

DREYFUS STRATEGIC MUNICIPALS INC
Form N-30D
November 22, 2002

Dreyfus Strategic
Municipals, Inc.

ANNUAL REPORT September 30, 2002

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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THE FUND

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The Fund

Dreyfus
Strategic Municipals, Inc.

LETTER FROM THE CHAIRMAN

Dear Shareholder:

We present this annual report for Dreyfus Strategic Municipals, Inc., covering the 12-month period from October 1, 2001 through September 30, 2002. 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.

As a falling stock market dominated the financial headlines during the reporting period, bonds generally produced relatively attractive returns. Prices of bonds that are more interest-rate sensitive, such as high quality municipal securities, rallied as investors revised their expectations of the direction and timing of future interest-rate changes. On the other hand, the war on terrorism, instability in the Middle East and new disclosures of questionable accounting practices among U.S. corporations generally hurt securities that are more credit sensitive, such as lower rated bonds.

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Although negative investor sentiment has created a challenging market environment over the near term, we believe that the most critical issue for long-term performance is not investor psychology, but whether the economy and corporate profits achieve a sustainable uptrend. We have recently seen a number of positive fundamental factors suggesting that a moderate, if uneven, expansion of economic activity is likely.

If you have questions or are worried about current market conditions, we encourage you to talk with your financial advisor who can help you view current events from the perspective of long-term market trends. In the meantime, we at The Dreyfus Corporation intend to continue basing our investment decisions on an objective, long-term view of the financial markets.

Thank you for your continued confidence and support.

Sincerely,

Stephen E. Canter
Chairman and Chief Executive Officer
The Dreyfus Corporation
October 15, 2002

DISCUSSION OF FUND PERFORMANCE

W. Michael Petty, Portfolio Manager

How did Dreyfus Strategic Municipals, Inc. perform during the period?

For the 12-month period ended September 30, 2002, the fund achieved a total return of 4.02%.⁽¹⁾ Over the same period, the fund provided income dividends of \$0.6660 per share, which is equal to a distribution rate of 6.59%.⁽²⁾

We attribute the fund's positive overall performance to a generally favorable investment environment for municipal bonds, which benefited from falling interest rates and surging investor demand for investment alternatives to a volatile stock market. However, the fund's net asset value was hurt by its holdings of tax-exempt bonds issued on behalf of airlines, which suffered in the aftermath of the September 11 terrorist attacks and amid ongoing economic weakness.

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.

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.

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 what we believe are comparable securities at then prevailing yields. When we believe an opportunity exists, we also may seek to upgrade the portfolio's

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investments with newly issued bonds

The Fund

DISCUSSION OF FUND PERFORMANCE (CONTINUED)

that, in our opinion, have better structural or income characteristics than existing holdings.

What other factors influenced the fund's performance?

The fund has benefited from falling interest rates and a historically steep yield curve. When the reporting period began in October 2001, the nation was mired in a recession that had just been intensified by the September 11 terrorist attacks. In an attempt to stimulate renewed economic growth, the Federal Reserve Board continued to reduce short-term interest rates, driving the federal funds rate to its lowest level in 40 years. Municipal bond yields also declined in this environment.

At the same time, investors became increasingly concerned about widespread accounting irregularities and revelations of malfeasance among corporate executives at a number of major U.S. corporations. These concerns were aggravated by heightened international tensions related to the war on terrorism and possible military action in Iraq. Investor sentiment toward stocks turned sharply negative, and investors flocked toward relatively safe havens, such as municipal bonds, boosting bond prices further.

In this market environment, we continued our efforts to maintain the fund's income stream and credit quality by replacing maturing bonds, primarily with high quality, income-oriented securities. For example, many states have issued bonds backed by litigation settlements with the nation's tobacco companies, and these so-called "tobacco bonds" have featured relatively attractive yields

Our focus on credit quality continued during the reporting period. Ongoing economic weakness put pressure on corporate earnings and we have attempted to gradually reduce the fund's holdings of tax-exempt bonds issued on behalf of corporations. In addition, when we deemed it appropriate, we have attempted to replace corporate-backed municipals with income-oriented bonds that we believe have stronger foundations or are insured.⁽³⁾ However, the fund's existing holdings of

tax-exempt airline bonds have continued to languish after being hard-hit by the September 11 terrorist attacks, and it has made little sense to sell them at depressed prices. In the meantime, these bonds have continued to pay highly competitive levels of tax-exempt income.

Finally, despite the reporting period's low interest rates we were able to increase the fund's dividend distribution rate. That's because we locked in low rates on the fund's auction-rate preferred shares, which were first issued several years ago to provide the leverage required to enhance the fund's income stream. By extending the maturities of the fund's auction-rate preferred shares to as much as one year, we have effectively locked in today's historically low borrowing costs.

What is the fund's current strategy?

Our strategy remains the same. The fund is fully invested in tax-exempt bonds, using auction-rate preferred shares in an effort to maintain what we believe is a competitive income stream in today's low interest-rate environment. At the same time, we have continued to maintain a cautious posture, focusing on income and credit quality in an uncertain economic and market climate.

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October 15, 2002

- (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, 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.

The Fund

STATEMENT OF INVESTMENTS

September 30, 2002

| | Pr Amo |
|--|-----------|
| LONG-TERM MUNICIPAL INVESTMENTS--145.5% | |
| ----- | |
| ALABAMA--3.6% | |
| Alabama Industrial Development Authority, SWDR | |
| (Pine City Fiber Co.) 6.45%, 12/1/2023 | 4,7 |
| Birmingham Waterworks and Sewer Board, Water | |
| and Sewer Revenue 5%, 1/1/2037 (Insured; MBIA) | 6,0 |
| Houston County Health Care Authority | |
| 6.25%, 10/1/2030 (Insured; AMBAC) | 8,0 |
| ALASKA--1.5% | |
| Alaska Housing Finance Corp.: | |
| 6%, 12/1/2040 | 8 |
| 6%, 6/1/2049 (Insured; MBIA) | 4,0 |
| Valdez, Marine Terminal Revenue (BP Pipelines Inc. | |
| Project) 5.65%, 12/1/2028 | 3,2 |
| ARKANSAS--2.8% | |
| Arkansas Development Finance Authority, SFMR | |
| (Mortgage Backed Securities Program): | |

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| | |
|--|------|
| 6.45%, 7/1/2031 (Guaranteed; GNMA, FNMA) | 9,6 |
| 6.25%, 1/1/2032 (Guaranteed; GNMA) | 5,0 |
| ARIZONA--7.6% | |
| Apache County Industrial Development Authority, PCR | |
| (Tucson Electric Power Co. Project): | |
| 5.85%, 3/1/2028 | 3,9 |
| 5.875%, 3/1/2033 | 2,0 |
| Maricopa Pollution Control Corp., PCR | |
| (Public Service Co.) 5.75%, 11/1/2022 | 6,0 |
| Pima County Industrial Development Authority, Industrial | |
| Revenue (Tucson Electric Power Co. Project) | |
| 6%, 9/1/2029 | 14,5 |
| Scottsdale Industrial Development Authority, HR | |
| (Scottsdale Healthcare) 5.80%, 12/1/2031 | 6,0 |
| Tempe Industrial Development Authority, IDR | |
| (California Micro Devices Corp. Project) | |
| 10.50%, 3/1/2018 | 6,7 |
| Tucson, Water System Revenue | |
| 5%, 7/1/2021 (Insured; FGIC) | 3,5 |
| CALIFORNIA--4.5% | |
| California Pollution Control Financing Authority, PCR | |
| (Southern California Edison Co.) 7%, 2/28/2008 | 5,0 |
| State of California 9.037%, 12/1/2018 (Insured; FSA) | 10,0 |
| Los Angeles Regional Airports Improvement Corp., Lease | |
| Revenue (Los Angeles International Airport) | |
| 6.35%, 11/1/2025 | 4,9 |
| LONG-TERM MUNICIPAL INVESTMENTS (CONTINUED) | |
| ----- | |
| CALIFORNIA (CONTINUED) | |
| Port of Oakland, Revenue | |
| 5%, 11/1/2023 (Insured; FGIC) | 5,3 |

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COLORADO--1.4%

Denver City and County, Special Facilities Airport

Revenue (United Airlines Project)

6.875%, 10/1/2032

9,4

Northwest Parkway Public Highway Authority,

Revenue 7.125%, 6/15/2041

3,5

FLORIDA--4.0%

Escambia County, PCR

(Champion International Corp. Project)

6.90%, 8/1/2022

3,5

Florida Housing Finance Corp., Housing Revenue

(Nelson Park Apartments)

6.40%, 3/1/2040 (Insured; FSA)

12,3

Highlands County Health Facilities Authority, HR

(Adventist Health Systems) 5.25%, 11/15/2028

3,0

Orange County Health Facilities Authority, HR

(Regional Healthcare Systems) 6%, 10/1/2026

2,0

GEORGIA--2.8%

Georgia Housing Finance Authority, SFMR

6.45%, 12/1/2030

5,4

Private Colleges and Universities Facilities Authority,

Revenue (Clark Atlanta University Project)

8.25%, 1/1/2015 (Prerefunded 1/1/2003)

8,9

HAWAII--1.3%

Hawaii Department of Transportation,

Special Facility Revenue:

(Caterair International Corp. Project)

10.125%, 12/1/2010

3,7

(Continental Airlines, Inc.)

5.625%, 11/15/2027

6,8

IDAHO--.9%

Power County Industrial Development Corp, SWDR

(FMC Corp. Project) 6.45%, 8/1/2032

5,4

ILLINOIS--9.1%

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Chicago:

| | |
|-----------------------------------|------|
| 6.125%, 1/1/2028 (Insured; FGIC) | 15,8 |
| (Wastewater Transmission Revenue) | |
| 6%, 1/1/2030 (Insured; MBIA) | 3,0 |

STATEMENT OF INVESTMENTS (CONTINUED)

LONG-TERM MUNICIPAL INVESTMENTS (CONTINUED)

ILLINOIS (CONTINUED)

Chicago-O'Hare International Airport, Special Facility Revenue:

| | |
|--|------|
| (Delta Airlines Project) 6.45%, 5/1/2018 | 4,8 |
| (United Airlines, Inc. Project): | |
| 6.75%, 11/1/2011 | 2,0 |
| 6.30%, 5/1/2016 | 11,0 |

Illinois Development Finance Authority, Revenue

| | |
|--|-----|
| (Community Rehabilitation Providers Facilities Acquisition Program) 6%, 7/1/2015 | 3,5 |
|--|-----|

Illinois Health Facilities Authority, Revenue:

| | |
|---|-----|
| (Advocate Network Health Care) 6.125%, 11/15/2022 | 4,0 |
| (OSF Healthcare System) 6.25%, 11/15/2029 | 8,7 |
| (Swedish American Hospital) 6.875%, 11/15/2030 | 4,9 |

INDIANA--2.3%

Franklin Township Independent School Building Corp.,

| | |
|----------------------------------|-----|
| First Mortgage 6.125%, 1/15/2022 | 6,5 |
|----------------------------------|-----|

Indiana Housing Finance Authority, SFMR

| | |
|-----------------|-----|
| 5.95%, 1/1/2029 | 3,5 |
|-----------------|-----|

Indianapolis Airport Authority

| | |
|---|-----|
| (United Airlines Project) 6.50%, 11/15/2031 | 2,4 |
|---|-----|

KANSAS--1.9%

Wichita, HR (Christian Health System Inc.)

| | |
|-------------------|------|
| 6.25%, 11/15/2024 | 10,0 |
|-------------------|------|

KENTUCKY--3.0%

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Kenton County Airport Board, Airport Revenue

(Special Facilities-Delta Airlines Project):

| | |
|------------------|-----|
| 7.50%, 2/1/2020 | 6,0 |
| 7.125%, 2/1/2021 | 6,0 |
| 6.125%, 2/1/2022 | 9,2 |

LOUISIANA--1.8%

| | |
|---|------|
| Parish of Saint James, SWDR (Freeport-McMoRan Partnership Project) 7.70%, 10/1/2022 | 10,0 |
|---|------|

MAINE--.7%

| | |
|---|-----|
| Maine Housing Authority, Mortgage 5.30%, 11/15/2023 | 4,0 |
|---|-----|

MARYLAND--.0%

Baltimore County, PCR

| | |
|---|-----|
| (Bethlehem Steel Corp. Project) 7.50%, 6/1/2015 | 2,5 |
|---|-----|

MASSACHUSETTS--2.5%

Massachusetts Industrial Finance Agency, Revenue

| | |
|--|-----|
| (Ogden Haverhill Project) 5.60%, 12/1/2019 | 6,0 |
|--|-----|

LONG-TERM MUNICIPAL INVESTMENTS (CONTINUED) Pr
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MASSACHUSETTS (CONTINUED)

Massachusetts Health and Educational Facilities Authority,

Revenue:

(Beth Israel Hospital Issue)

| | |
|-----------------------------------|-----|
| 10.12%, 7/1/2025 (Insured; AMBAC) | 3,0 |
|-----------------------------------|-----|

| | |
|--|-----|
| (Partners Healthcare System) 5.75%, 7/1/2032 | 5,0 |
|--|-----|

MICHIGAN--3.7%

Michigan Hospital Finance Authority, HR:

| | |
|--|-----|
| (Ascension Health Credit) 6.125%, 11/15/2026 | 5,0 |
|--|-----|

| | |
|--|-----|
| (Crittenton Hospital) 5.625%, 3/1/2027 | 2,0 |
|--|-----|

(Genesys Health System Obligated Group)

| | |
|---|-----|
| 8.125%, 10/1/2021 (Prerefunded 10/1/2005) | 5,0 |
|---|-----|

Michigan Strategic Fund, SWDR

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| | |
|---|------|
| (Genesee Power Station Project) 7.50%, 1/1/2021 | 6,9 |
| MINNESOTA--2.2% | |
| Duluth Economic Development Authority, Health Care Facilities Revenue (Saint Luke's Hospital) 7.25%, 6/15/2032 | 5,0 |
| Minneapolis and Saint Paul Metropolitan Airports Commission, Special Facilities Revenue (Northwest Airlines Project) 7%, 4/1/2025 | 4,0 |
| Minnesota Housing Finance Agency, Residential Housing Finance 5%, 1/1/2020 | 4,5 |
| MISSISSIPPI--4.6% | |
| Claiborne County, PCR (Middle South Energy, Inc.) (System Energy Resources, Inc.) 6.20%, 2/1/2026 | 4,5 |
| Mississippi Business Finance Corp., PCR (System Energy Resource Inc. Project) 5.875%, 4/1/2022 | 22,7 |
| MISSOURI--2.1% | |
| Missouri Health and Educational Facilities Authority, Health Facilities Revenue (Saint Anthony's Medical Center) 6.25%, 12/1/2030 | 6,7 |
| Saint Louis Industrial Development Authority, Revenue (Saint Louis Convention Center) 7.25%, 12/15/2035 | 4,2 |
| MONTANA--1.6% | |
| Montana Board of Housing, Single Family Mortgage 6.45%, 6/1/2029 | 8,1 |
| NEVADA--3.4% | |
| Clark County, IDR (Southwest Gas Corp.) 7.50%, 9/1/2032 | 4,0 |

STATEMENT OF INVESTMENTS (CONTINUED)

LONG-TERM MUNICIPAL INVESTMENTS (CONTINUED)

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NEVADA (CONTINUED)

Washoe County (Reno-Sparks Convention Center)

6.40%, 7/1/2029 (Insured; FSA) 12,0

NEW HAMPSHIRE--2.7%

New Hampshire Business Finance Authority, PCR

(Public Service Co. of New Hampshire)

6%, 5/1/2021 (Insured; AMBAC) 7,0

New Hampshire Health and Educational Facilities Authority,

Revenue (Exeter Project):

6%, 10/1/2024 1,0

5.75%, 10/1/2031 1,0

New Hampshire Industrial Development Authority, PCR

(Connecticut Light and Power) 5.90%, 11/1/2016 5,0

NEW JERSEY--4.0%

New Jersey Economic Development Authority,
Special Facility Revenue (Continental Airlines Inc. Project)

6.40%, 9/15/2023 8,0

New Jersey Health Facilities Financing Authority, Revenue

(Christian Health Care Center) 8.75%, 7/1/2018 14,1

NEW MEXICO--1.7%

Farmington, PCR:

(El Paso Electric Co. Project)

6.375%, 6/1/2032 5,3

(Tucson Electric Power Co., San Juan)

6.95%, 10/1/2020 4,0

NEW YORK--2.7%

Long Island Power Authority,
New York Electric System Revenue

8.336% 12/1/2016 10,0

New York State Energy Research and Development
Authority, Electric Facilities Revenue
(Long Island Lighting Co.) 6.90%, 8/1/2022

3,2

NORTH CAROLINA--.4%

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| | |
|--|------|
| Charlotte, Special Facilities Revenue (Charlotte/Douglas International Airport) 5.60%, 7/1/2027 (Guaranteed; U.S. Air) | 5,1 |
| NORTH DAKOTA--2.5% | |
| North Dakota Housing Finance Agency, Home Mortgage Revenue (Housing Finance Program): | |
| 6.50%, 1/1/2031 | 9,6 |
| 6.15%, 7/1/2031 | 3,3 |
| LONG-TERM MUNICIPAL INVESTMENTS (CONTINUED) | |
| ----- | |
| OHIO--3.1% | |
| Ohio Air Quality Development Authority, PCR (Cleveland Electric Illuminating) | |
| 6.10%, 8/1/2020 (Insured; ACA) | 3,0 |
| Ohio Housing Finance Agency, Residential Mortgage Revenue: | |
| 6.25%, 9/1/2020 (Collateralized; GNMA) | 4,2 |
| 6.35%, 9/1/2031 (Collateralized; GNMA) | 4,2 |
| Ohio Water Development Authority, Pollution Control Facilities Revenue (Cleveland Electric Illuminating) | |
| 6.10%, 8/1/2020 (Insured; ACA) | 4,3 |
| OKLAHOMA--3.1% | |
| Oklahoma Industries Authority (Health System Obligated Group) 5.75%, 8/15/2029 | 12,2 |
| Tulsa Municipal Airport Trust, Revenue (American Airlines) 7.35%, 12/1/2011 | 4,8 |
| OREGON--1.6% | |
| Port of Portland, International Airport Revenue (Portland International Airport) | |
| 5.50%, 7/1/2024 (Insured; AMBAC) | 5,0 |
| Tigard--Tualatin School District No. 23 5.375%, 6/15/2019 (Insured; MBIA) | 3,0 |
| PENNSYLVANIA--3.2% | |

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| | |
|---|-----|
| Beaver County Industrial Development Authority, PCR | |
| (Cleveland Electric Project) 7.625%, 5/1/2025 | 7,0 |
| Pennsylvania Housing Financing Authority | |
| 10.291%, 4/1/2025 | 6,0 |
| York County Hospital Authority, Revenue | |
| (Health Center--Lutheran Social Services) | |
| 6.50%, 4/1/2022 | 4,2 |
| SOUTH CAROLINA--4.4% | |
| Greenville Hospital System, Hospital Facilities Revenue | |
| 5.50%, 5/1/2026 (Insured; AMBAC) | 5,0 |
| Piedmont Municipal Power Agency, Electric Revenue | |
| 6.55%, 1/1/2016 | 1,6 |
| Tobacco Settlement Revenue Management Authority, | |
| Tobacco Settlement Revenue: | |
| 6.375%, 5/15/2028 | 8,3 |
| 6.375%, 5/15/2030 | 8,9 |

STATEMENT OF INVESTMENTS (CONTINUED)

LONG-TERM MUNICIPAL INVESTMENTS (CONTINUED)

| | |
|---|------|
| ----- | |
| TENNESSEE--5.7% | |
| Knox County Health Educational and Housing Facilities | |
| Board, Hospital Facilities Revenue | |
| (Baptist Health System of Eastern Tennessee) | |
| 6.50%, 4/15/2031 | 6,0 |
| Memphis Center City Revenue Finance Corp., | |
| Tennessee Sports Facility Revenue | |
| (Memphis Redbirds) 6.50%, 9/1/2028 | 10,0 |
| Tennessee Housing Development Agency | |
| (Homeownership Program) 6.40%, 7/1/2031 | 13,9 |
| TEXAS--14.5% | |
| Austin Convention Enterprises Inc., Convention Center | |
| Hotel Revenue: | |

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| | |
|--|------|
| 5.75%, 1/1/2016 | 5,2 |
| 6.70%, 1/1/2028 | 4,0 |
| 5.75%, 1/1/2032 | 5,0 |
| Dallas-Fort Worth International Airport, Airport Facility Improvement Corp., Revenue (American Airlines Inc.) | |
| 6.375%, 5/1/2035 (Guaranteed; American Airlines Inc.) | 8,5 |
| Harris County Health Facilities Development Corp., HR (Memorial Hermann Hospital System Project) | |
| 6.375%, 6/1/2029 | 8,5 |
| Houston Airport System, Special Facilities Revenue, Airport Improvement (Continental Airlines): | |
| 6.125%, 7/15/2027 | 10,8 |
| 6.75%, 7/1/2029 | 8,2 |
| 5.70%, 7/15/2029 | 3,7 |
| Port Corpus Christi Authority, Nueces County General Revenue (Union Pacific Corp.) 5.65%, 12/1/2022 | 7,7 |
| Sabine River Authority, PCR (TXU Electric Co. Project) | |
| 6.45%, 6/1/2021 | 9,0 |
| Sam Rayburn Municipal Power Agency, Power Supply System Revenue 5.75%, 10/1/2021 | 6,0 |
| Texas Department of Housing and Community Affairs, Collateralized Home Mortgage Revenue | |
| 12.116%, 7/2/2024 | 4,4 |
| Texas Turnpike Authority, Central Texas Turnpike System Revenue 5.75%, 8/15/2038 (Insured; AMBAC) | 7,1 |
| Tyler Health Facilities Development Corp., HR (East Texas Medical Center Regional Health Care System Project) 6.75%, 11/1/2025 | 3,0 |

LONG-TERM MUNICIPAL INVESTMENTS (CONTINUED) Pr
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UTAH--.8%

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| | | |
|--|--|------|
| Carbon County, SWDR (Sunnyside Cogeneration) | | |
| 7.10%, 8/15/2023 | | 4,5 |
| VERMONT--1.2% | | |
| Vermont Housing Finance Agency, Single Family Housing | | |
| 6.40%, 11/1/2030 (Insured; FSA) | | 6,1 |
| VIRGINIA--2.2% | | |
| Greater Richmond Convention Center Authority, Hotel Tax | | |
| Revenue (Convention Center Expansion Project) | | |
| 6.25%, 6/15/2032 | | 10,5 |
| WASHINGTON--5.7% | | |
| Energy Northwest: | | |
| Electric Revenue 9.67%, 7/1/2018 (Insured; MBIA) | | 10,0 |
| Wind Project Revenue 5.875%, 7/1/2020 | | 3,0 |
| Public Utility District No. 1 of Pend Orielle County, Electric | | |
| Revenue 6.375%, 1/1/2015 | | 3,7 |
| Seattle, Water System Revenue | | |
| 6%, 7/1/2029 (Insured; FGIC) | | 10,0 |
| WEST VIRGINIA--6.4% | | |
| Braxton County, SWDR (Weyerhaeuser Co. Project): | | |
| 5.40%, 5/1/2025 | | 12,7 |
| 6.125%, 4/1/2026 | | 14,0 |
| West Virginia Housing Development Fund, | | |
| Housing Finance 6.50%, 5/1/2028 | | 5,9 |
| West Virginia Water Development Authority, Water | | |
| Development Revenue 6.375%, 7/1/2039 | | 2,2 |
| WISCONSIN--7.9% | | |
| Badger Tobacco Asset Securitization Corp., Tobacco | | |
| Settlement Revenue 7%, 6/1/2028 | | 24,0 |
| Wisconsin Health and Educational Facilities Authority, | | |
| Health, Hospital and Nursing Home Revenue | | |
| (Aurora Health Care Inc.) 5.60%, 2/15/2029 | | 8,7 |
| Wisconsin Housing and Economic Development Authority: | | |

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| | |
|--|-----|
| 11.104%, 7/1/2025 | 2,9 |
| 6.45%, 9/1/2030 | 6,3 |
| WYOMING--.9% | |
| Sweetwater County, SWDR (FMC Corp. Project): | |
| 7%, 6/1/2024 | 3,1 |
| 6.90%, 9/1/2024 | 2,0 |

STATEMENT OF INVESTMENTS (CONTINUED)

LONG-TERM MUNICIPAL INVESTMENTS (CONTINUED)

| | |
|--|-----|
| U. S. RELATED--1.5% | |
| Guam Housing Corp., SFMR | |
| 5.75%, 9/1/2031 (Collateralized; FHLMC) | 9 |
| Puerto Rico Highway and Transportation Authority, Transportation Revenue 6%, 7/1/2039 | 6,0 |
| TOTAL LONG-TERM MUNICIPAL INVESTMENTS | |
| (cost \$792,185,669) | |

SHORT-TERM MUNICIPAL INVESTMENTS--3.1%

| | |
|---|-----|
| ALASKA--1.0% | |
| Valdez, Marine Terminal Revenue, VRDN (Exxon Mobil Pipeline Co. Project) 2.05% | 5,4 |
| LOUISIANA--.1% | |
| East Baton Rouge Parish, PCR VRDN (Exxon Mobil Corp. Project) 2% | 6 |
| MASSACHUSETTS--.2% | |
| Massachusetts Health and Educational Facilities Authority, Revenue, VRDN (Capital Asset Program) | |
| 2.10% | 1,0 |
| PENNSYLVANIA--.1% | |
| Geisinger Authority, Health System Revenue, VRDN | |

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(Geisinger Health System)

2% (SBPA; Morgan Guaranty Trust Co.)

RHODE ISLAND--.8%

Rhode Island Industrial Facilities Corp., Marine

Terminal Revenue, VRDN (Exxon Mobil Corp.)

2.05%

TEXAS--.6%

Gulf Coast Waste Disposal Authority, PCR, VRDN

(Amoco Oil Co. Project) 2.05%

WYOMING--.3%

Uinta County, PCR, VRDN

(Amoco Oil Co. Project) 2.05%

TOTAL SHORT-TERM MUNICIPAL INVESTMENTS

(cost \$17,030,000)

TOTAL INVESTMENTS (cost \$809,215,669)

CASH AND RECEIVABLES (NET)

PREFERRED STOCK, AT REDEMPTION VALUE

NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS

Summary of Abbreviations

| | |
|-------|---|
| ACA | American Capital Access |
| AMBAC | American Municipal Bond Assurance Corporation |
| FGIC | Financial Guaranty Insurance Company |
| FHLMC | Federal Home Loan Mortgage Corporation |
| FNMA | Federal National Mortgage Association |
| FSA | Financial Security Assurance |
| GNMA | Government National Mortgage Association |

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| | |
|------|--|
| HR | Hospital Revenue |
| IDR | Industrial Development Revenue |
| MBIA | Municipal Bond Investors Assurance Insurance Corporation |
| PCR | Pollution Control Revenue |
| SBPA | Standby Bond Purchase Agreement |
| SFMR | Single Family Mortgage Revenue |
| SWDR | Solid Waste Disposal Revenue |
| VRDN | Variable Rate Demand Notes |

Summary of Combined Ratings (Unaudited)

| Fitch | or | Moody's | or | Standard & Poor's |
|---------------|----|---------------|----|-------------------|
| AAA | | Aaa | | AAA |
| AA | | Aa | | AA |
| A | | A | | A |
| BBB | | Baa | | BBB |
| BB | | Ba | | BB |
| B | | B | | B |
| CCC | | Caa | | CCC |
| CC | | Ca | | CC |
| F1 | | Mig1 | | SP1 |
| Not Rated (f) | | Not Rated (f) | | Not Rated (f) |

- (A) INVERSE FLOATER SECURITY--THE INTEREST RATE IS SUBJECT TO CHANGE PERIODICALLY.
- (B) 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 30,2002, THESE SECURITIES AMOUNTED TO \$37,975,997 OR 6.8% OF NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS.
- (C) 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.

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- (D) NON-INCOME PRODUCING SECURITY--INTEREST PAYMENTS IN DEFAULT.
- (E) SECURITIES PAYABLE ON DEMAND. VARIABLE INTEREST RATE--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.

The Fund

STATEMENT OF ASSETS AND LIABILITIES

September 30, 2002

| | Cost | Value |
|---|-------------|-------------|
| ----- | | |
| ASSETS (\$): | | |
| Investments in securities--See Statement of Investments | 809,215,669 | 824,147,854 |
| Cash | | 60,474 |
| Interest receivable | | 15,626,860 |
| Receivable for investment securities sold | | 7,026,072 |
| Prepaid expenses | | 213,271 |
| | | 847,074,531 |
| ----- | | |
| LIABILITIES (\$): | | |
| Due to The Dreyfus Corporation and affiliates | | 516,810 |
| Payable for investment securities purchased | | 6,211,320 |
| Dividends payable to preferred shareholders | | 283,274 |
| Commissions payable | | 21,871 |
| Accrued expenses | | 284,069 |
| | | 7,317,344 |
| ----- | | |
| 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 |
| ----- | | |

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| | |
|---|-------------|
| NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS (\$) | 554,757,187 |
|---|-------------|

COMPOSITION OF NET ASSETS (\$):

| | |
|--|--------------|
| Common Stock, par value \$.001 per share (59,234,687 shares issued and outstanding) | 59,235 |
| Paid-in capital | 558,737,374 |
| Accumulated undistributed investment income--net | 10,145,155 |
| Accumulated net realized gain (loss) on investments | (29,116,762) |
| Accumulated net unrealized appreciation (depreciation) on investments | 14,932,185 |
| NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS | 554,757,187 |

SHARES OUTSTANDING

| | |
|--|------------|
| (500 million shares of \$.001 par value Common Stock authorized) | 59,234,687 |
| NET ASSET VALUE PER SHARE OF COMMON STOCK (\$) | 9.37 |

SEE NOTES TO FINANCIAL STATEMENTS.

STATEMENT OF OPERATIONS

Year Ended September 30, 2002

INVESTMENT INCOME (\$):

| | |
|-----------------|------------|
| INTEREST INCOME | 55,476,805 |
|-----------------|------------|

EXPENSES:

| | |
|---|-----------|
| Management fee--Note 3(a) | 6,304,576 |
| Commission fee--Note 1 | 743,789 |
| Shareholder servicing costs | 145,907 |
| Custodian fees--Note 3(b) | 138,376 |
| Shareholders' reports | 93,390 |
| Directors' fees and expenses--Note 3(c) | 68,085 |
| Professional fees | 59,833 |
| Registration fees | 50,409 |
| Miscellaneous | 48,944 |
| TOTAL EXPENSES | 7,653,309 |

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INVESTMENT INCOME--NET 47,823,496

REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS--NOTE 4 (\$):

Net realized gain (loss) on investments (18,783,774)

Net unrealized appreciation (depreciation) on investments (2,508,827)

NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS (21,292,601)

DIVIDENDS ON PREFERRED STOCK (4,821,324)

NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS 21,709,571

SEE NOTES TO FINANCIAL STATEMENTS.

The Fund

STATEMENT OF CHANGES IN NET ASSETS

Year Ended September 30,

2002

2001 (a)

OPERATIONS (\$):

Investment income--net 47,823,496 48,099,612

Net realized gain (loss) on investments (18,783,774) (140,789)

Net unrealized appreciation (depreciation) on investments (2,508,827) 11,272,993

Dividends on Preferred Stock (4,821,324) (9,541,005)

NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS 21,709,571 49,690,811

DIVIDENDS TO COMMON SHAREHOLDERS FROM (\$):

INVESTMENT INCOME--NET (39,168,624) (32,904,664)

CAPITAL STOCK TRANSACTIONS (\$):

DIVIDENDS REINVESTED 6,491,435 --

TOTAL INCREASE (DECREASE) IN NET ASSETS (10,967,618) 16,786,147

NET ASSETS (\$):

Beginning of Period 565,724,805 548,938,658

END OF PERIOD 554,757,187 565,724,805

Undistributed investment income--net 10,145,155 6,453,159

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CAPITAL SHARE TRANSACTIONS (SHARES):

SHARES ISSUED FOR DIVIDENDS REINVESTED 685,471 --

(A) RESTATED TO CONFORM TO CURRENT YEAR'S PRESENTATION.

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 distributions. These figures have been derived from the fund's financial statements and market price data for the fund's common shares.

| | Year End | | |
|---|----------|----------|----------|
| | 2002 (a) | 2001 (b) | 2000 (c) |
| PER SHARE DATA (\$): | | | |
| Net asset value, beginning of period | 9.66 | 9.38 | 9.00 |
| Investment Operations: | | | |
| Investment income--net | .81 (c) | .82 | .82 |
| Net realized and unrealized gain (loss) on investments | (.35) | .18 | .18 |
| Dividends on Preferred Stock from net investment income | (.08) | (.16) | (.16) |
| Total from Investment Operations | .38 | .84 | .84 |
| Distributions to Common Shareholders: | | | |
| Dividends from investment income--net | (.67) | (.56) | (.56) |
| Dividends from net realized gain on investments | -- | -- | -- |
| Total Distributions to Common Shareholders | (.67) | (.56) | (.56) |
| Capital Stock transactions, net effect of Preferred Stock offerings | -- | -- | -- |
| Net asset value, end of period | 9.37 | 9.66 | 9.00 |

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| | | | |
|-----------------------------|-------|-------|-----|
| Market value, end of period | 10.11 | 9.69 | 89. |
| TOTAL RETURN (%) (D) | 11.89 | 20.22 | 14. |

FINANCIAL HIGHLIGHTS (CONTINUED)

| | Year Ended | | |
|---|-------------|-------------|-------------|
| | 2002 (a) | 2001 (b) | 2000 (c) |
| RATIOS/SUPPLEMENTAL DATA (%): | | | |
| Ratio of expenses to average net assets applicable to Common Stock | 1.38 (e, f) | 1.39 (e, f) | 1.25 (e, f) |
| Ratio of net investment income to average net assets applicable to Common Stock | 8.61 (e, f) | 8.49 (e, f) | 7.91 (e, f) |
| Portfolio Turnover Rate | 36.81 | 10.07 | 19.03 |
| Asset coverage of Preferred Stock, end of period | 294 | 299 | 295 |
| Net Assets, net of Preferred Stock, end of period (\$ x 1,000) | 554,757 | 565,725 | 548,939 |
| Preferred Stock outstanding, end of period (\$ x 1,000) | 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 REALIZED GAIN (LOSS) ON INVESTMENTS PER SHARE 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 PRIOR TO OCTOBER 1, 2001 HAVE NOT BEEN RESTATED TO REFLECT THIS CHANGE IN PRESENTATION.

(B) RESTATED TO CONFORM TO CURRENT YEAR'S PRESENTATION.

(C) BASED ON AVERAGE SHARES OUTSTANDING AT EACH MONTH END.

(D) CALCULATED BASED ON MARKET VALUE.

(E) DOES NOT REFLECT THE EFFECT OF DIVIDENDS TO PREFERRED STOCK SHAREHOLDERS.

(F) THE RATIO OF EXPENSES TO TOTAL AVERAGE NET ASSETS AND THE RATIO OF NET INVESTMENT INCOME TO TOTAL AVERAGE NET ASSETS WERE .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%,

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RESPECTIVELY, FOR THE YEAR ENDED SEPTEMBER 30, 2000.

SEE NOTES TO FINANCIAL STATEMENTS.

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") serves as the fund's investment adviser. The Manager is a direct subsidiary of Mellon Bank, N.A., which is a wholly-owned subsidiary of Mellon Financial Corporation. The fund's Common Stock trades on the New York Stock Exchange under the ticker symbol LEO.

The fund has issued and 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 dividends rates are determined pursuant to periodic auctions. Bankers Trust, 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.

The Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(a) Portfolio valuation: Investments in municipal 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

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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 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.

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 27, 2002, the Board of Directors declared a cash dividend to Common Shareholders of \$.060 per share from investment income-net, payable on October 25, 2002 to Common Shareholders of record as of the close of business on October 11, 2002.

(d) Dividends to shareholders of APS: For APS, dividends are currently reset every 7 days for Series M and Series Th. The dividend rate for Class T will be in effect until July 21, 2003. The dividend rate for Series W will be in effect until December 5, 2002. The dividend rate for Series F will be in effect until February 7, 2003. The dividend rates in effect at September 30, 2002 were as follows: Series M-1.40% , Series T-1.75%, Series W-2.30%, Series TH-1.25% and Series F-1.90%.

(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.

At September 30, 2002, the components of accumulated earnings on a tax basis were as follows: undistributed tax exempt income \$10,145,155, accumulated capital losses \$9,912,633 and unrealized appreciation \$15,080,043. In addition, the fund had \$19,096,458 of capital losses realized after October 31, 2001, which were deferred for tax purposes to the first day of the following fiscal year.

The Fund

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The accumulated capital loss carryover is available to be applied against future net securities profits, if any, realized subsequent to September 30, 2002. If not applied, \$9,836,505 of the carryover expires in fiscal 2009 and \$76,128 expires in fiscal 2010.

The tax character of distributions paid to shareholders during the fiscal periods ended September 30, 2002 and September 30, 2001, respectively, were as follows: tax exempt income \$43,989,948 and \$42,445,669.

During the period ended September 30, 2002, as a result of permanent book to tax differences, the fund decreased accumulated undistributed investment income-net by \$344,472, decreased accumulated net realized gain (loss) on investments by \$11,914 and increased paid-in capital by \$356,386. 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 borrowings. During the period ended September 30, 2002, 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 ("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 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. During the period ended September 30, 2002, there was no expense reimbursement pursuant to the Agreement.

(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 September 30, 2002, \$138,376 was charged by Boston Safe Deposit and Trust Company pursuant to the custody agreement.

(c) Each director who is not an "affiliated person" as defined in the Act receives from the fund an annual fee of \$4,500 and an attendance fee of \$500 per meeting. The Chairman of the Board receives an additional 25% of such compensation and the Director Emeritus receives 50% of such compensation.

NOTE 4--Securities Transactions:

The aggregate amount of purchases and sales of investment securities, excluding short-term securities, during the period ended September 30, 2002, amounted to \$300,048,018 and \$301,228,724, respectively.

At September 30, 2002, the cost of investments for federal income tax purposes was \$809,067,811; accordingly, accumulated net unrealized appreciation on investments was \$15,080,043, consisting of \$50,962,689 gross unrealized appreciation and \$35,882,646 gross unrealized depreciation.

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NOTE 5--Change in Accounting Principle:

(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. Prior to October 1, 2001, the fund amortized premiums on debt securities on a scientific basis but recognized market discount upon disposition. The cumulative effect of this accounting change had no impact on total net assets of the fund, but resulted in a \$202,920 increase in accumulated undistributed investment income-net and a corresponding \$202,920 decrease in accumulated net unrealized appreciation (depreciation), based on securities held by the fund on September 30, 2001.

The Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The effect of this change for the period ended September 30, 2002 was to increase net investment income by \$141,552, decrease net unrealized appreciation (depreciation) by \$52,608 and decrease net realized gains (losses) by \$88,944. The statement of changes in net assets and financial highlights for prior periods have not been restated to reflect this change in presentation.

(b) Effective October 1, 2000, the fund adopted the classification requirement of EITF D-98, Classification and Measurement of Redeemable Securities. EITF D-98 requires that preferred stock for which its redemption is outside of the fund's control should be presented outside of net assets in the statement of assets and liabilities. The redemption of the fund's preferred stock is outside of the control of the fund because of provisions in the fund's Articles Supplementary Creating Five Series of Auction Preferred Stock relating to compliance with rating agency guidelines. In adopting EITF D-98, the fund's net assets as of October 1, 2000 in the statement of changes in net assets is restated by excluding preferred stock valued at \$285,000,000 at that date. The adoption also resulted in dividends on preferred stock being reclassified from distributions on the statement of changes in net assets to a separate line item within the statement of operations. This resulted in a decrease of \$4,821,324 and \$9,541,005 to net assets from operations for the periods ended September 30, 2002 and September 30, 2001, respectively. As part of the adoption, per share distributions of dividends on preferred stock were reclassified from distributions to amounts from investment operations for each period presented in the financial highlights.

REPORT OF INDEPENDENT AUDITORS

Shareholders and Board of Directors

Dreyfus Strategic Municipals, Inc.

We have audited the accompanying statement of assets and liabilities of Dreyfus Strategic Municipals, Inc. including the statement of investments, as of September 30, 2002, and the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended, and financial highlights for each of the years indicated therein. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and

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financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights. Our procedures included verification by examination of securities held by the custodian as of September 30, 2002 and confirmation of securities not held by the custodian by correspondence with others. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Dreyfus Strategic Municipals, Inc. at September 30, 2002, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the indicated years, in conformity with accounting principles generally accepted in the United States.

New York, New York

November 7, 2002

The Fund

ADDITIONAL INFORMATION (Unaudited)

Dividend Reinvestment and Cash Purchase Plan

Under the fund's Dividend Reinvestment and Cash Purchase Plan (the "Plan"), a holder of Common Stock who has fund shares registered in his name will have all dividends and distributions reinvested automatically by The Bank of New York, as Plan agent (the "Agent"), in additional shares of the fund at the lower of prevailing market price or net asset value (but not less than 95% of market value at the time of valuation) unless such shareholder elects to receive cash as provided below. If market price is equal to or exceeds net asset value, shares will be issued at net asset value. If net asset value exceeds market price or if a cash dividend only is declared, the Agent, as agent for the Plan participants, will buy fund shares in the open market. A Plan participant is not relieved of any income tax that may be payable on such dividends or distributions.

A Common Shareholder who owns fund shares registered in nominee name through his broker/dealer (i.e., in "street name") may not participate in the Plan, but may elect to have cash dividends and distributions reinvested by his broker/dealer in additional shares of the fund if such service is provided by the broker/dealer; otherwise such dividends and distributions will be treated like any other cash dividend.

A Common Shareholder who has fund shares registered in his name may elect to withdraw from the Plan at any time for a \$2.50 fee and thereby elect to receive cash in lieu of shares of the fund. Changes in elections must be in writing, sent to The Bank of New York, Dividend Reinvestment Department, P.O. Box 1958, Newark, New Jersey 07101-9774, should include the shareholder's name and address as they appear on the Agent's records and will be effective only if received more than fifteen days prior to the record date for any distribution.

A Plan participant who has fund shares in his name has the option of making additional cash payments to the Agent, semi-annually, in any amount from \$1,000 to \$10,000, for investment in the fund's shares in the open market on or about January 15 and July 15. Any voluntary cash payments received more than 30 days

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prior to these dates will be returned by the Agent, and interest will not be paid on any uninvested

cash payments. A participant may withdraw a voluntary cash payment by written notice, if the notice is received by the Agent not less than 48 hours before the payment is to be invested. A Common Shareholder who owns fund shares registered in street name should consult his broker/dealer to determine whether an additional cash purchase option is available through his broker/dealer.

The Agent maintains all Common Shareholder accounts in the Plan and furnishes written confirmations of all transactions in the account. Shares in the account of each Plan participant will be held by the Agent in non-certificated form in the name of the participant, and each such participant's proxy will include those shares purchased pursuant to the Plan.

The fund pays the Agent's fee for reinvestment of dividends and distributions. Plan participants pay a pro rata share of brokerage commissions incurred with respect to the Agent's open market purchases and purchases from voluntary cash payments, and a \$1.25 fee for each purchase made from a voluntary cash payment.

The fund reserves the right to amend or terminate the Plan as applied to any voluntary cash payments made and any dividend or distribution paid subsequent to notice of the change sent to Plan participants at least 90 days before the record date for such dividend or distribution. The Plan also may be amended or terminated by the Agent on at least 90 days' written notice to Plan participants.

Managed Dividend Policy

The fund's dividend policy is to distribute substantially all of its net investment income to its shareholders on a monthly basis. In order to provide shareholders with a more consistent yield to the current trading price of shares of Common Stock of the fund, the fund may at times pay out less than the entire amount of net investment income earned in any particular month and may at times in any month pay out such accumulated but undistributed income in addition to net investment income earned in that month. As a result, the dividends paid by

The Fund

ADDITIONAL INFORMATION (Unaudited) (CONTINUED)

the fund for any particular month may be more or less than the amount of net investment income earned by the fund during such month. The fund's current accumulated but undistributed net investment income, if any, is disclosed in the Statement of Assets and Liabilities, which comprises part of the Financial Information included in this report.

Benefits and Risks of Leveraging

The fund utilizes leverage to seek to enhance the yield and net asset value of its Common Stock. These objectives cannot be achieved in all interest rate environments. To leverage, the fund issues Preferred Stock, which pays dividends at prevailing short-term interest rates, and invests the proceeds in long-term municipal bonds. The interest earned on these investments is paid to Common Shareholders in the form of dividends, and the value of these portfolio holdings is reflected in the per share net asset value of the fund's Common Stock. In order to benefit Common Shareholders, the yield curve must be positively sloped: that is, short-term interest rates must be lower than long-term interest rates. At the same time, a period of generally declining interest rates will benefit Common Shareholders. If either of these conditions change, then the risk of leveraging will begin to outweigh the benefits.

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Supplemental Information

For the period ended September 30, 2002, there were: (i) no material changes in the fund's investment objectives or policies, (ii) no changes in the fund's charter or by-laws that would delay or prevent a change of control of the fund, and (iii) no material changes in the principal risk factors associated with investment in the fund. In addition, on November 1, 2001, James Welch was assigned as the person primarily responsible for the day-to-day management of the fund's portfolio.

IMPORTANT TAX INFORMATION (Unaudited)

In accordance with federal tax law, the fund hereby designates all the dividends paid from investment income-net during the fiscal year ended September 30, 2002 as "exempt-interest dividends" (not generally subject to regular federal income tax) .

As required by federal tax law rules, shareholders will receive notification of their portion of the fund's taxable ordinary dividends (if any) and capital gain distributions (if any) paid for the 2002 calendar year on Form 1099-DIV which will be mailed by January 31, 2003.

The Fund

PROXY RESULTS (Unaudited)

Holders of Common Stock and holders of Auction Preferred Stock ("APS") voted together as a single class (except as noted below) on a proposal presented at the annual shareholders' meeting held on May 10, 2002 as follows:

| | |
|---|------------|
| | ----- |
| | For |
| | ----- |
| To elect two Class II Directors:(++) | |
| Ehud Houminer | 52,924,716 |
| Robin A. Pringle(++)(+) | 10,803 |
| (++) THE TERMS OF THESE CLASS II DIRECTORS EXPIRE IN 2005. | |
| (+)(+) ELECTED SOLELY BY APS HOLDERS; COMMON SHAREHOLDERS NOT ENTITLED TO VOTE. | |

BOARD MEMBERS INFORMATION (Unaudited)

JOSEPH S. DIMARTINO (58)

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CHAIRMAN OF THE BOARD (1995)

CURRENT TERM EXPIRES IN 2004

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:

* Corporate Director and Trustee

OTHER DIRECTORSHIPS AND AFFILIATIONS:

* The Muscular Dystrophy Association, Director

* Carlyle Industries, Inc., a button packager and distributor, Director

* Century Business Services, Inc., a provider of outsourcing functions for small and medium size companies, Director

* The Newark Group, a provider of a national market of paper recovery facilities, paperboard mills and paperboard converting plants, Director

* QuikCAT.com, a developer of high speed movement, routing, storage and encryption of data, Director

NO. OF PORTFOLIOS FOR WHICH BOARD MEMBER SERVES: 190

DAVID W. BURKE (66)

BOARD MEMBER (1994)

CURRENT TERM EXPIRES IN 2003

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:

* Corporate Director and Trustee

OTHER DIRECTORSHIPS AND AFFILIATIONS:

* John F. Kennedy Library Foundation, Director

* U.S.S. Constitution Museum, Director

NO. OF PORTFOLIOS FOR WHICH BOARD MEMBER SERVES: 59

WILLIAM HODDING CARTER III (67)

BOARD MEMBER (1988)

CURRENT TERM EXPIRES IN 2004

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:

* President and Chief Executive Officer of the John Sand James L. Knight Foundation; (1998-present)

* President and Chairman of MainStreet TV (1985-1998)

* Knight Professor in Journalism at the University of Maryland (1995-1998)

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NO. OF PORTFOLIOS FOR WHICH BOARD MEMBER SERVES: 7

The Fund

BOARD MEMBERS INFORMATION (Unaudited) (CONTINUED)

EHUD HOUMINER (61)

BOARD MEMBER (1994)

CURRENT TERM EXPIRES IN 2005

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:

* Professor and Executive-in-Residence at the Columbia Business School, Columbia University

* Principal of Lear, Yavitz and Associates, a management consulting firm

OTHER BOARD MEMBERSHIPS AND AFFILIATIONS:

* Avnet Inc., an electronics distributor, Director

* Super Sol Limited, an Israeli supermarket chain, Director

NO. OF PORTFOLIOS FOR WHICH BOARD MEMBER SERVES: 21

RICHARD C. LEONE (62)

BOARD MEMBER (1987)

CURRENT TERM EXPIRES IN 2004

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:

* President of The Century Foundation (formerly, The Twentieth Century Fund, Inc.), a tax exempt research foundation engaged in the study of economic, foreign policy and domestic issues

NO. OF PORTFOLIOS FOR WHICH BOARD MEMBER SERVES: 7

HANS C. MAUTNER (64)

BOARD MEMBER (1987)

CURRENT TERM EXPIRES IN 2003

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:

* Vice Chairman and a Director of Simon Property Group, a real estate investment company (1998-present)

* Chairman of Simon Global Limited (1998-present)

* Chairman, Chief Executive Officer and a Trustee of Corporate Property Investors (1977-1998)

NO. OF PORTFOLIOS FOR WHICH BOARD MEMBER SERVES: 7

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ROBIN A. PRINGLE (38)

BOARD MEMBER (1995)

CURRENT TERM EXPIRES IN 2005

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:

* Senior Vice President of The National Mentoring Partnership (formerly, The One to One Partnership), a national non-profit organization that seeks to promote mentoring and economic empowerment for at-risk youths

NO. OF PORTFOLIOS FOR WHICH BOARD MEMBER SERVES: 7

JOHN E. ZUCCOTTI (65)

BOARD MEMBER (1987)

CURRENT TERM EXPIRES IN 2003

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:

* Chairman of Brookfield Financial Properties, Inc.

NO. OF PORTFOLIOS FOR WHICH BOARD MEMBER SERVES: 7

THE ADDRESS OF EACH BOARD MEMBER IS C/O THE DREYFUS CORPORATION, 200 PARK AVENUE, NEW YORK, NEW YORK 10166.

The Fund

OFFICERS OF THE FUND (Unaudited)

STEPHEN E. CANTER, PRESIDENT SINCE MARCH 2000.

Chairman of the Board, Chief Executive Officer and Chief Operating Officer of the Manager, and an officer of 94 investment companies (comprised of 188 portfolios) managed by the Manager. Mr. Canter also is a Board member and, where applicable an Executive Committee Member of the other investment management subsidiaries of Mellon Financial Corporation, each of which is an affiliate of the Manager. He is 57 years old, and has been an employee of the Manager since May 1995.

MARK N. JACOBS, VICE PRESIDENT SINCE MARCH 2000.

Executive Vice President, Secretary and General Counsel of the Manager, and an officer of 95 investment companies (comprised of 202 portfolios) managed by the Manager. He is 56 years old, and has been an employee of the Manager since June 1977.

A. PAUL DISDIER, EXECUTIVE VICE PRESIDENT SINCE MARCH 2000.

Executive Vice President of the fund, Director of Dreyfus Municipal Securities, and an officer of 3 investment companies (comprised of 3 portfolios) managed by the Manager. He is 47 years old, and has been an employee of the Manager since February 1988.

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MICHAEL A. ROSENBERG, SECRETARY SINCE MARCH 2000.

Associate General Counsel of the Manager, and an officer of 93 investment companies (comprised of 198 portfolios) managed by the Manager. He is 42 years old, and has been an employee of the Manager since October 1991.

STEVEN F. NEWMAN, ASSISTANT SECRETARY SINCE MARCH 2000.

Associate General Counsel and Assistant Secretary of the Manager, and an officer of 95 investment companies (comprised of 202 portfolios) managed by the Manager. He is 53 years old, and has been an employee of the Manager since July 1980.

JOHN B. HAMMALIAN, ASSISTANT SECRETARY SINCE MARCH 2000.

Associate General Counsel and Assistant Secretary of the Manager, and an officer of 36 investment companies (comprised of 43 portfolios) managed by the Manager. He is 39 years old, and has been an employee of the Manager since February 1991.

JAMES WINDELS, TREASURER SINCE NOVEMBER 2001.

Director - Mutual Fund Accounting of the Manager, and an officer of 95 investment companies (comprised of 202 portfolios) managed by the Manager. He is 44 years old, and has been an employee of the Manager since April 1985.

GREGORY S. GRUBER, ASSISTANT TREASURER SINCE MARCH 2000.

Senior Accounting Manager - Municipal Bond Funds of the Manager, and an officer of 29 investment companies (comprised of 55 portfolios) managed by the Manager. He is 43 years old, and has been an employee of the Manager since August 1981.

KENNETH SANDGREN, ASSISTANT TREASURER SINCE NOVEMBER 2001.

Mutual Funds Tax Director of the Manager, and an officer of 95 investment companies (comprised of 202 portfolios) managed by the Manager. He is 48 years old, and has been an employee of the Manager since June 1993.

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

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and Registrar
(Common Stock)

The Bank of New York
101 Barclay Street
New York, NY 10286

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