

DREYFUS STRATEGIC MUNICIPALS INC  
Form N-CSRS  
May 28, 2014

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

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT  
INVESTMENT COMPANIES

Investment Company Act file number      811-5245

Dreyfus Strategic Municipals, Inc.  
(Exact name of Registrant as specified in charter)

c/o The Dreyfus Corporation

200 Park Avenue

New York, New York 10166  
(Address of principal executive offices) (Zip code)

John Pak, Esq.

200 Park Avenue

New York, New York 10166  
(Name and address of agent for service)

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

Date of fiscal year end:      9/30

Date of reporting period:      3/31/14



**FORM N-CSR**

**Item 1. Reports to Stockholders.**

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# Dreyfus Strategic Municipals, Inc.

SEMIANNUAL REPORT March 31, 2014

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## Dreyfus Strategic Municipals, Inc.

### Protecting Your Privacy

#### Our Pledge to You

**THE FUND IS COMMITTED TO YOUR PRIVACY.** On this page, you will find the Fund's policies and practices for collecting, disclosing, and safeguarding "nonpublic personal information," which may include financial or other customer information. These policies apply to individuals who purchase Fund shares for personal, family, or household purposes, or have done so in the past. This notification replaces all previous statements of the Fund's consumer privacy policy, and may be amended at any time. We'll keep you informed of changes as required by law.

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

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

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

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

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

*Thank you for this opportunity to serve you.*

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

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

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## FOR MORE INFORMATION

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Dreyfus  
Strategic Municipals, Inc.

## The Fund

### A LETTER FROM THE PRESIDENT

Dear Shareholder:

This semiannual report for Dreyfus Strategic Municipals, Inc. covers the six-month period from October 1, 2013, through March 31, 2014. For information about how the fund performed during the reporting period, as well as general market perspectives, we provide a Discussion of Fund Performance on the pages that follow.

Municipal bonds generally stabilized over the past six months in the wake of previously heightened volatility, enabling them to post positive total returns, on average, for the reporting period. Investors generally took the Federal Reserve Board's gradual shift to a more moderately accommodative monetary policy in stride, investor demand rebounded while the supply of newly issued securities ebbed, and most states and municipalities saw improved credit conditions in the recovering U.S. economy.

We remain cautiously optimistic regarding the municipal bond market's prospects over the months ahead. We expect the domestic economy to continue to strengthen over the next year, which could support higher tax revenues for most states and municipalities. We also anticipate rising demand for a limited supply of securities as more income-oriented investors seek the tax advantages of municipal bonds. However, municipal bonds could prove sensitive to rising long-term interest rates as the economic recovery gains additional traction. As always, we encourage you to discuss our observations with your financial advisor to assess their potential impact on your investments.

Thank you for your continued confidence and support.

J. Charles Cardona  
President

The Dreyfus Corporation  
April 15, 2014

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## DISCUSSION OF FUND PERFORMANCE

*For the period of October 1, 2013, through March 31, 2014, as provided by Daniel Barton and Steven Harvey, Portfolio Managers*

### Fund and Market Performance Overview

For the six-month period ended March 31, 2014, Dreyfus Strategic Municipals, Inc. achieved a total return of 8.17% on a net-asset-value basis.<sup>1</sup> Over the same period, the fund provided aggregate income dividends of \$0.2940 per share, which reflects a distribution rate of 7.26%.<sup>2</sup>

Despite heightened volatility early in the reporting period, municipal bonds fared relatively well as investor demand rebounded, the supply of newly issued municipal securities declined, and credit conditions generally improved. The fund's emphasis on longer term and lower rated securities contributed to the positive performance.

### 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, portfolio construction focuses on income opportunities, through analysis of each bond's structure, including paying close attention to each bond's yield, maturity and early redemption features. When making new investments, we focus on identifying undervalued sectors and securities, and we minimize reliance on interest rate forecasting. We select municipal bonds based on fundamental credit analysis to estimate the relative value and attractiveness of various sectors and securities and to exploit pricing inefficiencies in the municipal bond market. We actively trade among various sectors, such as escrowed, general obligation and revenue, based on their apparent relative values. Leverage, which is utilized in the portfolio in order to generate

### The Fund 3

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## DISCUSSION OF FUND PERFORMANCE *(continued)*

a higher level of current income exempt from regular federal income taxes, does amplify the fund's exposure to interest rate movements, and, potentially, gains or losses, especially those among the longest maturities.

### Municipal Bonds Rebounded from Earlier Weakness

After struggling with rising long-term interest rates in a recovering U.S. economy, municipal bonds stabilized over the fourth quarter of 2013, and the first three months of 2014 witnessed a market recovery. Uncertainty regarding changes in U.S. monetary policy was largely resolved in December when the Federal Reserve Board (the "Fed") began to taper its quantitative easing program, helping buoy investor demand for fixed-income securities. Demand was particularly robust for higher yielding securities when investors sought to reinvest interest payments in municipal bonds with higher coupon rates. Demand from nontraditional investors, such as banks, also proved strong. Meanwhile, the supply of newly issued municipal bonds declined due to less refinancing activity in the rising interest rate environment.

The economic rebound resulted in better underlying credit conditions for most issuers, as improving tax revenues and reduced spending enabled many states to balance their budgets and replenish reserves. However, credit concerns lingered with regard to the fiscal problems of two major issuers: The City of Detroit filed for bankruptcy protection during the summer of 2013, and in September, municipal bonds issued by Puerto Rico lost value after media reports detailed the U.S. territory's economic challenges. The fund's holdings in Detroit's water and sewer revenue bonds detracted from returns. Additionally positions in general obligation and revenue bonds in Puerto Rico were negative for relative results.

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### Lower Rated Securities Boosted Relative Performance

The fund's strong relative performance during the reporting period was fueled in part by overweighted positions in BBB-rated and high yield municipal bonds. Lower rated credits rebounded sharply as investor confidence returned to the municipal bond market, and the fund received especially good results from bonds backed by revenues from hospitals, industrial business districts, and the states' settlement of litigation with U.S. tobacco companies. The fund also benefited from a longer average duration, as a focus on longer maturities enabled it to participate more fully in gains at the longer end of the maturity spectrum.

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The fund's leveraging strategy magnified the positive impact of these strategies. During the reporting period, we replaced some of the auction-rate preferred securities issued to fund our leveraging strategy with tender option bonds.

Although disappointments proved relatively mild, even light exposure to Puerto Rico bonds weighed on relative performance. Higher quality essential-services revenue bonds also lagged market averages.

### Staying Focused on Income

We believe that recently improved market trends have been driven, in part, by investors returning their focus to market and issuer fundamentals now that the Fed is tapering its quantitative easing program, and we expect this positive trend to continue. However, we remain watchful for stronger-than-expected economic data, which could drive longer term interest rates higher and cause yield differences to widen along the market's maturity spectrum. In the meantime, we have continued to emphasize income-oriented municipal bonds, including those with lower credit ratings and longer maturities.

April 15, 2014

*Bond funds are subject generally to interest rate, credit, liquidity, and market risks, to varying degrees. Generally, all other factors being equal, bond prices are inversely related to interest-rate changes, and rate increases can cause price declines. High yield bonds are subject to increased credit risk and are considered speculative in terms of the issuer's perceived ability to continue making interest payments on a timely basis and to repay principal upon maturity. The use of leverage may magnify the fund's gains or losses. For derivatives with a leveraging component, adverse changes in the value or level of the underlying asset can result in a loss that is much greater than the original investment in the derivative.*

*1 Total return includes reinvestment of dividends and any capital gains paid, based upon net asset value per share. Past performance is no guarantee of future results. Market price per share, net asset value per share, and investment return fluctuate. Income may be subject to state and local taxes, and some income may be subject to the federal alternative minimum tax (AMT) for certain investors. Capital gains, if any, are fully taxable. Return figure provided reflects the absorption of certain fund expenses by The Dreyfus Corporation pursuant to an agreement in effect until November 30, 2014, 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 Annualized distribution rate per share is based upon dividends per share paid from net investment income during the period, annualized divided by the market price per share at the end of the period, adjusted for any capital gain distributions.*

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## STATEMENT OF INVESTMENTS

March 31, 2014 (Unaudited)

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<b>Long-Term Municipal Investments—153.7%</b>	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
<b>Alabama—1.3%</b>				
Jefferson County, Limited Obligation School Warrants	5.25	1/1/17	4,520,000	4,544,815
Jefferson County, Limited Obligation School Warrants	5.00	1/1/24	2,000,000	1,987,960
<b>Alaska—1.6%</b>				
Northern Tobacco Securitization Corporation of Alaska, Tobacco Settlement Asset-Backed Bonds	5.00	6/1/46	12,190,000	8,505,938
<b>Arizona—4.5%</b>				
Arizona Housing Finance Authority, SFMR (Mortgage-Backed Securities Program) (Collateralized: FHLMC, FNMA and GNMA)	5.55	12/1/41	1,615,000	1,667,471
Barclays Capital Municipal Trust Receipts (Series 21 W) Recourse (Salt River Project Agricultural Improvement and Power District, Salt River Project Electric System Revenue)	5.00	1/1/38	17,207,871 a,b	18,496,384
Pima County Industrial Development Authority, Education Revenue (American Charter Schools Foundation Project)	5.63	7/1/38	3,410,000	2,926,019
Salt Verde Financial Corporation, Senior Gas Revenue	5.00	12/1/37	500,000	528,625
<b>California—17.9%</b>				
Alameda Corridor Transportation Authority, Senior Lien Revenue	5.00	10/1/20	1,730,000	2,016,453
Barclays Capital Municipal Trust Receipts (Series 80 W) Recourse (Los Angeles Department of Airports, Senior Revenue (Los				



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Angeles International Airport)) California,	5.00	5/15/31	5,247,500 a,b	5,783,998
GO (Various Purpose)	5.75	4/1/31	10,800,000	12,497,868

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<b>Long-Term Municipal Investments (continued)</b>	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
<b>California (continued)</b>				
California,				
GO (Various Purpose)	6.50	4/1/33	10,000,000	12,202,900
California,				
GO (Various Purpose)	6.00	11/1/35	7,500,000	8,853,375
California Statewide Communities Development Authority, Revenue (Bentley School)	7.00	7/1/40	2,090,000	2,284,788
California Statewide Communities Development Authority, Student Housing Revenue (CHF-Irvine, LLC-UCI East Campus Apartments, Phase II)	5.75	5/15/32	2,000,000	2,076,980
JPMorgan Chase Putters/Drivers Trust (Series 3851) Non-recourse (California Educational Facilities Authority, Revenue (University of Southern California))	5.25	10/1/16	10,100,000 a,b	11,294,628
JPMorgan Chase Putters/Drivers Trust (Series 4361) Non-recourse (Los Angeles Department of Water and Power, Water System Revenue)	5.00	7/1/20	5,000,000 a,b	5,375,400
RIB Floater Trust (Barclays Bank PLC) (Series 23 U) Recourse (The Regents of the University of California, General Revenue)	5.00	5/15/38	10,000,000 a,b	10,913,300
Sacramento County, Airport System Subordinate and Passenger Facility Charges Grant Revenue	6.00	7/1/35	6,250,000	7,091,438
San Buenaventura,				

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Revenue (Community Memorial Health System)	7.50	12/1/41	2,000,000	2,255,940
San Francisco City and County Redevelopment Agency Community Facilities District Number 6, Special Tax Revenue (Mission Bay South Public Improvements)	5.00	8/1/23	1,000,000	1,118,370

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STATEMENT OF INVESTMENTS (Unaudited) (continued)

<b>Long-Term Municipal Investments (continued)</b>	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
<b>California (continued)</b>				
Tobacco Securitization Authority of Southern California, Tobacco Settlement Asset-Backed Bonds (San Diego County Tobacco Asset Securitization Corporation)	5.00	6/1/37	7,300,000	5,575,813
Tuolumne Wind Project Authority, Revenue (Tuolumne Company Project)	5.88	1/1/29	3,500,000	4,026,645
<b>Colorado—5.4%</b>				
Beacon Point Metropolitan District, GO Colorado Educational and Cultural Facilities Authority, Charter School Revenue (American Academy Project)	8.00	12/1/40	3,500,000	4,013,520
JPMorgan Chase Putters/Drivers Trust (Series 4386) Non-recourse (Board of Governors of the Colorado State University, System Enterprise Revenue)	5.00	3/1/20	7,500,000 a,b	8,054,400
RIB Floater Trust (Barclays Bank PLC) (Series 25 U-1) Recourse (Colorado Springs, Utilities System Improvement Revenue)	5.00	11/15/43	9,750,000 a,b	10,573,924

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Southlands Metropolitan District				
Number 1, GO (Prerefunded)	7.13	12/1/14	2,000,000 <sup>c</sup>	2,093,000
The Plaza Metropolitan District				
Number 1, Revenue	5.00	12/1/17	1,170,000	1,248,647
<b>District of Columbia—4.2%</b>				
RIB Floater Trust (Barclays Bank PLC) (Series 15 U) Recourse (District of Columbia, Income Tax Secured Revenue)	5.00	12/1/35	19,997,609 <sup>a,b</sup>	21,979,109
<b>Florida—5.7%</b>				
Clearwater, Water and Sewer Revenue	5.25	12/1/39	5,000,000	5,343,900
Greater Orlando Aviation Authority, Airport Facilities Revenue	6.25	10/1/20	8,000,000	9,570,080

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<b>Long-Term Municipal Investments (continued)</b>	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
<b>Florida (continued)</b>				
Mid-Bay Bridge Authority, Springing Lien Revenue	7.25	10/1/34	6,000,000	6,839,760
Saint Johns County Industrial Development Authority, Revenue (Presbyterian Retirement Communities Project)	6.00	8/1/45	6,500,000	6,848,595
Village Community Development District Number 10, Special Assessment Revenue	6.00	5/1/44	1,000,000	1,024,740
<b>Georgia—6.5%</b>				
Atlanta, Water and Wastewater Revenue	6.00	11/1/27	6,000,000	7,127,100
Atlanta, Water and Wastewater Revenue (Insured; Assured Guaranty Municipal Corp.)	5.25	11/1/34	4,000,000	4,311,080
Brooks County Development Authority, Senior Health and Housing Facilities Revenue				

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(Presbyterian Home, Quitman, Inc.)				
(Collateralized; GNMA)	5.70	1/20/39	4,445,000	4,584,084
Georgia Higher Education				
Facilities Authority, Revenue				
(USG Real Estate Foundation I, LLC Project) (Insured; Assured				
Guaranty Corp.)	5.63	6/15/38	6,000,000	6,649,200
RIB Floater Trust (Barclays Bank PLC) (Series 20 U) Recourse				
(Private Colleges and Universities Authority, Revenue (Emory University))	5.00	10/1/43	10,000,000 <sup>a,b</sup>	10,903,600
<b>Hawaii—9%</b>				
Hawaii Department of Budget and Finance, Special Purpose Revenue (Hawai'i Pacific Health Obligated Group)	5.75	7/1/40	4,415,000	4,739,767
<b>Idaho—1.0%</b>				
Power County Industrial Development Corporation, SWDR (FMC Corporation Project)	6.45	8/1/32	5,000,000	5,006,200

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STATEMENT OF INVESTMENTS (Unaudited) (continued)

<b>Long-Term Municipal Investments (continued)</b>	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
<b>Illinois—5.6%</b>				
Chicago, General Airport Senior Lien Revenue (Chicago O'Hare International Airport)	5.00	1/1/24	5,550,000	6,080,913
Chicago, General Airport Third Lien Revenue (Chicago O'Hare International Airport)	5.63	1/1/35	5,000,000	5,400,950
Chicago, GO JPMorgan Chase Putters/Drivers	5.00	1/1/24	2,500,000	2,683,125

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Trust (Series 4360) Non-recourse (Greater Chicago Metropolitan Water Reclamation District, GO Capital Improvement Bonds)	5.00	12/1/19	7,500,000 <sup>a,b</sup>	8,075,250
Railsplitter Tobacco Settlement Authority, Tobacco Settlement Revenue	6.00	6/1/28	5,050,000	5,807,601
University of Illinois Board of Trustees, Auxiliary Facilities System Revenue (University of Illinois)	5.00	4/1/44	1,000,000	1,051,840
<b>Indiana— .3%</b>				
Indiana Finance Authority, Revenue (Marquette Project)	5.00	3/1/39	1,400,000	1,361,080
<b>Iowa— 1.7%</b>				
Iowa Finance Authority, Midwestern Disaster Area Revenue (Iowa Fertilizer Company Project)	5.25	12/1/25	7,375,000	7,186,274
Tobacco Settlement Authority of Iowa, Tobacco Settlement Asset-Backed Bonds	5.60	6/1/34	2,000,000	1,702,540
<b>Kentucky— .5%</b>				
Louisville/Jefferson County Metro Government, Health Facilities Revenue (Jewish Hospital and Saint Mary's HealthCare, Inc. Project) (Prerefunded)	6.13	2/1/18	2,300,000 <sup>c</sup>	2,747,074

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<b>Long-Term Municipal Investments (continued)</b>	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
<b>Louisiana— 1.7%</b>				
Lakeshore Villages Master Community Development District, Special Assessment Revenue	5.25	7/1/17	2,979,000 <sup>d</sup>	1,177,301
Louisiana Local Government Environmental Facilities and Community Development				

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Authority, Revenue (Westlake Chemical Corporation Projects)	6.75	11/1/32	7,000,000	7,750,960
<b>Maine—0.7%</b>				
Maine Health and Higher Educational Facilities Authority, Revenue (MaineGeneral Medical Center Issue)	7.50	7/1/32	3,000,000	3,412,020
<b>Maryland—1.9%</b>				
JPMorgan Chase Putters/Drivers Trust (Series 4422) Non-recourse (Mayor and City Council of Baltimore, Project Revenue (Water Projects))	5.00	7/1/21	9,000,000 a,b	9,784,575
<b>Massachusetts—11.1%</b>				
Barclays Capital Municipal Trust Receipts (Series 15 W) Recourse (Massachusetts Health and Educational Facilities Authority, Revenue (Massachusetts Institute of Technology Issue))	5.00	7/1/38	13,110,000 a,b	14,400,024
JPMorgan Chase Putters/Drivers Trust (Series 3840) Non-recourse (Massachusetts Development Finance Agency, Revenue (Harvard University Issue))	5.25	2/1/34	10,000,000 a,b	11,417,900
JPMorgan Chase Putters/Drivers Trust (Series 3898) Non-recourse (Massachusetts, Consolidated Loan)	5.00	4/1/19	8,600,000 a,b	9,970,066
JPMorgan Chase Putters/Drivers Trust (Series 4420) Non-recourse (Massachusetts School Building Authority, Senior Dedicated Sales Tax Revenue)	5.00	5/15/21	10,000,000 a,b	10,865,100

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STATEMENT OF INVESTMENTS (Unaudited) (continued)

Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
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<b>Massachusetts (continued)</b>				
Massachusetts Educational Financing Authority, Education				
Loan Revenue (Issue K)	5.25	7/1/29	5,000,000	5,061,350
Massachusetts Health and Educational Facilities Authority, Revenue (Suffolk University Issue)				
	6.25	7/1/30	5,650,000	6,341,390
<b>Michigan—8.2%</b>				
Charyl Stockwell Academy, COP				
	5.90	10/1/35	2,580,000	2,371,330
Detroit, Sewage Disposal System Senior Lien Revenue (Insured; Assured Guaranty Municipal Corp.)				
	7.00	7/1/27	2,500,000	2,666,475
Detroit, Sewage Disposal System Senior Lien Revenue (Insured; Assured Guaranty Municipal Corp.)				
	7.50	7/1/33	5,700,000	6,074,148
Detroit, Water Supply System Senior Lien Revenue				
	5.00	7/1/31	3,000,000	2,867,790
Detroit, Water Supply System Senior Lien Revenue				
	5.25	7/1/41	2,000,000	1,895,900
Kent Hospital Finance Authority, Revenue (Metropolitan Hospital Project)				
	6.00	7/1/35	2,930,000	3,052,708
Michigan Hospital Finance Authority, HR (Henry Ford Health System)				
	5.63	11/15/29	5,000,000	5,281,500
Michigan Strategic Fund, SWDR (Genesee Power Station Project)				
	7.50	1/1/21	8,800,000	8,289,776
Royal Oak Hospital Finance Authority, HR (William Beaumont Hospital Obligated Group)				
	8.25	9/1/39	5,500,000	6,686,295
Wayne County Airport Authority, Airport Revenue (Detroit Metropolitan Wayne County Airport) (Insured; National Public Finance Guarantee Corp.)				
	5.00	12/1/34	3,435,000	3,442,660

<b>Long-Term Municipal Investments (continued)</b>	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
<b>Minnesota—1.9%</b>				
Dakota County Community Development Agency, SFMR (Mortgage-Backed Securities Program) (Collateralized: FHLMC, FNMA and GNMA)	5.15	12/1/38	258,259	266,862
Dakota County Community Development Agency, SFMR (Mortgage-Backed Securities Program) (Collateralized: FHLMC, FNMA and GNMA)	5.30	12/1/39	432,114	436,314
Minneapolis, Health Care System Revenue (Fairview Health Services) (Insured; Assured Guaranty Corp.)	6.50	11/15/38	5,000,000	5,814,950
Saint Paul Housing and Redevelopment Authority, Hospital Facility Revenue (HealthEast Project)	5.15	11/15/20	3,310,000	3,430,418
<b>Mississippi—2.9%</b>				
Mississippi Business Finance Corporation, PCR (System Energy Resources, Inc. Project)	5.88	4/1/22	9,310,000	9,312,234
Mississippi Development Bank, Special Obligation Revenue (Magnolia Regional Health Center Project)	6.50	10/1/31	5,000,000	5,570,050
<b>Missouri—4%</b>				
Missouri Development Finance Board, Infrastructure Facilities Revenue (Independence, Crackerneck Creek Project)	5.00	3/1/28	2,000,000	2,020,100
<b>New Jersey—3.3%</b>				
New Jersey Economic Development				



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Authority, Cigarette Tax Revenue (Prerefunded)	5.75	6/15/14	1,000,000 <sup>C</sup>	1,011,580
New Jersey Economic Development Authority, Special Facility Revenue (Continental Airlines, Inc. Project)	5.25	9/15/29	2,000,000	2,003,060

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STATEMENT OF INVESTMENTS (Unaudited) (continued)

<b>Long-Term Municipal Investments (continued)</b>	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
<b>New Jersey (continued)</b>				
New Jersey Higher Education Student Assistance Authority, Senior Student Loan Revenue	5.00	12/1/18	2,500,000	2,771,225
New Jersey Higher Education Student Assistance Authority, Student Loan Revenue (Insured; Assured Guaranty Corp.)	6.13	6/1/30	5,000,000	5,331,600
Tobacco Settlement Financing Corporation of New Jersey, Tobacco Settlement Asset-Backed Bonds	4.63	6/1/26	2,000,000	1,755,320
Tobacco Settlement Financing Corporation of New Jersey, Tobacco Settlement Asset-Backed Bonds	5.00	6/1/41	5,500,000	4,170,430
<b>New Mexico—1.5%</b>				
Farmington, PCR (Public Service Company of New Mexico San Juan Project)	5.90	6/1/40	7,000,000	7,463,960
New Mexico Mortgage Finance Authority, Single Family Mortgage Program Revenue (Collateralized: FHLMC, FNMA and GNMA)	6.15	7/1/35	415,000	435,003
<b>New York—9.5%</b>				

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Barclays Capital Municipal Trust Receipts (Series 7 B) Recourse (New York City Transitional Finance Authority, Future Tax Secured Subordinate Revenue)	5.50	11/1/27	5,000,000 a,b	5,874,100
Barclays Capital Municipal Trust Receipts (Series 29 W) Recourse (New York City Municipal Water Finance Authority, Water and Sewer System General Resolution Revenue)	5.00	6/15/39	20,000,000 a,b	21,178,000

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<b>Long-Term Municipal Investments (continued)</b>	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
<b>New York (continued)</b>				
JPMorgan Chase Putters/Drivers Trust (Series 3857) Non-recourse (New York City Transitional Finance Authority, Future Tax Secured Subordinate Revenue)	5.25	11/1/18	5,000,000 a,b	5,830,750
New York City Educational Construction Fund, Revenue	6.50	4/1/27	4,490,000	5,596,291
New York City Industrial Development Agency, PILOT Revenue (Yankee Stadium Project) (Insured; Assured Guaranty Corp.)	7.00	3/1/49	5,000,000	5,842,300
Niagara Area Development Corporation, Solid Waste Disposal Facility Revenue (Covanta Energy Project)	5.25	11/1/42	3,000,000	2,943,270
Port Authority of New York and New Jersey, Special Project Bonds (JFK International Air Terminal LLC Project)	6.00	12/1/36	2,000,000	2,196,340
<b>Ohio—7.8%</b>				
Butler County,				

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Hospital Facilities Revenue (UC Health)	5.50	11/1/40	3,850,000	3,978,474
Canal Winchester Local School District, School Facilities Construction and Improvement and Advance Refunding Bonds (GO—Unlimited Tax) (Insured; National Public Finance Guarantee Corp.)	0.00	12/1/29	3,955,000 <sup>e</sup>	2,126,564
Canal Winchester Local School District, School Facilities Construction and Improvement and Advance Refunding Bonds (GO—Unlimited Tax) (Insured; National Public Finance Guarantee Corp.)	0.00	12/1/31	3,955,000 <sup>e</sup>	1,897,728

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STATEMENT OF INVESTMENTS (Unaudited) (continued)

<b>Long-Term Municipal Investments (continued)</b>	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
<b>Ohio (continued)</b>				
JPMorgan Chase Putters/Drivers Trust (Series 4367) Non-recourse (Hamilton County, Sewer System Improvement Revenue (The Metropolitan Sewer District of Greater Cincinnati))	5.00	6/1/33	17,000,000 <sup>a,b</sup>	18,600,720
Muskingum County, Hospital Facilities Revenue (Genesis HealthCare System Obligated Group Project)	5.00	2/15/22	4,590,000	4,507,793
Ohio Air Quality Development Authority, Air Quality Revenue (Ohio Valley Electric Corporation Project)	5.63	10/1/19	1,900,000	2,112,933
Port of Greater Cincinnati				

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Development Authority, Tax Increment Development Revenue (Fairfax Village Red Bank Infrastructure Project)	5.63	2/1/36	3,000,000 <sup>b</sup>	2,520,780
Toledo-Lucas County Port Authority, Special Assessment Revenue (Crocker Park Public Improvement Project)	5.38	12/1/35	5,000,000	4,977,450
<b>Oregon— .7%</b>				
Warm Springs Reservation Confederated Tribes, Hydroelectric Revenue (Pelton Round Butte Project)	6.38	11/1/33	3,300,000	3,583,701
<b>Pennsylvania—1.4%</b>				
JPMorgan Chase Putters/Drivers Trust (Series 3916) Non-recourse (Geisinger Authority, Health System Revenue (Geisinger Health System)) Philadelphia, GO	5.13	6/1/35	3,000,000 <sup>a,b</sup>	3,159,600
	6.50	8/1/41	3,550,000	3,992,330

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<b>Long-Term Municipal Investments (continued)</b>	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
<b>Rhode Island—1.1%</b>				
Rhode Island Health and Educational Building Corporation, Hospital Financing Revenue (Lifespan Obligated Group Issue) (Insured; Assured Guaranty Corp.)	7.00	5/15/39	5,000,000	5,651,200
<b>South Carolina—7.3%</b>				
Barclays Capital Municipal Trust Receipts (Series 42 W) Recourse (Columbia, Waterworks and Sewer System Revenue) JPMorgan Chase Putters/Drivers Trust (Series 4379) Non-recourse (South Carolina Public Service	5.00	2/1/40	10,000,000 <sup>a,b</sup>	10,950,500

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Authority, Revenue Obligations (Santee Cooper))	5.13	6/1/37	15,000,000 a,b	15,809,700
South Carolina Public Service Authority, Revenue Obligations (Santee Cooper)	5.50	1/1/38	10,000,000	11,129,100
<b>Tennessee—4.6%</b>				
Barclays Capital Municipal Trust Receipts (Series 25 W) Recourse (Rutherford County Health and Educational Facilities Board, Revenue (Ascension Health Senior Credit Group))	5.00	11/15/40	10,000,000 a,b	10,490,900
JPMorgan Chase Putters/Drivers Trust (Series 4416) Non-recourse (Metropolitan Government of Nashville and Davidson County, Water and Sewer Revenue)	5.00	7/1/21	5,000,000 a,b	5,453,800
Metropolitan Government of Nashville and Davidson County Health and Educational Facilities Board, Revenue (The Vanderbilt University)	5.50	10/1/34	7,000,000	7,852,950

The Fund 17

STATEMENT OF INVESTMENTS (Unaudited) (continued)

<b>Long-Term Municipal Investments (continued)</b>	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
<b>Texas—13.3%</b>				
Barclays Capital Municipal Trust Receipts (Series 28 W) Recourse (Leander Independent School District, Unlimited Tax School Building Bonds (Permanent School Fund Guarantee Program))	5.00	8/15/40	8,507,701 a,b	9,324,150
Clifton Higher Education Finance Corporation, Education Revenue (Uplift Education)	6.00	12/1/30	2,500,000	2,724,250
Dallas Area Rapid Transit,				

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Senior Lien Sales Tax Revenue Gulf Coast Industrial Development Authority, SWDR (CITGO Petroleum Corporation Project)	5.25	12/1/48	10,000,000	10,679,900
Harris County Health Facilities Development Corporation, HR (Memorial Hermann Healthcare System) (Prerefunded) Houston, Airport System Special Facilities Revenue (Continental Airlines, Inc. Terminal Improvement Projects)	4.88	5/1/25	1,000,000	994,630
Houston, Airport System Special Facilities Revenue (Continental Airlines, Inc. Terminal Improvement Projects)	7.25	12/1/18	2,000,000 <sup>c</sup>	2,543,980
Houston, Combined Utility System First Lien Revenue (Insured; Assured Guaranty Corp.) JPMorgan Chase Putters/Drivers Trust (Series 4356) Non-recourse (San Antonio, Electric and Gas Systems Junior Lien Revenue)	6.13	7/15/17	1,750,000	1,751,487
Houston, Combined Utility System First Lien Revenue (Insured; Assured Guaranty Corp.) JPMorgan Chase Putters/Drivers Trust (Series 4356) Non-recourse (San Antonio, Electric and Gas Systems Junior Lien Revenue)	6.00	11/15/36	5,000,000	5,806,150
North Texas Tollway Authority, First Tier System Revenue (Insured; Assured Guaranty Corp.) North Texas Tollway Authority, Second Tier System Revenue	5.00	2/1/21	16,750,000 <sup>a,b</sup>	17,914,460
North Texas Tollway Authority, First Tier System Revenue (Insured; Assured Guaranty Corp.) North Texas Tollway Authority, Second Tier System Revenue	5.75	1/1/40	10,300,000	11,434,133
North Texas Tollway Authority, Second Tier System Revenue	5.75	1/1/38	5,500,000	5,922,015

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<b>Long-Term Municipal Investments (continued)</b>	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
<b>Texas (continued)</b> Texas Department of Housing and Community Affairs, Home Mortgage Revenue (Collateralized: FHLMC, FNMA and GNMA)	13.45	7/2/24	400,000 <sup>f</sup>	425,384
<b>Vermont—.4%</b> Burlington, Airport Revenue	3.50	7/1/18	1,980,000	1,974,892

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**Virginia—2.5%**

Barclays Capital Municipal Trust Receipts (Series 17 W) Recourse (Virginia Small Business Financing Authority, Health Care Facilities Revenue (Sentara Healthcare))	5.00	11/1/40	10,000,000 a,b	10,499,100
Chesterfield County Economic Development Authority, Retirement Facilities First Mortgage Revenue (Brandermill Woods Project)	5.13	1/1/43	2,500,000	2,330,225

**Washington—5.0%**

Barclays Capital Municipal Trust Receipts (Series 27 B) Recourse (King County, Sewer Revenue)	5.00	1/1/29	3,998,716 a,b	4,441,316
Barclays Capital Municipal Trust Receipts (Series 66 W) Recourse (King County, Limited Tax GO (Payable from Sewer Revenues))	5.13	1/1/33	10,000,000 a,b	11,132,900
Washington Health Care Facilities Authority, Mortgage Revenue (Highline Medical Center) (Collateralized; FHA) (Prerefunded)	6.25	8/1/18	5,975,000 c	7,232,020
Washington Higher Education Facilities Authority, Revenue (Seattle University Project) (Insured; AMBAC)	5.25	11/1/37	3,000,000	3,241,560

The Fund 19

STATEMENT OF INVESTMENTS (Unaudited) (continued)

<b>Long-Term Municipal Investments (continued)</b>	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
<b>West Virginia—4%</b>				
The County Commission of Harrison County, SWDR (Allegheny Energy Supply Company, LLC Harrison				

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Station Project)	5.50	10/15/37	2,000,000	2,014,300
<b>Wyoming—1.1%</b>				
Wyoming Municipal Power Agency, Power Supply System Revenue	5.50	1/1/33	2,360,000	2,586,560
Wyoming Municipal Power Agency, Power Supply System Revenue	5.38	1/1/42	2,750,000	2,996,702
<b>U.S. Related—7.9%</b>				
Guam, LOR (Section 30)	5.75	12/1/34	2,000,000	2,122,140
Guam Housing Corporation, SFMR (Guaranteed Mortgage-Backed Securities Program) (Collateralized; FHLMC)	5.75	9/1/31	965,000	1,058,875
Guam Waterworks Authority, Water and Wastewater System Revenue	5.63	7/1/40	2,000,000	2,032,960
Puerto Rico Aqueduct and Sewer Authority, Senior Lien Revenue	5.13	7/1/37	4,660,000	3,135,295
Puerto Rico Commonwealth, Public Improvement GO	5.50	7/1/32	2,000,000	1,527,220
Puerto Rico Commonwealth, Public Improvement GO	6.50	7/1/37	2,500,000	2,065,750
Puerto Rico Commonwealth, Public Improvement GO	6.00	7/1/39	1,610,000	1,251,389
Puerto Rico Commonwealth, Public Improvement GO	6.00	7/1/39	6,500,000	5,052,190
Puerto Rico Commonwealth, Public Improvement GO	6.50	7/1/40	2,390,000	1,958,605
Puerto Rico Electric Power Authority, Power Revenue	5.50	7/1/20	1,785,000	1,277,971
Puerto Rico Electric Power Authority, Power Revenue	5.25	7/1/40	2,500,000	1,499,550
Puerto Rico Electric Power Authority, Power Revenue	5.00	7/1/42	5,840,000	3,486,130
Puerto Rico Sales Tax Financing Corporation, Sales Tax Revenue (First Subordinate Series)	5.38	8/1/38	5,000,000	3,828,000



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<b>Long-Term Municipal Investments (continued)</b>	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
<b>U.S. Related (continued)</b>				
Puerto Rico Sales Tax Financing Corporation, Sales Tax Revenue (First Subordinate Series)	5.38	8/1/39	2,500,000	1,917,200
Puerto Rico Sales Tax Financing Corporation, Sales Tax Revenue (First Subordinate Series)	6.00	8/1/42	11,000,000	9,038,810
<b>Total Investments</b> (cost \$759,345,770)			<b>153.7 %</b>	<b>799,083,788</b>
<b>Liabilities, Less Cash and Receivables</b>			<b>(26.3 %)</b>	<b>(136,608,839 )</b>
<b>Preferred Stock, at redemption value</b>			<b>(27.4 %)</b>	<b>(142,500,000 )</b>
<b>Net Assets Applicable to Common Shareholders</b>			<b>100.0 %</b>	<b>519,974,949</b>

a Collateral for floating rate borrowings.

b Securities exempt from registration pursuant to Rule 144A under the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers. At March 31, 2014, these securities were valued at \$321,068,434 or 61.7% of net assets applicable to Common Shareholders.

c 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.

d Non-income producing—security in default.

e Security issued with a zero coupon. Income is recognized through the accretion of discount.

f Inverse floater security—the interest rate is subject to change periodically. Rate shown is the interest rate in effect at March 31, 2014.

Portfolio Summary (Unaudited)†

	Value (%)		Value (%)
Education	24.1	Pollution Control	2.4
Special Tax	23.8	Resource Recovery	2.0
Utility-Water and Sewer	19.8	Housing	1.7
Utility-Electric	19.5	City	1.3
Health Care	15.5	Asset-Backed	1.1
Transportation Services	13.8	County	1.1
State/Territory	6.4	Other	15.1
Industrial	3.1		
Prerefunded	3.0		<b>153.7</b>

† Based on net assets applicable to Common Shareholders.

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STATEMENT OF INVESTMENTS (Unaudited) (continued)

Summary of Abbreviations

<b>ABAG</b>	Association of Bay Area Governments	<b>ACA</b>	American Capital Access
<b>AGC</b>	ACE Guaranty Corporation	<b>AGIC</b>	Asset Guaranty Insurance Company
<b>AMBAC</b>	American Municipal Bond Assurance Corporation	<b>ARRN</b>	Adjustable Rate Receipt Notes
<b>BAN</b>	Bond Anticipation Notes	<b>BPA</b>	Bond Purchase Agreement
<b>CIFG</b>	CDC Ixis Financial Guaranty	<b>COP</b>	Certificate of Participation
<b>CP</b>	Commercial Paper	<b>DRIVERS</b>	Derivative Inverse Tax-Exempt Receipts
<b>EDR</b>	Economic Development Revenue	<b>EIR</b>	Environmental Improvement Revenue
<b>FGIC</b>	Financial Guaranty Insurance Company	<b>FHA</b>	Federal Housing Administration
<b>FHLB</b>	Federal Home Loan Bank	<b>FHLMC</b>	Federal Home Loan Mortgage Corporation
<b>FNMA</b>	Federal National Mortgage Association	<b>GAN</b>	Grant Anticipation Notes
<b>GIC</b>	Guaranteed Investment Contract	<b>GNMA</b>	Government National Mortgage Association
<b>GO</b>	General Obligation	<b>HR</b>	Hospital Revenue
<b>IDB</b>	Industrial Development Board	<b>IDC</b>	Industrial Development Corporation
<b>IDR</b>	Industrial Development Revenue	<b>LIFERS</b>	Long Inverse Floating Exempt Receipts
<b>LOC</b>	Letter of Credit	<b>LOR</b>	Limited Obligation Revenue
<b>LR</b>	Lease Revenue	<b>MERLOTS</b>	Municipal Exempt Receipts Liquidity Option Tender
<b>MFHR</b>	Multi-Family Housing Revenue	<b>MFMR</b>	Multi-Family Mortgage Revenue
<b>PCR</b>	Pollution Control Revenue	<b>PILOT</b>	Payment in Lieu of Taxes
<b>P-FLOATS</b>	Puttable Floating Option Tax-Exempt Receipts	<b>PUTTERS</b>	Puttable Tax-Exempt Receipts

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<b>RAC</b>	Revenue Anticipation Certificates	<b>RAN</b>	Revenue Anticipation Notes
<b>RAW</b>	Revenue Anticipation Warrants	<b>RIB</b>	Residual Interest Bonds
<b>ROCS</b>	Reset Options Certificates	<b>RRR</b>	Resources Recovery Revenue
<b>SAAN</b>	State Aid Anticipation Notes	<b>SBPA</b>	Standby Bond Purchase Agreement
<b>SFHR</b>	Single Family Housing Revenue	<b>SFMR</b>	Single Family Mortgage Revenue
<b>SONYMA</b>	State of New York Mortgage Agency	<b>SPEARS</b>	Short Puttable Exempt Adjustable Receipts
<b>SWDR</b>	Solid Waste Disposal Revenue	<b>TAN</b>	Tax Anticipation Notes
<b>TAW</b>	Tax Anticipation Warrants	<b>TRAN</b>	Tax and Revenue Anticipation Notes
<b>XLCA</b>	XL Capital Assurance		

*See notes to financial statements.*

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## STATEMENT OF ASSETS AND LIABILITIES

March 31, 2014 (Unaudited)

	Cost	Value
<b>Assets (\$):</b>		
Investments in securities—See Statement of Investments	759,345,770	799,083,788
Interest receivable		13,094,356
Prepaid expenses		49,316
		<b>812,227,460</b>
<b>Liabilities (\$):</b>		
Due to The Dreyfus Corporation and affiliates—Note 2(b)		389,482
Cash overdraft due to Custodian		2,782,290
Payable for floating rate notes issued—Note 3		146,129,397
Interest and expense payable related to floating rate notes issued—Note 3		248,545
Commissions payable—Note 1		44,735
Dividends payable to Preferred Shareholders		2,119
Accrued expenses		155,943
		<b>149,752,511</b>
<b>Auction Preferred Stock</b> , Series M,T,W,Th and F, par value \$.001 per share (5,700 shares issued and outstanding at \$25,000 per share liquidation value)—Note 1		<b>142,500,000</b>
<b>Net Assets applicable to Common Shareholders (\$)</b>		<b>519,974,949</b>
<b>Composition of Net Assets (\$):</b>		

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Common Stock, par value, \$.001 per share (61,849,399 shares issued and outstanding)	61,849
Paid-in capital	536,033,904
Accumulated undistributed investment income—net	3,533,787
Accumulated net realized gain (loss) on investments	(59,392,609 )
Accumulated net unrealized appreciation (depreciation) on investments	39,738,018
<b>Net Assets applicable to Common Shareholders (\$)</b>	<b>519,974,949</b>
<b>Shares Outstanding</b>	
(500 million shares authorized)	61,849,399
<b>Net Asset Value, per share of Common Stock (\$)</b>	<b>8.41</b>

See notes to financial statements.

The Fund 23

## STATEMENT OF OPERATIONS

Six Months Ended March 31, 2014 (Unaudited)

<b>Investment Income (\$):</b>	
<b>Interest Income</b>	<b>20,236,717</b>
<b>Expenses:</b>	
Management fee—Note 2(a)	2,493,739
Interest and expense related to floating rate notes issued—Note 3	418,182
Commission fees—Note 1	140,906
Professional fees	78,268
Shareholder servicing costs	42,534
Shareholders' reports	37,986
Registration fees	27,773
Directors' fees and expenses—Note 2(c)	26,863
Custodian fees—Note 2(b)	24,189
Miscellaneous	55,185
<b>Total Expenses</b>	<b>3,345,625</b>
Less—reduction in expenses due to undertaking—Note 2(a)	(332,500 )
<b>Net Expenses</b>	<b>3,013,125</b>
<b>Investment Income—Net</b>	<b>17,223,592</b>
<b>Realized and Unrealized Gain (Loss) on Investments—Note 3 (\$):</b>	
Net realized gain (loss) on investments	(2,915,284 )
Net unrealized appreciation (depreciation) on investments	24,630,283

<b>Net Realized and Unrealized Gain (Loss) on Investments</b>	<b>21,714,999</b>
<b>Dividends to Preferred Shareholders</b>	<b>(87,344 )</b>
<b>Net Increase in Net Assets Applicable to Common Shareholders Resulting from Operations</b>	<b>38,851,247</b>

*See notes to financial statements.*

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## STATEMENT OF CASH FLOWS

Six Months Ended March 31, 2014 (Unaudited)

<b>Cash Flows from Operating Activities (\$):</b>		
Interest received	21,123,641	
Operating expenses paid	(2,599,491 )	
Dividends paid to Preferred Shareholders	(87,858 )	
Purchases of portfolio securities	(43,352,426 )	
Net sales of short-term portfolio securities	23,300,000	
Proceeds from sales of portfolio securities	44,763,076	
<b>Net Cash Provided by Operating Activities</b>		<b>43,146,942</b>
<b>Cash Flows from Financing Activities (\$):</b>		
Net proceeds from floating rate notes issued	16,870,571	
Dividends paid to Common Shareholders	(18,183,722 )	
Redemptions of Auction Preferred Stock	(40,750,000 )	
Interest and expense related to floating rate notes issued paid	(1,089,101 )	
<b>Net Cash Used in Financing Activities</b>		<b>(43,152,252 )</b>
Decrease in cash		(5,310 )
Cash overdraft at beginning of period		(2,776,980 )
<b>Cash overdraft at end of period</b>		<b>(2,782,290 )</b>
<b>Reconciliation of Net Increase in Net Assets Applicable to Common Shareholders Resulting from Operations to Net Cash Provided by Operating Activities (\$):</b>		
Net Increase in Net Assets Applicable to Common Shareholders Resulting From Operations		<b>38,851,247</b>
<b>Adjustments to reconcile net increase in net assets applicable to Common Shareholders resulting from operations to net cash provided by operating activities (\$):</b>		
Decrease in investments in securities, at cost		37,953,251

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Decrease in payable for investment securities purchased	(10,327,317 )
Decrease in interest receivable	119,422
Increase in commissions payable and accrued expenses	21,303
Increase in prepaid expenses	(28,852 )
Increase in Due to The Dreyfus Corporation and affiliates	3,001
Decrease in dividends payable to Preferred Shareholders	(514 )
Interest and expense related to floating rate notes issued	418,182
Net unrealized appreciation on investments	(24,630,283 )
Net amortization of premiums on investments	767,502
<b>Net Cash Provided by Operating Activities</b>	<b>43,146,942</b>
<b>Supplemental disclosure of cash flow information (\$):</b>	
Non-cash financing activities:	
<b>Reinvestment of dividends</b>	<b>—</b>

See notes to financial statements.

The Fund 25

STATEMENT OF CHANGES IN NET ASSETS

	Six Months Ended	Year Ended
	March 31, 2014	September 30, 2013
	(Unaudited)	
<b>Operations (\$):</b>		
Investment income—net	17,223,592	33,319,930
Net realized gain (loss) on investments	(2,915,284 )	(1,217,403 )
Net unrealized appreciation		
(depreciation) on investments	24,630,283	(71,560,410 )
Dividends to Preferred Shareholders	(87,344 )	(417,650 )
<b>Net Increase (Decrease) in Net Assets</b>		
<b>Applicable to Common Shareholders</b>		
<b>Resulting from Operations</b>	<b>38,851,247</b>	<b>(39,875,533 )</b>
<b>Dividends to Common Shareholders from (\$):</b>		
<b>Investment income—net</b>	<b>(18,183,723 )</b>	<b>(36,337,824 )</b>
<b>Capital Stock Transactions (\$):</b>		
<b>Dividends reinvested</b>	<b>—</b>	<b>1,611,858</b>
<b>Total Increase (Decrease) in Net Assets</b>		
<b>Applicable to Common Shareholders</b>	<b>20,667,524</b>	<b>(74,601,499 )</b>
<b>Net Assets Applicable to</b>		
<b>Common Shareholders (\$):</b>		
Beginning of Period	499,307,425	573,908,924

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<b>End of Period</b>	<b>519,974,949</b>	<b>499,307,425</b>
Undistributed investment income—net	3,533,787	4,581,262
<b>Capital Share Transactions (Common Shares):</b>		
<b>Increase in Common Shares Outstanding as a Result of Dividends Reinvested</b>	<b>—</b>	<b>172,359</b>

See notes to financial statements.

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## FINANCIAL HIGHLIGHTS

The following table describes the performance for the fiscal periods indicated. Total return shows how much your investment in the fund would have increased (or decreased) during each period, assuming you had reinvested all dividends and distributions. These figures have been derived from the fund's financial statements and, with respect to common stock, market price data for the fund's common shares.

	Six Months Ended		Year Ended September 30,			
	March 31, 2014 (Unaudited)	2013	2012	2011	2010	2009
<b>Per Share Data (\$):</b>						
Net asset value,						
beginning of period	8.07	9.31	8.41	8.65	8.47	7.88
Investment Operations:						
Investment income—net	.28	.54	.58	.60	.62	.67
Net realized and unrealized						
gain (loss) on investments	.35	(1.18 )	.92	(.24 )	.15	.48
Dividends to Preferred						
Shareholders from						
investment income—net	(.00 ) <sup>b</sup>	(.01 )	(.01 )	(.01 )	(.02 )	(.06 )
Total from Investment Operations	.63	(.65 )	1.49	.35	.75	1.09
Distributions to						
Common Shareholders:						
Dividends from						
investment income—net	(.29 )	(.59 )	(.59 )	(.59 )	(.57 )	(.50 )
Net asset value, end of period	8.41	8.07	9.31	8.41	8.65	8.47
Market value, end of period	8.10	8.00	10.02	8.50	9.02	7.91
<b>Total Return (%)<sup>c</sup></b>	<b>5.09<sup>d</sup></b>	<b>(14.65 )</b>	<b>25.98</b>	<b>1.32</b>	<b>22.13</b>	<b>26.05</b>

The Fund 27

FINANCIAL HIGHLIGHTS (continued)

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Six Months Ended	Year Ended September 30,					
March 31, 2014	2013	2012	2011	2010	2009	
(Unaudited)						
<b>Ratios/Supplemental Data (%):</b>						
Ratio of total expenses to average net assets applicable to Common Stock <sup>e</sup>	1.33 <sup>f</sup>	1.30	1.30	1.40	1.40	1.50
Ratio of net expenses to average net assets applicable to Common Stock <sup>e</sup>	1.20 <sup>f</sup>	1.16	1.16	1.26	1.24	1.34
Ratio of interest and expense related to floating rate notes issued to average net assets applicable to Common Stock <sup>e</sup>	.17 <sup>f</sup>	.11	.10	.10	.05	—
Ratio of net investment income to average net assets applicable to Common Stock <sup>e</sup>	6.86 <sup>f</sup>	6.01	6.59	7.51	7.43	9.09
Ratio of total expenses to total average net assets	1.01 <sup>f</sup>	.94	.94	.96	.92	.92
Ratio of net expenses to total average net assets	.91 <sup>f</sup>	.84	.84	.86	.82	.82
Ratio of interest and expense related to floating rate notes issued to total average net assets	.13 <sup>f</sup>	.08	.07	.07	.03	—
Ratio of net investment income to total average net assets	5.18 <sup>f</sup>	4.35	4.73	5.18	4.89	5.57
Portfolio Turnover Rate	5.12 <sup>d</sup>	25.01	19.16	17.81	24.41	28.72
Asset coverage of Preferred Stock, end of period	465	372	368	341	324	281
Net Assets, applicable to Common Shareholders, end of period (\$ x 1,000)	519,975	499,307	573,909	515,399	528,607	514,786
Preferred Stock outstanding, end of period (\$ x 1,000)	142,500	183,250	213,750	213,750	235,750	285,000
Floating Rate Notes Outstanding (\$ x 1,000)	146,129	129,259	74,886	74,886	49,415	—

a Based on average common shares outstanding at each month end.

b Amount represents less than \$.01 per share.

c Calculated based on market value.



d Not annualized.

e Does not reflect the effect of dividends to Preferred Shareholders.

f Annualized.

See notes to financial statements.

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## NOTES TO FINANCIAL STATEMENTS (Unaudited)

### NOTE 1—Significant Accounting Policies:

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

The fund has outstanding 1,140 shares each of Series M, Series T, Series W, Series TH and Series F for a total of 5,700 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 or by reference to a market rate. 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 .15%-.25% of the purchase price of the shares of APS.

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 shareholders of Common Stock (“Common Shareholders”) or repurchasing common shares and/or could trigger the mandatory redemption of APS at liquidation value. Thus, redemptions of APS may be deemed to be outside of the control of the fund.

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’s Board of Directors (the “Board”) has designated Robin A. Melvin and John E. Zuccotti as directors to be elected by the holders of APS.

### The Fund 29

## NOTES TO FINANCIAL STATEMENTS (Unaudited) (continued)

On February 11, 2013, the Board authorized the fund to redeem up to 25% of the original amount of the fund’s outstanding APS, subject to market, regulatory and other conditions and factors, over a period of up to approximately twelve months.

During the period ended March 31, 2014, the fund redeemed the following APS at a price of \$25,000 per share plus any accrued and unpaid dividends through the redemption date.

Series	Shares Redeemed	Amount Redeemed (\$)	Redemption Date
M	326	8,150,000	December 31, 2013
T	326	8,150,000	January 2, 2014
W	326	8,150,000	January 2, 2014
TH	326	8,150,000	January 3, 2014
F	326	8,150,000	January 6, 2014

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<b>Total</b>	<b>1,630</b>	<b>40,750,000</b>
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The Financial Accounting Standards Board (“FASB”) Accounting Standards Codification is the exclusive reference of authoritative U.S. generally accepted accounting principles (“GAAP”) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (“SEC”) under authority of federal laws are also sources of authoritative GAAP for SEC registrants. The fund’s financial statements are prepared in accordance with GAAP, which may require the use of management estimates and assumptions. Actual results could differ from those estimates.

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

**(a) Portfolio valuation:** The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the exit price). GAAP establishes a fair value hierarchy that prioritizes the inputs of valuation techniques used to measure fair value. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities

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(Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Additionally, GAAP provides guidance on determining whether the volume and activity in a market has decreased significantly and whether such a decrease in activity results in transactions that are not orderly. GAAP requires enhanced disclosures around valuation inputs and techniques used during annual and interim periods.

Various inputs are used in determining the value of the fund’s investments relating to fair value measurements. These inputs are summarized in the three broad levels listed below:

**Level 1**—unadjusted quoted prices in active markets for identical investments.

**Level 2**—other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.).

**Level 3**—significant unobservable inputs (including the fund’s own assumptions in determining the fair value of investments).

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Changes in valuation techniques may result in transfers in or out of an assigned level within the disclosure hierarchy. Valuation techniques used to value the fund’s investments are as follows:

Investments in securities are valued each business day by an independent pricing service (the “Service”) approved by the Board. 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 the follow-

The Fund **31**

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NOTES TO FINANCIAL STATEMENTS (Unaudited) *(continued)*

ing: yields or prices of municipal securities of comparable quality, coupon, maturity and type; indications as to values from dealers; and general market conditions. All of the preceding securities are generally categorized within Level 2 of the fair value hierarchy.

The Service’s procedures are reviewed by Dreyfus under the general supervision of the Board.

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When market quotations or official closing prices are not readily available, or are determined not to reflect accurately fair value, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded, but before the fund calculates its net asset value, the fund may value these investments at fair value as determined in accordance with the procedures approved by the Board. Certain factors may be considered when fair valuing investments such as: fundamental analytical data, the nature and duration of restrictions on disposition, an evaluation of the forces that influence the market in which the securities are purchased and sold, and public trading in similar securities of the issuer or comparable issuers. These securities are either categorized within Level 2 or 3 of the fair value hierarchy depending on the relevant inputs used.

For restricted securities where observable inputs are limited, assumptions about market activity and risk are used and are generally categorized within Level 3 of the fair value hierarchy.

The following is a summary of the inputs used as of March 31, 2014 in valuing the fund's investments:

	Level 1— Unadjusted Quoted Prices	Level 2—Other Significant Observable Inputs	Level 3— Significant Unobservable Inputs	Total
<b>Assets (\$)</b>				
Investments in Securities:				
Municipal Bonds <sup>†</sup>	—	799,083,788	—	<b>799,083,788</b>
<b>Liabilities (\$)</b>				
Floating Rate Notes <sup>††</sup>	—	(146,129,397)	—	<b>(146,129,397 )</b>

<sup>†</sup> See Statement of Investments for additional detailed categorizations.

<sup>††</sup> Certain of the fund's liabilities are held at carrying amount, which approximates fair value for financial reporting purposes.

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At March 31, 2014, there were no transfers between Level 1 and Level 2 of the fair value hierarchy.

**(b) Securities transactions and investment income:** Securities transactions are recorded on a trade date basis. Realized gains and losses 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 Common Shareholders:** Dividends are recorded on the ex-dividend date. Dividends from investment income-net are normally declared and paid monthly. Dividends from net realized capital gains, 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 gains can be offset by capital loss carryovers, it is the policy of the fund not to distribute such gains. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from GAAP.

For Common Shareholders who elect to receive their distributions in additional shares of the fund, unless such Common Shareholder elects to receive cash as provided below, 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). 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, Computershare Shareowner Services LLC ("Computershare"), the fund's transfer agent, will buy fund shares in the open market.

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On March 28, 2014, the Board declared a cash dividend of \$.049 per share from investment income-net, payable on April 30, 2014 to Common Shareholders of record as of the close of business on April 11, 2014.

The Fund **33**

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### NOTES TO FINANCIAL STATEMENTS (Unaudited) *(continued)*

**(d) Dividends to shareholders of APS:** Dividends, which are cumulative, are generally reset every 7 days for each Series of APS pursuant to a process specified in related fund charter documents. Dividend rates, as of March 31, 2014, for each Series of APS were as follows: Series M-0.098%, Series T-0.098%, Series W-0.098%, Series TH-0.213% and Series F-0.098%. These rates reflect the “maximum rates” under the governing instruments as a result of “failed auctions” in which sufficient clearing bids are not received. The average dividend rates for the period ended March 31, 2014 for each Series of APS were as follows: Series M-0.11%, Series T-0.10%, Series W-0.11%, Series TH-0.11% and Series F-0.11%.

**(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.

As of and during the period ended March 31, 2014, the fund did not have any liabilities for any uncertain tax positions. The fund recognizes interest and penalties, if any, related to uncertain tax positions as income tax expense in the Statement of Operations. During the period ended March 31, 2014, the fund did not incur any interest or penalties.

Each tax year in the three-year period ended September 30, 2013 remains subject to examination by the Internal Revenue Service and state taxing authorities.

Under the Regulated Investment Company Modernization Act of 2010 (the “2010 Act”), the fund is permitted to carry forward capital losses incurred in taxable years beginning after December 22, 2010 (“post-enactment losses”) for an unlimited period. Furthermore, post-enactment capital loss carryovers retain their character as either short-term or long-term capital losses rather than short-term as they were

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under previous statute. The 2010 Act requires post-enactment losses to be utilized before the utilization of losses incurred in taxable years prior to the effective date of the 2010 Act (“pre-enactment losses”). As a result of this ordering rule, pre-enactment losses may be more likely to expire unused.

The fund has an unused capital loss carryover of \$56,902,170 available for federal income tax purposes to be applied against future net realized capital gains, if any, realized subsequent to September 30, 2013. If not applied, \$264,789 of the carryover expires in fiscal year 2016, \$9,875,465 expires in fiscal year 2017, \$32,540,019 expires in fiscal year 2018 and \$6,369,224 expires in fiscal year 2019. The fund has \$3,699,369 of post-enactment short-term capital losses and \$4,153,304 of post-enactment long-term capital losses which can be carried forward for an unlimited period.

The tax character of distributions paid to shareholders during the fiscal year ended September 30, 2013 was as follows: tax-exempt income \$36,655,099 and ordinary income \$100,375. The tax character of current year distributions will be determined at the end of the current fiscal year.

#### NOTE 2—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 APS, and is payable monthly. The Agreement provides for an expense reimbursement from the Manager should the fund’s aggregate expenses (excluding taxes, interest on borrowings, brokerage fees 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 <sup>1</sup>/<sub>2</sub> % of the next \$20 million and 1% of the

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NOTES TO FINANCIAL STATEMENTS (Unaudited) *(continued)*

excess over \$30 million of the average weekly value of the fund's net assets. The Manager has currently undertaken, from October 1, 2013 through November 30, 2014, 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 APS outstanding). The reduction in expenses, pursuant to the undertaking, amounted to \$332,500 during the period ended March 31, 2014.

(b) The fund compensates The Bank of New York Mellon, a wholly-owned subsidiary of the Manager, under a custody agreement for providing custodial services for the fund. These fees are determined based on net assets and transactions activity. During the period ended March 31, 2014, the fund was charged \$24,189 pursuant to the custody agreement.

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

During the period ended March 31, 2014, the fund was charged \$4,547 for services performed by the Chief Compliance Officer and his staff.

The components of "Due to The Dreyfus Corporation and affiliates" in the Statement of Assets and Liabilities consist of: management fees \$421,266, custodian fees \$22,100 and Chief Compliance Officer fees \$2,285, which are offset against an expense reimbursement currently in effect in the amount of \$56,169.

(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.

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NOTE 3—Securities Transactions:

The aggregate amount of purchases and sales of investment securities, excluding short-term securities, during the period ended March 31, 2014, amounted to \$33,025,110 and \$61,633,647, respectively.

**Inverse Floater Securities:** The fund participates in secondary inverse floater structures in which fixed-rate, tax-exempt municipal bonds are transferred to a trust (the "Trust"). The Trust typically issues two variable rate securities that are collateralized by the cash flows of the fixed-rate, tax-exempt municipal bonds. One of these variable rate securities pay interest based on a short-term floating rate set by a remarketing agent at predetermined intervals ("Trust Certificates"). A residual interest tax-exempt security is also created by the Trust, which is transferred to the fund, and is paid interest based on the remaining cash flow of the Trust, after payment of interest on the other securities and various expenses of the Trust. An inverse floater security may also be collapsed without the consent of the fund due to certain termination events such as bankruptcy, default or other credit event.

The fund accounts for the transfer of bonds to the Trust as secured borrowings, with the securities transferred remaining in the fund's investments, and the related floating rate certificate securities reflected as fund liabilities in the Statement of Assets and Liabilities.

The fund may invest in inverse floater securities on either a non-recourse or recourse basis. These securities are typically supported by a liquidity facility provided by a bank or other financial institution (the "Liquidity Provider") that allows the holders of the Trust Certificates to tender their certificates in exchange for payment from the Liquidity Provider of par plus accrued interest on any business day prior to a termination event. When the fund invests in inverse floater securities on a non-recourse basis, the Liquidity Provider is required

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NOTES TO FINANCIAL STATEMENTS (Unaudited) *(continued)*

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to make a payment under the liquidity facility due to a termination event to the holders of the Trust Certificates. When this occurs, the Liquidity Provider typically liquidates all or a portion of the municipal securities held in the Trust. A liquidation shortfall occurs if the Trust Certificates exceed the proceeds of the sale of the bonds in the Trust ("Liquidation Shortfall"). When a fund invests in inverse floater securities on a recourse basis, the fund typically enters into a reimbursement agreement with the Liquidity Provider where the fund is required to repay the Liquidity Provider the amount of any Liquidation Shortfall. As a result, the fund investing in a recourse inverse floater security bears the risk of loss with respect to any Liquidation Shortfall.

The average amount of borrowings outstanding under the inverse floater structure during the period ended March 31, 2014 was approximately \$143,379,400, with a related weighted average annualized interest rate of .58%.

At March 31, 2014, accumulated net unrealized appreciation on investments was \$39,738,018, consisting of \$54,822,206 gross unrealized appreciation and \$15,084,188 gross unrealized depreciation.

At March 31, 2014, the cost of investments for federal income tax purposes was substantially the same as the cost for financial reporting purposes (see the Statement of Investments).

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### INFORMATION ABOUT THE RENEWAL OF THE FUND'S MANAGEMENT AGREEMENT (Unaudited)

At a meeting of the fund's Board of Directors held on November 4-5, 2013, the Board considered the renewal of the fund's Management Agreement pursuant to which Dreyfus provides the fund with investment advisory and administrative services (the "Agreement"). The Board members, a majority of whom are not "interested persons" (as defined in the Investment Company Act of 1940, as amended) of the fund, were assisted in their review by independent legal counsel and met with counsel in executive session separate from Dreyfus representatives. In considering the renewal of the Agreement, the Board considered all factors that it believed to be relevant, including those discussed below. The Board did not identify any one factor as dispositive, and each Board member may have attributed different weights to the factors considered.

Analysis of Nature, Extent, and Quality of Services Provided to the Fund. The Board considered information provided to them at the meeting and in previous presentations from Dreyfus representatives regarding the nature, extent, and quality of the services provided to funds in the Dreyfus fund complex. Dreyfus representatives noted that the fund is a closed-end fund without daily inflows and outflows of capital and provided the fund's asset size. Dreyfus also had previously provided information regarding the diverse intermediary relationships and distribution channels of funds in the Dreyfus fund complex and Dreyfus' corresponding need for broad, deep, and diverse resources to be able to provide ongoing shareholder services to intermediaries and shareholders.

The Board also considered research support available to, and portfolio management capabilities of, the fund's portfolio management personnel and that Dreyfus also provides oversight of day-to-day fund operations, including fund accounting and administration and assistance in meeting legal and regulatory requirements. The Board also considered Dreyfus' extensive administrative, accounting, and compliance infrastructures.

Comparative Analysis of the Fund's Performance and Management Fee and Expense Ratio. The Board reviewed reports prepared by Lipper, Inc. ("Lipper"), an independent provider of investment company data, which included information comparing (1) the fund's performance with the performance of a group of comparable funds

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### INFORMATION ABOUT THE RENEWAL OF THE FUND'S MANAGEMENT AGREEMENT (Unaudited) (continued)

(the "Performance Group") and with a broader group of funds (the "Performance Universe"), all for various periods ended September 30, 2013, and (2) the fund's actual and contractual management fees and total expenses with those of a group of comparable funds (the "Expense Group") and with a broader group of funds (the "Expense Universe"), the information for which was derived in part from fund financial statements available to

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Lipper as of the date of its analysis. Dreyfus previously had furnished the Board with a description of the methodology Lipper used to select the Performance Group and Performance Universe and the Expense Group and Expense Universe.

Dreyfus representatives stated that the usefulness of performance comparisons may be affected by a number of factors, including different investment limitations that may be applicable to the fund and comparison funds. The Board discussed the results of the comparisons and noted that the fund's total return performance, on a net asset value basis, was at or below the Performance Group and Performance Universe medians for all periods and the fund's total return performance, on a market price basis, was above the Performance Group and Performance Universe medians except for the five-year period, when it was below the Performance Group median, and the ten-year period when it was below the Performance Group and Performance Universe medians. The Board also noted that, on a net asset value basis, the fund's yield performance was at or above the Performance Group median for nine of the ten one-year periods ended September 30th and above the Performance Universe median for nine of the ten periods and, on a market price basis, the fund's yield performance was at or above the Performance Group median for eight of the ten periods and above the Performance Universe median for all periods. Dreyfus also provided a comparison of the fund's calendar year total returns (on a net asset value basis) to the returns of the fund's Lipper category average, noting that the fund's returns were higher than the category average in eight of the ten years.

Dreyfus representatives noted that Dreyfus has agreed contractually, until May 31, 2014, 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

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weekly net assets, including the net assets representing APS outstanding ("Leveraged Assets").

The Board also reviewed the range of actual and contractual management fees and total expenses of the Expense Group and Expense Universe funds and discussed the results of the comparisons. The Board noted that the fund's contractual management fee (based on common assets alone) was the highest in the Expense Group, actual management fees, based on common assets alone and common and Leveraged Assets, were above the Expense Group and Expense Universe medians; the Board noted that the fund's actual total expenses were below the Expense Group and Expense Universe medians based on common assets alone and based on common and Leveraged Assets.

Dreyfus representatives reviewed with the Board the management or investment advisory fees (1) paid by funds advised or administered by Dreyfus that are in the same Lipper category as the fund and (2) paid to Dreyfus or the Dreyfus-affiliated primary employer of the fund's primary portfolio manager(s) for advising any separate accounts and/or other types of client portfolios that are considered to have similar investment strategies and policies as the fund (the "Similar Clients"), and explained the nature of the Similar Clients. They discussed differences in fees paid and the relationship of the fees paid in light of any differences in the services provided and other relevant factors, noting that the fund is a closed-end fund. The Board considered the relevance of the fee information provided for the Similar Clients to evaluate the appropriateness and reasonableness of the fund's management fee.

Analysis of Profitability and Economies of Scale. Dreyfus representatives reviewed the expenses allocated and profit received by Dreyfus and the resulting profitability percentage for managing the fund and the aggregate profitability percentage to Dreyfus of managing the funds in the Dreyfus fund complex, and the method used to determine the expenses and profit. The Board concluded that the profitability results were not unreasonable, given the services rendered and service levels provided by Dreyfus. The Board also noted the fee waiver arrangement and its effect

The Fund 41

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### INFORMATION ABOUT THE RENEWAL OF THE FUND'S MANAGEMENT AGREEMENT (Unaudited) *(continued)*

on Dreyfus' profitability. The Board also had been provided with information prepared by an independent consulting firm regarding Dreyfus' approach to allocating costs to, and determining the profitability of, individual funds and the entire Dreyfus fund complex. The consulting firm also had analyzed where any economies of scale might emerge in connection with the management of a fund.

The Board considered on the advice of its counsel the profitability analysis as part of its evaluation of whether the fees under the Agreement bear a reasonable relationship to the mix of services provided by Dreyfus, including the nature, extent and quality of such services. Dreyfus representatives noted that, because the fund is a closed-end fund without daily inflows and outflows of capital, there were not at this time significant economies of scale to be realized by Dreyfus in managing the fund's assets. Dreyfus representatives also noted that, as a result of

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shared and allocated costs among funds in the Dreyfus fund complex, the extent of economies of scale could depend substantially on the level of assets in the complex as a whole, so that increases and decreases in complex-wide assets can affect potential economies of scale in a manner that is disproportionate to, or even in the opposite direction from, changes in the fund's asset level. The Board also considered potential benefits to Dreyfus from acting as investment adviser and noted that there were no soft dollar arrangements in effect for trading the fund's investments.

At the conclusion of these discussions, the Board agreed that it had been furnished with sufficient information to make an informed business decision with respect to the renewal of the Agreement. Based on the discussions and considerations as described above, the Board concluded and determined as follows.

- The Board concluded that the nature, extent and quality of the services provided by Dreyfus are adequate and appropriate.
- The Board generally was satisfied with the fund's overall performance, although was somewhat concerned with the fund's total return performance on a net asset value basis.
- The Board concluded that the fee paid to Dreyfus was reasonable in light of the considerations described above.

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- The Board determined that the economies of scale which may accrue to Dreyfus and its affiliates in connection with the management of the fund had been adequately considered by Dreyfus in connection with the fee rate charged to the fund pursuant to the Agreement and that, to the extent in the future it were determined that material economies of scale had not been shared with the fund, the Board would seek to have those economies of scale shared with the fund.

In evaluating the Agreement, the Board considered these conclusions and determinations and also relied on its previous knowledge, gained through meetings and other interactions with Dreyfus and its affiliates, of the fund and the services provided to the fund by Dreyfus. The Board also relied on information received on a routine and regular basis throughout the year relating to the operations of the fund and the investment management and other services provided under the Agreement, including information on the investment performance of the fund in comparison to similar funds and benchmark performance indices; general market outlook as applicable to the fund; and compliance reports. In addition, the Board's consideration of the contractual fee arrangements for this fund had the benefit of a number of years of reviews of prior or similar agreements during which lengthy discussions took place between the Board and Dreyfus representatives. Certain aspects of the arrangements may receive greater scrutiny in some years than in others, and the Board's conclusions may be based, in part, on their consideration of the same or similar arrangements in prior years. The Board determined that renewal of the Agreement was in the best interests of the fund and its shareholders.

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## OFFICERS AND DIRECTORS

Dreyfus Strategic Municipals, Inc.

200 Park Avenue  
New York, NY 10166

*The fund's net asset value per share appears in the following publications: Barron's, Closed-End Bond Funds section under the heading "Municipal Bond Funds" every Monday; and Wall Street Journal, Mutual Funds section under the heading "Closed-End Bond Funds" every Monday.*



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

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## For More Information

The fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission ( SEC ) for the first and third quarters of each fiscal year on Form N-Q. The fund's Forms N-Q are available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

Information regarding how the fund voted proxies relating to portfolio securities for the most recent 12-month period ended June 30 is available on the SEC's website at <http://www.sec.gov> and without charge, upon request, by calling 1-800-DREYFUS.

**Item 2. Code of Ethics.**

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

**Item 6. Investments.**

(a) Not applicable.

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

None.

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

(a) (1) The following information is as of May 28, 2014, the date of the filing of this report:

Stephen Harvey and Daniel A. Barton manage the Registrant.

(a) (2) The following information is as of the Registrant's most recently completed fiscal year, except where otherwise noted:

Portfolio Managers. The Manager manages the Fund's portfolio of investments in accordance with the stated policies of the Fund, subject to the approval of the Fund's Board members. The Manager is responsible for investment decisions and provides the Fund with portfolio managers who are authorized by the Fund's Board to execute purchases and sales of securities. The Fund's portfolio managers are Steven Harvey and Dan Barton. The Manager also maintains a research department with a professional staff of portfolio managers and securities analysts who provide research services for the Fund and for other funds advised by the Manager.

Portfolio Manager Compensation. The portfolio managers' compensation is comprised primarily of a market-based salary and an incentive compensation plan (annual and long-term). Funding for the Standish Incentive Plan is through a pre-determined fixed percentage of overall company profitability. Therefore, all bonus awards are based initially on Standish's overall performance as opposed to the performance of a single product or group. All investment professionals are eligible to receive incentive awards. Cash awards are payable in the February month end pay of the following year. Most of the awards granted have some portion deferred for three years in the form of deferred cash, BNY Mellon equity, interests in investment vehicles (consisting of investments in a range of Standish products), or a combination of the above. Individual awards for portfolio managers are discretionary, based on both individual and multi-sector product risk adjusted performance relative to both benchmarks and peer comparisons over one year, three year and five year periods. Also considered in determining individual awards are team participation and general contributions to Standish. Individual objectives and goals are also established at the beginning of each calendar year and are taken into account. Portfolio managers whose compensation exceeds certain levels may elect to defer portions of their base salaries and/or incentive compensation pursuant to BNY Mellon's Elective Deferred Compensation Plan.

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Additional Information About Portfolio Managers. The following table lists the number and types of other accounts advised by the Fund's primary portfolio manager and assets under management in those accounts as of the end of the Fund's fiscal year:

<u>Portfolio Manager</u>	<u>Registered Investment Company Accounts</u>	<u>Assets Managed</u>	<u>Pooled Accounts</u>	<u>Assets Managed</u>	<u>Other Accounts</u>	<u>Assets Managed</u>
Steven Harvey	7	\$3.3 billion	N/A	N/A	17	\$198 million
Daniel A. Barton	6	\$2.4 billion	N/A	N/A	N/A	\$0

None of the funds or accounts are subject to a performance-based advisory fee.

The dollar range of Fund shares beneficially owned by the primary portfolio manager is as follows as of the end of the Fund's fiscal year:

<u>Portfolio Manager</u>	<u>Registrant Name</u>	<u>Dollar Range of Registrant Shares Beneficially Owned</u>
Steven Harvey	Dreyfus Strategic Municipals, Inc.	None
Daniel A. Barton	Dreyfus Strategic Municipals, Inc.	None

Portfolio managers may manage multiple accounts for a diverse client base, including mutual funds, separate accounts (assets managed on behalf of institutions such as pension funds, insurance companies and foundations), bank common trust accounts and wrap fee programs ("Other Accounts").

Potential conflicts of interest may arise because of Dreyfus' management of the Fund and Other Accounts. For example, conflicts of interest may arise with both the aggregation and allocation of securities transactions and allocation of limited investment opportunities, as Dreyfus may be perceived as causing accounts it manages to participate in an offering to increase Dreyfus' overall allocation of securities in that offering, or to increase Dreyfus' ability to participate in future offerings by the same underwriter or issuer. Allocations of bunched trades, particularly

trade orders that were only partially filled due to limited availability and allocation of investment opportunities generally, could raise a potential conflict of interest, as Dreyfus may have an incentive to allocate securities that are expected to increase in value to preferred accounts. Initial public offerings, in particular, are frequently of very limited availability. Additionally, portfolio managers may be perceived to have a conflict of interest if there are a large number of Other Accounts, in addition to the Fund, that they are managing on behalf of Dreyfus. Dreyfus periodically reviews each portfolio manager's overall responsibilities to ensure that he or she is able to allocate the necessary time and resources to effectively manage the Fund. In addition, Dreyfus could be viewed as having a conflict of interest to the extent that Dreyfus or its affiliates and/or portfolio managers have a materially larger investment in Other Accounts than their investment in the Fund.

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Other Accounts may have investment objectives, strategies and risks that differ from those of the Fund. For these or other reasons, the portfolio manager may purchase different securities for the Fund and the Other Accounts, and the performance of securities purchased for the Fund may vary from the performance of securities purchased for Other Accounts. The portfolio manager may place transactions on behalf of Other Accounts that are directly or indirectly contrary to investment decisions made for the Fund, which could have the potential to adversely impact the Fund, depending on market conditions.

A potential conflict of interest may be perceived to arise if transactions in one account closely follow related transactions in another account, such as when a purchase increases the value of securities previously purchased by the other account, or when a sale in one account lowers the sale price received in a sale by a second account.

Dreyfus' goal is to provide high quality investment services to all of its clients, while meeting Dreyfus' fiduciary obligation to treat all clients fairly. Dreyfus has adopted and implemented policies and procedures, including brokerage and trade allocation policies and procedures that it believes address the conflicts associated with managing multiple accounts for multiple clients. In addition, Dreyfus monitors a variety of areas, including compliance with Fund guidelines, the allocation of IPOs, and compliance with the firm's Code of Ethics. Furthermore, senior investment and business personnel at Dreyfus periodically review the performance of the portfolio managers for Dreyfus-managed funds.

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

None.

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

There have been no material changes to the procedures applicable to Item 10.

**Item 11. Controls and Procedures.**

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

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



**Item 12. Exhibits.**

(a)(1) Not applicable.

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

(a)(3) Not applicable.

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

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## SIGNATURES

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

Dreyfus Strategic Municipals, Inc.

By: /s/ Bradley J. Skapyak  
Bradley J. Skapyak,

President

Date: May 22, 2014

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

By: /s/ Bradley J. Skapyak  
Bradley J. Skapyak,

President

Date: May 22, 2014

By: /s/ James Windels  
James Windels,

Treasurer

Date: May 22, 2014





**EXHIBIT INDEX**

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

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