2/1/2041 (Insured; FGIC)             |                          |            |
| (Prerefunded 8/1/2012)                   | 2,385,000                | 2,675,803  |
| 5%, 2/1/2041 (Insured; FGIC)             |                          |            |
| (Prerefunded 8/1/2012)                   | 11,750,000               | 13,264,810 |
| <b>Alaska — .7%</b>                      |                          |            |
| Alaska Housing Finance Corp.             |                          |            |

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|   |            |     |            |
|---|------------|-----|------------|
| 6%, 6/1/2049 (Insured; MBIA)  | 4,000,000  |     | 4,212,720  |
| <b>Arkansas</b> 2.6%  |            |     |            |
| Arkansas Development Finance Authority, SFMR<br>(Mortgage Backed Securities Program):                                   |            |     |            |
| 6.45%, 7/1/2031 (Guaranteed; GNMA, FNMA)  | 3,695,000  |     | 3,964,107  |
| 6.25%, 1/1/2032 (Guaranteed; GNMA)  | 4,190,000  |     | 4,480,535  |
| Little Rock School District   |            |     |            |
| 5.25%, 2/1/2030 (Insured; FSA)  | 6,000,000  |     | 6,375,540  |
| <b>Arizona</b> 5.2%   |            |     |            |
| Maricopa Pollution Control Corp., PCR<br>(Public Service Co.) 5.75%, 11/1/2022  |            |     |            |
|   | 6,000,000  |     | 6,114,420  |
| Pima County Industrial Development<br>Authority, Industrial Revenue (Tucson<br>Electric Power Co. Project) 6%, 9/1/2029 |            |     |            |
|   | 13,505,000 |     | 13,218,289 |
| Scottsdale Industrial Development Authority, HR<br>(Scottsdale Healthcare) 5.80%, 12/1/2031                             |            |     |            |
|   | 6,000,000  |     | 6,394,620  |
| Tucson, Water System Revenue  |            |     |            |
| 5%, 7/1/2021 (Insured; FGIC)  | 3,500,000  |     | 3,699,570  |
| <b>California</b> 8.8%  |            |     |            |
| California Infrastructure and<br>Economic Development Bank,<br>Revenue (Bay Area Toll Bridges)                          |            |     |            |
| 5.25%, 7/1/2017 (Insured; FSA)  | 12,360,000 |     | 13,792,030 |
| State of California   |            |     |            |
| 9.416%, 12/1/2018 (Insured; FSA)  | 10,000,000 | b,c | 10,330,800 |
| California Department of Water Resources,<br>Power Supply Revenue   |            |     |            |
| 5.50%, 5/1/2013 (Insured; AMBAC)  | 11,080,000 |     | 12,752,415 |
| Golden Tobacco Securitization Corp., Tobacco<br>Settlement Revenue 7.875%, 6/1/2042                                     |            |     |            |
|   | 2,000,000  |     | 2,208,500  |

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| <b>Long-Term Municipal Investments (continued)</b>                                      | Principal<br>Amount (\$) |   | Value (\$) |
|---|--------------------------|---|------------|
| <b>California (continued)</b>   |                          |   |            |
| Los Angeles Unified School District   |                          |   |            |
| 5.25%, 7/1/2020 (Insured; FSA)  | 7,200,000                |   | 7,904,304  |
| Oakland 5%, 1/15/2026 (Insured; MBIA)   | 2,990,000                |   | 3,120,514  |
| <b>Colorado</b> 2.3%  |                          |   |            |
| Denver City and County, Special Facilities<br>Airport Revenue (United Airlines Project) |                          |   |            |
| 6.875%, 10/1/2032   | 6,950,000                | d | 5,699,000  |
| Northwest Parkway Public Highway Authority,<br>Revenue 7.125%, 6/15/2041                |                          |   |            |
|   | 6,750,000                |   | 7,119,158  |
| <b>Connecticut</b> 2.0%   |                          |   |            |
| Connecticut, Special Tax Obligation, Revenue  |                          |   |            |
| 5.375%, 10/1/2011 (Insured; FSA)  | 10,000,000               |   | 11,606,400 |
| <b>Delaware</b> 1.3%  |                          |   |            |
| Delaware Transportation Authority,  |                          |   |            |

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|   |            |   |            |
|---|------------|---|------------|
| Transportation System Revenue<br>5%, 7/1/2019 (Insured; AMBAC)  | 6,865,000  |   | 7,352,415  |
| <b>Florida 2.7%</b>   |            |   |            |
| Florida Housing Finance Corp., Housing<br>Revenue (Nelson Park Apartments)<br>6.40%, 3/1/2040 (Insured; FSA)                  | 12,380,000 |   | 13,375,847 |
| Orange County Health Facility Authority, HR<br>(Regional Healthcare Systems) 6%, 10/1/2026                                    | 2,000,000  |   | 2,114,820  |
| <b>Georgia 0.9%</b>   |            |   |            |
| Brooks County Development Authority, Sewer<br>Revenue Health and Housing Facilities<br>5.70%, 1/20/2039 (Insured; GNMA)       | 4,445,000  |   | 4,812,913  |
| <b>Hawaii 0.6%</b>  |            |   |            |
| Hawaii Department of Transportation,<br>Special Facility Revenue (Caterair<br>International Corp. Project) 10.125%, 12/1/2010 | 3,400,000  |   | 3,401,326  |
| <b>Idaho 0.6%</b>   |            |   |            |
| Power County Industrial Development<br>Corp, SWDR (FMC Corp. Project)<br>6.45%, 8/1/2032                                      | 3,250,000  |   | 3,264,690  |
| <b>Illinois 7.3%</b>  |            |   |            |
| Chicago:<br>6.125%, 1/1/2028 (Insured; FGIC)<br>(Wastewater Transmission Revenue)   | 15,815,000 |   | 18,545,460 |
| 6%, 1/1/2030 (Insured; MBIA)<br>(Prerefunded 1/1/2010)  | 3,000,000  | a | 3,548,670  |

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STATEMENT OF INVESTMENTS (Unaudited) (continued)

| <b>Long-Term Municipal Investments (continued)</b>  | Principal<br>Amount (\$) |   | Value (\$) |
|---|--------------------------|---|------------|
| <b>Illinois (continued)</b>   |                          |   |            |
| Chicago-O'Hare International Airport,<br>Special Facility Revenue (United Airlines,<br>Inc. Project) 6.75%, 11/1/2011 | 2,000,000                | d | 682,500    |
| Illinois Health Facilities Authority, Revenue:<br>(Advocate Network Health Care)<br>6.125%, 11/15/2022                | 4,020,000                |   | 4,481,536  |
| (OSF Healthcare System)<br>6.25%, 11/15/2029  | 7,730,000                |   | 8,258,500  |
| (Swedish American Hospital)<br>6.875%, 11/15/2030   | 4,985,000                |   | 5,570,638  |
| <b>Indiana 3.5%</b>   |                          |   |            |
| Franklin Township Independent School<br>Building Corp., First Mortgage 6.125%,<br>1/15/2022 (Prerefunded 7/15/2010)   | 6,500,000                | a | 7,850,050  |
| Indiana Housing Finance Authority,<br>SFMR 5.95%, 1/1/2029  | 1,980,000                |   | 2,063,081  |

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|  |            |            |
|--|------------|------------|
| Indianapolis Local Public Improvement Bond Bank<br>(Waterworks Project) 5.25%, 7/1/2033                                    | 5,000,000  | 5,278,650  |
| Petersburg, PCR 6.37%, 11/1/2029   | 4,150,000  | 4,398,295  |
| <b>Kansas</b> 4.8%   |            |            |
| Kansas Development Finance Authority, Revenue:<br>(Board of Regents-Scientific Resource)<br>5%, 10/1/2021 (Insured; AMBAC) | 5,290,000  | 5,687,596  |
| Health Facility (Sisters of Charity)<br>6.25%, 12/1/2028   | 3,000,000  | 3,379,500  |
| Wyandotte County (Kansas University School<br>District No. 500) 5.25%, 9/1/2015 (Insured; FSA)                             | 6,455,000  | 7,366,188  |
| Wichita, HR (Christian Health System Inc.)<br>6.25%, 11/15/2024  | 10,000,000 | 10,873,100 |
| <b>Louisiana</b> 2.2%  |            |            |
| Parish of Saint James, SWDR (Freeport-McMoRan<br>Partnership Project) 7.70%, 10/1/2022                                     | 1,390,000  | 1,395,004  |
| <b>Maine</b> 6.6%  |            |            |
| Maine Housing Authority, Mortgage<br>5.30%, 11/15/2023   | 3,335,000  | 3,502,082  |
| <b>Maryland</b> 1.5%   |            |            |
| Maryland Economic Development Corp., Student<br>Housing Revenue (University of Maryland):<br>6.50%, 6/1/2027               | 3,000,000  | 3,280,110  |
| 5.75%, 10/1/2033   | 5,000,000  | 5,136,200  |

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| Long-Term Municipal Investments (continued)   | Principal<br>Amount (\$) |   | Value (\$) |
|---|--------------------------|---|------------|
| <b>Massachusetts</b> 4.9%   |                          |   |            |
| Massachusetts Industrial Finance Agency, Revenue<br>(Ogden Haverhill Project) 5.60%, 12/1/2019                          | 6,000,000                |   | 5,849,940  |
| Massachusetts, Special Obligation Revenue,<br>Federal Highway Grant Anticipation Notes<br>5%, 12/15/2014 (Insured; FSA) | 10,000,000               |   | 11,191,700 |
| Massachusetts Health and Educational<br>Facilities Authority, Revenue:<br>(Civic Investments) 9%, 12/15/2015            | 2,000,000                |   | 2,339,320  |
| (Beth Israel Hospital Issue)<br>10.732%, 7/1/2025 (Insured; AMBAC)  | 3,000,000                | b | 3,057,480  |
| (Partners Healthcare System)<br>5.75%, 7/1/2032   | 5,000,000                |   | 5,394,650  |
| <b>Michigan</b> 5.6%  |                          |   |            |
| Michigan Hospital Finance Authority, HR:<br>(Ascension Health Credit)<br>6.125%, 11/15/2026                             |                          |   |            |
| (Prerefunded 11/15/2009)  | 5,000,000                | a | 5,973,950  |
| (Crittenton Hospital) 5.625%, 3/1/2027  | 2,000,000                |   | 2,099,960  |
| (Genesys Health System Obligated Group)   |                          |   |            |



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|  |            |   |           |
|--|------------|---|-----------|
| 8.125%, 10/1/2021<br>(Prerefunded 10/1/2005)       | 5,000,000  | a | 5,609,000 |
| Michigan State Building Authority, Revenue         |            |   |           |
| 5.25%, 10/15/2013 (Insured; FSA)                   | 3,050,000  |   | 3,505,272 |
| Michigan Strategic Fund:                           |            |   |           |
| Limited Obligation Revenue                         |            |   |           |
| (NSF International Project) 5%, 8/1/2015           | 2,000,000  |   | 2,129,540 |
| Resource Recovery (Detroit Edison Co.)             |            |   |           |
| 5.25%, 12/15/2032                                  | 3,000,000  |   | 3,133,110 |
| SWDR (Genesee Power Station Project)               |            |   |           |
| 7.50%, 1/1/2021                                    | 11,040,000 |   | 9,504,336 |
| <b>Minnesota</b> 1.5%                              |            |   |           |
| Duluth Economic Development Authority,             |            |   |           |
| Health Care Facilities Revenue                     |            |   |           |
| (Saint Luke's Hospital)                            |            |   |           |
| 7.25%, 6/15/2032                                   | 5,000,000  |   | 5,285,850 |
| Saint Paul Port Authority, Hotel Facility, Revenue |            |   |           |
| (Radisson Kellogg Project) 7.375%, 8/1/2029        | 3,000,000  |   | 3,064,470 |
| <b>Mississippi</b> 3.3%                            |            |   |           |
| Claiborne County, PCR                              |            |   |           |
| (System Energy Resources, Inc.)                    |            |   |           |
| 6.20%, 2/1/2026                                    | 4,545,000  |   | 4,556,317 |

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STATEMENT OF INVESTMENTS (Unaudited) (continued)

| <b>Long-Term Municipal Investments (continued)</b>    | Principal<br>Amount (\$) | Value (\$) |
|---|--------------------------|------------|
| <b>Mississippi (continued)</b>                        |                          |            |
| Mississippi Business Finance Corp., PCR               |                          |            |
| (System Energy Resources Inc. Project)                |                          |            |
| 5.875%, 4/1/2022                                      | 14,310,000               | 14,519,212 |
| <b>Missouri</b> 3.1%                                  |                          |            |
| Missouri Health and Educational Facilities Authority, |                          |            |
| Health Facilities Revenue (Saint Anthony's            |                          |            |
| Medical Center) 6.25%, 12/1/2030                      | 6,750,000                | 7,241,603  |
| Missouri Development Finance Board,                   |                          |            |
| Infrastructure Facilities Revenue (Branson):          |                          |            |
| 5.375%, 12/1/2027                                     | 2,000,000                | 2,058,460  |
| 5.50%, 12/1/2032                                      | 4,500,000                | 4,654,755  |
| Saint Louis Industrial Development                    |                          |            |
| Authority, Revenue (Saint Louis                       |                          |            |
| Convention Center) 7.25%, 12/15/2035                  | 3,525,000                | 3,369,230  |
| <b>Montana</b> 0.7%                                   |                          |            |
| Montana Board of Housing, Single                      |                          |            |
| Family Mortgage 6.45%, 6/1/2029                       | 3,465,000                | 3,715,970  |
| <b>Nevada</b> 2.5%                                    |                          |            |
| Washoe County (Reno-Sparks Convention                 |                          |            |
| Center) 6.40%, 7/1/2029                               |                          |            |

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|   |            |   |            |
|---|------------|---|------------|
| (Insured; FSA) (Prerefunded 1/1/2010)               | 12,000,000 | a | 14,317,680 |
| <b>New Hampshire</b> 2.7%                           |            |   |            |
| New Hampshire Business Finance Authority, PCR       |            |   |            |
| (Public Service Co. of New Hampshire)               |            |   |            |
| 6%, 5/1/2021 (Insured; AMBAC)                       | 7,000,000  |   | 7,872,060  |
| New Hampshire Health and Educational                |            |   |            |
| Facilities Authority, Revenue (Exeter Project):     |            |   |            |
| 6%, 10/1/2024                                       | 1,000,000  |   | 1,075,630  |
| 5.75%, 10/1/2031                                    | 1,000,000  |   | 1,054,940  |
| New Hampshire Industrial Development Authority, PCR |            |   |            |
| (Connecticut Light and Power) 5.90%, 11/1/2016      | 5,000,000  |   | 5,172,700  |
| <b>New Jersey</b> 6.2%                              |            |   |            |
| New Jersey Transportation Trust Fund Authority,     |            |   |            |
| Transportation System 5.50%, 6/15/2017              | 9,000,000  |   | 10,167,390 |
| New Jersey Health Facilities Financing Authority,   |            |   |            |
| Revenue (Christian Health Care Center)              |            |   |            |
| 8.75%, 7/1/2018 (Prerefunded 7/1/2006)              | 13,740,000 | a | 15,940,598 |
| Tobacco Settlement Financing Corp.:                 |            |   |            |
| 6.75%, 6/1/2039                                     | 5,000,000  |   | 4,949,600  |
| 7%, 6/1/2041  | 4,000,000  |   | 4,065,640  |

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| Long-Term Municipal Investments (continued)        | Principal<br>Amount (\$) |     | Value (\$) |
|--|--------------------------|-----|------------|
| <b>New Mexico</b> 1.7%                             |                          |     |            |
| Farmington, PCR:                                   |                          |     |            |
| (El Paso Electric Co. Project)                     |                          |     |            |
| 6.375%, 6/1/2032                                   | 5,370,000                |     | 5,603,810  |
| (Tucson Electric Power Co., San Juan)              |                          |     |            |
| 6.95%, 10/1/2020                                   | 4,000,000                |     | 4,236,760  |
| <b>New York</b> 10.3%                              |                          |     |            |
| Long Island Power Authority, New York              |                          |     |            |
| Electric System Revenue                            |                          |     |            |
| 8.999%, 12/1/2016                                  | 10,000,000               | b,c | 11,951,000 |
| City of New York:                                  |                          |     |            |
| 5%, 8/1/2008                                       | 8,535,000                |     | 9,374,929  |
| 5.75%, 8/1/2011 (Insured; MBIA)                    | 8,465,000                |     | 9,896,347  |
| 5.75%, 8/1/2014                                    | 9,500,000                |     | 10,754,760 |
| New York City Municipal Water Finance              |                          |     |            |
| Authority, Water and Sewer System                  |                          |     |            |
| Revenue 5.125%, 6/15/2032                          | 5,000,000                |     | 5,213,600  |
| Tobacco Settlement Financing Corp.                 |                          |     |            |
| 5.25%, 6/1/2021 (Insured; AMBAC)                   | 5,000,000                |     | 5,453,350  |
| Triborough Bridge and Tunnel Authority, Revenue    |                          |     |            |
| 5.25%, 11/15/2030                                  | 5,220,000                |     | 5,558,413  |
| <b>North Carolina</b> 1.0%                         |                          |     |            |
| University of North Carolina, System Pool Revenue: |                          |     |            |
| 5%, 4/1/2014 (Insured; AMBAC)                      | 2,430,000                |     | 2,716,303  |

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|  |            |            |
|--|------------|------------|
| 5%, 4/1/2015 (Insured; AMBAC)  | 2,535,000  | 2,806,803  |
| <b>North Dakota</b> 1.0%   |            |            |
| North Dakota Housing Finance Agency,<br>Home Mortgage Revenue<br>(Housing Finance Program):    |            |            |
| 6.50%, 1/1/2031  | 2,845,000  | 3,055,587  |
| 6.15%, 7/1/2031  | 2,265,000  | 2,408,873  |
| <b>Ohio</b> 6.9%   |            |            |
| Cincinnati City School District (Classroom<br>Facilities Construction and Improvement)         |            |            |
| 5.25%, 12/1/2013 (Insured; FSA)  | 10,000,000 | 11,538,700 |
| Cincinnati, Water System Revenue:  |            |            |
| 5%, 12/1/2021  | 3,800,000  | 3,991,748  |
| 5%, 12/1/2023  | 3,000,000  | 3,105,720  |
| Cuyahoga County, Revenue 6%, 1/1/2032  | 2,000,000  | 2,168,840  |
| Mahoning County, Hospital Facilities Revenue<br>(Forum Health Obligation Group) 6%, 11/15/2032 |            |            |
|  | 7,000,000  | 7,493,710  |

The Fund 11

STATEMENT OF INVESTMENTS (Unaudited) (continued)

| <b>Long-Term Municipal Investments (continued)</b>  | Principal<br>Amount (\$) | Value (\$) |
|---|--------------------------|------------|
| <b>Ohio (continued)</b>   |                          |            |
| Ohio Air Quality Development Authority, PCR<br>(Cleveland Electric Illuminating)  |                          |            |
| 6.10%, 8/1/2020 (Insured; ACA)  | 3,000,000                | 3,182,520  |
| Ohio Housing Finance Agency,<br>Residential Mortgage Revenue:   |                          |            |
| 6.25%, 9/1/2020 (Collateralized; GNMA)  | 225,000                  | 228,582    |
| 6.35%, 9/1/2031 (Collateralized; GNMA)  | 220,000                  | 223,573    |
| Ohio Municipal Electric Generation Agency   |                          |            |
| 5%, 2/15/2022 (Insured; AMBAC)  | 2,500,000                | 2,640,475  |
| Ohio Water Development Authority, Pollution Control<br>Facilities Revenue (Cleveland Electric<br>Illuminating) 6.10%, 8/1/2020 (Insured; ACA) |                          |            |
|   | 4,350,000                | 4,614,654  |
| <b>Oklahoma</b> 2.4%  |                          |            |
| Oklahoma Industries Authority (Health<br>System Obligated Group) 5.75%, 8/15/2029   |                          |            |
|   | 12,230,000               | 13,608,810 |
| <b>Oregon</b> 3.1%  |                          |            |
| Port of Portland, International Airport Revenue<br>(Portland International Airport)   |                          |            |
| 5.50%, 7/1/2024 (Insured; AMBAC)  | 5,000,000                | 5,400,400  |
| Tigard Tualatin School District No. 23  |                          |            |
| 5.375%, 6/15/2019 (Insured; MBIA)   | 3,000,000                | 3,315,540  |
| Western Generation Agency, Cogeneration<br>Project Revenue (Wauna Cogeneration Project):  |                          |            |
| 7.40%, 1/1/2016   | 5,750,000                | 5,879,661  |
| 7.125%, 1/1/2021  | 2,900,000                | 2,953,331  |

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**Pennsylvania 0.8%**

|  |           |           |
|--|-----------|-----------|
| York County Hospital Authority, Revenue<br>(Health Center Lutheran Social<br>Services) 6.50%, 4/1/2022 | 4,250,000 | 4,256,503 |
|--|-----------|-----------|

**South Carolina 6.6%**

|   |            |            |
|---|------------|------------|
| Berkeley County School District, Installment<br>LR (Securing Assets for Education)<br>5.25%, 12/1/2024                            | 6,000,000  | 6,203,640  |
| Greenville Hospital System, Hospital Facilities<br>Revenue 5.50%, 5/1/2026 (Insured; AMBAC)                                       | 5,000,000  | 5,379,200  |
| Greenville County School District,<br>Installment Purchase Revenue<br>(Building Equity Sooner for Tomorrow):<br>5.875%, 12/1/2016 | 6,000,000  | 6,819,120  |
| 5.50%, 12/1/2028  | 16,125,000 | 17,053,961 |

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| <b>Long-Term Municipal Investments (continued)</b>  | Principal<br>Amount (\$) | Value (\$)  |
|---|--------------------------|-------------|
| <b>South Carolina (continued)</b>   |                          |             |
| Piedmont Municipal Power Agency,<br>Electric Revenue 6.55%, 1/1/2016  | 1,690,000                | 1,741,376   |
| <b>Tennessee 4.1%</b>   |                          |             |
| Johnson City Health and Educational<br>Facilities Board, HR 7.50%, 7/1/2025   | 5,000,000                | 5,800,450   |
| Memphis Center City Revenue Finance Corp.,<br>Tennessee Sports Facility Revenue<br>(Memphis Redbirds) 6.50%, 9/1/2028   | 10,000,000               | 10,240,500  |
| Tennessee Housing Development Agency<br>(Homeownership Program) 6.40%, 7/1/2031   | 6,520,000                | 7,121,014   |
| <b>Texas 10.7%</b>  |                          |             |
| Austin Convention Enterprises Inc.,<br>Convention Center Hotel Revenue:<br>5.75%, 1/1/2016                              | 5,200,000                | 5,594,732   |
| 6.70%, 1/1/2028   | 4,000,000                | 4,270,640   |
| 5.75%, 1/1/2032   | 6,500,000                | 6,755,060   |
| Harris County Health Facilities Development<br>Corp., HR (Memorial Hermann Hospital<br>System Project) 6.375%, 6/1/2029 | 8,500,000                | 9,662,545   |
| Houston Airport System, Special Facilities Revenue<br>(Continental Airlines) 7%, 7/1/2029                               | 3,800,000                | 3,309,116   |
| Sabine River Authority, PCR (TXU Electric<br>Co. Project) 6.45%, 6/1/2021   | 8,300,000                | 8,720,976   |
| Sam Rayburn Municipal Power Agency, Power Supply<br>System Revenue 5.75%, 10/1/2021                                     | 6,000,000                | 6,575,940   |
| Texas Department of Housing and Community<br>Affairs, Collateralized Home Mortgage<br>Revenue 12.502%, 7/2/2024         | 2,400,000                | b 2,570,280 |

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|   |           |           |
|---|-----------|-----------|
| Texas Turnpike Authority, Central Texas         |           |           |
| Turnpike System Revenue                         |           |           |
| 5.75%, 8/15/2038 (Insured; AMBAC)               | 7,100,000 | 7,884,479 |
| Tomball Hospital Authority, HR (Tomball         |           |           |
| Regional Hospital) 6%, 7/1/2029                 | 2,400,000 | 2,464,224 |
| Tyler Health Facilities Development Corp., HR   |           |           |
| (East Texas Medical Center Regional Health Care |           |           |
| System Project) 6.75%, 11/1/2025                | 3,000,000 | 3,005,550 |
| <b>Utah 0.7%</b>                                |           |           |
| Carbon County, SWDR (Sunnyside                  |           |           |
| Cogeneration) 7.10%, 8/15/2023                  | 4,331,000 | 4,052,127 |

The Fund 13

STATEMENT OF INVESTMENTS (Unaudited) (continued)

| <b>Long-Term Municipal Investments (continued)</b>     | Principal<br>Amount (\$) | Value (\$) |
|--|--------------------------|------------|
| <b>Vermont 0.6%</b>                                    |                          |            |
| Vermont Housing Finance Agency,                        |                          |            |
| Single Family Housing                                  |                          |            |
| 6.40%, 11/1/2030 (Insured; FSA)                        | 3,175,000                | 3,246,374  |
| <b>Virginia 2.1%</b>                                   |                          |            |
| Greater Richmond Convention Center                     |                          |            |
| Authority, Hotel Tax Revenue (Convention               |                          |            |
| Center Expansion Project) 6.25%, 6/15/2032             | 10,500,000               | 11,896,815 |
| <b>Washington 3.3%</b>                                 |                          |            |
| Energy Northwest, Wind Project                         |                          |            |
| Revenue 5.875%, 7/1/2020                               | 3,000,000                | 3,208,050  |
| Public Utility District No. 1 of Pend Orielle County,  |                          |            |
| Electric Revenue 6.375%, 1/1/2015                      | 3,755,000                | 3,948,871  |
| Seattle, Water System Revenue                          |                          |            |
| 6%, 7/1/2029 (Insured; FGIC)                           | 10,000,000               | 11,469,200 |
| <b>West Virginia 3.1%</b>                              |                          |            |
| Braxton County, SWDR (Weyerhaeuser Co.                 |                          |            |
| Project) 6.125%, 4/1/2026                              | 14,000,000               | 14,646,240 |
| West Virginia Water Development Authority, Water       |                          |            |
| Development Revenue 6.375%, 7/1/2039                   | 2,250,000                | 2,602,890  |
| <b>Wisconsin 5.1%</b>                                  |                          |            |
| Badger Tobacco Asset Securitization Corp.,             |                          |            |
| Tobacco Settlement Revenue 7%, 6/1/2028                | 24,000,000               | 24,346,320 |
| Wisconsin Health and Educational Facilities Authority, |                          |            |
| Health, Hospital and Nursing Home Revenue              |                          |            |
| (Aurora Health Care Inc.) 6.40%, 4/15/2033             | 4,000,000                | 4,311,760  |
| <b>U. S. Related 1.5%</b>                              |                          |            |
| Guam Housing Corp., SFMR                               |                          |            |
| 5.75%, 9/1/2031 (Collateralized; FHLMC)                | 965,000                  | 1,108,775  |
| Puerto Rico Highway and Transportation                 |                          |            |
| Authority, Transportation Revenue 6%,                  |                          |            |
| 7/1/2039 (Prerefunded 7/1/2010)                        | 6,000,000                | 7,207,080  |

**Total Long-Term Municipal Investments**

(cost \$776,586,867) **829,225,616**

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| <b>Short-Term Investments</b> | Principal<br>Amount (\$) | e | Value (\$) |
|-------------------------------|--------------------------|---|------------|
|-------------------------------|--------------------------|---|------------|

**Alaska** 0.5%

|   |           |   |           |
|---|-----------|---|-----------|
| Valdez, Marine Terminal Revenue, VRDN (Exxon Pipeline Co. Project) 1% | 3,050,000 | e | 3,050,000 |
|---|-----------|---|-----------|

**California** 0.1%

|   |         |   |         |
|---|---------|---|---------|
| California Department of Water Resources Power Supply Revenue, VRDN 1.12% (LOC; Bank of New York) | 700,000 | e | 700,000 |
|---|---------|---|---------|

**Loiusiana** 0.9%

|  |         |   |           |
|--|---------|---|-----------|
| East Baton Rouge Parish, PCR, VRDN (Exxon Project) 1.10% | 500,000 | e | 5,000,000 |
|--|---------|---|-----------|

**Total Short-Term Municipal Investments**

|                     |  |  |                  |
|---------------------|--|--|------------------|
| (cost \$ 8,750,000) |  |  | <b>8,750,000</b> |
|---------------------|--|--|------------------|

|   |                |  |                      |
|---|----------------|--|----------------------|
| <b>Total Investments</b> (cost \$785,336,867)       | <b>148.0%</b>  |  | <b>837,975,616</b>   |
| <b>Cash and Receivables (Net)</b>                   | <b>2.3%</b>    |  | <b>13,386,025</b>    |
| <b>Preferred Stock, at redemption value</b>         | <b>(50.3%)</b> |  | <b>(285,000,000)</b> |
| <b>Net Assets applicable to Common Shareholders</b> | <b>100.0%</b>  |  | <b>566,361,641</b>   |

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STATEMENT OF INVESTMENTS (Unaudited) (continued)

Summary of Abbreviations

|              |   |             |  |
|--------------|---|-------------|--|
| <b>ACA</b>   | American Capital Access   | <b>HR</b>   | Hospital Revenue   |
| <b>AMBAC</b> | American Municipal Bond   | <b>LOC</b>  | Letter of Credit   |
| <b>FGIC</b>  | Assurance Corporation   | <b>LR</b>   | Lease Revenue  |
| <b>FHLMC</b> | Financial Guaranty Insurance Company                                  | <b>MBIA</b> | Municipal Bond Investors Assurance Insurance Corporation |
| <b>FNMA</b>  | Federal Home Loan Mortgage Corporation                                | <b>PCR</b>  | Pollution Control Revenue                                |
| <b>FSA</b>   | Federal National Mortgage Association                                 | <b>SFMR</b> | Single Family Mortgage Revenue                           |
| <b>GNMA</b>  | Financial Security Assurance Government National Mortgage Association | <b>SWDR</b> | Solid Waste Disposal Revenue                             |
|              |   | <b>VRDN</b> | Variable Rate Demand Notes                               |

Summary of Combined Ratings (Unaudited)

| Fitch | or | Moody's | or | Standard & Poor's | Value (%) |
|-------|----|---------|----|-------------------|-----------|
| AAA   |    | Aaa     |    | AAA               | 40.6      |
| AA    |    | Aa      |    | AA                | 13.3      |
| A     |    | A       |    | A                 | 16.8      |
| BBB   |    | Baa     |    | BBB               | 14.7      |
| BB    |    | Ba      |    | BB                | 5.4       |

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|                        |                        |                        |              |
|------------------------|------------------------|------------------------|--------------|
| B                      | B                      | B                      | .4           |
| CC                     | Ca                     | CC                     | .8           |
| F1                     | MIG1/P1                | SP1/A1                 | 1.0          |
| Not Rated <sup>f</sup> | Not Rated <sup>f</sup> | Not Rated <sup>f</sup> | 7.0          |
|                        |                        |                        | <b>100.0</b> |

a 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 March 31, 2004, these securities amounted to \$22,281,800 or 3.9% of net assets applicable to Common Shareholders.

d Non-income producing security[]interest payment in default.

e Securities payable on demand. Variable rate interest[]subject to periodic change.

f 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.

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STATEMENT OF ASSETS AND LIABILITIES

March 31, 2004 (Unaudited)

|  | Cost        | Value              |
|--|-------------|--------------------|
| <b>Assets (\$):</b>                                      |             |                    |
| Investments in securities[]See Statement of Investments  | 785,336,867 | 837,975,616        |
| Interest receivable                                      |             | 14,132,066         |
| Prepaid expenses   |             | 362,933            |
|  |             | <b>852,470,615</b> |
| <b>Liabilities (\$):</b>                                 |             |                    |
| Due to The Dreyfus Corporation and affiliates[]Note 3(a) |             | 578,810            |
| Cash overdraft due to Custodian                          |             | 2,046              |
| Dividends payable to preferred shareholders              |             | 272,739            |
| Commissions payable                                      |             | 32,500             |
| Administrative service fees                              |             | 2,384              |
| Accrued expenses   |             | 220,495            |
|  |             | <b>1,108,974</b>   |

Auction Preferred Stock, Series M,T,W,Th and F

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par value \$.001 per share (11,400 shares  
 issued and outstanding at \$ 25,000 per share  
 liquidation preference)□Note 1 **285,000,000**

**Net Assets applicable to Common Shareholders (\$)** **566,361,641**

**Composition of Net Assets (\$):**

Common Stock, par value \$.001 per share  
 (60,588,631 shares issued and outstanding) 60,589  
 Paid-in capital 571,183,429  
 Accumulated undistributed investment income□net 2,244,447  
 Accumulated net realized gain (loss) on investments (59,765,573)  
 Accumulated net unrealized appreciation  
 (depreciation) on investments 52,638,749

**Net Assets applicable to Common Shareholders (\$)** **566,361,641**

**Shares Outstanding**

(500 million shares of \$.001 par value Common Stock authorized) 60,588,631

**Net Asset Value per share of Common Stock (\$)** **9.35**

*See notes to financial statements.*

The Fund **17**

**STATEMENT OF OPERATIONS**

Six Months Ended March 31, 2004 (Unaudited)

**Investment Income (\$):**

**Interest Income** **23,058,695**

**Expenses:**

Management fee□Note 3(a) 3,161,318  
 Commission fee□Note 1 361,473  
 Shareholders□ reports 86,571  
 Custodian fees□Note 3(b) 69,622  
 Shareholder servicing costs 69,126  
 Directors□ fees and expenses□Note 3(c) 21,954  
 Registration fees 13,644  
 Professional fees 263  
 Miscellaneous 51,213

**Total Expenses** **3,835,184**

**Investment Income□Net** **19,223,511**

**Realized and Unrealized Gain (Loss) on Investments□Note 4 (\$):**

Net realized gain (loss) on investments (3,197,915)



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|   |                    |
|---|--------------------|
| Net unrealized appreciation (depreciation) on investments     | 19,261,027         |
| <b>Net Realized and Unrealized Gain (Loss) on Investments</b> | <b>16,063,112</b>  |
| <b>Dividends on Preferred Stock</b>                           | <b>(1,860,859)</b> |
| <b>Net Increase in Net Assets Resulting from Operations</b>   | <b>33,425,764</b>  |

See notes to financial statements.

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STATEMENT OF CHANGES IN NET ASSETS

|  | Six Months Ended<br>March 31, 2004<br>(Unaudited) | Year Ended<br>September 30, 2003 |
|--|---|----------------------------------|
| <b>Operations (\$):</b>  |   |                                  |
| Investment income—net  | 19,223,511  | 42,654,878                       |
| Net realized gain (loss) on investments                                    | (3,197,915)                                       | (27,557,602)                     |
| Net unrealized appreciation<br>(depreciation) on investments               | 19,261,027  | 18,445,537                       |
| Dividends on Preferred Stock   | (1,860,859)                                       | (4,235,015)                      |
| <b>Net Increase (Decrease) in Net Assets<br/>Resulting from Operations</b> | <b>33,425,764</b>                                 | <b>29,307,798</b>                |
| <b>Dividends to Common Shareholders from (\$):</b>                         |   |                                  |
| <b>Investment income—net</b>   | <b>(20,639,005)</b>                               | <b>(42,956,922)</b>              |
| <b>Capital Stock Transactions (\$):</b>                                    |   |                                  |
| <b>Dividends reinvested</b>  | <b>3,898,829</b>                                  | <b>8,567,990</b>                 |
| <b>Total Increase (Decrease) in Net Assets</b>                             | <b>16,685,588</b>                                 | <b>(5,081,134)</b>               |
| <b>Net Assets (\$):</b>  |   |                                  |
| Beginning of Period  | 549,676,053                                       | 554,757,187                      |
| <b>End of Period</b>   | <b>566,361,641</b>                                | <b>549,676,053</b>               |
| Undistributed investment income—net  | 2,244,447   | 5,444,760                        |
| <b>Capital Share Transactions (Shares):</b>                                |   |                                  |
| <b>Shares issued for dividends reinvested</b>                              | <b>419,905</b>                                    | <b>934,039</b>                   |

See notes to financial statements.

The Fund 19

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 market price data for the fund's common shares.

|                  |                          |
|------------------|--------------------------|
| Six Months Ended | Year Ended September 30, |
| March 31, 2004   |                          |

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|                                     | (Unaudited)       | 2003  | 2002a | 2001  | 2000  | 1999    |
|-------------------------------------|-------------------|-------|-------|-------|-------|---------|
| <b>Per Share Data (\$):</b>         |                   |       |       |       |       |         |
| Net asset value,                    |                   |       |       |       |       |         |
| beginning of period                 | 9.14              | 9.37  | 9.66  | 9.38  | 9.41  | 10.22   |
| Investment Operations:              |                   |       |       |       |       |         |
| Investment income—net               | .32b              | .71b  | .81b  | .82   | .71   | .56     |
| Net realized and unrealized         |                   |       |       |       |       |         |
| gain (loss) on investments          | .26               | (.15) | (.35) | .18   | .02   | (.80)   |
| Dividends on Preferred Stock        |                   |       |       |       |       |         |
| from net investment income          | (.03)             | (.07) | (.08) | (.16) | (.13) | □       |
| Total from Investment Operations    | .55               | .49   | .38   | .84   | .60   | (.24)   |
| Distributions to                    |                   |       |       |       |       |         |
| Common Shareholders:                |                   |       |       |       |       |         |
| Dividends from investment           |                   |       |       |       |       |         |
| income—net                          | (.34)             | (.72) | (.67) | (.56) | (.55) | (.57)   |
| Dividends from net realized         |                   |       |       |       |       |         |
| gain on investments                 | □                 | □     | □     | □     | (.02) | □       |
| Total Distributions to              |                   |       |       |       |       |         |
| Common Shareholders                 | (.34)             | (.72) | (.67) | (.56) | (.57) | (.57)   |
| Capital Stock transactions,         |                   |       |       |       |       |         |
| net effect of                       |                   |       |       |       |       |         |
| Preferred Stock offerings           | □                 | □     | □     | □     | (.06) | □       |
| Net asset value, end of period      | 9.35              | 9.14  | 9.37  | 9.66  | 9.38  | 9.41    |
| Market value, end of period         | 9.59              | 9.38  | 10.11 | 9.69  | 89/16 | 8       |
| <b>Total Return (%)<sup>c</sup></b> | 6.06 <sup>d</sup> | .33   | 11.89 | 20.22 | 14.76 | (17.55) |

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|                                      | Six Months Ended<br>March 31, 2004 | Year Ended September 30, |       |      |         |         |
|--------------------------------------|------------------------------------|--------------------------|-------|------|---------|---------|
|                                      | (Unaudited)                        | 2003                     | 2002a | 2001 | 2000    | 1999    |
| <b>Ratios/Supplemental Data (%):</b> |                                    |                          |       |      |         |         |
| Ratio of expenses to                 |                                    |                          |       |      |         |         |
| average net assets                   |                                    |                          |       |      |         |         |
| applicable to Common                 | 1.37                               | e,f,g                    | 1.40  | f,g  | 1.38f,g | 1.39    |
| Stock                                |                                    |                          |       |      | f,g     | 1.25f,g |
| Ratio of net investment              |                                    |                          |       |      |         | .84     |
| income                               |                                    |                          |       |      |         |         |
| to average net assets                |                                    |                          |       |      |         |         |
| applicable to Common                 | 6.89                               | e,f,g                    | 7.86  | f,g  | 8.61f,g | 8.49    |
| Stock                                |                                    |                          |       |      | f,g     | 7.91f,g |
| Portfolio Turnover Rate              | 15.98 <sup>d</sup>                 |                          | 54.79 |      | 36.81   | 10.07   |
| Assets coverage of                   |                                    |                          |       |      |         |         |
| Preferred Stock,                     |                                    |                          |       |      |         |         |
| end of period                        | 298                                | 293                      | 294   | 299  | 295     | □       |

Net Assets, net of

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|  |         |         |         |         |         |         |
|--|---------|---------|---------|---------|---------|---------|
| Preferred Stock,<br>end of period (\$ x 1,000)             | 566,362 | 549,676 | 554,757 | 565,725 | 548,939 | 550,755 |
| Preferred Stock outstanding,<br>end of period (\$ x 1,000) | 285,000 | 285,000 | 285,000 | 285,000 | 285,000 | □       |

a As required, effective October 1, 2001, the fund has adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began amortizing discount or premium on a scientific basis for debt securities on a daily basis. The effect of this change for the period ended September 30, 2002 was to increase net investment income per share and decrease net realized and unrealized gain (loss) on investments by less than \$.01 and increase the ratio of net investment income to average net assets from 8.58% to 8.61%. Per share data and ratios/supplemental data for periods prior to October 1, 2001 have not been restated to reflect this change in presentation.

b Based on average shares outstanding at each month end.

c Calculated based on market value.

d Not annualized.

e Annualized.

f Does not reflect the effect of dividends to Preferred Stock shareholders.

g The ratio of expenses to total average net assets, inclusive of the outstanding auction preferred stock, and the ratio of net investment income to total average net assets were .91% and 4.56%, respectively, for the six months ended March 31, 2004, .92% and 5.15%, respectively, for the year ended September 30, 2003, .91% and 5.69%, respectively, for the year ended September 30, 2002, .92% and 5.65%, respectively, for the year ended September 30, 2001 and .92% and 5.79%, respectively, for the year ended September 30, 2000.

See notes to financial statements.

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NOTES TO FINANCIAL STATEMENTS (Unaudited)

**NOTE 1 □ Significant Accounting Policies:**

Dreyfus Strategic Municipals, Inc. (the "fund") is registered under the Investment Company Act of 1940, as amended (the "Act"), as a diversified closed-end management investment company. The fund's investment objective is to maximize current income exempt from federal income tax to the extent consistent with the preservation of capital. The Dreyfus Corporation (the "Manager" or "Dreyfus") serves as the fund's investment adviser. The Manager is a wholly-owned subsidiary of Mellon Financial Corporation ("Mellon Financial"). The fund's Common Stock trades on the New York Stock Exchange under the ticker symbol LEO.

The fund has outstanding 2,280 shares of Series M, Series T, Series W, Series TH and Series F for a total of 11,400 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 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 .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 declaring 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 will vote as a separate class on certain other matters, as required by law. The fund has designated Robin R.

Pringle 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 accounting principles generally accepted in the United States, which may require the use of management estimates and assumptions. Actual results could differ from those estimates.

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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 (excluding options and financial futures on municipal and U.S. Treasury 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 and U.S. Treasury securities are valued at the last sales price 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.

**(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 amortization of discount and 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 Shareholders(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

The Fund 23

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NOTES TO FINANCIAL STATEMENTS (Unaudited) (continued)

declared and paid annually, but the fund may make distributions on a more frequent basis to comply with distribution requirements of the Internal Revenue Code of 1986, as amended (the "Code"). To the 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 accounting principles generally accepted in the United States.

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 the net asset value per share is less than 95% of the market value, share will be issued by the fund at 95% of the market value. If the market price is lower than the net asset value per share on the record date, The Bank of New York 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.

On March 31, 2004, the Board of Directors declared a cash dividend of \$.051 per share from investment income-net, payable on April 29, 2004 to Common Shareholders of record as of the close of business on April 15,

2004.

**(d) Dividends to shareholders of APS:** For APS, dividends are currently reset every 7 days for Series Th. The dividend rate for Series M will be in effect until November 8, 2004. The dividend rate for Series T will be in effect until July 20, 2004. The dividend rate for Series W will be in effect until December 1, 2004. The dividend rate for Series F will be in effect until February 13, 2005. The dividend rates in effect at September 30, 2003 were as follows: Series M-1.40%, Series T-1.07%, Series W-1.34%, Series TH-.80% and Series F-1.64%.

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**(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.

The fund has an unused capital loss carryover of \$30,487,747 available for federal income tax purposes to be applied against future net securities profits, if any, realized subsequent to September 30, 2003. If not applied, \$9,836,505 of the carryover expires in fiscal 2009, \$76,128 expires in fiscal 2010 and \$20,575,114 expires in fiscal 2011.

The tax character of distributions paid to shareholders during the fiscal year ended September 30, 2003 was as follows: tax exempt income \$47,191,937. The tax character of current year distributions will be determined at the end of the current fiscal year.

**NOTE 2 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 borrowings. During the period ended March 31, 2004, the fund did not borrow under the line of credit.

**NOTE 3 Management Fee and Other Transactions With Affiliates:**

**(a)** Pursuant to a management agreement (the "Agreement") with the Manager, the management fee is computed at the annual rate of .75 of 1% of the value of the fund's average weekly net assets, inclusive of the outstanding auction preferred stock, and is payable monthly. The Agreement provides for an expense reimbursement from the Manager should the fund's aggregate expenses, exclusive of taxes, interest on borrowings, brokerage and extraordinary expenses, in any full fiscal year exceed the lesser of (1) the expense limitation of any state having jurisdiction over the fund or (2) 2% of the first \$10 million, 1 1/2 % of

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NOTES TO FINANCIAL STATEMENTS (Unaudited) (continued)

the next \$20 million and 1% of the excess over \$30 million of the average value of the fund's net assets. During the period ended March 31, 2004, there was no expense reimbursement pursuant to the Agreement.

The components of Due to The Dreyfus Corporation and affiliates consists of: advisory fees \$544,140 and custodian fees \$34,670.

**(b)** The fund compensates Boston Safe Deposit and Trust Company, an affiliate of the Manager, under a custody agreement for providing custodial services to the fund. During the period ended March 31, 2004, \$69,622 was charged by Boston Safe Deposit and Trust Company pursuant to the custody agreement.

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

**NOTE 4 Securities Transactions:**

The aggregate amount of purchases and sales of investment securities, excluding short-term securities, during the period ended March 31, 2004, amounted to \$141,840,888 and \$130,876,560, respectively.

At March 31, 2004, accumulated net unrealized appreciation on investments was \$52,638,749, consisting of \$55,047,537 gross unrealized appreciation and \$2,408,788 gross unrealized depreciation.

At March 31, 2004, 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).

**NOTE 5 Legal Matters:**

Two class actions have been filed against Mellon Financial and Mellon Bank, N.A., and Dreyfus and Founders Asset Management LLC (the "Investment Advisers"), and the directors of all or substantially all of the Dreyfus funds, alleging that the Investment Advisers improperly used assets of the Dreyfus funds, in the form of directed brokerage commissions and 12b-1 fees, to pay brokers to promote sales of Dreyfus funds, and that the use of fund assets to make these payments

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was not properly disclosed to investors. The complaints further allege that the directors breached their fiduciary duties to fund shareholders under the Investment Company Act of 1940 and at common law. The complaints seek unspecified compensatory and punitive damages, rescission of the funds' contracts with the Investment Advisers, an accounting of all fees paid, and an award of attorneys' fees and litigation expenses. Dreyfus and the Dreyfus funds believe the allegations to be totally without merit and will defend the actions vigorously.

Additional lawsuits arising out of these circumstances and presenting similar allegations and requests for relief may be filed against the defendants in the future. Neither Dreyfus nor the Dreyfus funds believe that any of the pending actions will have a material adverse affect on the Dreyfus funds or Dreyfus' ability to perform its contracts with the Dreyfus funds.

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NOTES

**OFFICERS AND DIRECTORS**

Dreyfus Strategic Municipals, Inc.  
200 Park Avenue  
New York, NY 10166

**Directors**

Joseph S. DiMartino  
David W. Burke  
William Hodding Carter, III  
Ehud Houminer  
Richard C. Leone

Hans C. Mautner  
Robin A. Pringle\*  
John E. Zuccotti\*

\* Auction Preferred Stock Directors

**Portfolio Managers (continued)**

Joseph A. Irace  
Colleen A. Meehan  
W. Michael Petty  
Scott Sprauer  
James Welch  
Monica S. Wieboldt

**Investment Adviser**

The Dreyfus Corporation

**Officers**

President

Stephen E. Canter

Vice President

Mark N. Jacobs

Executive Vice Presidents

Stephen Byers

A. Paul Disdier

Secretary

John B. Hammalian

Assistant Secretaries

Steven F. Newman

Michael A. Rosenberg

Treasurer

James Windels

Assistant Treasurers

Gregory S. Gruber

Kenneth J. Sandgren

Anti-Money Laundering Compliance

Officer

William Germenis

**Portfolio Managers:**

Joseph P. Darcy

A. Paul Disdier

Douglas J. Gaylor

*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 Bond Funds" every Monday; New York Times, Business section under the heading "Closed-End Bond Funds/National Municipal Bond Funds" every Sunday.*

*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.*

**Custodian**

Boston Safe Deposit  
and Trust Company

**Counsel**

Stroock & Stroock & Lavan LLP

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

The Bank of New York (Common Stock)  
Deutsche Bank Trust Company America  
(Auction Preferred Stock)

**Auction Agent**

Deutsche Bank Trust Company America  
(Auction Preferred Stock)

**Stock Exchange Listing**

NYSE Symbol: LEO

**Initial SEC Effective Date**

9/23/87

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## For More Information

**Dreyfus Strategic  
Municipals, Inc.**

200 Park Avenue  
New York, NY 10166

**Manager**

The Dreyfus Corporation  
200 Park Avenue  
New York, NY 10166

**Custodian**

Boston Safe Deposit and

Trust Company  
One Boston Place  
Boston, MA 02108

**Transfer Agent &  
Dividend Disbursing Agent  
and Registrar  
(Common Stock)**

The Bank of New York  
100 Church Street  
New York, NY 10286  
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**Item 2. Code of Ethics.**

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

**Item 6. [Reserved]**

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

**Investment Companies.**

Not applicable.

**Item 8. Purchases of Equity Securities by Closed-End Management Investment Companies and  
Affiliated Purchasers.**

Not applicable.

**Item 9. Submission of Matters to a Vote of Security Holders.**

The Fund has a Nominating Committee, which is responsible for selecting and nominating persons for election or appointment by the Fund'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 Fund, c/o The Dreyfus Corporation Legal Department, 200 Park Avenue, 8<sup>th</sup> Floor West, 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 Fund 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

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information must be provided regarding the recommended nominee as reasonably requested by the Committee.

**Item 10. 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 Registrant's most recently ended fiscal half-year that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

**Item 11. Exhibits.**

(a)(1) Not applicable.

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

(a)(3) Not applicable.

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

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**SIGNATURES**

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

**DREYFUS STRATEGIC MUNICIPALS, INC.**

By: /s/ Stephen E. Canter  
Stephen E. Canter  
President

Date: May 27, 2004

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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/ Stephen E. Canter  
Stephen E. Canter  
Chief Executive Officer

Date: May 27, 2004

By: /s/ James Windels  
James Windels  
Chief Financial Officer

Date: May 27, 2004

**EXHIBIT INDEX**

(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. (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)

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