

DREYFUS STRATEGIC MUNICIPALS INC
Form N-CSR/A
February 20, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM N-CSR/A

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: 9/30/06

FORM N-CSR

Item 1. Reports to Stockholders.

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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Officers and Directors

FOR MORE INFORMATION

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**Dreyfus
Strategic Municipals, Inc.**

The Fund

LETTER FROM THE CHAIRMAN

Dear Shareholder:

We are pleased to present this annual report for Dreyfus Strategic Municipals, Inc., covering the 12-month period from October 1, 2005, through September 30, 2006.

After more than two years of steady and gradual increases, the Federal Reserve Board (the "Fed") held short-term interest rates unchanged at its meetings in August and September. The Fed has indicated that the U.S. economy has moved to a slower-growth phase of its cycle, as evidenced by softening housing markets in many regions of the United States. Yet, energy prices have moderated from record highs, calming fears that the economy may fall into a full-blown recession.

Most sectors of the U.S. fixed-income market rallied in anticipation of and in response to the pause in the Fed's tightening campaign, including municipal bonds. Investors apparently are optimistic that higher borrowing costs and moderating home values may wring current inflationary pressures from the economy. In addition, most states and municipalities have continued to report higher-than-expected tax receipts as a result of the recovering economy, helping to support the credit quality of many municipal bond issuers. As always, we encourage you to talk with your financial advisor about these and other developments to help ensure that your portfolio remains aligned with your current tax-managed needs and future investment goals.

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

Thank you for your continued confidence and support.

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DISCUSSION OF FUND PERFORMANCE

W. Michael Petty, Portfolio Manager

How did Dreyfus Strategic Municipals perform during the reporting period?

For the 12-month period ended September 30, 2006, the fund achieved a total return of 6.92% (on a net asset value basis).¹ During the same period, the fund provided income dividends of \$0.52 per share, which is equal to a

distribution rate of 5.66% .2

Municipal bonds rallied over the summer of 2006 as the Federal Reserve Board (the "Fed") refrained from raising short-term interest rates and investors looked forward to a slower-growth economic environment, enabling the fund to post a competitive total return. Relatively high levels of income from the fund's core holdings also helped drive its performance, but some of those seasoned bonds were redeemed early by their issuers. In addition, rising short-term interest rates resulted in higher borrowing costs for the fund's auction preferred shares. These factors resulted in a reduction in the fund's dividend in February 2006.

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 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.

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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, as opportunities arise, 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?

Over the first half of the reporting period, investors' low inflation expectations helped support municipal bond prices despite fairly robust levels of economic growth and rising short-term interest rates. In the spring of 2006, however, stronger labor markets, record oil prices and hawkish comments by some Fed members raised renewed concerns that inflation might be accelerating, and bond prices began to fall. Fortunately, these worries proved to be overblown as fuel prices declined and U.S. housing markets softened over the summer. The Fed lent credence to a more benign outlook for the economy and inflation when, after more than two years of steady rate hikes, it held short-term interest rates unchanged at its meetings in August and September.

Municipal bond prices also were supported by favorable supply-and-demand factors throughout the reporting period. Many states and municipalities received higher levels of tax revenue than originally projected, reducing their need to borrow. Consequently, the supply of newly issued municipal bonds fell compared to the same period one year earlier. Yet, demand remained robust from both individual and institutional investors seeking competitive levels of tax-free income.

As short-term interest rates rose, longer-term bond yields remained relatively stable, contributing to a narrowing of yield differences along the fund's maturity spectrum. Later, longer-term bond yields fell while short-term rates remained stable, and yield differences narrowed further. The fund benefited from this trend by maintaining its focus on long-term, income-oriented bonds. The fund received especially

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strong results from its lower-rated holdings, including municipal bonds backed by U.S. airlines and educational facilities. Our security selection strategy proved to be successful in the airline sector, as we chose securities from solvent carriers and avoided those from airlines that declared bankruptcy early in the reporting period.

On the other hand, the fund's strong relative performance was eroded somewhat by higher borrowing costs related to its leveraging strategy, which relies on the issuance of auction preferred stock. In addition, as expected, some of the fund's seasoned, higher-coupon holdings were redeemed early by their issuers, and we were unable to replace them with new securities with similar income characteristics. The fund consequently generated incrementally less income, requiring an adjustment to its dividend distribution rate in February 2006.

What is the fund's current strategy?

Signs of a moderate economic slowdown suggest to us that the Fed is unlikely to raise or lower short-term interest rates over the foreseeable future. If current inflationary pressures wane and the U.S. economy achieves a "soft landing" as we expect, we may begin to increase the fund's average duration to lock in prevailing yields for a longer period and position the fund for wider yield differences along the maturity spectrum.

October 16, 2006

- 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 May 31, 2007, 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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STATEMENT SELECTED INFORMATION OF INVESTMENTS

September 30, 2006 (Unaudited)

Market Price per share September 30, 2006	\$9.18
Shares Outstanding September 30, 2006	60,588,631
New York Stock Exchange Ticker Symbol	LEO

MARKET PRICE (NEW YORK STOCK EXCHANGE)

Fiscal Year Ended September 30, 2006

	Quarter Ended December 31, 2005	Quarter Ended March 31, 2006	Quarter Ended June 30, 2006	Quarter Ended September 30, 2005
High	\$8.87	\$8.90	\$8.90	\$9.25
Low	8.26	8.55	8.51	8.63
Close	8.55	8.89	8.60	9.18

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

September 23, 1987 (commencement of operations)

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through September 30, 2006	258.11%
October 1, 1996 through September 30, 2006	78.78
October 1, 2001 through September 30, 2006	33.70
October 1, 2005 through September 30, 2006	9.74
January 1, 2006 through September 30, 2006	12.06
April 1, 2006 through September 30, 2006	6.20
July 1, 2006 through September 30, 2006	8.22

NET ASSET VALUE PER SHARE

September 23, 1987 (commencement of operations)	\$ 9.32
September 30, 2005	9.38
December 31, 2005	9.31
March 31, 2006	9.29
June 30, 2006	9.21
September 30, 2006	9.46

PERCENTAGE GAIN based on change in Net Asset Value*

September 23, 1987 (commencement of operations)	
through September 30, 2006	295.89%
October 1, 1996 through September 30, 2006	86.48
October 1, 2001 through September 30, 2006	38.18
October 1, 2005 through September 30, 2006	6.92
January 1, 2006 through September 30, 2006	6.03
April 1, 2006 through September 30, 2006	4.72
July 1, 2006 through September 30, 2006	4.12

* With dividends reinvested.

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STATEMENT OF INVESTMENTS

September 30, 2006

Long-Term Municipal Investments 154.8%	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Alabama 5.3%				
Houston County Health Care Authority (Insured; AMBAC)	6.25	10/1/09	8,000,000 ^a	8,674,240
Jefferson County, Limited Obligation School Warrants	5.25	1/1/18	16,000,000	17,190,400
Jefferson County, Limited Obligation School Warrants	5.50	1/1/22	4,000,000	4,349,440
Alaska 7%				
Alaska Housing Finance Corp. (Insured; MBIA)	6.00	6/1/49	4,000,000	4,182,560
Arizona 4.1%				
Coconino County Pollution Control				

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Corp., PCR (Nevada Power Co. Project)	6.38	10/1/36	3,500,000	3,570,455
Maricopa County Pollution Control Corp., PCR (Public Service Co. of New Mexico Palo Verde Project)	5.75	11/1/22	6,000,000	6,067,920
Navajo County Industrial Development Authority, IDR (Stone Container Corp. Project)	7.40	4/1/26	1,585,000	1,625,576
Queen Creek Improvement District Number 001, Special Assessment Revenue	5.00	1/1/32	2,000,000 ^b	2,032,400
Scottsdale Industrial Development Authority, HR (Scottsdale Healthcare)	5.80	12/1/11	6,000,000 ^a	6,656,340
Tucson, Water System Revenue (Insured; FGIC)	5.00	7/1/21	3,500,000	3,712,310
Arkansas 1.6%				
Arkansas Development Finance Authority, SFMR (Mortgage Backed Securities Program) (Collateralized: FNMA and GNMA)	6.25	1/1/32	2,675,000	2,733,689
Little Rock School District (Insured; FSA)	5.25	2/1/30	6,000,000	6,252,900
California 8.9%				
California, GO	5.25	4/1/34	5,000,000	5,331,650
California, GO (Various Purpose)	5.50	4/1/28	3,565,000	3,933,051

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STATEMENT OF INVESTMENTS (continued)

Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
California (continued)				
California, GO (Various Purpose)	5.00	2/1/33	10,000,000	10,388,100
California Pollution Control Financing Authority, SWDR (Keller Canyon Landfill Co. Project)	6.88	11/1/27	2,000,000	2,013,520
California Statewide Communities Development Authority, Revenue (Bentley School)	6.75	7/1/32	2,000,000	2,178,600
Golden State Tobacco				

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Securitization Corp., Tobacco Settlement Asset-Backed Bonds Golden State Tobacco	5.00	6/1/21	1,620,000	1,634,791
Securitization Corp., Tobacco Settlement Asset-Backed Bonds Golden State Tobacco	7.80	6/1/42	8,100,000	9,888,885
Securitization Corp., Tobacco Settlement Asset-Backed Bonds Los Angeles Unified School District (Insured; FSA)	7.90	6/1/42	2,000,000	2,453,320
State Public Works Board of California, LR Department of General Services (Butterfield State Office Complex)	5.25	7/1/20	7,200,000	7,859,016
Colorado 6.1%				
Beacon Point Metropolitan District, GO	5.25	6/1/30	5,000,000	5,316,300
Colorado Housing Finance Authority (Collateralized; FHA)	6.25	12/1/35	2,000,000	2,134,180
Denver City and County, Special Facilities Airport Revenue (United Airlines Project)	6.60	8/1/32	2,100,000	2,172,702
Northwest Parkway Public Highway Authority, Revenue	6.88	10/1/32	7,135,000 ^c	9,114,962
Salida Hospital District, HR	7.13	6/15/41	10,750,000	10,723,663
Silver Dollar Metropolitan District, GO	5.25	10/1/36	3,500,000 ^b	3,481,660
Southlands Metropolitan District Number 1, GO	7.05	12/1/06	4,870,000 ^a	4,898,295
	7.13	12/1/34	2,000,000	2,214,880

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

Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
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Florida 4.3%

Deltona, Utilities System Revenue (Insured; MBIA)	5.13	10/1/27	6,000,000	6,358,080
Florida Housing Finance Corp., Housing Revenue (Nelson Park Apartments) (Insured; FSA)	6.40	3/1/40	5,000	5,290

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Florida Housing Finance Corp., Housing Revenue (Nelson Park Apartments) (Insured; FSA)	11.23	3/1/40	12,375,000 ^{d,e}	13,091,636
Highlands County Health Facilities Authority, HR (Adventist Health System/Sunbelt Obligated Group)	5.25	11/15/36	2,000,000	2,120,820
Orange County Health Facilities Authority, HR (Orlando Regional Healthcare System)	6.00	10/1/09	45,000 ^a	48,421
Orange County Health Facilities Authority, HR (Orlando Regional Healthcare System)	6.00	10/1/26	1,955,000	2,075,193
Palm Bay, Educational Facilities Revenue (Patriot Charter School Project)	7.00	7/1/36	1,000,000	1,085,560
Georgia 2.2%				
Augusta, Water and Sewer Revenue (Insured; FSA)	5.25	10/1/39	3,000,000	3,219,660
Brooks County Development Authority, Senior Health and Housing Facilities Revenue (Presbyterian Home, Quitman, Inc.) (Collateralized; GNMA)	5.70	1/20/39	4,445,000	4,889,189
Milledgeville-Baldwin County Development Authority, Revenue (Georgia College and State Foundation)	6.00	9/1/13	2,090,000	2,303,577
Milledgeville-Baldwin County Development Authority, Revenue (Georgia College and State Foundation)	6.00	9/1/33	2,000,000	2,195,920

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STATEMENT OF INVESTMENTS (continued)

Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Hawaii 0.5%				
Hawaii Department of Transportation, Special Facilities Revenue (Caterair International Corp. Project)	10.13	12/1/10	2,600,000	2,602,236
Idaho 0.6%				

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Power County Industrial Development Corp., SWDR (FMC Corp. Project)	6.45	8/1/32	3,250,000	3,468,790
Illinois 13.4%				
Cary, Special Service Area Number One, Special Tax Bonds (Insured; Radian)	5.00	3/1/30	1,950,000	2,011,288
Chicago (Insured; FGIC)	6.13	7/1/10	14,565,000 ^a	16,002,129
Chicago, SFMR (Collateralized: FHLMC, FNMA and GNMA)	6.55	4/1/33	3,440,000	3,490,465
Chicago, Wastewater Transmission Revenue (Insured; MBIA)	6.00	1/1/10	3,000,000 ^a	3,247,290
Chicago O'Hare International Airport, Special Facilities Revenue (American Airlines Inc. Project)	8.20	12/1/24	6,500,000	6,680,050
Illinois Educational Facilities Authority, Revenue (Northwestern University)	5.00	12/1/38	5,000,000	5,190,300
Illinois Educational Facilities Authority, Revenue (University of Chicago) (Insured; MBIA)	5.13	7/1/08	5,000 ^a	5,183
Illinois Educational Facilities Authority, Revenue (University of Chicago) (Insured; MBIA)	5.13	7/1/38	6,995,000	7,202,751
Illinois Health Facilities Authority, Revenue (Advocate Health Care Network)	6.13	11/15/10	4,020,000 ^a	4,405,116
Illinois Health Facilities Authority, Revenue (OSF Healthcare System)	6.25	11/15/09	7,730,000 ^a	8,403,206

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Long-Term Municipal Investments (continued)

Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
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Illinois (continued)

Illinois Health Facilities Authority, Revenue (Swedish

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American Hospital)	6.88	5/15/10	4,970,000 ^a	5,504,474
Illinois Housing Development Authority, Homeowner Mortgage Revenue	5.10	8/1/31	5,555,000	5,744,425
Lombard Public Facilities Corp., Conference Center and First Tier Hotel Revenue	7.13	1/1/36	3,500,000	3,757,565
Metropolitan Pier and Exposition Authority, Dedicated State Tax Revenue (McCormick Place Expansion) (Insured; MBIA)	5.25	6/15/42	5,325,000	5,699,188
Indiana 2.2%				
Franklin Township School Building Corp., First Mortgage	6.13	7/15/10	6,500,000 ^a	7,205,835
Indiana Housing Finance Authority, SFMR	5.95	1/1/29	720,000	732,463
Petersburg, SWDR (Indianapolis Power and Light Company Project)	6.38	11/1/29	4,150,000	4,509,929
Kansas 4.9%				
Kansas Development Finance Authority, Health Facilities Revenue (Sisters of Charity of Leavenworth Health Services Corp.)	6.25	12/1/28	3,000,000	3,258,960
Kansas Development Finance Authority, Revenue (Board of Regents-Scientific Resource) (Insured; AMBAC)	5.00	10/1/21	5,290,000	5,673,737
Sedgwick and Shawnee Counties, SFMR (Mortgage-Backed Securities Program) (Collateralized: FNMA and GNMA)	6.30	12/1/32	5,275,000	5,383,348
Sedgwick and Shawnee Counties, SFMR (Mortgage-Backed Securities Program) (Collateralized: FNMA and GNMA)	5.70	12/1/35	3,000,000	3,147,450
Wichita, HR (Christian Health System Inc.)	6.25	11/15/24	10,000,000	10,641,400

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STATEMENT OF INVESTMENTS *(continued)*

Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
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Kentucky 1.2%

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Kentucky Area Development Districts Financing Trust, COP (Lease Acquisition Program)	5.50	5/1/27	2,000,000	2,125,940
Kentucky Economic Development Finance Authority, MFHR (Christian Care Communities Projects) (Collateralized; GNMA)	5.25	11/20/25	2,370,000	2,563,605
Kentucky Economic Development Finance Authority, MFHR (Christian Care Communities Projects) (Collateralized; GNMA)	5.38	11/20/35	1,805,000	1,957,559
Louisiana 2.2%				
Saint James Parish, SWDR (Freeport-McMoRan Partnership Project)	7.70	10/1/22	1,405,000	1,407,529
Maine 5.5%				
Maine Housing Authority, Mortgage Purchase	5.30	11/15/23	2,825,000	2,947,153
Maryland 1.8%				
Maryland Economic Development Corp., Senior Student Housing Revenue (University of Maryland, Baltimore Project)	5.75	10/1/33	4,500,000	4,506,390
Maryland Economic Development Corp., Student Housing Revenue (University of Maryland, College Park Project)	6.50	6/1/13	3,000,000 ^a	3,483,210
Maryland Health and Higher Educational Facilities Authority, Revenue (Maryland Institute College of Art Issue)	5.00	6/1/30	2,500,000	2,580,175
Massachusetts 2.4%				
Massachusetts Health and Educational Facilities Authority, Revenue (Civic Investments Issue)	9.00	12/15/15	1,900,000	2,326,930
Massachusetts Health and Educational Facilities Authority, Revenue (Partners Healthcare System)	5.75	7/1/32	5,000,000	5,426,750

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

Massachusetts Industrial Finance

Agency, RRR (Ogden

Haverhill Project)

5.60 12/1/19 6,000,000 6,197,880

Michigan 6.9%

Charyl Stockwell Academy,

COP 5.90 10/1/35 2,580,000 2,650,305

Detroit School District,

GO (School Building and Site

Improvement) (Insured; FGIC)

5.00 5/1/28 5,000,000 5,203,150

Kent Hospital Finance Authority,

Revenue (Metropolitan

Hospital Project)

6.00 7/1/35 5,930,000 6,526,795

Kent Hospital Finance Authority,

Revenue (Metropolitan

Hospital Project)

6.25 7/1/40 3,000,000 3,342,900

Michigan Hospital Finance

Authority, HR (Ascension

Health Credit)

6.13 11/15/09 5,000,000^a 5,417,100

Michigan Strategic Fund,

LOR (Detroit Edison

Co. Exempt Facilities

Project) (Insured; XLCA)

5.25 12/15/32 3,000,000 3,159,720

Michigan Strategic Fund,

SWDR (Genesee Power

Station Project)

7.50 1/1/21 14,000,000 13,998,740

Minnesota 4.5%

Dakota County Community

Development Agency, SFMR

(Mortgage-Backed Securities

Program) (Collateralized:

FHLMC, FNMA and GNMA)

5.30 12/1/39 5,000,000 5,397,900

Duluth Economic Development

Authority, Health Care

Facilities Revenue (Saint

Luke's Hospital)

7.25 6/15/32 5,000,000 5,375,100

Saint Paul Housing and

Redevelopment Authority,

Hospital Facility Revenue

(HealthEast Project)

6.00 11/15/25 2,000,000 2,226,380

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STATEMENT OF INVESTMENTS (continued)

Long-Term Municipal

Coupon

Maturity

Principal

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Investments (continued)	Rate (%)	Date	Amount (\$)	Value (\$)
Minnesota (continued)				
Saint Paul Housing and Redevelopment Authority, Hospital Facility Revenue (HealthEast Project)	6.00	11/15/30	2,000,000	2,220,040
Saint Paul Port Authority, Hotel Facility Revenue (Radisson Kellogg Project)	7.38	8/1/08	3,000,000 ^a	3,283,560
United Hospital District of Todd, Morrison, Cass and Wadena Counties, GO Health Care Facilities Revenue (Lakewood Health System)	5.13	12/1/24	1,500,000	1,562,895
Winona, Health Care Facilities Revenue (Winona Health)	6.00	7/1/26	5,000,000	5,484,350
Mississippi 3.3%				
Clairborne County, PCR (System Energy Resources, Inc. Project)	6.20	2/1/26	4,545,000	4,555,272
Mississippi Business Finance Corp., PCR (System Energy Resources, Inc. Project)	5.88	4/1/22	14,310,000	14,379,833
Missouri 2.9%				
Missouri Development Finance Board, Infrastructure Facilities Revenue (Branson Landing Project)	5.38	12/1/27	2,000,000	2,082,880
Missouri Development Finance Board, Infrastructure Facilities Revenue (Branson Landing Project)	5.50	12/1/32	4,500,000	4,704,120
Missouri Development Finance Board, Infrastructure Facilities Revenue (Independence, Crackerneck Creek Project)	5.00	3/1/28	2,000,000	2,075,260
Missouri Health and Educational Facilities Authority, Health Facilities Revenue (Saint Anthony's Medical Center)	6.25	12/1/10	6,750,000 ^a	7,488,045

Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Montana 3.3%				
Montana Board of Housing, SFMR	6.45	6/1/29	1,490,000	1,524,032
Nevada 2.8%				
Clark County, IDR (Nevada Power Co. Project)	5.60	10/1/30	3,000,000	3,011,250
Washoe County (Reno-Sparks Convention Center) (Insured; FSA)	6.40	1/1/10	12,000,000 ^a	13,045,440
New Hampshire 2.6%				
New Hampshire Business Finance Authority, PCR (Public Service Co. of New Hampshire) (Insured; AMBAC)	6.00	5/1/21	7,000,000	7,370,790
New Hampshire Health and Educational Facilities Authority, Revenue (Exeter Project)	6.00	10/1/24	1,000,000	1,106,500
New Hampshire Health and Educational Facilities Authority, Revenue (Exeter Project)	5.75	10/1/31	1,000,000	1,067,410
New Hampshire Industrial Development Authority, PCR (Connecticut Light and Power Company Project)	5.90	11/1/16	5,000,000	5,142,000
New Jersey 5.2%				
New Jersey Economic Development Authority, Cigarette Tax Revenue	5.75	6/15/34	2,500,000	2,672,300
New Jersey Economic Development Authority, Special Facility Revenue (Continental Airlines, Inc. Project)	6.25	9/15/29	3,000,000	3,089,490
New Jersey Transportation Trust Fund Authority (Transportation System)	5.25	12/15/22	5,000,000	5,653,500
New Jersey Turnpike Authority, Turnpike Revenue (Insured; AMBAC)	5.00	1/1/35	4,500,000	4,639,995
Tobacco Settlement Financing Corp. of New Jersey, Tobacco Settlement Asset-Backed Bonds	6.38	6/1/32	4,000,000	4,390,400

STATEMENT OF INVESTMENTS (continued)

Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
New Jersey (continued)				
Tobacco Settlement Financing Corp. of New Jersey, Tobacco Settlement Asset-Backed Bonds				
	7.00	6/1/41	8,320,000	9,555,770
New Mexico 1.4%				
Farmington, PCR (Tucson Electric Power Co. San Juan Project)				
	6.95	10/1/20	4,000,000	4,156,280
New Mexico Mortgage Finance Authority (Single Family Mortgage Program) (Collateralized: FHLMC, FNMA and GNMA)				
	7.00	9/1/31	1,745,000	1,773,182
New Mexico Mortgage Finance Authority (Single Family Mortgage Program) (Collateralized: FHLMC, FNMA and GNMA)				
	6.15	7/1/35	2,000,000	2,156,260
New York 8.5%				
Long Island Power Authority, Electric System Revenue				
	6.29	12/1/16	20,000,000 ^{d,e}	20,726,000
New York City				
	5.00	8/1/28	10,000,000	10,568,500
New York City Industrial Development Agency, Liberty Revenue (7 World Trade Center Project)				
	6.25	3/1/15	3,000,000	3,192,360
New York City Industrial Development Agency, Special Facility Revenue (American Airlines, Inc. John F. Kennedy International Airport Project)				
	8.00	8/1/28	2,800,000	3,357,956
Tobacco Settlement Financing Corp. of New York, Asset-Backed Revenue Bonds (State Contingency Contract Secured) (Insured; AMBAC)				
	5.25	6/1/21	5,000,000	5,379,250
Triborough Bridge and Tunnel Authority, Revenue				
	5.25	11/15/30	5,220,000	5,549,382
North Carolina 6%				
Gaston County Industrial Facilities and Pollution Control Financing Authority,				

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Exempt Facilities Revenue (National Gypsum Co. Project)	5.75	8/1/35	3,000,000	3,178,620
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Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
North Dakota 2.2%				
North Dakota Housing Finance Agency, Home Mortgage Revenue (Housing Finance Program)	6.15	7/1/31	955,000	974,959
Ohio 7.1%				
Canal Winchester Local School District (Insured; MBIA)	0.00	12/1/29	3,955,000	1,407,070
Canal Winchester Local School District (Insured; MBIA)	0.00	12/1/31	3,955,000	1,277,544
Cincinnati, Water Systems Revenue	5.00	12/1/21	3,800,000	3,971,798
Cincinnati City School District, Classroom Facilities Construction and Improvement (Insured; FSA)	5.00	12/1/13	5,000,000 ^a	5,418,400
Cleveland State University, General Receipts (Insured; FGIC)	5.00	6/1/34	5,000,000	5,248,050
Cuyahoga County, Revenue	6.00	1/1/32	750,000	834,225
Ohio Air Quality Development Authority, PCR (Cleveland Electric Illuminating Co. Project) (Insured; ACA)	6.10	8/1/20	3,000,000	3,098,370
Ohio Water Development Authority, Pollution Control Facilities Revenue (Cleveland Electric Illuminating Co. Project) (Insured; ACA)	6.10	8/1/20	4,350,000	4,492,636
Toledo Lucas County Port Authority, Airport Revenue (Baxter Global Project)	6.25	11/1/13	4,100,000	4,316,316
Trotwood-Madison City School District, School Improvement (Insured; FGIC)	5.00	12/1/30	10,495,000	10,955,416
Oklahoma 2.7%				
Oklahoma Housing Finance Agency, SFMR (Homeownership Loan Program)	7.55	9/1/28	1,190,000	1,211,670

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Oklahoma Housing Finance Agency,
SFMR (Homeownership Loan
Program) (Collateralized:
FNMA and GNMA)

7.55 9/1/27 1,180,000 1,216,946

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STATEMENT OF INVESTMENTS (continued)

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

Coupon Maturity Principal
Rate (%) Date Amount (\$)

Value (\$)

Oklahoma (continued)

Oklahoma Industries Authority,
Health System Revenue

(Obligated Group) (Insured; MBIA) 5.75 8/15/09 5,160,000 ^a 5,506,288

Oklahoma Industries Authority,
Health System Revenue

(Obligated Group) (Insured; MBIA) 5.75 8/15/29 7,070,000 7,479,777

Oregon 2.4%

Port of Portland,
International Airport Revenue
(Portland International
Airport) (Insured; AMBAC)

5.50 7/1/24 5,000,000 5,247,700

Western Generation Agency,
Cogeneration Project Revenue
(Wauna Cogeneration Project)

7.40 1/1/16 5,750,000 5,771,965

Western Generation Agency,
Cogeneration Project Revenue
(Wauna Cogeneration Project)

7.13 1/1/21 2,900,000 2,910,440

Pennsylvania 2.9%

Abington School District
(Insured; FSA)

5.13 10/1/34 4,085,000 4,333,368

Lehman Municipal Trust
Receipts (Pennsylvania
Economic Development
Financing Authority)

7.88 6/1/31 9,310,000 ^{d,e} 9,717,545

Pennsylvania Economic Development
Financing Authority, Exempt
Facilities Revenue (Reliant
Energy Seward, LLC Project)

6.75 12/1/36 2,500,000 2,686,550

South Carolina 4.8%

Greenville County School District,
Installment Purchase Revenue
(Building Equity Sooner
for Tomorrow)

5.50 12/1/12 5,000 ^a 5,542

Greenville County School District,

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Installment Purchase Revenue (Building Equity Sooner for Tomorrow)	6.99	12/1/28	20,020,000 ^{d,e}	22,191,770
Greenville Hospital System, Hospital Facilities Revenue (Insured; AMBAC)	5.50	5/1/26	5,000,000	5,377,050

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Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Tennessee 3.4%				
Johnson City Health and Educational Facilities Board, Hospital First Mortgage Revenue (Mountain States Health Alliance)	7.50	7/1/25	5,000,000	5,891,200
Johnson City Health and Educational Facilities Board, Hospital First Mortgage Revenue (Mountain States Health Alliance)	7.50	7/1/33	3,000,000	3,515,400
Memphis Center Revenue Finance Corp., Sports Facility Revenue (Memphis Redbirds)	6.50	9/1/28	10,000,000	9,939,300
Texas 12.8%				
Alliance Airport Authority Inc., Special Facilities Revenue (American Airlines, Inc. Project)	7.50	12/1/29	7,500,000	7,608,750
Austin Convention Enterprises Inc., Convention Center Hotel First Tier Revenue	6.70	1/1/28	4,000,000	4,269,040
Brazos River Authority, PCR (TXU Energy Co. LLC Project)	6.75	10/1/38	1,650,000	1,863,097
Dallas-Fort Worth International Airport Facility Improvement Corp., Revenue (American Airlines Inc.)	6.38	5/1/35	10,630,000	10,590,350
Harris County Health Facilities Development Corp., HR (Memorial Hermann Healthcare System) Houston,	6.38	6/1/11	8,500,000 ^a	9,565,730

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Airport System Special Facilities Revenue (Continental Airlines, Inc. Terminal E Project) Houston,	6.75	7/1/29	5,125,000	5,460,995
Airport System Special Facilities Revenue (Continental Airlines, Inc. Terminal E Project)	7.00	7/1/29	3,800,000	4,083,556

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STATEMENT OF INVESTMENTS *(continued)*

Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Texas (continued)				
Sabine River Authority, PCR (TXU Electric Co. Project)	6.45	6/1/21	11,300,000	12,075,519
Sam Rayburn Municipal Power Agency, Power Supply System Revenue	5.75	10/1/21	6,000,000	6,553,980
Texas Department of Housing and Community Affairs, Home Mortgage Revenue (Collateralized: FHLMC, FNMA and GNMA)	9.98	7/2/24	1,150,000 ^d	1,218,574
Texas Turnpike Authority, Central Texas Turnpike System Revenue (Insured; AMBAC)	5.75	8/15/38	7,100,000	7,799,279
Tyler Health Facilities Development Corp., HR (East Texas Medical Center Regional Healthcare System Project)	6.75	11/1/25	3,000,000	3,030,900
Vermont 2.2%				
Vermont Housing Finance Agency, Single Family Housing (Insured; FSA)	6.40	11/1/30	1,165,000	1,180,529
Virginia 2.2%				
Greater Richmond Convention Center Authority, Hotel Tax Revenue (Convention Center Expansion Project)	6.25	6/15/10	10,500,000 ^a	11,575,620
Industrial Development Authority of Pittsylvania County,				

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Exempt Facility Revenue (Multitrade of Pittsylvania County, L.P. Project)	7.65	1/1/10	800,000	844,952
Washington 2.8%				
Energy Northwest, Wind Project Revenue Seattle,	5.88	1/1/07	3,000,000 ^a	3,106,560
Water System Revenue (Insured; FGIC)	6.00	7/1/09	10,000,000 ^a	10,732,000

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Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Washington (continued)				
Washington Health Care Facilities Authority, Revenue (Kadlec Medical Center) (Insured; Assured Guaranty)	5.00	12/1/30	2,000,000	2,093,260
West Virginia 3.0%				
Braxton County, SWDR (Weyerhaeuser Co. Project)	6.13	4/1/26	14,000,000	14,511,000
West Virginia Water Development Authority, Water Development Revenue (Insured; AMBAC)	6.38	7/1/39	2,250,000	2,460,848
Wisconsin 8.1%				
Badger Tobacco Asset Securitization Corp., Tobacco Settlement Asset-Backed Bonds	7.72	6/1/27	12,580,000 ^{d,e}	13,491,673
Badger Tobacco Asset Securitization Corp., Tobacco Settlement Asset-Backed Bonds	7.00	6/1/28	22,995,000	25,781,764
Madison, IDR (Madison Gas and Electric Co. Projects)	5.88	10/1/34	2,390,000	2,570,493
Wisconsin Health and Educational Facilities Authority, Revenue (Aurora Health Care)	6.40	4/15/33	4,000,000	4,458,240
Wyoming 0.8%				
Sweetwater County, SWDR (FMC Corp. Project)	5.60	12/1/35	4,500,000	4,751,595
U.S. Related 1.5%				
Children's Trust Fund of Puerto Rico, Tobacco Settlement Asset-Backed Bonds	0.00	5/15/55	20,000,000	691,600
Guam Housing Corp.,				

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SFMR (Collateralized; FHLMC) Puerto Rico Highway and Transportation Authority, Transportation Revenue	5.75 6.00	9/1/31 7/1/10	965,000 6,000,000 ^a	1,115,772 6,557,040
Total Long-Term Municipal Investments (cost \$832,074,074)				888,150,873

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STATEMENT OF INVESTMENTS (continued)

Short-Term Municipal Investment ^g	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Alaska; Valdez, Marine Terminal Revenue (BP Pipelines Project) (cost \$3,200,000)	3.85	10/1/06	3,200,000 ^f	3,200,000
Total Investments (cost \$835,274,074)			155.4%	891,350,873
Liabilities, Less Cash And Receivables			(5.7%)	(32,959,835)
Preferred Stock, at redemption value			(49.7%)	(285,000,000)
Net Assets Applicable to Common Shareholders			100.0%	573,391,038

^a These securities are prerefunded; the date shown represents the prerefunded date. Bonds which are prerefunded are collateralized by U.S. Government securities which are held in escrow and are used to pay principal and interest on the municipal issue and to retire the bonds in full at the earliest refunding date.

^b Purchased on a delayed delivery basis.

^c Non-income producing security; interest payments in default.

^d Collateral for floating rate borrowings.

^e 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 September 30, 2006, these securities amounted to \$79,218,624 or 13.8% of net assets applicable to Common Shareholders.

^f Securities payable on demand. Variable interest rate ^gsubject to periodic change.

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Summary of Abbreviations

ACA	American Capital Access	AGC	ACE Guaranty Corporation
AGIC	Asset Guaranty Insurance Company	AMBAC	American Municipal Bond Assurance Corporation
ARRN	Adjustable Rate Receipt Notes	BAN	Bond Anticipation Notes
BIGI	Bond Investors Guaranty Insurance	BPA	Bond Purchase Agreement

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CGIC	Capital Guaranty Insurance Company	CIC	Continental Insurance Company
CIFG	CDC Ixis Financial Guaranty	CMAC	Capital Market Assurance Corporation
COP	Certificate of Participation	CP	Commercial Paper
EDR	Economic Development Revenue	EIR	Environmental Improvement Revenue
FGIC	Financial Guaranty Insurance Company	FHA	Federal Housing Administration
FHLB	Federal Home Loan Bank	FHLMC	Federal Home Loan Mortgage Corporation
FNMA	Federal National Mortgage Association	FSA	Financial Security Assurance
GAN	Grant Anticipation Notes	GIC	Guaranteed Investment Contract
GNMA	Government National Mortgage Association	GO	General Obligation
HR	Hospital Revenue	IDB	Industrial Development Board
IDC	Industrial Development Corporation	IDR	Industrial Development Revenue
LOC	Letter of Credit	LOR	Limited Obligation Revenue
LR	Lease Revenue	MBIA	Municipal Bond Investors Assurance Insurance Corporation
MFHR	Multi-Family Housing Revenue	MFMR	Multi-Family Mortgage Revenue
PCR	Pollution Control Revenue	PILOT	Payment in Lieu of Taxes
RAC	Revenue Anticipation Certificates	RAN	Revenue Anticipation Notes
RAW	Revenue Anticipation Warrants	RRR	Resources Recovery Revenue
SAAN	State Aid Anticipation Notes	SBPA	Standby Bond Purchase Agreement
SFHR	Single Family Housing Revenue	SFMR	Single Family Mortgage Revenue
SONYMA	State of New York Mortgage Agency	SWDR	Solid Waste Disposal Revenue
TAN	Tax Anticipation Notes	TAW	Tax Anticipation Warrants
TRAN	Tax and Revenue Anticipation Notes	XLCA	XL Capital Assurance

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STATEMENT OF INVESTMENTS *(continued)*

Summary of Combined Ratings (Unaudited)

Fitch	or Moody's	or	Standard & Poor's	Value (%) [□]
AAA	Aaa		AAA	31.7
AA	Aa		AA	9.6
A	A		A	14.7
BBB	Baa		BBB	23.8
BB	Ba		BB	1.3
B	B		B	4.3
CCC	Caa		CCC	2.9
F1	MIG1/P1		SP1/A1	.4
Not Rated ⁹	Not Rated ⁹		Not Rated ⁹	11.3

100.0

□ Based on total investments.
 g 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 FINANCIAL FUTURES

September 30, 2006

	Contracts	Market Value Covered by Contracts (\$)	Expiration	Unrealized Depreciation at 9/30/2006 (\$)
Financial Futures Sold Short				
U.S. Treasury 10 Year Note	384	(41,496,000)	December 2006	(412,152)

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STATEMENT OF ASSETS AND LIABILITIES

September 30, 2006

	Cost	Value
Assets (\$):		
Investments in securities—See Statement of Investments	835,274,074	891,350,873
Cash		159,261
Cash on initial margin		230,400
Interest receivable		15,276,467
Receivable for futures variation margin—Note 4		36,000
Prepaid expenses		22,240
		907,075,241
Liabilities (\$):		
Due to The Dreyfus Corporation and affiliates—Note 3(b)		509,648
Payable for floating rate notes issued		39,205,000
Payable for investment securities purchased		5,529,320
Dividends payable to Common Shareholders		2,544,722
Interest and related expenses payable		540,606
Dividends payable to Preferred Shareholders		109,431

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Commissions payable	17,500
Administrative service fees	7,947
Accrued expenses	220,029
	48,684,203
<hr/>	
Auction Preferred Stock , Series M,T,W,Th and F par value \$.001 per share (11,400 shares issued and outstanding at \$25,000 per share liquidation preference)[]Note 1	285,000,000
<hr/>	
Net Assets applicable to Common Shareholders (\$)	573,391,038
<hr/>	
Composition of Net Assets (\$):	
Common Stock, par value, \$.001 per share (60,588,631 shares issued and outstanding)	60,589
Paid-in capital	571,211,179
Accumulated distributions in excess of investment income[]net	(193,590)
Accumulated net realized gain (loss) on investments	(53,351,787)
Accumulated net unrealized appreciation(depreciation) on investments [including (\$412,152) net unrealized (depreciation) on financial futures]	55,664,647
<hr/>	
Net assets applicable to Common Shareholders (\$)	573,391,038
<hr/>	
Shares Outstanding	
(500 million shares authorized)	60,588,631
Net Asset Value , per share of Common Stock (\$)	9.46

See notes to financial statements.

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STATEMENT OF OPERATIONS

Year ended September 30, 2006

Investment Income (\$):	
Interest Income	48,160,161
Expenses:	
Management fee[]Note 3(a)	6,359,839
Interest and related expenses	1,032,918
Commission fees[]Note 1	754,334
Custodian fees[]Note 3(b)	145,007
Shareholder servicing costs	123,674
Professional fees	79,693
Shareholders[] reports	77,382
Directors[] fees and expenses[]Note 3(c)	57,999
Registration fees	53,753
Interest expense[]Note 2	628
Miscellaneous	67,644
Total Expenses	8,752,871

Less reduction in management fee due to undertaking Note 3(a)	(847,978)
Less reduction in custody fees due to earnings credits Note 1	(1,488)
Net Expenses	7,903,405
Investment Income Net	40,256,756

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

Net realized gain (loss) on investments	2,341,497
Net unrealized appreciation (depreciation) on investments [including (\$412,152) net unrealized (depreciation) on financial futures]	2,965,687
Net Realized and Unrealized Gain (Loss) on Investments	5,307,184
Dividends on Preferred Stock	(8,930,919)
Net Increase in Net Assets Resulting from Operations	36,633,021

See notes to financial statements.

The Fund 27

STATEMENT OF CHANGES IN NET ASSETS

	Year Ended September 30,	
	2006	2005
Operations (\$):		
Investment income net	40,256,756	39,711,581
Net realized gain (loss) on investments	2,341,497	4,278,800
Net unrealized appreciation (depreciation) on investments	2,965,687	8,461,372
Dividends on Preferred Stock	(8,930,919)	(5,765,999)
Net Increase (Decrease) in Net Assets Resulting from Operations	36,633,021	46,685,754
Dividends to Common Shareholders from (\$):		
Investment income net	(31,506,090)	(34,656,704)
Total Increase (Decrease) in Net Assets	5,126,931	12,029,050
Net Assets (\$):		
Beginning of Period	568,264,107	556,235,057
End of Period	573,391,038	568,264,107
Undistributed (distributions in excess of) investment income net	(193,590)	75,988

See notes to financial statements.

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 dis-tributions. These figures have been derived from the fund's financial statements, and with respect to common stock, market price data for the fund's common shares.

	Year Ended September 30,				
	2006	2005	2004	2003	2002
Per Share Data (\$):					
Net asset value, beginning of period	9.38	9.18	9.14	9.37	9.66
Investment Operations:					
Investment income ^a	.66	.66	.63	.71	.81
Net realized and unrealized gain (loss) on investments	.09	.21	.12	(.15)	(.35)
Dividends on Preferred Stock from investment income ^{net}	(.15)	(.10)	(.06)	(.07)	(.08)
Total from Investment Operations	.60	.77	.69	.49	.38
Distributions to Common Shareholders:					
Dividends from investment income ^{net}	(.52)	(.57)	(.65)	(.72)	(.67)
Net asset value, end of period	9.46	9.38	9.18	9.14	9.37
Market value, end of period	9.18	8.87	8.86	9.38	10.11
Total Return (%)^b	9.74	6.87	1.55	.33	11.89
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets applicable to Common Stock ^{c,d}	1.55	1.47	1.43	1.48	1.48
Ratio of net expenses to average net assets applicable to Common Stock ^{c,d}	1.40	1.33	1.43	1.48	1.48
Ratio of net investment income to average net assets applicable to Common Stock ^c	7.15	7.03	6.97	7.86	8.61
Ratio of total expenses to total average net assets ^d	1.03	.98	.94	.97	.98
Ratio of net expenses to total average net assets ^d	.93	.89	.94	.97	.98
Ratio of net investment income to total average net assets	4.75	4.67	4.59	5.15	5.69
Portfolio Turnover Rate	31.44	27.96	27.31	54.79	36.81
Asset coverage of Preferred Stock, end of period	301	299	295	293	294
Net Assets, net of Preferred Stock, end of period (\$ x 1,000)	573,391	568,264	556,235	549,676	554,757
Preferred Stock outstanding, end of period (\$ x 1,000)	285,000	285,000	285,000	285,000	285,000

- a Based on average shares outstanding at each month end.
- b Calculated based on market value.
- c Does not reflect the effect of dividends to Preferred Stockholders.
Ratio of total expenses to average net assets and ratio of net expenses to average net assets for all periods have
- d been restated. This restatement has no impact on the fund's previously reported net assets, net investment income, net asset value or total return. See Note 5.

See notes to financial statements.

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NOTES TO FINANCIAL STATEMENTS

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 A. Melvin and John E. Zuccotti to represent holders of APS on the fund's Board of Directors.

The fund's financial statements are prepared in accordance with U.S. generally accepted accounting principles, which may require the use

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of management estimates and assumptions. Actual results could differ from those estimates.

The fund enters into contracts that contain a variety of indemnifications. The fund's maximum exposure under these arrangements is unknown. The fund does not anticipate recognizing any loss related to these arrangements.

(a) Portfolio valuation: Investments in municipal debt securities are valued on the last business day of each week and month by an independent pricing service (the "Service"). 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 accretion of discount and amortization of premium on investments, is earned from settlement date and recognized on the accrual basis. Securities purchased or sold on a when-issued or delayed-delivery basis may be settled a month or more after the trade date.

(c) Dividends to shareholders of Common Stock (Common Shareholders(s)) Dividends are recorded on the ex-dividend date. Dividends from investment income-net are declared and paid monthly.

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NOTES TO FINANCIAL STATEMENTS *(continued)*

Dividends from net realized capital gain, if any, are normally declared and paid annually, but the fund may make distributions on a more frequent basis to comply with the distribution requirements of the Internal Revenue Code of 1986, as amended (the Code). To the extent that net realized capital gain can be offset by capital loss carryovers, it is the policy of the fund not to distribute such gain. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from U.S. generally accepted accounting principles.

For Common Shareholders who elect to receive their distributions in additional shares of the fund, in lieu of cash, such distributions will be reinvested at the lower of the market price or net asset value per share (but not less than 95% of the market price) as defined in the dividend reinvestment and cash purchase plan.

On September 28, 2006, the Board of Directors declared a cash dividend of \$.042 per share from investment income-net, payable on November 1, 2006 to Common Shareholders of record as of the close of business on October 16, 2006.

(d) Dividends to shareholders of APS: For APS, dividends are currently reset every 7 days. The dividend rates in effect at September 30, 2006 were as follows: Series M-3.50%, Series T-3.54%, Series W-3.65%, Series TH-3.59% and Series F-3.59% .

(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.

On July 13, 2006, the Financial Accounting Standards Board (FASB) released FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions

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taken or expected to be taken in the course of preparing the fund's tax returns to determine whether the tax positions are more-likely-than-not of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. Adoption of FIN 48 is required for fiscal years beginning after December 15, 2006 and is to be applied to all open tax years as of the effective date. At this time, management is evaluating the implications of FIN 48 and its impact in the financial statements has not yet been determined.

At September 30, 2006, the components of accumulated earnings on a tax basis were as follows: undistributed tax exempt income \$2,829,622, accumulated capital losses \$53,139,510 and unrealized appreciation \$55,452,370.

The accumulated capital loss carryover is available to be applied against future net securities profits, if any, realized subsequent to September 30, 2006. If not applied, \$5,230,162 of the carryover expires in fiscal 2009, \$76,128 expires in fiscal 2010, \$20,575,114 expires in fiscal 2011 and \$27,258,106 expires in fiscal 2012.

The tax character of distributions paid to shareholders during the fiscal period ended September 30, 2006 and September 30, 2005, were as follows: tax exempt income \$40,437,009 and \$40,422,703, respectively.

During the period ended September 30, 2006, as a result of permanent book to tax differences, primarily due to the tax treatment for amortization adjustments, the fund decreased accumulated undistributed investment income-net by \$89,325, increased accumulated net realized gain (loss) on investments by \$72,930 and increased paid-in capital by the \$16,395. Net assets were not affected by this reclassification.

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 borrowing.

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NOTES TO FINANCIAL STATEMENTS *(continued)*

The average daily amount of borrowings outstanding under the line of credit during the period ended September 30, 2006 was approximately \$13,600, with a related weighted average annualized interest rate of 4.60% .

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 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 the next \$20 million and 1% of the excess over \$30 million of the average value of the fund's net assets. The fund has currently undertaken for the period from November 1, 2005 through November 30, 2006, to waive receipt of a portion of the fund's management fee, in the amount of .10 of the value of the fund's average weekly net assets (including net assets representing auction preferred stock outstanding). The reduction in management fee, pursuant to the undertaking, amounted to \$847,978 during the period ended September 30, 2006.

(b) The fund compensates Mellon Trust of New England, N.A., an affiliate of the Manager, under a custody agreement for providing custodial services to the fund. During the period ended September 30, 2006, the fund was charged \$145,007 pursuant to the custody agreement.

During the period ended September 30, 2006, the fund was charged \$4,374 for services performed by the Chief Compliance Officer.

The components of Due to The Dreyfus Corporation and affiliates in the Statement of Assets and Liabilities consist of: management fees \$527,908, custodian fees \$49,854 and chief compliance officer fees \$2,274, which are offset against an expense reimbursement currently in effect in the amount of \$70,388.

(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 and financial futures, during the period ended September 30, 2006, amounted to \$269,621,452 and \$263,567,118, respectively.

The fund may invest in financial futures contracts in order to gain exposure to or protect against changes in the market. The fund is exposed to market risk as a result of changes in the value of the underlying financial instruments. Investments in financial futures require a fund to "mark to market" on a daily basis, which reflects the change in the market value of the contract at the close of each day's trading. Typically, variation margin payments are received or made to reflect daily unrealized gains or losses. When the contracts are closed, a fund recognizes a realized gain or loss. These investments require initial margin deposits with a broker, which consist of cash or cash equivalents. The amount of these deposits is determined by the exchange or Board of Trade on which the contract is traded and is subject to change. Contracts open at September 30, 2006, are set forth in the Statements of Financial Futures.

At September 30, 2006, the cost of investments for federal income tax purposes was \$796,693,503; accumulated net unrealized appreciation on investments was \$55,452,370, consisting of \$56,444,791 gross unrealized appreciation and \$992,421 gross unrealized depreciation.

NOTE 5 **Restatement:**

Subsequent to the issuance of the September 30, 2006 financial statements, the fund determined that the transfers of certain tax-exempt municipal bond securities by the fund to special purpose bond trusts in connection with participation in inverse floater structures do not qualify for sale treatment under Statement of Financial Accounting Standard

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NOTES TO FINANCIAL STATEMENTS *(continued)*

No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities, and should have been accounted for as a secured borrowing.

The correction of the above item resulted in the restatement of the ratio of total and net expenses of the financial highlights table as shown below: