

DREYFUS STRATEGIC MUNICIPALS INC
Form N-CSR
November 30, 2009

**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)

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: 09/30

Date of reporting period: 09/30/09

FORM N-CSR

Item 1. Reports to Stockholders.

Dreyfus Strategic Municipals, Inc.

ANNUAL REPORT September 30, 2009

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Dreyfus
Strategic Municipals, Inc.

The Fund

A LETTER FROM THE CHAIRMAN AND CEO

Dear Shareholder:

We are pleased to present this annual report for Dreyfus Strategic Municipals, Inc. covering the 12-month period from October 1, 2008, through September 30, 2009.

While the end of the recession will not be officially declared over for months, evidence suggests that the economy has turned a corner. Along with favorable supply-and-demand factors and stimulus from the U.S government's American Recovery and Reinvestment Act of 2009, municipal bonds have enjoyed an impressive rally since the credit crisis began last year. But as momentum may keep these securities rallying over the near term, only time will tell whether the fiscal situations of many state and local municipalities can maintain adequate credit fundamentals during what many believe will be a long recovery phase.

Currently, in our judgment, the financial markets appear poised to enter into a new phase in which underlying fundamentals, not bargain hunting, are likely to drive investment returns. Of course, the best strategy for your portfolio depends not only on your view of the economy's direction, but on your current financial needs, future goals and attitudes toward risk. Your financial advisor can help you decide which investments have the potential to benefit from a recovery while guarding against unexpected economic developments.

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

Thank you for your continued confidence and support.

Jonathan R. Baum
Chairman and Chief Executive Officer
The Dreyfus Corporation
October 15, 2009

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DISCUSSION OF FUND PERFORMANCE

For the period of October 1, 2008, through September 30, 2009, as provided by James Welch, Senior Portfolio Manager

Fund and Market Performance Overview

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For the 12-month period ended September 30, 2009, Dreyfus Strategic Municipals achieved a total return of 15.62% on a net-asset-value basis.¹ Over the same period, the fund provided aggregate income dividends of \$0.50 per share, which reflects a distribution rate of 6.37%.²

After suffering severe market volatility due to a financial crisis and economic downturn in late 2008, municipal bonds rebounded in 2009 as investors returned to the market. The fund's performance was driven primarily by its higher-yielding, corporate-backed holdings, which generally led the market's advance.

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 a portfolio derived from seeking income opportunities through analysis of each bond's structure, including paying close attention to each bond's yield, maturity and early redemption features.

Over time, many of the fund's relatively higher yielding bonds mature or may be called by their issuers, and we generally attempt to replace those bonds, as opportunities arise, with investments consistent with the fund's investment policies at prevailing current yields. 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.

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DISCUSSION OF FUND PERFORMANCE *(continued)*

Municipal Bonds Recovered Previous Lost Ground

The reporting period began just weeks after the failures of several major financial institutions sparked a global financial crisis and exacerbated an economic downturn. These developments produced severe dislocations in most financial markets, including municipal bonds. As the crisis intensified in the fall of 2008, investors fled longer-term assets in favor of traditional safe havens such as money market funds and U.S. Treasury securities. As a result, many municipal bonds appeared to lose value indiscriminately, regardless of their fundamental strengths and weaknesses.

Although market turmoil persisted over the opening months of 2009, investor sentiment soon began to improve as investors gained confidence that aggressive measures by the Federal Reserve Board (the Fed) and U.S. government would be effective in repairing the credit markets. The Fed had injected massive amounts of liquidity into the banking system and reduced short-term interest rates to the unprecedented low level of 0% to 0.25%, while Congress enacted the \$787 billion American Recovery and Reinvestment Act of 2009. Despite struggling housing markets and a climbing unemployment rate, investors began to look forward to better economic conditions.

As assets flowed into the municipal bond market, demand proved particularly robust for many of the lower-quality, higher yielding securities that had been severely punished during the downturn. However, investors appeared to focus more carefully on underlying fundamentals, favoring corporate-backed bonds whose issuers seemed to be weathering the recession relatively well. Meanwhile, the supply of newly issued municipal bonds fell after the U.S. government enacted the Buy America Bonds program as part of the economic stimulus package, which diverted a substantial portion of new issuance to the taxable bond market.

Lower-Quality Rally Bolstered Fund Results

To cushion losses and maintain interest income during the downturn, we struck a balance between higher yielding, income-oriented bonds and high-quality municipal bonds from state and local governments and

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authorities. The 2009 rally helped lift prices of bonds in both categories, but gains were especially robust among lower-quality, corporate-backed holdings from issuers in the airlines, health care and utilities industries. Bonds backed by the states settlement of litigation with U.S. tobacco companies also rallied strongly. As these relatively volatile securities reached valuations that we considered rich, we sold some of them in favor of higher-quality municipal bonds with stronger liquidity characteristics.

Finally, the fund's leveraging strategy benefited from historically low short-term interest rates. Although auction-rate securities have continued to face limited liquidity, relatively wide differences between floating short-term rates and the fixed rates of longer term municipal bonds have benefited the fund's performance on a net asset value basis.

Maintaining a Cautious Investment Posture

We have been encouraged by recent evidence of economic stabilization and a return to fundamentals among investors. However, many states have continued to struggle with budget pressures. Consequently, we currently intend to maintain a generally conservative investment posture. Over the longer term, however, we believe that the likelihood of rising tax rates, persistently low yields on money market funds and potential changes in credit-rating methodologies may make municipal bonds a particularly attractive asset class.

October 15, 2009

- 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. Return figure provided reflects the absorption of certain fund expenses by The Dreyfus Corporation pursuant to an agreement in effect until November 30, 2009, at which time it may be extended, modified or terminated. 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.*

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SELECTED INFORMATION

September 30, 2009 (Unaudited)

* *With dividends reinvested.*

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STATEMENT OF INVESTMENTS

September 30, 2009

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| Long-Term Municipal Investments 152.1% | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|--|--------------------|------------------|--------------------------|------------|
| Alabama 1.6% | | | | |
| Houston County Health Care Authority, GO (Insured; AMBAC) (Prerefunded) | 6.25 | 10/1/09 | 8,000,000 ^a | 8,081,280 |
| Arizona 4.7% | | | | |
| Arizona Housing Finance Authority, SFMR (Mortgage-Backed Securities Program) (Collateralized: FHLMC, FNMA and GNMA) | 5.55 | 12/1/41 | 6,000,000 | 6,171,780 |
| Glendale Western Loop 101 Public Facilities Corporation, Third Lien Excise Tax Revenue | 6.25 | 7/1/38 | 5,000,000 | 5,332,850 |
| Maricopa County Pollution Control Corporation, PCR (Public Service Company of New Mexico Palo Verde Project) | 5.75 | 11/1/22 | 6,000,000 | 5,999,940 |
| Scottsdale Industrial Development Authority, HR (Scottsdale Healthcare) (Prerefunded) | 5.80 | 12/1/11 | 6,000,000 ^a | 6,680,820 |
| Arkansas .4% | | | | |
| Arkansas Development Finance Authority, SFMR (Mortgage Backed Securities Program) (Collateralized: FNMA and GNMA) | 6.25 | 1/1/32 | 2,000,000 | 2,069,240 |
| California 17.1% | | | | |
| Beverly Hills Unified School District, GO | 0.00 | 8/1/30 | 10,850,000 ^b | 3,965,132 |
| California, GO (Various Purpose) | 5.75 | 4/1/31 | 10,800,000 | 11,643,912 |
| California, GO (Various Purpose) | 6.50 | 4/1/33 | 10,000,000 | 11,566,100 |
| California Pollution Control Financing Authority, SWDR (Keller Canyon Landfill Company Project) | 6.88 | 11/1/27 | 2,000,000 | 2,001,960 |
| California Statewide Communities Development Authority, | | | | |

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Environmental Facilities Revenue

| | | | | |
|----------------------------|------|---------|-----------|-----------|
| (Microgy Holdings Project) | 9.00 | 12/1/38 | 3,000,000 | 2,488,350 |
|----------------------------|------|---------|-----------|-----------|

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STATEMENT OF INVESTMENTS (continued)

Long-Term Municipal Investments (continued)

| | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|--|--------------------|------------------|--------------------------|------------|
| California (continued) | | | | |
| California Statewide Communities Development Authority, Revenue (Bentley School) | 6.75 | 7/1/32 | 1,925,000 | 1,901,611 |
| California Statewide Communities Development Authority, Revenue (Daughters of Charity Health System) | 5.25 | 7/1/30 | 3,000,000 | 2,900,400 |
| California Statewide Communities Development Authority, Revenue (Daughters of Charity Health System) | 5.00 | 7/1/39 | 5,000,000 | 4,384,700 |
| California Statewide Communities Development Authority, Student Housing Revenue (CHF-Irvine, LLC-UCI East Campus Apartments, Phase II) | 5.75 | 5/15/32 | 2,500,000 | 2,508,225 |
| Golden State Tobacco Securitization Corporation, Tobacco Settlement Asset-Backed Bonds | 4.50 | 6/1/27 | 5,000,000 | 4,636,550 |
| Golden State Tobacco Securitization Corporation, Tobacco Settlement Asset-Backed Bonds | 5.00 | 6/1/33 | 9,775,000 | 8,499,265 |
| Golden State Tobacco Securitization Corporation, Tobacco Settlement Asset-Backed Bonds | 5.75 | 6/1/47 | 7,050,000 | 5,900,568 |
| Golden State Tobacco | | | | |

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| | | | | |
|---|------|--------|------------------------|-----------|
| Securitization Corporation, Tobacco Settlement Asset-Backed Bonds (Prerefunded) | 7.80 | 6/1/13 | 8,100,000 ^a | 9,870,579 |
| Golden State Tobacco Securitization Corporation, Tobacco Settlement Asset-Backed Bonds (Prerefunded) | 7.90 | 6/1/13 | 2,000,000 ^a | 2,443,940 |
| Sacramento County, Airport System Subordinate and Passenger Facility Charges Grant Revenue | 6.00 | 7/1/35 | 6,250,000 | 7,086,000 |

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| Long-Term Municipal Investments (continued) | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|---|--------------------|------------------|--------------------------|------------|
| California (continued) | | | | |
| San Diego Public Facilities Financing Authority, Senior Sewer Revenue | 5.25 | 5/15/34 | 2,500,000 | 2,693,625 |
| Tuolumne Wind Project Authority, Revenue (Tuolumne Company Project) | 5.88 | 1/1/29 | 3,500,000 | 3,888,675 |
| Colorado 4.7% | | | | |
| Beacon Point Metropolitan District, GO | 6.25 | 12/1/35 | 2,000,000 | 1,569,800 |
| Colorado Educational and Cultural Facilities Authority, Charter School Revenue (American Academy Project) | 8.00 | 12/1/40 | 3,500,000 | 4,148,935 |
| Colorado Health Facilities Authority, Revenue (American Baptist Homes of the Midwest Obligated Group) | 5.90 | 8/1/37 | 3,000,000 | 2,591,160 |
| Colorado Housing and Finance Authority, Single Family Program Senior and Subordinate Bonds (Collateralized; FHA) | 6.60 | 8/1/32 | 1,375,000 | 1,461,460 |
| Northwest Parkway Public | | | | |

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| | | | | |
|----------------------------------|------|---------|-------------------------|-------------------|
| Highway Authority, | | | | |
| Revenue (Prerefunded) | 7.13 | 6/15/11 | 10,455,000 ^a | 11,698,622 |
| Southlands Metropolitan District | | | | |
| Number 1, GO (Prerefunded) | 7.13 | 12/1/14 | 2,000,000 ^a | 2,528,480 |
| Florida 7.3% | | | | |
| Clearwater, | | | | |
| Water and Sewer Revenue | 5.25 | 12/1/39 | 5,000,000 | 5,312,250 |
| Florida Housing Finance | | | | |
| Corporation, Housing Revenue | | | | |
| (Nelson Park Apartments) | | | | |
| (Insured; FSA) | 6.40 | 3/1/40 | 12,380,000 | 12,562,357 |
| Greater Orlando Aviation | | | | |
| Authority, Airport | | | | |
| Facilities Revenue | 6.25 | 10/1/20 | 8,000,000 | 9,221,520 |
| Orange County Health Facilities | | | | |
| Authority, HR (Orlando | | | | |
| Regional Healthcare System) | 6.00 | 10/1/26 | 4,105,000 | 4,147,487 |
| | | | | The Fund 9 |

STATEMENT OF INVESTMENTS *(continued)*

| Long-Term Municipal Investments (continued) | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|--|--------------------|------------------|--------------------------|------------|
| Florida (continued) | | | | |
| Orange County Health Facilities | | | | |
| Authority, HR (Orlando Regional | | | | |
| Healthcare System) (Prerefunded) | 6.00 | 10/1/09 | 45,000 ^a | 45,457 |
| Orange County School Board, | | | | |
| COP (Master Lease Purchase | | | | |
| Agreement) (Insured; | | | | |
| Assured Guaranty) | 5.50 | 8/1/34 | 6,000,000 | 6,485,640 |
| Georgia 4.9% | | | | |
| Atlanta, | | | | |
| Water and Wastewater Revenue | 6.00 | 11/1/27 | 6,000,000 | 6,520,020 |
| Brooks County Development | | | | |
| Authority, Senior Health and | | | | |
| Housing Facilities Revenue | | | | |
| (Presbyterian Home, Quitman, | | | | |

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| | | | | |
|------------------------------|------|---------|-----------|-----------|
| Inc.) (Collateralized; GNMA) | 5.70 | 1/20/39 | 4,445,000 | 4,754,194 |
| Fulton County Development | | | | |
| Aut | | | | |