

DREYFUS STRATEGIC MUNICIPALS INC  
Form N-CSR  
December 02, 2013

**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: 09/30/13

**FORM N-CSR**

**Item 1. Reports to Stockholders.**

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Dreyfus  
Strategic Municipals, Inc.

# The Fund

## A LETTER FROM THE PRESIDENT

Dear Shareholder:

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This annual report for Dreyfus Strategic Municipals, Inc. covers the 12-month period from October 1, 2012, through September 30, 2013. 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.

The second half of the reporting period produced a relatively challenging environment for most fixed-income securities, as a gradually strengthening U.S. economy and expectations of the Fed tapering its stimulative long-term monetary policies drove longer term interest rates higher and bond prices abruptly lower. Municipal bonds, however, were particularly sensitive to these developments, as the negative effects of rising rates were exacerbated by selling pressure among investors rattled by credit concerns affecting Puerto Rico and Detroit municipality debt issuers.

Overall, we currently expect U.S. economic conditions to continue to improve in 2014, with accelerating growth and credit conditions supported by the fading drags of tighter federal fiscal policies and downsizing on the state and local levels. Moreover, inflation is likely to remain muted, so monetary policy can remain stimulative. Globally, we anticipate stronger growth in developed countries due to past and continuing monetary ease, while emerging markets seem poised for moderate economic expansion despite recently negative investor sentiment. For more information on how these observations may affect your fixed income investments, we encourage you to speak with your financial advisor.

Thank you for your continued confidence and support.

Sincerely,

J. Charles Cardona President The Dreyfus Corporation October 15, 2013

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## DISCUSSION OF FUND PERFORMANCE

*For the period of October 1, 2012, through September 30, 2013, as provided by Daniel Barton and Steven Harvey, Portfolio Managers*

### Fund and Market Performance Overview

For the 12-month period ended September 30, 2013, Dreyfus Strategic Municipals, Inc. achieved a total return of 7.23% on a net-asset-value basis.<sup>1</sup> Over the same period, the fund provided aggregate income dividends of \$0.588 per share, which reflects a distribution rate of 7.35%.<sup>2</sup>

Selling pressure stemming from investors' concerns about actual and anticipated interest rate changes sent the municipal bond market's returns into negative territory during the reporting period. Although the fund continued to produce high current levels of federally tax-exempt income, its total return performance was hurt by its focus on lower rated and longer term municipal securities, which suffered the most during the market sell-off.

### 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 the use of interest rate forecasting. We select municipal bonds by using 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

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DISCUSSION OF FUND PERFORMANCE *(continued)*

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

#### Selling Pressure Sparked Declines Among Municipal Bonds

After an extended period of market support, municipal bonds encountered heightened volatility over the first nine months of 2013. The robust investor demand that had characterized much of 2012 failed to re-materialize, sending municipal bond yields higher (and prices lower) despite a relatively meager supply of newly issued securities. Yields of U.S. Treasury securities also generally climbed in response to improved economic trends, putting additional pressure on municipal bond prices.

In late May, remarks by Federal Reserve Board (the Fed) Chairman Ben Bernanke were widely interpreted as a signal that the central bank would back away from its ongoing quantitative easing program sooner than expected. This development sent longer term interest rates higher, further eroding returns from municipal bonds. In July, a bankruptcy filing by the city of Detroit also intensified selling pressure, and in September, municipal bonds issued by Puerto Rico fell in the wake of media reports detailing the U.S. territory's fiscal and economic problems. Yet, municipal bonds generally rallied over the final weeks of the reporting period when the Fed refrained from tapering its quantitative easing program.

Despite the problems facing Detroit and Puerto Rico, credit conditions continued to improve for most states and municipalities in the recovering economy. For example, the State of California received credit-rating upgrades after voters approved a measure to raise certain taxes, and many issuers of revenue-backed bonds have reported solid revenue growth.

#### Fund Proved Sensitive to Market Volatility

In light of the fund's income-oriented objective, we maintained an emphasis on higher yielding securities with lower credit ratings and longer maturities. However, securities with these characteristics fared relatively poorly in the challenging market environment. We took steps to upgrade the fund's overall credit quality under these conditions, but overweighted exposure to bonds of BBB or lower credit quality

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proved particularly damaging to total return, as did Puerto Rico bonds and securities backed by the states' settlement of litigation with U.S. tobacco companies. The fund's leveraging strategy effectively magnified the impact of adverse market trends.

On a more positive note, the fund achieved relatively strong results from revenue bonds backed by hospitals and industrial development projects. In addition, as part of its leveraging strategy, the fund successfully participated in tender option bond programs, a type of derivative instrument, to take advantage of higher long-term interest rates.

#### Finding Attractive Values Among Beaten Down Securities

Municipal bonds generally ended the reporting period with attractive valuations, suggesting that they may have been punished more severely than is warranted by underlying market fundamentals. Indeed, in our judgment, recent bouts of market volatility have created compelling opportunities to purchase certain securities at relatively low prices. Therefore, we have maintained the fund's emphasis on lower rated and longer term securities, which we believe position the fund for competitive levels of current income and full participation in any upcoming market rebounds.

October 15, 2013

*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.*

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*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 May 31, 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 Distribution rate per share is based upon dividends per share paid from net investment income during the period, divided by the market price per share at the end of the period, adjusted for any capital gain distributions.*

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### SELECTED INFORMATION

September 30, 2013 (Unaudited)

\* *With dividends reinvested.*

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### STATEMENT OF INVESTMENTS

September 30, 2013

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STATEMENT OF INVESTMENTS *(continued)*

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TheFund 9

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STATEMENT OF INVESTMENTS *(continued)*

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TheFund 11

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STATEMENT OF INVESTMENTS *(continued)*

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TheFund 13

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STATEMENT OF INVESTMENTS *(continued)*

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TheFund 15

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STATEMENT OF INVESTMENTS *(continued)*

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TheFund 17

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STATEMENT OF INVESTMENTS *(continued)*

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TheFund 19

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STATEMENT OF INVESTMENTS *(continued)*

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STATEMENT OF INVESTMENTS *(continued)*

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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 September 30, 2013, these securities were valued at \$275,149,583 or 55.1% of net assets applicable to Common Shareholders.

c At September 30, 2013, the fund had \$129,068,880 or 25.8% of net assets applicable to Common Shareholders invested in securities whose payment of principal and interest is dependent upon revenues generated from education.

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

e 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.

f Non-income producing security in default.

g Inverse floater security the interest rate is subject to change periodically. Rate shown is the interest rate in effect at September 30, 2013.

h Variable rate demand note rate shown is the interest rate in effect at September 30, 2013. Maturity date represents the next demand date, or the ultimate maturity date if earlier.

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STATEMENT OF INVESTMENTS (continued)

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Based on total investments.

i Securities which, while not rated by Fitch, Moody's and Standard & Poor's, have been determined by the Manager to be of comparable quality to those rated securities in which the fund may invest.

See notes to financial statements.

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STATEMENT OF ASSETS AND LIABILITIES

September 30, 2013

*See notes to financial statements.*

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## STATEMENT OF OPERATIONS

Year Ended September 30, 2013

*See notes to financial statements.*

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## STATEMENT OF CASH FLOWS

Year Ended September 30, 2013

*See notes to financial statements.*

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## STATEMENT OF CHANGES IN NET ASSETS

*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.

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

*b Calculated based on market value.*

*c Does not reflect the effect of dividends to Preferred Shareholders.*

*See notes to financial statements.*

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## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 Significant Accounting Policies:

Dreyfus Strategic Municipals, Inc. (the fund) is registered under the Investment Company Act of 1940, as amended (the Act), as a diversified closed-end management investment company. The fund's investment objective is to maximize current income exempt from federal income tax to the extent consistent with the preservation of capital. The Dreyfus Corporation (the Manager or Dreyfus), 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 1,466 shares of Series M, Series T, Series W, Series TH and Series F for a total of 7,330 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 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 has designated Robin A. Melvin and John E. Zuccotti as directors to be elected by the holders of APS.

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On February 11, 2013, the fund's Board of Directors (the Board) authorized the fund to redeem up to an additional 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 September 30, 2013, the fund announced the following redemptions of APS at a price of \$25,000 per share plus any accrued and unpaid dividends through the redemption date.

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

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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 lia-

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

bility 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 (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

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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 following: 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 categorized within Level 2 of the fair value hierarchy.

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

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

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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 categorized within Level 3 of the fair value hierarchy.

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### NOTES TO FINANCIAL STATEMENTS (continued)

The following is a summary of the inputs used as of September 30, 2013 in valuing the fund's investments:

*Certain of the fund's liabilities are held at carrying amount, which approximates fair value for financial reporting purposes.*

At September 30, 2013, 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 shareholders of Common Stock ( Common Shareholders(s) :** 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.

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For Common Shareholders who elect to receive their distributions in additional shares of the fund, in lieu of cash, such distributions will be reinvested at the lower of the market price or net asset value per share (but not less than 95% of the market price) in additional shares of the fund. 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. Computershare is not affiliated with the Manager.

On September 30, 2013, the Board declared a cash dividend of \$.049 per share from investment income-net, payable on October 31, 2013 to Common Shareholders of record as of the close of business on October 17, 2013.

**(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 September 30, 2013, for each Series of APS were as follows: Series M-0.114%, Series T-0.114%, Series W-0.114%, Series TH-0.114% and Series F-0.114%. 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 September 30, 2013 for each Series of APS were as follows: Series M-0.20%, Series T-0.20%, Series W-0.20%, Series TH-0.20% and Series F-0.20%.

**(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.

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NOTES TO FINANCIAL STATEMENTS (continued)

As of and during the period ended September 30, 2013, 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 September 30, 2013, the fund did not incur any interest or penalties.

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

At September 30, 2013, the components of accumulated earnings on a tax basis were as follows: tax-exempt income \$5,639,529, accumulated capital losses \$56,902,170 and unrealized appreciation \$15,532,580.

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 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 accumulated capital loss carryover is 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 periods ended September 30, 2013 and September 30, 2012 were as follows: tax-exempt income \$36,655,099 and \$36,538,290, and ordinary income \$100,375 and \$125,238, respectively.

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During the period ended September 30, 2013, as a result of permanent book to tax differences, primarily due to the tax treatment for amortization adjustments, the fund decreased accumulated undistributed investment income-net by \$164,625, increased accumulated net realized gain (loss) on investments by \$47,870 and increased paid-in capital by \$116,755. Net assets and net asset value per share were not affected by this reclassification.

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 excess over \$30 million of the average weekly value of the fund's net assets. The Manager has currently<sup>2</sup> undertaken from October 1, 2012 through 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 weekly net assets (including net assets representing APS outstanding). The reduction in expenses, pursuant to the undertaking, amounted to \$765,314 during the period ended September 30, 2013.

(b) 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.

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NOTES TO FINANCIAL STATEMENTS *(continued)*

The fund compensates The Bank of New York Mellon, a subsidiary of BNY Mellon and an affiliate of the Manager, under a custody agreement for providing custodial services for the fund. During the period ended September 30, 2013, the fund was charged \$58,914 pursuant to the custody agreement.

During the period ended September 30, 2013, the fund was charged \$9,045 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 \$415,059, custodian fees \$19,778 and Chief Compliance Officer fees \$6,948, which are offset against an expense reimbursement currently in effect in the amount of \$55,304.

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

NOTE 3 Securities Transactions:

The aggregate amount of purchases and sales of investment securities, excluding short-term securities, during the period ended September 30, 2013, amounted to \$192,567,912 and \$232,100,586, 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 subsequently issues two or more variable rate securities that are collateralized by the cash flows of the fixed-rate, tax-exempt municipal bonds. One or more of these variable rate securities pays interest based on a short-term floating rate set by a remarketing agent at predetermined intervals. 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.

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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 average amount of borrowings outstanding under the inverse floater structure during the period ended September 30, 2013 was approximately \$86,549,000, with a related weighted average annualized interest rate of .68%.

At September 30, 2013, the cost of investments for federal income tax purposes was \$668,382,852; accordingly, accumulated net unrealized appreciation on investments was \$15,532,580, consisting of \$35,445,899 gross unrealized appreciation and \$19,913,319 gross unrealized depreciation.

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REPORT OF INDEPENDENT REGISTERED  
PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors Dreyfus Strategic Municipals, Inc.

We have audited the accompanying statement of assets and liabilities of Dreyfus Strategic Municipals, Inc., including the statement of investments, as of September 30, 2013, and the related statements of operations and cash flows for the year then ended, the statement of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then

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ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of September 30, 2013 by correspondence with the custodian and others. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Dreyfus Strategic Municipals, Inc. at September 30, 2013, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

New York, New York November 26, 2013

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### ADDITIONAL INFORMATION (Unaudited)

#### Dividend Reinvestment and Cash Purchase Plan

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

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

A Common Shareholder who has fund shares registered in his or her name may elect to withdraw from the Plan at any time for a \$2.50 fee and thereby elect to receive cash in lieu of shares of the fund. Changes in elections must be in writing, sent to The Bank of New York Mellon, c/o Shareowner Services, P.O. Box 35803, Pittsburgh, PA 15252-8035, should include the Common Shareholder's name and address as they appear on the Administrator's records and will be effective only if received more than fifteen days prior to the record date for any distribution.

A Plan participant who has fund shares in his name has the option of making additional cash payments to the Administrator, semi-annually, in any amount from \$1,000 to \$10,000, for investment in the fund's

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ADDITIONAL INFORMATION (Unaudited) (continued)



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shares in the open market on or about January 15 and July 15. Any voluntary cash payments received more than 30 days prior to these dates will be returned by the Administrator, and interest will not be paid on any uninvested cash payments. A participant may withdraw a voluntary cash payment by written notice, if the notice is received by the Administrator not less than 48 hours before the payment is to be invested. A Common Shareholder who owns fund shares registered in street name should consult his broker/dealer to determine whether an additional cash purchase option is available through his broker/dealer.

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

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

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

### Level Distribution Policy

The fund's dividend policy is to distribute substantially all of its net investment income to its shareholders on a monthly basis. In order to provide shareholders with a more consistent yield to the current trading price of shares of Common Stock of the fund, the fund may at times pay out more or less than the entire amount of net investment income

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earned in any particular month and may at times in any month pay out any accumulated but undistributed income in addition to net investment income earned in that month. As a result, the dividends paid by the fund for any particular month may be more or less than the amount of net investment income earned by the fund during such month.

### Benefits and Risks of Leveraging

The fund utilizes leverage to seek to enhance the yield and net asset value of its Common Stock. These objectives cannot be achieved in all interest rate environments. To leverage, the fund has issued Preferred Stock and employs the use of tax-exempt tender option bonds, which pay dividends or interest, respectively, at prevailing short-term interest rates, and invests the proceeds in long-term municipal bonds. The interest earned on these investments is paid to Common Shareholders in the form of dividends, and the value of these portfolio holdings is reflected in the per share net asset value of the fund's Common Stock. In order for either of these forms of leverage to benefit Common Shareholders, the yield curve must be positively sloped: that is, short-term interest rates must be lower than long-term interest rates. At the same time, a period of generally declining interest rates will benefit Common Shareholders. If either of these conditions change along with other factors that may have an effect on preferred dividends or tender option bonds, then the risk of leveraging will begin to outweigh the benefits.

### Supplemental Information

For the period ended September 30, 2013, there were: (i) no material changes in the fund's investment objectives or policies, (ii) no changes in the fund's charter or by-laws that would delay or prevent a change of control of the fund, (iii) no material changes in the principal risk factors associated with investment in the fund, and (iv) no change in the persons primarily responsible for the day-to-day management of the fund's portfolio.

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## IMPORTANT TAX INFORMATION (Unaudited)

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In accordance with federal tax law, the fund hereby reports all the dividends paid from investment income-net during its fiscal year ended September 30, 2013 as exempt-interest dividends (not generally subject to regular federal income tax), except \$100,375 that is being reported as an ordinary income distribution for reporting purposes. Where required by federal tax law rules, shareholders will receive notification of their portion of the fund's taxable ordinary dividends (if any), capital gains distributions (if any) and tax-exempt dividends paid for the 2013 calendar year on Form 1099-DIV, which will be mailed in early 2014.

### PROXY RESULTS (Unaudited)

Holders of Common Stock and holders of APS voted together as a single class on the following proposal presented at the annual shareholders meeting held on June 14, 2013.

*The terms of these Class III Directors expire in 2016.*

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### BOARD MEMBERS INFORMATION (Unaudited)

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BOARD MEMBERS INFORMATION (Unaudited) *(continued)*

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### OFFICERS OF THE FUND (Unaudited)

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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; 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 Investment Company Act of 1940, as amended, that the fund may purchase shares of its common stock in the open market when it can do so at prices below the then current net asset value per share.*

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**Item 2. Code of Ethics.**

The Registrant has adopted a code of ethics that applies to the Registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. There have been no amendments to, or waivers in connection with, the Code of Ethics during the period covered by this Report.

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

The Registrant's Board has determined that Ehud Houminer, a member of the Audit Committee of the Board, is an audit committee financial expert as defined by the Securities and Exchange Commission (the "SEC"). Ehud Houminer is "independent" as defined by the SEC for purposes of audit committee financial expert determinations.

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

(a) Audit Fees. The aggregate fees billed for each of the last two fiscal years (the "Reporting Periods") for professional services rendered by the Registrant's principal accountant (the "Auditor") for the audit of the Registrant's annual financial statements or services that are normally provided by the Auditor in connection with the statutory and regulatory filings or engagements for the Reporting Periods, were \$32,015 in 2012 and \$33,184 in 2013.

(b) Audit-Related Fees. The aggregate fees billed in the Reporting Periods for assurance and related services by the Auditor that are reasonably related to the performance of the audit of the Registrant's financial statements and are not reported under paragraph (a) of this Item 4 were \$32,442 in 2012 and \$20,442 in 2013. These services consisted of one or more of the following: (i) agreed upon procedures related to compliance with Internal Revenue Code section 817(h), (ii) security counts required by Rule 17f-2 under the Investment Company Act of 1940, as amended, (iii) advisory services as to the accounting or disclosure treatment of Registrant transactions or events, (iv) advisory services to the accounting or disclosure treatment of the actual or potential impact to the Registrant of final or proposed rules, standards or interpretations by the Securities and Exchange Commission, the Financial Accounting Standards Boards or other regulatory or standard-setting bodies and (v) agreed upon procedures in evaluating compliance by the Fund with provisions of the Fund's articles supplementary, creating the series of auction rate preferred stock.

The aggregate fees billed in the Reporting Periods for non-audit assurance and related services by the Auditor to the Registrant's investment adviser (not including any sub-investment adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the Registrant ("Service Affiliates"), that were reasonably related to the performance of the annual audit of the Service Affiliate, which required pre-approval by the Audit Committee were \$0 in 2012 and \$0 in 2013.

(c) Tax Fees. The aggregate fees billed in the Reporting Periods for professional services rendered by the Auditor for tax compliance, tax advice, and tax planning ("Tax Services") were \$3,267 in 2012 and \$3,754 in 2013. These

services consisted of: (i) review or preparation of U.S. federal, state, local and excise tax returns; (ii) U.S. federal, state and local tax planning, advice and assistance regarding statutory, regulatory or administrative developments; (iii) tax advice regarding tax qualification matters and/or treatment of various financial instruments held or proposed to be acquired or held. The aggregate fees billed in the Reporting Periods for Tax Services by the Auditor to Service Affiliates, which required pre-approval by the Audit Committee were \$0 in 2012 and \$0 in 2013.

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(d) All Other Fees. The aggregate fees billed in the Reporting Periods for products and services provided by the Auditor, other than the services reported in paragraphs (a) through (c) of this Item, were \$0 in 2012 and \$0 in 2013. [These services consisted of a review of the Registrant's anti-money laundering program].

The aggregate fees billed in the Reporting Periods for Non-Audit Services by the Auditor to Service Affiliates, other than the services reported in paragraphs (b) through (c) of this Item, which required pre-approval by the Audit Committee, were \$200,000 in 2012 and \$0 in 2013.

(e)(1) Audit Committee Pre-Approval Policies and Procedures. The Registrant's Audit Committee has established policies and procedures (the "Policy") for pre-approval (within specified fee limits) of the Auditor's engagements for non-audit services to the Registrant and Service Affiliates without specific case-by-case consideration. The pre-approved services in the Policy can include pre-approved audit services, pre-approved audit-related services, pre-approved tax services and pre-approved all other services. Pre-approval considerations include whether the proposed services are compatible with maintaining the Auditor's independence. Pre-approvals pursuant to the Policy are considered annually.

(e)(2) Note: None of the services described in paragraphs (b) through (d) of this Item 4 were approved by the Audit Committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

(f) None of the hours expended on the principal accountant's engagement to audit the registrant's financial statements for the most recent fiscal year were attributed to work performed by persons other than the principal account's full-time, permanent employees.

Non-Audit Fees. The aggregate non-audit fees billed by the Auditor for services rendered to the Registrant, and rendered to Service Affiliates, for the Reporting Periods were \$44,747,470 in 2012 and \$52,124,229 in 2013.

Auditor Independence. The Registrant's Audit Committee has considered whether the provision of non-audit services that were rendered to Service Affiliates, which were not pre-approved (not requiring pre-approval), is compatible with maintaining the Auditor's independence.

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

The Registrant has a separately-designated standing Audit Committee established in accordance with Section 3(a) (58) (A) of the Securities Exchange Act of 1934, consisting of all of the non-interested Board members, who are: Richard C. Leone, Joseph S. DiMartino, Hodding Carter III, Joni Evans, Ehud Houminer, Hans C. Mautner, Robin A. Melvin, Burton N. Wallack, and John E. Zuccotti.

**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 December 2, 2013, the date of the filing of this report:

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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.

**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:

<b><u>Portfolio Manager</u></b>	<b><u>Registered Investment Company Accounts</u></b>	<b><u>Pooled Accounts</u></b>		<b><u>Other Accounts</u></b>	
		<b><u>Assets Managed</u></b>		<b><u>Assets Managed</u></b>	<b><u>Assets Managed</u></b>
Steven Harvey	8	\$5 billion	0	\$0	17 \$193 million
Daniel A. Barton	6	\$2.4 billion	0	\$0	0 \$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:

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

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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.

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.

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**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) Code of ethics referred to in Item 2.

(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: November 25, 2013

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: November 25, 2013

By: /s/ James Windels

James Windels

Treasurer

Date: November 25, 2013

## EXHIBIT INDEX

(a)(1) Code of ethics referred to in Item 2.

(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)